Outsourcing in the Pulp & Paper Industry and the Level of participation of Affirmable Businesses

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Declaration

I declare that:

Outsourcing in the Pulp & Paper Industry and the Level of participation of Affirmable Businesses

is my own my work and that all sources that I have used and quoted have been acknowledged by means of complete references

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Signature **Date**

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Abbreviation used

AF&PA	American Forest and Paper Association
B-BBEE	Broad-based Black Economic Empowerment
BEE	Black Economic Empowerment
BMF	Black Management Forum
BPR	Business Process Reengineering
DBSA	Development Bank of South Africa
EME	Exempted Micro Enterprise
GEAR	Growth, Employment and Redistribution
IBM	International Business Machines
IDC	Industrial Development Corporation
IT	Information Technology
JIT	Just-in-time
MPSA	Mondi Packaging SA
MSN	Mondi Shanduka Newsprint
PAMSA	Paper Manufacturers of South Africa
PC	Personal Computer
QSE	Qualifying Small Enterprise
RDP	Reconstruction and Development Programme
SALMA	South Africa Lumbar Millers Associations
Seda	Small Enterprise Development Agency
SMME	Small, Medium and Micro Enterprise
the dti	Department of Trade and Industry
TQM	Total Quality Management

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CHAPTER 1

GENERAL INTRODUCTION

1.1 Introduction

In the past, organisations were outsourcing activities that were deemed not critical to their operations processes. Most of the outsourced activities were peripheral in nature and included functions like canteen and cleaning services. However, in recent times organisations have and are outsourcing critical functions of their activities. These functions have included manufacturing, product design and marketing. The outsourcing of these activities has highlighted the importance of outsourcing as not just being driven by cost savings but also by strategic plans of the organisation. In the public sector the dimension of politics drives outsourcing decisions. The concept of outsourcing is pursued by many organisations in their quest for efficiency.

Outsourcing can also play a role in dealing with the economic challenges faced by South Africa. Procurement strategies that emphasize the formation of business partnerships with the previously disadvantaged communities can result in transfer of skills whilst growing the economy. The government of South Africa has recognised this opportunity and has since formulated policies that would help achieve economic transition. The proclamation of the BEE Act No 53 of 2003 (The Department of Trade and Industry, 2004), and lately the implementation of Codes of Good Practises (The Department of Trade and Industry, 2006), are some of the pieces of legislation aimed at addressing past economic imbalances. The specific Code of Good Practise that is related to outsourcing is Code 500. The Codes were developed after past legislatives and policies that dealt with black economic empowerment and eradication of poverty experienced some shortcomings. One of the earlier policies that were adopted as the government's socio-economic programme of poverty eradication was the Reconstruction and Development Programme (RDP). The programme had some limited successes but was later abandoned by the government for more economic oriented programmes. These programmes included sectoral charters and modified versions of the original BEE Act. Sectoral charters were meant to be platforms for different sectors of the economy to achieve their own transformational imperatives. This research report investigates how a specific sector, Pulp and Paper have or have not used outsourcing to provide a platform for growth for affirmable businesses.

1.1.1 Theory and Practice of Outsourcing

Outsourcing can be viewed as a process in which an organisation (or an entity) delegates a part (or all) of its tasks to an external service or vendor or vendors for the supply of products or services required for effective internal operations in order to achieve its objectives (Akomonde, Lees and Irgens, 1998). Outsourcing practices date back to the eighteenth century England and has been in continuous use in numerous industry sectors since it received impetus in the latter half of the 1980's and 1990's in the emerging service sector (Quinn and Hilmer, 1994).

Reasons for outsourcing

Kakabadse (2000) points out that the two main reasons why organisations outsource is cost efficiency and strategy imperatives. The three main drivers of outsourcing: cost efficiency, strategy requirements and politics (mainly in the public sector organisations). Organisations outsource with the purpose to improve efficiencies in their operations and realise cost savings. In other cases, the nature of the operations of the businesses requires that businesses enter into strategic outsourcing alliances with other business partners in order to achieve the objectives of the business. In other examples, like in South Africa, public sector organisations are required to outsource some of their business activities to designated groups. The reason in the case of South Africa is more than operational efficiency, but also about addressing some of the past social and economical inequalities.

Outsourcing risks

It is important for the organisations to realise that there are potential risks in outsourcing. Harland, Knight, Lamming and Walker (2005) identify the development of new management competencies, capabilities and management process as the most significant risks in outsourcing. These include decisions on which activities should remain within the organisation and which are outsourced, whether all or part of the activity should be outsourced, and how to manage relationships rather than internal functions of the process. Security is another downside of outsourcing (Kakumanu and Portanova, 2006). The risk here is that offshore assets and information in possession of another company are much harder to protect. Kakabadse (1996) mentions unrealised savings or hidden costs as potential outsourcing risks. Quinn and Hilmer (1994) identify the following as strategic outsourcing risks:

i) Loss of critical skill as skilled personnel can join the outsourcing contract receiving firm in that function that is outsourced.
ii) Loss of cross functional skills through loss of interaction with the outsourced department.
iii) Loss of control over a supplier – serious difficulties can occur if the buyer does not have sufficient market power relative to the seller.

A detailed study of the information system industry by Gonzalez, Gasco and Llopis (2005), found the following three risks to be the most concerning to organisations in regard to outsourcing:

i) The firms that outsource the most are also the ones that most fear the dependence on the provider that is generated.
ii) The firms that outsource the most are also the ones that most fear the IS staff's possible opposition.
iii) They are equally the most concerned about the potential security problems outsourcing might generate.

These risks can be minimised by developing and following a clear outsourcing plan. The plan can be incorporated in the outsourcing process steps. Franceschini, Galtto, Pignatelli and Vareto (2003) propose a model that is organised into 4 main steps:

i) Internal benchmarking analysis.
ii) External benchmarking analysis
iii) Contract negotiation.
iv) Outsourcing management.

Others who have provided a model for the outsourcing process are Zhu, Hsu and Lille (2001). They also propose a four stage outsourcing process model that entails planning, developing, implementation and evaluation. McIvor (2000) also proposes a four stage model that has got elements of the previous two models. Following a well defined process when outsourcing activities of an organisation not only minimises risks inherent in the outsourcing process, but also helps realise the benefits of outsourcing and answers can be easily provided to auditors or union groups if there are question about the process of awarding a contract to a specific vendor and rejecting others.

It is clear that outsourcing will continue to grow as companies look outside of their organisations for ways to become more efficient. The popularity of outsourcing will in future also be driven by increased outsourcing activity in public sector as more governments are calling for more efficiency in these institutions.

1.1.2 Black Economic Empowerment

Background

South Africa: Department of Trade and Industry (2003) chronicles that the development of the Black Economic Empowerment (BEE) strategy was informed by the unfortunate history of the country. The apartheid system of the previous whites' only government systematically and purposefully restricted the majority of South Africans (mostly blacks) from meaningful participation in the economy. Since 1994, government embarked upon a comprehensive programme to provide a legislative framework for the transformation of the economy. Specific active measures have been introduced to overcome the distortions in the labour market as well as provide opportunities to historically disadvantaged persons. Some of the legislation introduced includes: The Promotion and Prevention of Unfair Discrimination Act; Extension of Security of Tenure Act, and importantly with regards to outsourcing, the Preferential Procurement Policy Framework Act. It was for these reasons that there is a need for a comprehensive and focussed strategy for broad based economic empowerment. It was against this background that the Black Empowerment Act No 53, 2003 was established. The Act defines broad based black economic empowerment as the "economic empowerment of all black people including women workers, youth people with disabilities, and people living in the rural areas through diverse but integrated socio-economic strategies that include but not limited to:

i) Increasing the number of black people that manage, own and control enterprises and productive assets.
ii) Facilitating ownership and management of enterprises and productive assets by communities, workers cooperatives and other collective enterprises.
iii) Human resources and skills development.
iv) Achieving equitable representation in all occupational categories and levels in the workforce.
v) Preferential procurement.
vi) Investment in enterprises that are owned or managed by black people.

The objective of the Act is to facilitate broad based black economic empowerment by (South Africa: Department of Trade and Industry, 2003):

i) Achieving a substantial change in racial composition of ownership and management structures and in the skilled occupation of existing and new enterprises.
ii) Increasing the extent to which communities and worker cooperatives and other collective enterprises own and manage existing and new enterprises and increase their access to economic activities, infrastructure and skills training.
iii) Increasing the extent to which women own and manage existing and new enterprises, and increasing their access to economic activities, infrastructure and skills training.

Sectoral BEE charters have been adopted by a range of industries, including petroleum, mining, financial services and maritime transport, with information and communications technology, after years of infighting, finally coming on board in 2005. The paper industry is one of the sectors involved in negotiations to develop a Forest Sector Charter (PAMSA 2005/2006). The Charter is expected to accelerate broad based black economic empowerment. According to Lester (2005/06), the existing charters have become an ubiquitous element of BEE regulation for businesses and tend to treat the various indicators of BEE compliance in vastly different ways, focusing more on ownership. "Ownership represents just more than one of the seven indicators of BEE compliance" (Broadening the Base, 2005/06: 12). The other 6 are:

i) Management and control.
ii) Employment equity.
iii) Skills development.
iv) Preferential procurement.
v) Enterprise development.
vi) Corporate social investment.

In order to regulate BEE activity the government introduced the Codes of Good Practise. The Codes of Good Practise on B-BBEE were gazetted on the 9th February 2007, making them all binding on all organs of state and entities (The Department of Trade and Industry, 2007). By deduction, private sector enterprises are encourages to apply the Codes in interaction to one another.

The Codes of Good Practise are, in part, a response by government to the need to overhaul empowerment guidelines so as to ensure the benefits of the policy are spread more evenly (Human Capital Management, 2005/06). The overall purpose of the Code of Good Practise is to provide certainty with respect to BEE recognition and measurement, in order that BEE initiatives can be implemented in such a way that economic substance take precedence over form, that there exist just BEE comparability between the BEE statutes of different entities and that competition with respect to BEE contribution level takes place. The Code of Good Practise that relates to outsourcing is Code 500, which discusses Preferential Procurement. Preferential Procurement is a way of encouraging (strong encouragement) all companies to develop a BEE profile with an ever-increasing score, and spend money with new enterprises. The Code measures the extent to which enterprises buy goods and services from suppliers with strong B-BBEE procurement recognition levels.

The focus of this research project is on the Pulp and Paper industry and how it responds to the BEE Act of 2003 through outsourcing. Currently, of the 20 paper companies in the country, 10 have black shareholding of 100%, three with black ownership of between 40 and 50%, and one a black shareholding of 10% (PAMSA 2005/2006). According to PAMSA (2005/2006), the following were some of the major BEE deals in the Pulp and Paper Industry:

- In 2006, Sappi which owns over 360 000 hectares of plantations, sold an undivided 25% of its South African plantation portfolio to empowerment group Lereko Property Consortium for R224 million.
- In early 2006, Mondi launched an employee share ownership scheme. The scheme gave Mondi staff of approximately 5000 the chance to own 4% of Mondi Shanduka Newsprint (MSN) and 5% of Mondi Packaging SA (MPSA).
- In August 2006 Nampak announced a R981 million BEE deal in terms of which 10% of the company's shares will be transferred. Black staff at Nampak will receive a 5 percent stake and a further 5 percent will go to a BEE consortium led by Aka Capital.
- Kimberly Clark has been 50% owned by black empowerment company Lion Match since 1999.

1.1.3 The Structure of the Pulp and Paper Industry in South Africa

The Pulp and Paper Industry falls under the broad industry that includes forest and timber. Forestry and Timber industries are represented by Forestry South Africa (FSA) and South African Lumbar Millers Association (SALMA) respectively. The Pulp and Paper Industry is represented by Paper Manufactures Association of South Africa (PAMSA).

PAMSA members consist of the five largest manufactures of pulp and paper products; Sappi, Mondi, Nampak, Kimberly Clark and SA Paper Mills. These five companies produce over 90% of the paper made in the country (Pamsa 2006/2007). The PriceWaterhouseCoopers (2006 Ed) ranked Kimberly Clark (4^{th}), Mondi (13^{th}) and Sappi (19^{th}) in the top 100 Global Forest Paper and Packaging Industry Survey.

The Pulp and Paper industry is a significant contributor in the manufacturing sector in South Africa and a major value creator to locally produced raw materials (Chamberlain, Essop, Hougaard, Malherbe & Walker, 2005).

The Pulp market in South Africa

South Africa has nine pulp mills which produced in 2003 2.3 million tons of pulp, making South Africa the 18th largest producer of pulp internationally (PAMSA, 2004b). The industry is dominated by two players Mondi and Sappi, who are the only producers of virgin fibre in South Africa and who are both highly integrated with their own paper and plantation operations. Sappi has a 62% share of the pulp production capacity with Mondi comprising the remaining 38% (Chamberlain, *et al.*, 2005).

The Paper market in South Africa

South Africa paper production of 2.69 million tons is 0.81% of world's production. South Africa ranks as the 23rd biggest producer in the world (South African Forestry, Pulp and Paper Industries, 2004)

According to PAMSA (2004), the four largest producers of paper in South Africa are Sappi, Mondi, Nampak and Unicell. Together the various mills owned by the five biggest companies accounted for 96% of the total paper production capacity in South Africa in 2003. The remaining 4.1% is produced by a number of small companies (with a capacity of 3000 to 15 000 t/a). There are 30 paper and paperboard mills in South Africa (including the integrated eight pulp and paper mills). The four categories of papers produced are printing and writing papers, newsprint packaging and tissue paper. Sappi and Mondi dominate the printing and writing paper market, as well as the newsprint market (where Mondi is the largest player). Nampak and Kimberly Clark have a combined 50% share in the tissue paper market, with the smaller players comprising the rest of the market. In the packaging paper sub-market, Sappi and Mondi once again dominate, followed by three smaller companies (Chamberlain, *et al.*, 2005). Nampak, Africa largest packaging manufacturer also produces liner board and fluting which is converted into corrugate boxes and in addition, makes packaging products (PAMSA, 2005/2006).

According to PriceWaterHouseCoopers (2006 Ed), the global market of the pulp paper and packaging industry was estimated at US$339 781 million in 2005. The United States of America Forest and Paper Industry is the largest in the world, contributing more than $US126 billion in sales. The US produces more than 30% of the world paper and paperboard products. The US industry employs more than 1 million people with a payroll of about $US50 billion (PASAA, 2004). The US industry is the world leader in recycling of all paper and paperboard consumed in the US. The US industry has several advantages over the rest of the world, including modern mills, high skilled workforce, a large domestic market and an efficient transportation infrastructure (Profile of the Pulp and Paper Industry, 2002).

The Europe market is the next biggest player in the global industry contributing about $99 billion of sales in 2005. The South African region, represented by Sappi and Nampak, contributed about $6 billion to global sales (PriceWaterHouseCoopers, 2006).

1.2 Statement of the problem

The Pulp and Paper industry is a major player in the economy of South Africa. It provides direct employment to 13 500 people (PAMSA, 2007). The industry is dominated by relatively big organisations such as Mondi, Sappi and Nampak. For long term profitability and sustainability, it is important that these big organisations are run efficiently and where possible introduce new entrants into the industry in the form of affirmable businesses. It is therefore important to investigate how the industry is using the principle of outsourcing as part of the organisational goals to achieve efficiencies.

Since outsourcing strategies provide opportunities for Small, Medium and Micro Enterprises (SMME's) and other forms and sizes of businesses to partner with large organisations and grow the economy, the Pulp and Paper role can play a significant role in business empowerment by adopting sound outsourcing strategies. In particular, the participation of affirmable businesses in the mainstream of the economy still remains a big challenge in South Africa. The research question therefore is how or whether the Pulp and Paper industry is taking up this challenge.

Question: Is the Pulp and Paper Industry applying outsourcing principles to achieve efficient organisations and utilising outsourcing to bring on board affirmable businesses?

In order to address the above question, the following sub-questions should be answered by this research project:

i) What is the extent of outsourcing in the Pulp and Paper Industry?

ii) Of the business/functions that are outsourced, what is the extent of participation of the Affirmable Businesses?

iii) How far has the Pulp and Paper Industry transformed itself to achieve the requirements of the BEE Act of 2003?

1.3 Objectives of the research

The objectives of the research are therefore to:

i) Investigate the state and extent of outsourced businesses / functions in the Pulp and Paper industry.

ii) Investigate participation of the affirmable businesses in the outsourced contracts.

iii) Investigate other initiatives or mechanisms that the Pulp & Paper industry is adopting in order to achieve the objectives of the BEE act.

1.4 Research proposition

Three propositions follow from the objectives above, namely:

Proposition 1 The Pulp and Paper industry is outsourcing some of its business activities with the objective of being efficient and cost effective organisations.

Proposition 2	The outsourcing contracts are generally awarded to the affirmable businesses with the intention of narrowing existing economic gaps.
Proposition 3	The Pulp and Paper industry is actively participating in achieving the objectives of BEE through other initiatives.

1.5 Research methodology

1.5.1 Nature of the study

Cooper and Shindler (2003) make a distinction between two types of studies encountered in research, namely: exploratory and formal studies. Exploratory studies tend towards loose structures with the objective of discovering future research tasks. The immediate purpose of exploration is usually to develop hypothesis of research questions. On the other hand, formal studies begin with a hypothesis or research question and involve precise procedure and data source specification. The nature of study of this research project is a formal study with the objective of describing a phenomenon associated with a subject population. The study is descriptive in nature.

1.5.2 Collection of Data

The method of data collection will begin with literature search on outsourcing and specific information on the Pulp and Paper industry in South Africa. Literature search requires the use of the libraries' on line catalogue and one or more bibliographic databases and indexes (Cooper and Shindler, 2003).

The literature review is followed by a communication approach to collect more direct data. A communication approach involves a researcher questioning the subjects and collecting the responses by personal and impersonal means (Cooper and Shindler 2003). There are 3 types of communication approaches that can be used, namely: the telephone interview, the personal interview and the self administered survey. For the purpose of this research project, self administered surveys are used. Self administered surveys entail completion of a questionnaire by the participant in a convenient location. The questionnaires will be sent to the senior managers of the surveyed organisations.

1.6 Chapter plan

The final report consists of the following chapters:

1.6.1 Chapter 2: Theory and Practice of Outsourcing

The second chapter gives a brief history and context for the research. The theory and practice of outsourcing is discussed in detail. The conception and stages involved in the development of the Black Economic Empowerment Act are also discussed in this chapter.

1.6.2 Chapter 3: The Pulp and Paper Industry

Chapter three provides a thorough analysis of the Pulp and Paper Industry in South Africa focussing on the member organisations that are part of Paper Manufacturers of South Africa (PAMSA). The structure of the industry and the value chain is discussed in this chapter.

1.6.3 Chapter 4: Research methodology

The fourth chapter describes the research methodology that is employed. A theoretical account of the chosen methodology is presented and an account of the data collection and analysing methods is given. The development and detailed description of the instrument of measure are also discussed.

1.6.4 Chapter 5: Research data presentation

The fifth chapter is a presentation of the data obtained from the survey using Exploratory Data Analysis (EDA). The purpose of EDA is to learn as mush as possible about the data (Cooper and Shindler 2003). Tables and graphs are used to describe the findings.

1.6.5 Chapter 6: Research results: Synthesis and Analysis

The sixth chapter is an analysis of the results of the research and the interpretation thereof. Findings of the research are presented in this chapter. The findings are analysed against the objectives of the study. The chapter also approve or disapprove the stated prepositions based on the results obtained.

1.6.6 Chapter 7: Conclusion and Recommendation

Chapter seven discussed the outcome of the study. A conclusion will be made if the study has achieved the objectives. Recommendations are made based on the concluded findings. Potential areas for future research that are not covered in this paper are highlighted.

CHAPTER 2

THEORY AND PRACTICE OF OUTSOURCING

2.1 Introduction

In the past organisations were outsourcing activities that were deemed not critical in their processes. Most of the outsourced activities were peripheral in nature and included functions like canteen and cleaning services (Franseschini, Galetto Pignatelli and Varetto, 2003). However, in recent times organisation have and are outsourcing critical functions of their activities. These functions have included manufacturing, product design and marketing. The outsourcing of these activities has highlighted the importance of outsourcing as not just being driven by cost savings, but also by strategic plans of the organisation. In the public sector, another dimension such as politics drives outsourcing decisions. The concept of outsourcing is pursued by many organisations in their quest for efficiency. Outsourcing relationships can lead into business partnerships that promote growth of the economy. In South Africa, the government promulgated the BEE Act of 2003 to encourage the private sector to address past economic imbalances by involving more black owned businesses in their business dealings (South Africa: Department of Trade and Industry, 2003). There are a number of policy programmes that the South African government has instituted in order to promote the participation of previously disadvantaged members of the community in the mainstream economy of the country. In the workplace, for example, the Employment Equity Act (no. 55 of 1998) was promulgated to deal specifically with change in the work place (South Africa: Department of Trade and Industry, 2003). The Act requires the designated employers to implement affirmative action measures to achieve equitable employment levels. The Act has two important components to it, namely, prohibition of discrimination in employment and implementation of Affirmative Action measures. The prohibition of unfair discrimination prohibits discrimination based on race, gender, sex, pregnancy, marital status, family responsibility, ethnic or social origin, colour, sexual orientation, age, disability, religion, HIV status, conscience, belief, political opinion, culture, language and birth. Affirmative action measures on the other hand, are measures designed to ensure that suitably qualified people from designated groups have equal employment opportunities and are equally represented in all occupational categories and levels in the workplace of a designated employer.

There are other empowerment policies, strategies and legislative measures that the government of South Africa has implemented in order to accelerate economic participation by members of the designated groups. In 2005, the South African government adopted The Integrated Small Enterprise Development Strategy as a means to accelerate growth of small enterprises following a history characterised by a dominance of large capital intensive firms, and continued neglect of small enterprises (South Africa: Department of Trade and Industry, 2003). The strategy places particular emphasis on addressing the needs of micro-enterprises, small enterprises in high growth sectors, and small enterprises owned and managed by historically disadvantaged individuals, namely black people, women, the youth and the disabled. The National Small Business Act No. 102 of 1996 (South Africa: Department of Trade and Industry, 2003) was established to provide for the establishment of National Small Business Council and the Ntsika Enterprise Promotion Agency; and to provide guidelines for the organ of state in order to promote small business in the Republic; and to provide for matters incidental thereto.

Therefore, the government of South Africa has in the past years introduced a number of strategies and legislations to encourage black economic participation and empowerment through various organs. It has also set up a number of institutions to provide all forms of support that would be required, including financial institutions created for the sole purpose of providing financial support geared to promote black economic empowerment. The focus of this research project is the role played by the private sector in assisting the government to achieve accelerated economic participation by designated groups. The attention is on awarding of outsourcing contracts to businesses owned by previously disadvantaged groups. The industry sector that is investigated for this purpose is Pulp and Paper. The industry is dominated by five large companies, whose outsourcing practices are investigated.

2.2 Outsourcing: Theoretical and Practice Issues

Outsourcing can be viewed as a process in which an organisation (or an entity) delegates a part (or all) of its tasks to an external service or vendor or vendors for the supply of products or services required for effective internal operations in order to achieve its objectives (Akomonde, Lees and Irgens, 1998). Outsourcing practices date back to the eighteenth century England and have been in continuous use in numerous industry sectors since it received impetus in the latter half of the 1980's and 1990's in the emerging service sector (Quinn and Hilmer, 1994). The development of outsourcing as a business strategy is an evolution of previous unsuccessful strategies that were adopted by businesses on advice of consultant at that time. Lonsdale and Cox (2000) argue that conglomerations, horizontal, vertical and internal integration are examples of the failed strategies. The motives behind these strategies were mainly to:

- Achieve economies of scale.
- Exercise greater market power.
- Security through increased product range.
- Greater control of raw material sources and / or distribution channels.

Despite the perceived benefits from adopting these strategies, by the 1970, firms that implemented these strategies reported disappointing rate of returns. It was in the late 1990's that the concept of core competencies as defined by Hamel and Prahad (1990) that firms started to adopt core strategies. Lonsdale and Cox (2000) define the three 'old' strategies: conglomeration, vertical and horizontal integration as follows, and argue that these three strategies have been impacted by the core strategies of a firm.

Conglomeration

Under conglomeration, firms acquire or merge with other firms that are neither at different stages of the same supply chain, nor are competitors at the same supply chain activity. With the advent of outsourcing, conglomerate firms have been encouraged to divest themselves of businesses that appear to have no logical place within their boundaries.

Horizontal integration

Horizontal integration refers to the merging of two or more firms that are operating at the same supply chain stage. With the recent trend of outsourcing, an increased level of consolidation has been reported mainly in the oil, financial services and car industries.

Vertical integration

Vertical integration occurs when the boundary of the firm shift along its primary supply chain which could mean the firm moving in and moving out of the provisions of products or services either upstream or downstream in those supply chains.

The latest trend in outsourcing is towards outsourcing primary supply chain activities, but has not been as common as the outsourcing of support services and products. Research in the UK has shown that the revolution in outsourcing has impacted more upon firms' support activities than its primary supply chain activities (Lonsdale and Cox, 2000). Notable industries where the leading manufactures have reduced their levels of vertical integration include pharmaceuticals. Their focus is on research and development of the high value adding stages of the production process, and the electronics and related products (Lonsdale and Cox, 2000). The idea of a core competency also led to a change in direction in terms of strategies that were pursued by organisations. The other management strategies that were pursued by businesses in the past to consolidate the components of the value chain at business or process level include Just-in-time (JIT), Total quality management (TQM), benchmarking and business process re-engineering (BPR) (Juma'h and Wood, 2000). Outsourcing is therefore a business practise that developed in view of the failure of the previous strategies and a response to a changing business environment. International Business Machine (IBM) is credited as being the first firm that pioneered outsourcing when it outsourced many of its major components for its early personal computer (PC). By utilising the expertise of Intel, Microsoft and a host of other companies, IBM was able to get its product to the market in little over a year.

2.2.1 The Outsourcing Market

The outsourcing market has been ever growing since its popularity in the 1980's. Studies show that the outsourcing activity was significant and increasing in the UK, USA, France, German, Japan and Australia (Burnes and Anastasiadis, 2003). Clott (2004) estimated that the worldwide spending on outsourcing was about US$3.7 trillion in 2001. The Outsourcing Institute (2007) estimates that organisations spend about $17million per annum on average on outsourcing activities whilst the median figure is around $2 million, meaning that half spend more than that and half spend less than that sum. Generally the larger the company the more it can spend on outsourcing. Table 2.1 shows organisation's spending on outsourcing activities in relation to its size in the United States.

Table 2.1: Estimated Annual Value of Outsourcing Project(s).

Company size	Mean	Median
<500	3.60	0.70
500 – 999	9.50	2.30
1000 – 2499	12.20	2.90
2500 – 4999	11.10	3.40
5000 – 9999	20.90	3.80
10000+	44.80	15.70
Total	17.20	2.00

Source: Outsourcing Institute (2007)

The Outsourcing Institute (2007) found that around 60% of the respondents from the companies with fewer than 500 employees said their outsourcing budget is under $1 million, whilst 18% figure to spend $1 million to $5 million. Furthermore, 18% of companies with 2500 to 4999 employees budgeted between $6 million and $25 million for outsourcing. Just 14% of companies with both 5000 to 9999 employees and more than 10000 employees expect to spend the same money (Outsourcing Institute, 2007). Approximately 63% of businesses using outsourcing services have existed for 11 years or more (Embleton and Wright, 1998). The biggest users by industry are the retail trade, wholesalers and manufacturers. Mining and public utilities have little outsourcing activity partly due to protection by the governments. There are no readily available studies that give an estimate of the global outsourcing market. In South Africa, these studies are even more difficult to find due to a lack of a coordinating body. There are studies however that point to an ever growing market of outsourcing. The United States market for all forms of outsourcing grew from about $295bil to $340bil between 1999 and 2000 (20% pertaining to IT), and that small companies use of outsourcing increased by 25% (Casale, 2007). Macrea (2000) reports forecast of global outsourcing growth of 20% per annum, and with the Pacific Rim outsourcing market being $A51billion in 2005, and the Australian IT outsourcing market being $A5.1billion in 2005 - a growth of 12% (Beaumont and Sohal, 2004). Companies vary in the activities that they outsource. Most companies that do outsourcing are likely to outsource their primary supply chain activities (Lonsdale & Cox, 2000). One of the reasons why firms have outsourced a number of their primary supply chain activities is that the costs of remaining up to date in a multitude of supply chain activities have become financially onerous. Where technology moves the fastest, the problem is more serious. It does not come as a surprise therefore that a number of pioneering outsourcers have been in the IT sector. The typical activities that are outsourced are provision of health services; recruitment, travel, advertising, water treatment, relocation, pest control, landscaping and security (Kakumanu and Portanova, 2006). Other activities that are likely to be outsourced are support services. Lonsdale and Cox (1997) contend that in the United Kingdom, 75% of firms were only involved in outsourcing support activities, with the most frequently outsourced being the facilities of the firm. Outsourcing is not restricted to primary and supporting activities. The scope of outsourcing has grown over the past few years with outsourcing activity being reported in provision of information services to human resources. The activities that organisations retain are their core competencies.

2.2.2 Reasons for outsourcing

Kakabadse (2000) points out that the two main reasons why organisations outsource is cost efficiency and strategy imperatives. In other markets, mainly in Europe and Asia, environmental factors were also found to be the reason for outsourcing over and above the economic and strategy reasons. Kakumanu and Portanova (2000) argue that in the United States outsourcing has helped corporations remain competitive and maintain their flexibility. Outsourcing allows the companies to rapidly add talented people and more capacity. In the public sector however, the reasons for outsourcing are mostly political (Avery 2000). This is because in the public sector the important issues are social rather than political

(Kremic, Tukel and Rom, 2006). According to the Outsourcing Institute (2007), the reasons why firms outsource have shifted from cost savings to improve company focus (Table 2.2). The Institute found that the companies listed the following reasons why they outsource.

Table 2.2: Top 10 Reasons Companies Outsource

Reason for Outsourcing	*% of companies*
Improve company focus	55
Reduce and control operating costs	54
Free resources for other purposes	38
Gain access to world class capabilities	36
Resources not available internally	25
Accelerate engineering benefits	20
Reduce time to market	18
Share risks	12
Take advantage of offshore capabilities	12
Function difficult to manage or out of control	10

Source: Outsourcing Institute (2007)

The three main categories that drive outsourcing in many organisations are essentially cost efficiency, strategy requirements and politics (mainly in the public sector organisations) are discussed in detail.

Cost driven outsourcing

In outsourcing, costs saving objectives are achieved through the economies of scale (Kakabadse, 2000). The savings come as a result of specialists typically handling specific tasks for a number of companies, thus spreading fixed costs and achieving economies of scale (Jiang, Frazier and Prater, 2006). Jiang, Frazier and Prater (2006) illustrate these scale economies by sighting the example of payroll outsourcing where the payroll company is able to spread its costs as a result of specialising in that function and offering its services to different organisations. Both the outsourcing giving organisation and the outsourcing receiving organisation benefit in the process. The benefit to the outsourcing organisation is savings in overhead costs that might have resulted if the activity was not outsourced. Outsourcing also allows the "outsourcing contract receiver" to identify areas that are candidates for improvement on the knowledge to act successfully on that awareness

(Harland, Knight, Lamming and Walker, 2005). Harland *et al.* (2005) contend that the other benefit of outsourcing is that it allows organisations to remove functional "silos" – separate department and business units – and barriers between them. This provides better customer focus, flexing and changing offerings and processes to meet changing markets.

Empirical studies by Jiang, Frazier and Prater (2006) on the outsourcing effects on firms' operational performance supports the hypothesis that organisations that outsourced some of their activities achieved significant cost savings compared to those that did not outsource.

Strategy driven outsourcing

Quinn and Hilmer (1994) combine the principle of core competencies and strategic outsourcing in a new approach to outsourcing. They state that by strategically outsource other activities for which the firm has neither a critical strategic need nor special capabilities and concentrate the firm's own resources on a set of "core competencies", when properly combined can allow managers to leverage their companies' skills and resources well beyond levels available with other strategies. By focusing on its core competencies, an organisation is capable of infusing products with irresistible functionality, or better yet, creating products that customers need but have not yet imagined (Prahalad and Hamel, 1990). According to Prahalad and Hamel (1990) core competencies have the 3 distinctive features:

- Provide potential access to a wide variety of markets.
- Should have a significant contribution to the perceived customer benefits of the end product.
- Should be difficult for the competitor to imitate.

Quinn and Hilmer (1994) features of core competencies include:

- Limited in number.
- Embedded in the organisation system.
- Unique source of leverage in the value chain.

Processes with the above feature are likely to give an organisation a competitive edge if combined carefully with outsourcing strategy.

Nike and Apple II are the most sighted examples where the combination of strategically outsource other activities and concentrate on the firm's own resources on a set of core competencies leverage company's skills and resources well (Quinn and Hilmer, 1994).

- Nike Inc, the largest supplier of athletic shoes in the world outsources 100 percent of its shoe production and manufactures only key technical components of its Nike Air system.
- Apple Computer outsourced 70 percent of its manufacturing costs and components. It also outsourced critical items like design (to Frogdesign), printers (to Tokyo Electric), and even key elements of marketing (to Regis McKenna).

The benefits of outsourcing are not limited to a particular industry. In other industries the nature of the relationship between the contract giving firm and the contract receiving firm can take a different angle. In Information Technology (IT) for example, Mcfarlan and Nolan, (1995) argue that strategic alliances have been found to be a factor in outsourcing and stated that:

> "Finding a partner to complement an area of weakness gives an organisation an island of stability".

In addition to refocusing resources onto core competencies, other strategy issues which encourage the consideration of outsourcing are restructuring, rapid organisational growth, changing technology and the need for greater flexibility to manage demand swings (Kabakase and Kabakase, 2000). Kremic, Tukel and Rom (2006), contend that flexibility appears to be an important driver not just from the scale perspective but also regarding the scope of product or service. Organisations need to react quicker to customer requirements and outsourcing is seen as a vehicle to accomplish this.

The nature of the relationship between two organisations that enter into an outsourcing contract for strategic reasons should be spelled out clearly from the onset as the risks could be severe.

Politically driven outsourcing

Outsourcing that is largely driven by political motivation is likely to be found in the public sector (Kremic Tukel and Rom, 2006). The main reason for this is that in the public sector, social issues take priority over economical issues. Avery (2000), warns that outsourcing of public services requires careful consideration of the implication of privatisation as there are potential conflicts of interest. Accountability is seen as being another reason for outsourcing in the public sector (Kremic Tukel and Rom, 2006).

The literature review above has so far demonstrated the benefits of outsourcing in that the organisation can improve its cost structure and strategically focus on its core competencies, which can lead to competitive advantage and improved flexibility by the organisation. The drivers of outsourcing were found to be common in the majority of outsourcing organisations across the globe. An account of examples of outsourcing practises in different selected countries is given below.

2.2.3 Outsourcing in selected countries

The practise of outsourcing has been observed beyond the developed economies of the world. A number of emerging and developing economies have embraced outsourcing principles in their quest to be low cost producers to allow them to compete with established economies. Two countries outside North America and Europe are selected for review of their outsourcing principles. These countries are starting to make a significant contribution to the global economy.

Outsourcing in China

China is increasingly becoming one of the fastest developing economies of the world. Her accession to the World Trade organisation (WTO) has opened up several of her industries to direct foreign participation (Hertzell, 2001). Also, the pattern of ownership of Chinese enterprises has gradually shifted from absolute dominancy of the state owned enterprises to coexistence of ownership in hybrid forms (Chen and Huang, 2005). One of the industries that have experienced exceptional growth as a result of favourable economic conditions in China is logistics. The combined transportation and logistics expenditures of China are estimated at just under US$4.8billion (Kadar and Huang, 2005). The Chinese government designated logistics as a strategic industry and invested heavily in improving infrastructure such as nationwide multi-modal transportation networks and large scale modernised logistics and distribution centres (Trunick, 2003). The increasing competition and growing awareness of the role of logistics lead more companies to exploit the potential of outsourcing. In their study of outsourcing in China, Lau and Zhang (2006), found that the reasons for outsourcing in China are the same as the reasons of the developed world namely: focus on core competencies, increase flexibility and access to expertise and technology. With China being a developing economy that is still trying to access global markets, facilitation of market penetration was identified as a strategic reason for outsourcing. Activities that are likely to be outsourced in China are:

- Transportation.
- Warehousing.
- IT support.
- Cleaning and catering.
- Renting of personal computers.
- Maintenance work.

Problems and obstacles of outsourcing in China

Most of the problems China experienced with regard to outsourcing are not uncommon to the general outsourcing risks experienced by other countries. Obstacles and problems of outsourcing in China are:

- Loss of capable service providers.
- Loss of control.
- Poor transportation and IT infrastructure.
- Local protection regulations.
- Lack of overall post outsourcing review.

Overall there are similarities and differences between the key outsourcing drivers and risks in Western developed countries and China. The differences are understandable as companies in developing countries are generally fast developing and striving to occupy the maximum market share.

Outsourcing in Australia

Outsourcing is also gaining popularity in Australia. Beaumont and Sohal (2004) investigated the reasons why Australian organisations were outsourcing (Table 2.3). The reasons were classified into four drivers and their factors:

Table 2.3: Reasons for outsourcing in Australia.

Driver	Factor
Operational	Reduce costs
	Achieve flexibility
	Improve performance
Resources	Focus on core business
	Provide flexibility
Cultural	Eliminate internal cultural differences
External	Dictated by circumstances or senior management

Source: Beaumont and Sohal (2004)

Similarly, companies that did not want to outsource cited the same reasons found in literature, namely:

- Loss of control.
- Dubious cost saving.
- Loss of confidentiality.

The findings in these two countries confirm earlier literature of the reasons for outsourcing and the risks involved in outsourcing activities. These reasons can be assumed to be applicable in other countries as well. The differences in stages of economic development amongst countries might result in other reasons given for outsourcing and against it. The underlying reasons and objectives for outsourcing are the same, however.

2.2.4 Outsourcing Relationships

The nature of outsourcing contracts can take various forms of arrangements or relationship. These vary from short-term contracts encouraging flexibility, to full ownership of and, or, merger between, service purchasers and service providers (Kakabadse and Kakabadse, 2002). In their studies of preferred relationship contracts, Kakabadse and Kakabadse (2002) found that there are different preferences between American and European firms. US companies were found to opt more for strategic alliances than European firms. Other forms of contract relationships preferred are shown in Table 2.4.

Table 2.4: Preferred Outsourcing relationships: comparison between US and Europe.

Preferred Outsourcing relationship	US	Europe
Trusted supplier	51	58
Single contract (buyer / supplier)	56	54
Performance based contract(s)	36	28
Rolling contract(s)	26	26
Multiple supplier providing seamless service	20	18
Partnerships	17	17
Flexible pricing contracts	18	17
Strategic alliances	26	16
Partnership with cross equities / joint ventures	15	11
Public Private Partnership / Private Finance Initiative	6	9

Source: Kakabadse and Kakabadse (2002)

Webb and Laborde (2005), argue that the basis of a successful outsourcing vendor/client relationship begins with the formulation of a contract. The contract should address the specific product and services to be delivered, how and when they will be delivered, the terms of payment, and what you the vendor will provide if you fail to live up to the contract. Communication and cooperation between the client and the outsourcer will allow for the formation of mutual respect and understanding, qualities which can greatly increase the longevity of an outsourcing relationship (Webb and Laborde, 2005). Despite well crafted contracts and good communication between the client and the vendor there still remain pitfalls that are inherent to outsourcing.

2.2.5 Outsourcing risks

It is important for the organisations to realise that there are potential risks in outsourcing. Harland *et al.* (2005) argue that the development of new management competencies, capabilities and management process are the most significant risks in outsourcing. These include decisions on which activities should remain within the organisation and which are outsourced, whether all or part of the activity should be outsourced, and how to manage relationships rather than internal functions of the process. Security is another downside of outsourcing (Kakumanu and Portanova, 2006). The risk here is that offshore assets and information in possession of another company are much harder to protect. Kakabadse (1996) mentions unrealised savings or hidden costs as potential outsourcing risks. According to Quinn and Hilmer (1994) the following are strategic outsourcing risks:

- Loss of critical skill as skilled personnel can join the outsourcing contract receiving firm in that function that is outsourced.
- Loss of cross functional skills through loss of interaction with the outsourced department.
- Loss of control over a supplier – serious difficulties can occur if the buyer does not have sufficient market power relative to the seller.

A detail study of the information system industry by Gonzalez, Gasco and Llopis (2005), found the following 3 risks to be the most concerning to organisations with regards to outsourcing:

i) The firms that outsource the most are also the ones that most fear the dependence on the provider that is generated.
ii) The firms that outsource the most are also the ones that most fear the Information System (IS) staff's possible opposition.

iii) They are equally the most concerned about the potential security problems outsourcing might generate.

The ten most outsourcing risks in the information system industry are depicted in Table 2.5.

Table 2.5: Outsourcing Risks

Rank	**Risk**
An excessive dependence on the supplier	1
Loss of critical skills and competences	2
Qualification of providers' staff	3
The provider does not comply with the contract	4
Unclear cost benefit relationship	5
Hidden costs in contract	6
Security issues	7
Irreversibility of the outsourcing decision	8
The possible opposition of our IS staff	9
Inability to adapt to new technologies	10

Source: Gonzales, Gasco and Llopis (2005)

These risks were found not to be unique to the Information system industry. They are the same for the different firms regardless of the activity sector they belong to.

These risks can be minimised by developing and following a clear outsourcing plan. The plan can be incorporated in the outsourcing process steps. Franceschini, *et al.*, (2003) propose a model that is organised into four main steps, namely: internal benchmarking analysis, external benchmarking analysis, contract negotiation and outsourcing management (Figure 2.1).

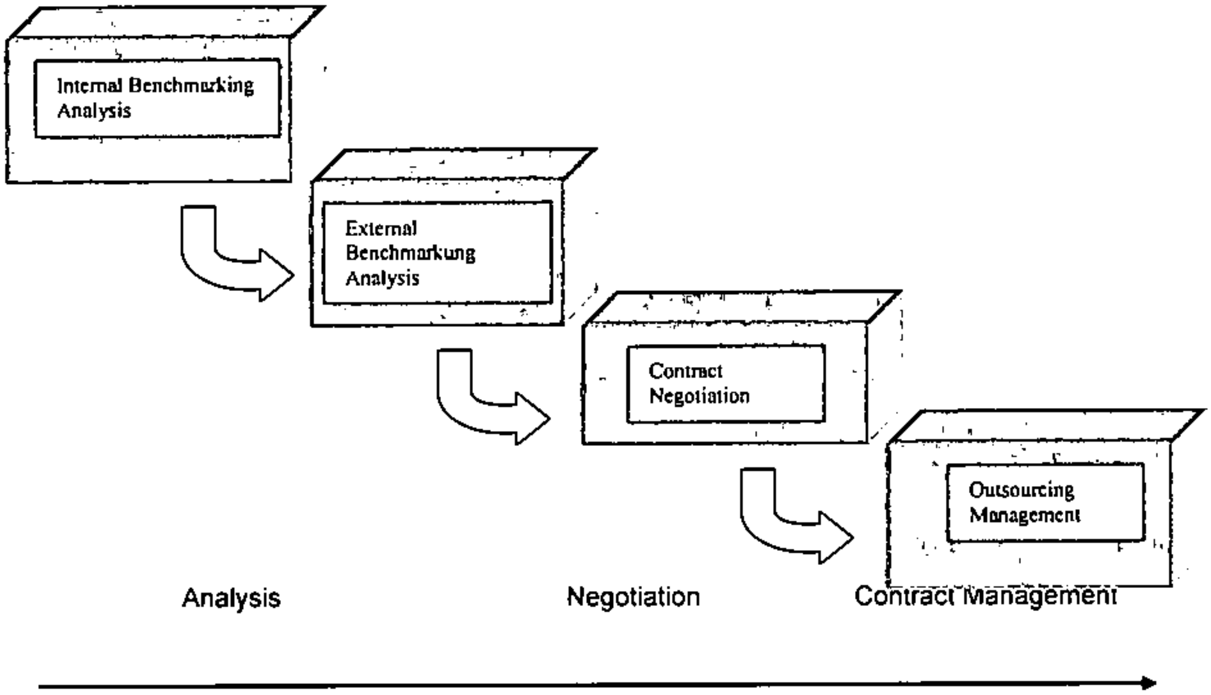


Figure 2.1: Scheme of a general model for the management of outsourcing processes. Source: Franceschini *et al.* (2003)

- Internal benchmarking analysis entails monitoring the processes, analysis their efficiency and evaluating what to outsource, considering the core competencies.
- External benchmarking aims to select the right supplier. 3 supplier strategies are identified:
    - A single vendor where the two organisations work together. The vendor understands the needs of the client.
    - Multiple vendors allow better services and lower the costs, but it requires a significant effort to monitor and coordinate more vendors.
    - Integrated suppliers where more suppliers are managed by a single outsourcer.
- Contract negotiation is the formalisation of the relationship between the outsourcer and the outsourced.
- Managing outsourcing processes is where both the outsourced and the outsourcer define targets and check moments.

Others who have provided a model for the outsourcing process are Zhu, Hsu and Lille (2001), who proposed a four stage outsourcing process model that entails planning, developing, implementation and evaluation.

i) Planning: At this stage a thorough evaluation of the business costs is made with the aim of identifying potential cost savings.

ii) Developing: A vendor agreement is signed which covers areas of business relationship. Aspects of the impact on employee benefits, the employee separation plan, the outsourcing timeline and the communication plan to the employees should all be discussed in the developing stage.

iii) Implementation: A comprehensive transition plan is drawn up.

iv) Evaluation: A comparison of the objectives identified in the business plan is made to determine if these have been met.

McIvor (2000) also proposed a 4 stage model that has got elements of the previous two models.

Stage 1: Defining the core activities of the business.
This stage is involved in defining the core and the non-core activities of the firm.

Stage 2: Evaluate relevant value chain activities.
This stage is concerned with analysing the competencies of the company in the core activities in relation to potential external sources.

Stage 3: Total cost analysis of core activities.
This stage involves attempting to measure all the actual and potential costs involved in sourcing the activity – internally or externally.

Stage 4: Relationship analysis.
This stage concerns the type of outsourcing relationship the organisation is willing to enter into.

Following a well defined process when outsourcing activities of an organisation not only minimises risks inherent in the outsourcing process, but also helps realise the benefits of outsourcing and answers can be easily provided to auditors or union groups if there are question about the process of awarding a contract to a specific vendor and rejecting others.

It is clear that outsourcing will continue to grow as companies look outside of their organisations for ways to become more efficient. The popularity of outsourcing will in future be driven also by increased outsourcing activity in the public sector as government will be calling for more efficiency in these institutions.

2.3 Black Economic Empowerment

2.3.1 Background.

In South Africa the government has identified outsourcing as a means of achieving other economic development objectives if the contract receiving organisations are composed mainly of the previously disadvantaged groups. The main reason for focusing on the outsourcing receiving contract organisations is that the government promulgated the Black Economic Empowerment (BEE) Act No. 53 of 2003, which among other things seeks to establish a legislative framework for the promotion of black economic empowerment. Outsourcing to established black owned businesses is one of the many ways to help achieve black economic empowerment.

According to Department of Trade and Industry (2003), the development of the BEE strategy was informed by the unfortunate history of the country. The apartheid system of the previous whites' only government systematically and purposefully restricted the majority of South Africans (mostly blacks) from meaningful participation in the economy. The accumulation process under Apartheid confined the creation of wealth to a racial minority and imposed underdevelopment on black communities. The result is an economy structure that today, in essence still excludes the majority of South Africans. The need to effect redress in the interest of equity is also embodied in the constitution. Since 1994 the government of South Africa embarked upon a comprehensive programme to provide a legislative framework for the transformation of the economy. Specific active measures have been introduced to overcome the distortions in the labour market as well as provide opportunities to historically disadvantaged persons. Some of the legislations introduced include: The Promotion and Prevention of Unfair Discrimination Act; Extension of Security of Tenure Act and importantly with regards to outsourcing, the Preferential Procurement Policy Framework Act. Subsequently, the government of South Africa has outlined broad economic strategies to transform the economy by 2014. These strategies include the Microeconomic reform strategy, and a range of specific strategies such as the integrated Manufacturing Strategy and the National Research and Development Strategy. Progress has since been recorded in undoing the legacy of the past; however, the extent to which this economic success has been shared by all of our people is still inadequate for the requirement of a stable and prosperous society. It is for these reasons that there is a need for a comprehensive and focussed strategy for broad based economic empowerment (South Africa: Department of Trade and Industry, 2003). The strategy consists of a policy statement and a statement of the policy instruments that the government will be using consistently and predictably. These include the formalisation of partnerships and 'charters' with the private sector; the use of a balanced scorecard approach for gauging success; and, an Act that allows for the formalisation of guidelines and codes and the establishment of an Advisory Council (South Africa: Department of Trade and Industry, 2003). The BEE Act defines broad based black economic empowerment as the "economic empowerment of all black people including women workers youth people with disabilities, and people living in the rural areas through diverse but integrated socio-economic strategies that include, but not limited to:

- Increasing the number of black people that manage, own and control enterprises and productive assets.
- Facilitating ownership and management of enterprises and productive assets by communities, workers cooperatives and other collective enterprises.
- Human resources and skills development.
- Achieving equitable representation in all occupational categories and levels in the workforce.
- Preferential procurement.
- The investment in enterprises that are owned or managed by black people.

The objective of the Act is to facilitate broad based black economic empowerment and amongst other things (South Africa: Department of Trade and Industry, 2003):

- To achieve a substantial change in racial composition of ownership and management structures, and in the skilled occupation of existing and new enterprises.
- To increase of the extent to which communities and workers cooperative and other collective enterprises own and manage existing and new enterprises, and to increase their access to economic activities, infrastructure and skills training.

- To increase the extent to which women own and manage existing and new enterprises, and increase their access to economic activities, infrastructure and skills training.

Furthermore, according to the Act, the government will utilise a number of policy instruments to achieve its objective in respect of BEE. These include legislation and regulation, preferential procurement, institutional support, financial and other incentive schemes. The government will involve the private sector through forging of partnership and charters. In order to regulate BEE activity the government introduced the codes of good practise. The Codes of Good Practise on Broad-Based Black Empowerment Enterprise (B-BBEE) were gazetted on the 9th February 2007, making them all binding on all organs of state and entities (South Africa: Department of Trade and Industry, 2007). By deduction, private sector enterprises are encourages to apply the Codes in interaction to one another. The Codes were meant to address some of the following obstacles:

- Lack of uniform framework for the recognition and measurement of BEE.
- Extensive delays in BEE implementation due to differences in interpretation.
- Differences in definition and targets in charters and other BEE requirements.
- Status of transformation charter was unclear.
- Lack of underlying substance to many BEE transactions.
- Fronting due to lack of implementation guidelines.
- Very little transformation within management levels.
- Narrow based recognition tendered to benefit a limited number of black people with access to capital.

The Codes of Good Practise are, in part, a response by government of South Africa to the need to overhaul empowerment guidelines so as to ensure the benefits of the policy are spread more evenly (Human Capital Management, 2005/06). The overall purpose of the Code of Good Practise is to provide certainty with respect to BEE recognition and measurement, in order that BEE initiatives can be implemented in such a way that economic substance take precedence over form, that there exist just BEE comparability between the BEE statutes of different entities and that competition with respect to BEE contribution level takes place. The Code of Good Practise that relates to outsourcing is Code 500, which discusses Preferential

Procurement. Preferential Procurement is a way of strongly encouraging all companies to develop a BEE profile with an ever-increasing score, and spend money with new enterprises. The Procurement is split up between three types of enterprises (Caird Consulting, 2006).

Broad based black economic empowered enterprises – these are enterprises that are neither Qualifying Small Enterprises nor Exempted Micro Enterprise. Their turnover or staff complement exceeds the criteria for determining either.

Qualifying Small Enterprises (QSEs) – these qualify for their own scorecard.

Exempted Micro Enterprises (EMEs) – enterprises that do not qualify to register for value added tax (VAT) are exempt from any form of BEE. They automatically qualify as a Level 4 BEE contributor, which entitles the purchasing company to claim R1 for every R1 spent.

The Code measures the extent to which enterprises buy goods and services from suppliers with strong B-BBEE procurement recognition levels.

2.3.2 Government Strategies for Black Economic Empowerment

The broad based black empowerment act is but one of the many programmes initiated by the government of South Africa to facilitate economic empowerment to historically disadvantaged citizens. It can be argued that the current form of the BEE Act is a culmination of previous strategies aimed at empowerment. Some of the previous strategies achieved little success and most of the lessons learnt in those strategies have been correct under the current B-BBEE Act.

2.3.2.1 The Reconstruction and Development Programme (RDP)

The RDP was an integrated, coherent socio-economic policy framework which seeks to mobilise all the people and resources of South Africa towards the final eradication of the results of apartheid, the building of a democratic, non racial and non sexist future (South Africa: Department of Trade and Industry, 2003). The programme was a vision for the fundamental transformation of the country. It integrates growth, development, reconstruction, redistribution and reconciliation into a unified programme. The programme had five key deliverables:

- Meeting basic needs of people such as jobs, land, housing, water, electricity, telecommunications, transport, a clean and healthy environment, health care and social welfare.
- Developing human resources through education.
- Building the economy – this deliverable dealt with linking reconstruction and development. Topics such as industry, trade and commerce, resource-based industries, upgrading infrastructure, labour and workers rights and all issues regarding the state of the economy.
- Democratising the state and society.
- Implementing the RDP.

In its white paper of 1994, the RDP set out that the participation in the economy needs to be increased, become more racially inclusive, and small, medium and micro enterprises must account for larger parts of the economic activity. Whilst gains were made within the public sector, the overall approach to black economic empowerment lacked focus and an overarching strategic framework. The RDP was somewhat displaced by the Growth, Employment and Redistribution (GEAR) Strategy. GEAR is a macroeconomic strategy for rebuilding and restructuring the economy. It formed the foundation of the government economic policy.

2.3.2.2 The Preferential Procurement Policy Framework Act 5 of 2000

The purpose of the Procurement Act was to give preferential treatment in government making decisions to parties that deliver on certain transformational expectations (South Africa: Department of Trade and Industry, 2003). The framework set out by the Procurement Act requires that contracts be awarded by rating competing tenders on a preference point system consisting of 100 points. For contracts to the value of up to R500 000, 80 points are awarded on the basis of favourable pricing. The remaining 20 points are awarded on the basis of whether the tenderer is a historically disadvantaged individual, and / or is subcontracting with the historically disadvantaged individual, and / or is achieving one of a list of specified goals related to the RDP. In the context of the Procurement Act, a historically disadvantaged individual is defined as:

- Who, due to the apartheid policy that had been in place, had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act 110 of 1983) or the Constitution of the Republic of South Africa, 1993 (Act 200 of 1993) ('the interim Constitution); and / or

- Who is female; and / or
- Who has a disability.

The Procurement Act was subject to abuse as many companies created an artificial empowerment profile in order to win government tenders. The government of South Africa did not have a proper monitoring system that would thoroughly monitor compliance. In their bid to win tenders, companies started setting up black owned companies to tender on behalf of white owned companies. Other observed conducts that companies used in order to comply with the Procurement Act requirements for awarding a government tender included window dressing, fronting, mobile black executives, rent-a-black.

2.3.2.3 The Integrated Small-Enterprise-Development Strategy

After the political transformation of 1994, government adopted the White Paper on the national strategy for the Development and Promotion of Small Business in South Africa. The integrated Small Enterprise Development Strategy presents the way forward for small enterprise development in South Africa over the next ten years (2005 to 2014). According to the Department of Trade and Industry (2003) the core thrusts of the strategy are:

- Substantially strengthen support for Small, Medium and Micro-Enterprise (SMMEs') to access finance.
- Create an enabling regulatory environment by invoking Section 19 (1) of the National Small Business Act,
- Further expand market opportunities for specific categories of small enterprises.
- Localise small-business support through a grid of Small Enterprise Development Agency (Seda) co-ordinated and advice access points.
- Initiate a national entrepreneurship drive and expand education and training for small business.
- Co-fund minimum business-infrastructure facilities in local authority areas across the country.

The integrated strategy is targeted at small enterprises that are:

- Micro-enterprises.
- Informal enterprises.
- Start-up business.
- Black-, women- and youth owned enterprises.
- Enterprises in particular growth or priority sectors, including agriculture and agro-processing, construction, small scale manufacturing, tourism, craft and cultural industries as well as beneficiation of minerals.

To ensure that the integrated strategy is a success, the government through the Department of Trade and Industry (the dti) has put in place support structures that allow it a wide scope of intervention through the use of various instruments. Most importantly, the dti has set out how it will intervene in order to assist micro enterprises in the following areas:

- Improving access to finance.
- Improving access to markets.
- Skills development.
- Regulations affecting small businesses.
- Business premises and infrastructure.

Unlike the Procurement Act, the government recognises the importance of systematic, regular and objective monitoring and evaluation of the progress with the overall strategy.

2.3.2.4 Formalisation of partnerships and charters with the private sector

Another important leg of eradication of poverty and economic development of the historically disadvantaged individuals is the formation of sectoral partnerships between the private sector and the government. These partnerships represent significant participation by the private sector in black economic empowerment and recognise that the government cannot achieve the broad objectives of black economic empowerment without collaborating with the private sector. One such forms of partnership are the sector- and enterprise based charters. Such charters would need to include specific mechanisms to achieve BEE objectives in that sector or enterprise in a comprehensive and appropriate manner, as well as provide measurement indicators and targets (South Africa: Department of Trade and Industry, 2003). It is not expected that every sector and every enterprise will develop empowerment charters. However, those sectors and enterprises that continuously engage government in contracts, or are regulated by government, will be strongly encouraged to develop charters that set specific BEE targets and outline concrete plans to achieve these targets. In other sectors, voluntary compliance with the spirit of this strategy and, in particular, the implementation of the scorecard approach will be encouraged, especially in sectors that government has identified as having significant potential for future growth. Government will seek to conclude enterprise charters with key corporates in the priority sectors to inject momentum into the BEE process. BEE will only be achieved when enterprises voluntarily develop, as part of their overall corporate strategy, clear plans to achieve BEE. An important element in this regard is the creation and development of new black-owned enterprises. Government will issue a Code of Good Practice outlining in detail the core elements that should be incorporated into sector- and enterprise-based charters. Wherever possible, charters should incorporate the following (South Africa: Department of Trade and Industry, 2003):

The BEE challenges in that sector/ enterprise are:

- The sector's enterprise's vision for achieving BEE targets and timetable.
- The specific mechanisms to be used to achieve BEE targets including financing instruments, skills development and employment equity, preferential procurement, and enterprise development, as well as any additional mechanisms appropriate to the specific sector/ enterprise.
- An assessment of the financing required to fund BEE transactions.
- The institutional and management mechanisms that will co-ordinate, facilitate, monitor and evaluate the implementation of the charter.

Progress against the implementation of the charter will be measured by means of a scorecard. An example of the scorecard is shown in Table 2.6.

Table 2.6: Charter generic score card

Generic Scorecard		
Element	**Weighting**	**Code Series Ref**
Ownership	20 points	100
Management Control	10 points	200
Employment Equity	15 points	300
Skills Development	15 point	400
Preferential Procurement	20 points	500
Enterprise Development	15 points	600
Socio-Economic Development Initiatives	5 points	700

Source: Sabinet, 2007

The following sectors and industries have either completed their charters or are in the process of finalising them: Advertising, Agriculture, Building and construction, Financial, Forestry, Forwarding and Clearing, Healthcare, Gambling and gaming, Information and communication Technology, Liquor, Legal, Maritime transport and service industry, Mining, Petroleum and fuels industry, Professions, Property, Tourism and Transport.

The Financial and Construction sector charters have since been gazetted under Section 12 of the BEE Act (The Department of Trade and Industry, 2007). The Pulp and Paper industry is one of the sectors involved in negotiations to develop a Forestry Sector Charter (PAMSA 2005/2006). The Charter is expected to accelerate broad based black economic empowerment.

2.3.3 Funding of Black Empowerment

In order to ensure that BEE is a success, the government of South Africa provided financial support directly by setting a BEE allocation in its budget and indirectly by setting finance institutions that focus on BEE and SMME activities. A total of R2,2 billion was allocated to fund BEE initiatives for the 2002/2003 financial year. Included in this support were offerings of the dti and its various agencies, including Ntsika, Khula and the Industrial Development Corporation (IDC); as well as offerings from the Land Bank, the Development Bank of Southern Africa (DBSA) and other financial development institutions. The Isibaya Fund contributed an amount of R321 million and the Umsobomvu Fund contributed R461 million. In addition, the DBSA has contributed R1.4 billion to the revenue of low income households between 2000 and 2002 (South Africa: Department of Trade and Industry: 2003)

The focus of this research project is on the Pulp and Paper sector and how it responds to the BEE Act through outsourcing. Currently, of the 20 paper companies in the country, 10 have black shareholding of 100%, three with black ownership of between 40 and 50%, and one has a black shareholding of 10% (PAMSA 2005/2006).

According to PAMSA (2005/2006), the following were some of the major BEE deals in the Pulp and Paper Industry:

- In 2006, Sappi which owns over 360 000 hectares of plantations, sold an undivided 25% of its South African plantation portfolio to empowerment group Lereko Property Consortium for R224 million.
- In early 2006, Mondi launched an employee share ownership scheme. The scheme gave Mondi staff of approximately 5000 the chance to own 4% of Mondi Shanduka Newsprint (MSN) and 5% of Mondi Packaging SA (MPSA).
- In August 2006 Nampak announced a R981 million BEE deal in terms of which 10% of the company's shares will be transferred. Black staff at Nampak will receive a 5 percent stake and a further 5 percent will go to a BEE consortium led by Aka Capital.
- Kimberly Clark has been 50% owned by black empowerment company Lion Match since 1999.

2.4 General Response to Black Economic Empowerment by the Private Sector

Since the implementation of black economic empowerment, there have been lively debates with both the proponents and the opponents of BEE stating their views in public. One organisation that has been vocal about the response of the private sector on the implementing the BEE is the Black Management Forum (BMF). The BMF is an independent non-governmental initiative dedicated to placing black managers on equal footing with other managers from other backgrounds and environments (BMF, 2007). One of BMF business areas is conducting research which allows it to strengthen its position on transformation matters. Recently, the president of BMF was asked if black and white businesses are able to work together in addressing transformational issues faced by the businesses through black economic empowerment. The questions centred around the main components of BEE, namely: ownership, management control, employment equity, skills development, procurement and social development. On the question of procurement that relates to outsourcing, (Erasing the past will take a joint effort, 2007) identifies barriers that prevent small, black and women owned companies from doing business with large established companies. These are tenders that often call for impossible quantities, the logistics of the initial capital outlays of storage and transportation and extended patterns of payment. Commenting on the same issue, Vundla (2007) identified the area of preferential procurement as the worst performing in terms of achieving BEE goals. According to Barron (2007), this problem stems from an inability to use black suppliers, and then continue to use white suppliers, which he sees as lack of confidence in black suppliers that stems from racial prejudice.

The business response to BEE has also made headlines in parliamentary discussions. October (2007), pointed out that there existed a perception in the business world that BEE was "all about ownership factors" and that in the other six aspects of BEE, the private sector was "not coming on board as it should" (Sabinet, 2007: 1). October acknowledged some encouraging signs such as recent BEE share issues, but warned that many companies in the food and manufacturing industry "were way off course and saw themselves as comfortably out of the loop of BEE" (Sabinet, 2007: 2). Companies that do not rely on government contracts are generally recalcitrant on the implementation of BEE aspects and code of good practises. There is a general feeling that many companies are still talking about BEE instead of implementation.

This research project investigates the BEE credentials of the Pulp and Paper industry with emphasis on preferential procurement.

CHAPTER 3
THE STRUCTURE OF THE PULP AND PAPER INDUSTRY

3.1 Introduction

The Pulp and Paper Industry falls under the broad industry that includes forest and timber. Forestry and Timber industries are represented by Forestry South Africa (FSA) and South African Lumbar Millers Association (SALMA) respectively. The Pulp and Paper Industry is represented by Paper Manufactures Association of South Africa (PAMSA).

PAMSA's role is to:

- Promote the interests of the industry in various forums.
- Provide a forum for the development and presentation of the common industry view on issues.
- Co-ordinate activities common to the industry.

PAMSA's activities are primarily focussed on:

- Liaising with the government.
- Promoting the industry.
- Furthering education.
- Developing technical skills.
- Addressing environmental issues.

PAMSA members consist of the five largest manufactures of pulp and paper products. They are Sappi, Mondi, Nampak, Kimberly Clark and SA Paper Mills. These five companies produce over 90% of the paper made in the country (PAMSA 2006/2007). The PriceWaterHouseCoopers (2006 Ed) ranked Kimberly Clark (4^{th}), Mondi (13^{th}) and Sappi (19^{th}) in the Top 100 Global Forest Paper and Packaging Industry Survey.

The Pulp and Paper industry is a significant contributor in the manufacturing sector in South Africa and a major adder of value to locally produced raw materials (Chamberlain, Essop, Hougaard, Malherbe & Walker, 2005)

According to the South African Forestry, Pulp and Paper Industries (2004), in 2003 the South African Pulp and Paper industry:

- Contributed about R6 billion to the country's GDP, with estimated environmental costs of R1.6 billion.
- Directly employed about 13 200 workers as well as creating an additional 10 781 informal opportunities for paper collectors (recycling).
- Earned net foreign exchange to the value of R4.87 billion.
- Spent R57m on cooperate social investment programmes.

3.2 The Pulp market in South Africa

South Africa has nine pulp mills which in 2003, produced 2.3 million tons of pulp, making South Africa the 18th largest producer of pulp internationally (PAMSA, 2004b). The industry is dominated by two players Mondi and Sappi, who are the only producers of virgin fibre in South Africa and who are both highly integrated with their own paper and plantation operations. Sappi has a 62% share of the pulp production capacity with Mondi comprising the remaining 38% (Chamberlain, *et al.*, 2005). The mills are mostly concentrated along the North Eastern coast (KwaZulu-Natal) where they are close to fibre sources and have access to the harbours at Richards Bay and Durban for exports. The three exceptions are the Mondi Piet Retief mill, the Sappi Ngodwana mill near Nelspruit and the Sappi Enstra mill in Springs. These mills are all close to their sources of fibre (with the exception of Enstra) and are integrated with paper production facilities (Chamberlain, *et al.*, 2005).

3.3 The Paper market in South Africa

South Africa paper production of 2.69 million tons is 0.81% of world's production. South Africa ranks as the 23rd biggest producer in the world (South African Forestry, Pulp and Paper Industries 2004)

The four largest producers of paper in South Africa are: Sappi, Mondi, Nampak and Unicell (Pamsa 2004). Together the various mills owned by the five biggest companies accounted for 96% of the total paper production capacity in South Africa in 2003. The remaining four percent is produced by a number of small companies with a capacity of 3000 to 15 000 tonnes per annum. The profile of the smaller consumers that make up the four percent is shown in Table 3.1.

Table 3.1: Smaller Paper mills and their capacities.

Paper Mills	Capacity (t/a)	Products
Central Tissue	4000	Recycled tissue
Crystal Papers	15000	Recycled tissue
Dynamic Fibre Moulding	10000	Moulded Packaging
Expert Tissue	4000	Recycled tissue
Gardenia Paper Products	7000	Recycled tissue
Goodview Investment	3000	Recycled tissue
Hygienic Paper	15000	Recycled tissue
Jankirkar Paper Mills	5000	Recycled tissue
Ligia Paper Industries	4000	Recycled tissue
Lothlorien	15000	Corrugated Paper
Rafalo / Correl	8000	Recycled tissue
SA Paper Mills	8000	Corrugated Paper
SA Tissue	4000	Recycled tissue
Tongaat Paper Company	8000	Recycled tissue
Waldens Paper Mills	6000	Recycled tissue
Total Capacity	**116000**	**Recycled tissue**

Source: PAMSA (2004)

PAMSA (2004) identifies thirty paper and paperboard mills in South Africa including the integrated eight pulps and paper mills. The four categories of papers produced are printing and writing papers, newsprint packaging and tissue paper. Sappi and Mondi dominate the printing and writing paper market, as well as the newsprint market in which Mondi is the largest player with a 62% market share. Nampak and Kimberly Clark have a combined 50% share in the tissue paper market, with the smaller players comprising the rest of the market. In the packaging paper sub-market, Sappi and Mondi once again dominate, followed by three smaller companies (Chamberlain, *et al.*, 2005). Nampak, Africa largest packaging manufacturer also produces liner board and fluting which is converted into corrugate boxes and in addition, makes packaging products (PAMSA, 2005/2006).

3.4 Global Production

According to PriceWaterHouseCoopers (2006 Ed), the global market of the pulp paper and packaging industry was estimated at US$339 781 million in 2005. The

United States of America Forest and Paper Industry is the largest in the world, contributing more than $US126 billion in sales. The US produces more than 30% of the world paper and paperboard products. The US industry employs more than 1 million people with a payroll of approximately $US50 billion (PASAA). The US industry is the world leader in recycling of all paper and paperboard consumed in the US. The US industry has several advantages over the rest of the world, including modern mills, high skilled workforce, a large domestic market and an efficient transportation infrastructure (AF&PA, 2007).

The Europe market is the next biggest player in the global industry contributing approximately $99 billion of sales in 2005. The South African region, represented by Sappi and Nampak, contributed approximately $6 billion to global sales. The industry value chain is illustrated in Figure 3.2.

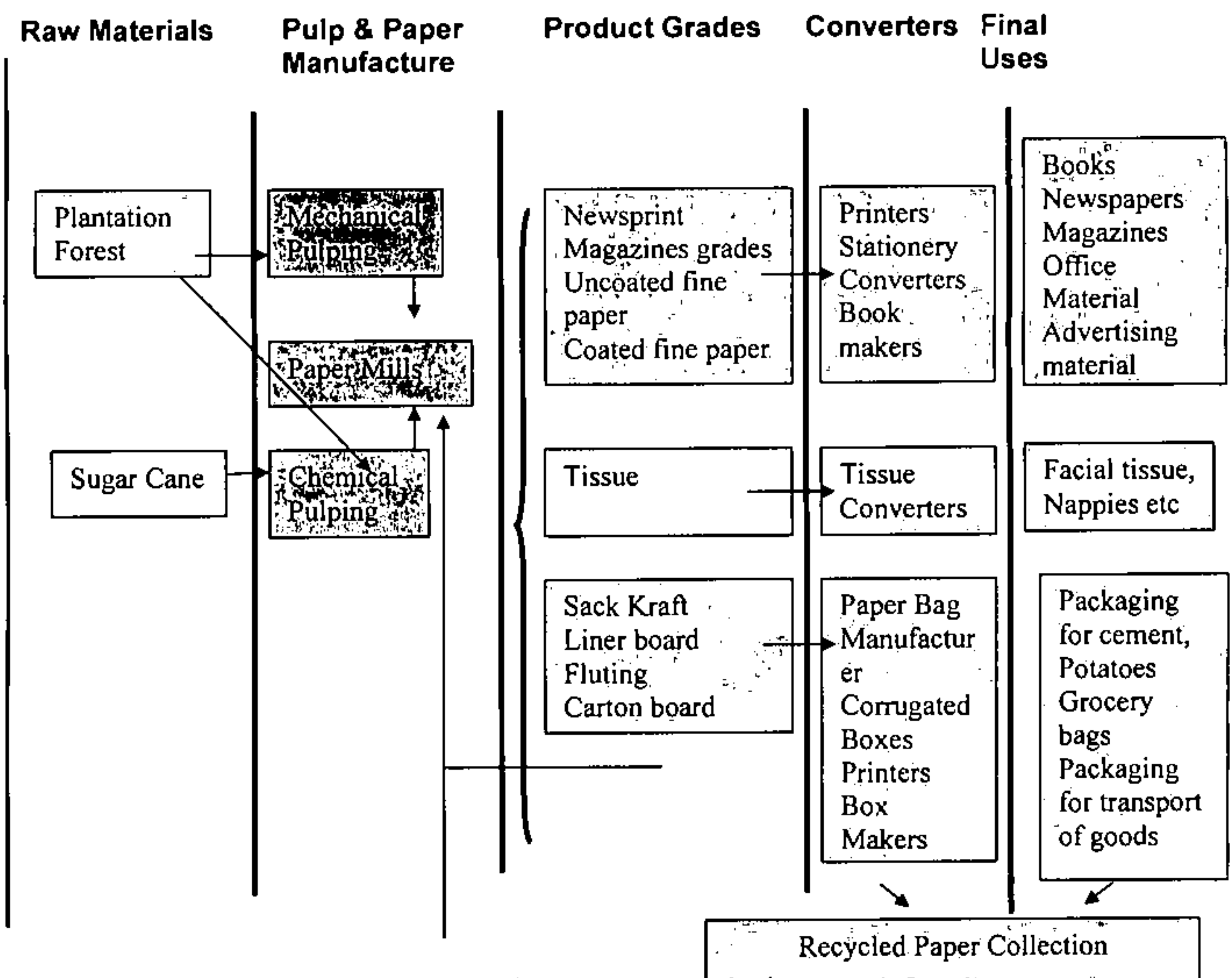


Figure 3.2: Summary of the value chain.
Source: PAMSA (2006/2007)

3.5 Raw Material

The primary source of papermaking fibre in SA is wood from man made plantation forest. The wood is categorised into Hardwood and Softwood depending on the type of fibre the wood produces. The man made plantation forests have given South Africa the competitive edge over other wood producing nations: for example the United States of America, and Scandinavian countries that use natural and indigenous forests. In South Africa, it takes 14 years for softwood to be ready for pulping compared to about 20 years in United States and 40 years in Scandinavian countries (PAMSA 2006/2007).

3.6 Pulp Manufacture

There are two types of pulps: mechanical pulp and chemical pulp. Mechanical pulp is produced by applying mechanical force and the chemical pulp is produced by dissolving lignin from the wood. Most chemical pulp is produced for paper making and the mechanical pulp is used to produce wood containing papers such as newsprint and magazines (PAMSA 2006/07).

3.7 Paper Manufacture

PAMSA (2006/07) distinguishes three main categories of paper grades: printing and writing grades, packaging grades and tissue grades:

- Printing and writing grades use mechanical and / or chemical pulps as raw materials. Their weight is relatively light 40 -120g/m3.
- Packaging material is mostly made using unbleached chemical pulps.
- Tissue is made from deinked recycled fibres and bleached pulp.

3.8 Paper Conversion

Printing and writing grades are sold by paper companies in roll or sheet form to bulk printers like newspaper operations. Packaging converters normally supply industrial companies in reel form, who in turn produce corrugated cartons, paper sacks for cement, and so on.

Tissue converting involves the conversion of rolls of the tissue from a paper machine into facial tissue, serviettes, paper towels and sanitary products (PAMSA 2006/07).

Both Nampak and Kimberly Clark produce tissue and convert consumer and industrial paper products including facial and household tissue. These companies also produce disposable paper products, and between them have 62% share of the tissue market (PAMSA 2006/07). Nampak also produces linerboard and fluting which is converted into corrugate boxes (Nampak, 2008).

Sappi and Mondi are fully integrated, being directly involved in the forestry industry and pulp and paper production. Both companies operate a combined total of seven integrated pulp and paper mills and five paper and board mills within the country (PAMSA, 2006/07)

S A Paper Mills manufactures ribbed and plain Kraft test liners as well as fluting, wrapping and packaging papers used for stationery, school bags, packaging and wrapping (PAMSA, 2006/07).

3.9 Chapter summary

Outsourcing is integral to achieving cost efficiencies in any business. However, if the process of outsourcing and implementation is not managed well, it can result in unwanted consequences. The key aspects of outsourcing are to ensure that the right aspects of the business are outsourced, and to conduct a thorough study before committing to outsourcing decisions. Another important factor is the relationship that a business forms with the contract receiving partner. There are various forms that this relationship can take. The key thing to note is that the outsourcing arrangement should result in a win-win situation for both partners.

The private sector in South Africa can use outsourcing in helping the government to achieve the policies of black empowerment without the government getting directly involving with the affairs of the private sector. By awarding outsourcing contracts to competent small medium enterprises and predominately black business, the private sector can also help transfer entrepreneurial skills to people who never had opportunities before. Growth of the SMME's can help reduce unemployment in

South Africa and also contribute to the economic growth targets set out by the government. This is one of the many ways the private sector can implement effective affirmative action policies. The introduction of sectoral charters which have been adopted by the private sector as the main vehicle for economic transformation has come under pressure recently. The opponents of the sectoral charters have sighted the lack of skills transfer and not going far enough to meet BEE objectives. The proponents of the charters believe these have addressed economic transformation and have a role to play in future. Both sides agree that the introduction of B-BBEE codes goes a long way in addressing some of the flaws of the previous BEE strategies.

The Pulp and Paper industry through its massive size and contribution to the gross domestic product is a key player in the transformation imperatives of the country. The industry value chain provides a lot of opportunities for outsourcing to aafirmable businesses. The essence of this research report is to investigate the role of the Pulp and Paper Industry in empowering affirmable businesses.

CHAPTER 4
RESEARCH METHODOLOGY

4.1 Introduction

The key to finding the relevant information in a research project that will give answers to the investigative question is a well designed and executed research methodology. The methodology should carefully identify the target population and the sample that is used for the purpose of the research. It should also specify how and what form of data will be collected and analysed. Most importantly, the design of the research instrument must address questions raised in the problem statement. This chapter provides a detailed account of the various steps of the research methodology including the target population and sampling, data collection techniques and the design of the research instrument. A detailed account of literature of other design strategies is also discussed. A limitation posed by the structure of the Pulp and Paper industry (population) in carrying out the research is also mentioned.

4.2 Research design

There are many definitions of the research design by different authors. The one that captures the basis of this study is by Phillips (2003), who argues that:

> "Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. The plan is the overall scheme or program of the research. It includes the outline of what the investigator will do from writing hypotheses and their operational implications to the final analysis of data. A structure is the framework, organisation of configuration of ... the relations among the variables of a study. A research design expresses both the structure of the problem and the plan of the investigation used to obtain empirical evidence on relations of the problem."

The essentials of the research design are that (Cooper and Schindler, 2003):

- The design is an activity and time based plan.
- The design is always based on a research question.

- The design guides the selection of sources and type of information.

In the research design therefore, questions as to which technique will be used to gather data are answered. In attempting to adopt a certain research paradigm that will be appropriate to the research question that is asked, two types of paradigms or research studies can be distinguished, namely exploratory studies and descriptive studies.

4.2.1 Exploratory studies

Exploratory studies tend towards loose structures with the objective of discovering future research tasks. Through exploration researchers develop concepts more clearly, establish priorities, develop operational; definitions, and improve the final research design (Cooper and Schindler, 2003). Exploration studies rely more heavily on qualitative techniques. Qualitative research is concerned with collecting and analysing information in as many forms as possible, and is chiefly non numeric. It tends to focus on exploring, in as much detail as possible, smaller numbers of instances, or examples which are seen as being interesting or illuminating, and aims to achieve 'depth' rather than 'breath' (Blaxter, Hughes and Tight, 2001).

4.2.1.1 Qualitative research methodologies

There are a number of choices that are available when a qualitative research paradigm is chosen. According to Blaxter, Hughes and Tight (2001), certain disciplines are inclined to use particular methodologies more often than others do. It is important to note various methodologies may be incorporated into a single study.

i) Biography – study of a particular persons' life written by someone else. As a branch of literature, a biography may be scientifically written, or as a minutely or largely fictional publication. There are many pitfalls in this method of research.

ii) Case Study – the term refers to the fact that a number of units of analysis, such as individual, a group or an institution are studied intensively. In a case study, a single individual, or a group or an institution can be investigated. If it is a single individual, he or she should be very representative of the population.

iii) Ethnography – these studies consist of qualitative research aimed at the scientific description and understanding of various races, human cultures and human societies. These studies have come under fire in certain circles because of the politically biased nature of some studies.

iv) Phenomenology – in this studies a view is taken that what a researcher observes is not reality as such, but an interpreted reality.

Schindler and Cooper (2003) identify four exploratory techniques that can be used for exploratory investigation:

i) Secondary Data Analysis: Within the secondary data exploration, a researcher should start first with the organisations own data archives. Reports of prior research studies often reveal an extensive amount of historical data or decision making patterns. By reviewing prior studies, you can identify methodologies that proved successful and unsuccessful. Solutions that did not receive attention in the past due to different environmental circumstances are revealed as potential subjects for further study.

ii) Experience Survey: When we interview people in an experience survey, we should seek ideas about important issues or aspects of the subject and discover what is important across the subject's range of knowledge. The investigative format we use should be flexible enough so that we can explore various avenues that emerge during interview.

iii) Focus Groups: The most common application of focus group research continues to be in the consumer arena. The topical objective of a focus group is often a new product or product concept. The output of the session is a list of ideas and behavioural observations, with recommendations by the moderator. These are often used later for quantitative testing. As a group interview tool, focus groups have applied-research potential for other functional areas of business, particularly where the generation and evaluation of ideas or the assessment of needs is indispensable. In exploratory research, the qualitative data that focus groups produce may be used for enriching all levels of research questions and hypotheses and comparing the effectiveness of design options.

iv) Two stage design: With this approach, exploratory becomes a separate first stage with limited objectives: (i) clearly defining the research question, and (ii) developing the research design.

Exploratory or qualitative techniques are be used in this study. One of the criteria for selecting a specific paradigm is the nature of the research problem. When the problem to be investigated develops from literature, the variables are known, and the theories to be tested and verified already exist, a quantitative paradigm is selected. The study will adopt a quantitative paradigm which is appropriate for descriptive studies (Schindler and Cooper, 2003).

4.2.2 Descriptive studies

Descriptive studies are formal studies that serve a variety of research objectives (Cooper and Schindler, 2003):

(i) Description of phenomena or characteristics associated with a subject population, namely: the who, what, when, where and how of a topic.

(ii) Estimates of the proportion of the population that have these characteristics.

(iii) Discovery of associations among different variables.

The simplest descriptive study concerns univariate questions or hypothesises in which we ask or state something about the size, form, distribution or existence of a variable. Descriptive studies can be complex however.

Under descriptive studies there are three research approaches that can be used depending on the research objectives and question (Fox and Bayat, 2007). The three widely used methods are experimental methods, observational techniques and survey methods.

4.2.2.1 Experimental methods

Blaxter, Hughes and Tight (2001) define experimental research as 'the situation in which the independent variable (also known as the exposure, the intervention, the experimental or predictor variable) is carefully manipulated by the investigator under known tightly defined and controlled conditions, or by natural occurrence. At its most basic, the experiment consists of an experimental group which is exposed to the intervention under investigation and a control group which is not exposed. The experimental and control groups should be equivalent, and investigated systematically under conditions that are identical (apart from the exposure of the experimental group), in order to minimize variations between them. Experimental methods are therefore used to show that method A produces better results than method B. They are particularly associated with physical studies, where materials and non human life forms are more amenable to experimentation.

4.2.2.2 Observational techniques

Observation involves the systematic recording of occurrences or the behaviour patterns of subjects without questioning or communicating with them. Observation provides a way of establishing what is happening in a situation. One or more people observe what is happening in a real life situation and classify specific actions or events in terms of a specific scheme. There are six methods that can be used to conduct observations (Blaxter, Hughes and Tight, 2001):

i) Participant and non participant observation.
ii) Obtrusive and unobtrusive observation.
iii) Observation in natural or contrived settings.
iv) Disguised and non disguised observation.
v) Structured and non structured observation.
vi) Direct and indirect observation.

4.2.2.3 Survey research

Survey research involves collecting information by asking a set of pre-formulated questions in a predetermined sequence in a structured questionnaire to a sample of individuals drawn so as to be representative of a defined population. Survey approaches to research are appropriate when researchers wish to conduct research on a large scale and when the sample of respondents is drawn from a given population. The main reasons questionnaires are widely used in surveys is that they can describe the phenomena, explain the phenomena, plan strategy and predicts behaviour (Blaxter, Hughes and Tight, 2001).

The survey approach method will be employed in this research. The method is best suitable to provide answers to the question raised by the problem statement.

Problem statement

The current trend in South Africa is that different industries and organisations are implementing systems that address past economic injustices. Whilst it is important for organisations to participate in programmes that uplift the economic status of the previously disadvantages members of the society, organisations still need to be efficient and profitable in their operations to grow the economy. Organisations therefore need to come up with innovative management strategies that address the two conflicting objectives. One such management technique that is chosen for the purpose of this research project is outsourcing. Linder (2004) argues that outsourcing can be used to drive radical change and enterprise transformation. This research therefore seeks to solve the following question:

Question: *Are the organisations in the Pulp and Paper industry applying the principle of outsourcing and in the process bring in affirmable business into the industry?*

The sub questions that need to be answered to solve the problem statement are:

i) What is the extent of outsourcing in the Pulp and Paper industry?
ii) What is the extent of participation of Affirmable Business in the outsourced contracts?

iii) What else is the industry doing to achieve the objectives of BEE Act No. 58 of 2003?

To find answers the above questions, a quantitative research approach is adopted. Quantitative research embodies investigation where the relative data can be analysed in terms of numbers that may be quantified or summarised (Fox and Bayat, 2007). The important characteristics that make quantitative research distinct from the qualitative methodology are:

- Data is in form of numbers.
- The focus is concise and narrow.
- Data is collected by means of structured instruments such as questionnaires.
- Results are based on larger sample sizes representative of the population.
- Analysis of results is objective.
- Hypothesis may be tested.
- Concepts are in a form of distinct variables.
- Standardised measures are systematically created before data collection.
- Reasoning is logically deductive, going from the general to specific.
- Knowledge is based on the relationship between cause and effect.
- Analysis progresses by way of charts, statistics, tables and discussion on what they reveal in relationship to the hypothesis.

The most important aspect of the quantitative research is that it allows for the hypothesis to be tested. A hypothesis states what we are looking for. A hypothesis looks forward. It is a proposition which can be put to a test to determine its validity. It may prove to be correct or incorrect (Gupta, 1993). The propositions that this research will prove or disprove are:

Proposition 1: There is a degree of outsourcing of businesses / functions within the Pulp and Paper industry.

Proposition 2: The outsourcing contracts are generally awarded to the affirmable businesses.

Proposition 3: The Pulp and Paper industry is actively participating in achieving the objectives of BEE through other initiatives.

4.3 Data Collection

There are many methods that can be used in quantitative research to collect data. The most widely used ones are the following (Cooper and Schindler, 2003);

Telephone interviews

In this form of communication, people selected are interviewed on the telephone by an interviewer.

Advantages:

- Fastest completion time.
- Reduced interviewer bias.
- Expanded geographic coverage.
- Uses fewer, more highly skilled interviewers.
- Lower cost than personal interview.

Disadvantages:

- Interview length must be limited.
- Phones may not be working.
- Higher costs if interviewing geographically disperse sample.
- Calls can go unanswered.

Personal interviews:

In this form of communication, people selected to be part of the sample are interviewed in person by a trained interviewer.

Advantages:

- Good cooperation from the respondents.
- Illiterate and functionally illiterate respondents can be reached.
- Opportunity for feedback to the respondent.
- Visual aids can be used.

- Interviewer can pre-screen the respondents to ensure he / she fits the population profile.

Disadvantages:

- High costs.
- Follow up is labour intensive.
- Some neighbourhood are difficult to visit.
- Need for highly trained interviewers.
- Maybe wide geographic dispersion.

Self administered surveys:
In this form of communication, a list of questions on a specific topic is compiled by the researcher and to which answers and information is required.
Advantages include:

- Lower cost option.
- Rapid data collection.
- Allows contact with otherwise inaccessible respondents.
- Perceived as more anonymous.
- Familiar to most people.
- Reduce bias.

Disadvantages include:

- Low response rate.
- Cannot be long or complex.
- Computer security
- Accurate mailing list needed
- As they are structured instruments, they allow little flexibility to the respondent.

There are four reasons for using questionnaires: to describe phenomena, to explain phenomena, to plan strategy and to predict behaviour (Fox and Bayat, 2007). Therefore, in this study, self administered surveys or questionnaires will be used extensively for data collection.

4.4 Sampling and Measurement

4.4.1 Sampling

In order to test the propositions stated above, a sample that represents the Pulp and Paper industry was identified. A sample is any subset of the elements of the population, that is obtained (by some process) for the purpose of being studied. The process by which elements are drawn from the population is known as sampling (Fox and Bayat, 2007). A good sample must be valid. Validity of a sample depends on two considerations: accuracy and precision (Cooper and Schindler, 2003). Accuracy is the degree to which bias is absent from the sample and precision is measured by standard error of estimate.

The techniques for selecting members of a sample are based on two categories: probability and non probability sampling.

Probability sampling is a sample in which each element in the population is given a known non zero chance of selection.

Non probability sampling is arbitrary and subjective. Each member does not have a known non zero chance of being included.

Only probability samples provide estimates of precision. This study employs probability sampling and the sampling frame is members of PAMSA. The sampling frame is closely related to the population – it the list of elements from which the sample is actually drawn. Senior representatives from the five organisations that are members of PAMSA will be invited to participate in the research. The organisations are:

- Nampak.
- Kimberly Clark.
- Mondi.
- Sappi.
- SA Paper Mills.

4.4.2 Measurement

Measurement in research consists of assigning numbers to empirical events in compliance with a set of rules (Cooper and Schindler, 2003). The goal of measurement is to provide the highest quality, lowest error data for testing hypotheses. The characteristics of a sound measurement tool are that it should be valid, reliable and practical. The numbers used in measurement may be divided into four different groups:

i) Nominal data – classification but no order, distance or origin.
ii) Ordinal data – classification and order, but no distance or unique origin.
iii) Interval data – classification, order and distance, but no unique origin.
iv) Rational data – classification, order, distance and unique origin.

Measurement scales

The collection of numbers (data) is achieved by a process of scaling. Scaling is a procedure for the assignment of numbers (or other symbols) to a property of objects in order to impart some of the characteristics of numbers to the properties in question (Cooper and Schindler, 2003). Two types of scales can be distinguished:

- Rating scales - used to judge properties of objects without reference to other similar objects.
- Ranking scales – the subject directly compares two or more objects and makes choices among them.
- Constructed scales – these are constructed using certain techniques.

Examples of rating scales include:

i) Simple category scale.
ii) Multiple-choice, single response scale.
iii) Multiple-choice, multiple response scale.
iv) Likert scale.
v) Semantic differential scale.
vi) Numerical scales.
vii) Multiple rating list scale.
viii) Fixed sum scale.
ix) Staple scale.
x) Graphic rating scale.

The selection and construction of a scale requires decisions in 6 key areas:

- Study objective.
- Response form.
- Degree of preference.
- Data properties.
- Number of dimensions.
- Scale construction.

In this research a combination of Likert and simple category scales are used. The Likert scale is the most frequently used variation of the summated rating scale. Summated scales consist of statements that express either a favourable or unfavourable attitude towards the object of interest. The respondent is asked to agree or disagree with each statement. Each response is given a numerical score to reflect its degree of attitudinal favourableness, and scores may be totalled to measure the respondent's attitude (Cooper and Schindler, 2003).

4.5 The Research Instrument

The research instrument (see Appendix A) consisted of a survey sent out to the five major players in the Pulp and Paper industry. The survey consists of eight sections with each section focusing on the specific research questions and proposition. The different sections of the instrument are designated by letter A to H. Each section focuses on the following:

Section A1 – A6 are general questions focusing on the demographics of the organisations that participated in the survey.

Section B7 – B11 of the questionnaire asks the organisation to identify their core and non-core functions. Thereafter information is sought from the organisations if there are any of these functions that are outsourced without enquiring more about the specifics.

In section C12 – C17, organisations are asked to rank the importance or relevance of the given drivers for outsourcing. The selected reasons for outsourcing that the organisations have been presented with are the ones that were found in the literature review to be the main reasons why organisations outsource.

In section D18 – D24, participating organisations are asked to rank the relevant criteria for selecting a specific service provider.

Section E25 – E31 asks specifics about outsourcing in relation to affirmable businesses.

Section F32 – F35 seeks to estimate the value of outsourcing organisations undertake and how much of this amount is received by affirmable businesses. Section G is a short section asking about the levels of satisfaction organisations have with regards to affirmable businesses.

Section H is an open ended question about initiatives organisations have put in place to address past economic imbalances.

The design of the instrument is optimised to seek answers to the research questions and to help prove / disprove the stated propositions. As a result, the measurement is a combination of rating and ranking scales. The questionnaires were sent to the participants through the e-mail system and follow up telephone calls were made to encourage maximum participation.

4.6 Limitation of the research

The study of affirmative businesses in receiving outsourced contracts was limited to the Pulp and Paper Industry. The industry itself is big with a number of small players entering. The Pulp and Paper Industry contributes 0.5% of the country's GDP (PAMSA, 2005). The small players are to some extent exempted from the principles of BEE as they are still regarded as start-up or medium sized enterprises. The survey was therefore not extended to the smaller industry players but was limited to the major five big players as defined by PAMSA. The results of the study could be improved in future by including all players whether minor or major.

CHAPTER 5
RESEARCH FINDINGS

5.1 Introduction

This chapter presents the data gathered from the survey questionnaire. The key to presenting the data is the use of exploratory data analysis (EDA). In exploratory data analysis one learns as much as possible about the data by providing a perspective and a set of tools to search for clues and patterns (Cooper and Schindler, 2005). EDA uses a visual display to provide a complete and accurate impression of distributions and variable relationships. In this section therefore, information from the measurement tool is presented in visual form wherever possible.

5.2 Data collection

A sample of the questionnaire can be found in appendix A. The questionnaire was sent to the five major players that represent the Pulp and Paper Industry as defined by PAMSA. Table 5.1 identifies the organisations invited for the research.

Table 5.1 Organisations identified to participate in the research

Company	Location	Products	Person Contacted
Kimberly-Clark	Enstra (Springs)	Crepe Tissue	Group Buyer
Sappi	Enstra (Springs)	Printing & Writing Paper	Commercial Director
Mondi	Springs Mill	Carton Board	Chief Buyer
Nampak	Kliprivier (Jhb)	Crepe Tissue	Chief Buyer
SA Paper Mills	Richards Bay	Packaging & Wrapping Papers	General Manager

PAMSA were also notified of the research. Participants were asked to fill in the questionnaire and where clarity was required the researcher was available to assist. Telephone calls were made to participants to respond to the questionnaire. Out of the five organisations that were chosen for the research, two declined to participate. The first company cited its small size and did not define itself as a major player. The other one mentioned confidentiality issues despite guarantees being made through the SBL letter that all information will be treated in strict confidence. The response rate was therefore 60%. Most importantly, the responses came from senior commercial or supply chain managers of these organisations

Ethics in research

In gathering information from the participants, there are ethical considerations that need to be observed. Cooper and Shindler (2005) define ethics in business research as norms or standard of behaviour that guide moral choices about our behaviour and our relationship with others. In conducting the research, the objectives of the research were explained through telephonic conversations with the participants. Ambiguities and other issues or concerns raised by the participants were addressed promptly. Even though this was thoroughly explained to all the participants, two organisations declined to participate however. Their right to privacy, which entails a right to refuse to participate in the research, was therefore not infringed in carrying out the research. Those organisations that participated in the research also requested some conditions to be met. Specifically, the organisations requested that their names not be explicitly mentioned in the research results. According to Cooper and Shindler (2005), the goal of ethics in research is to ensure that no one is harmed or suffers adverse consequences from research activities. This condition was agreed to. As a result, companies will not be specifically mentioned by name but will be identified by different tags. The three organisations that participated are given the following random tags:

1. Company A
2. Company B
3. Company C

5.3 Results

Section A – Demographics of the organisations:

Table 5.2: Turnover of the organisations (A1)

	R1m	R1.1 - R10m	R11 - R100m	R101 - R1b	R1b - R5 b	> R5billion
Company A				√		
Company B					√	
Company C					√	
Frequency	0	0	0	1	2	0

Two of the organisations that responded have an annual turnover of between R1 billion – R5 billion, which makes them significant players both in the industry and total economy of the country.

Table 5.3: Size of the organisations by employment (A2)

	<10	10 - 100	101 - 500	501 -1000	> 1000
Company A				√	
Company B					√
Company C					√
Frequency	0	0	0	1	2

Further proof that the organisations are significant players in the industry evidenced by the number of people employed. More than 2500 are employed by the three organisations.

Table 5.4: Age of the organisations (A4 – A6)

	1- 5 yrs	6 - 10yrs	11 - 20 yrs	21 - 50yrs	> 50yrs
Company A					√
Company B					√
Company C					√
Frequency	0	0	0	0	3

All organisations are 50yrs and older and are in the manufacturing sector. All of them are required by law to submit affirmative reports to the Department of Labour annually.

Table 5.5a: Non core activities outsourced (B7 – B10)

	Canteen		Cleaning		Security		Gardening		Medical	
	Non Core	Outsourced	Non Core	Outsourced	Non Core	Outsourced	Non Core	Outsourced	Non Core	Outsourced
Company A	√	√	√	√	√	√	√	√	√	√
Company B	√	√	√	√	√	√	√	√	√	
Company C	√	√	√	√	√	√	√	√	√	√
Frequency	3	3	3	3	3	3	3	3	3	2
Cum. Percent	100	100	100	100	100	100	100	100	100	66.6

Cleaning, security, canteen, garden and medical services were all identified as non core activities by the organisations and all but one organisation outsourced these activities.

Table 5.5b: Core activities outsourced (B7 – B10)

	Manufacturing		Human Resources		Sales and Marketing		Supply Chain		Commercial	
	Core activity	Outsourced	Core activity	Outsourced	Core activity	Outsourced	Core activity	Outsourced	Core activity	Outsourced
Company A	√									
Company B	√		√		√	√	√	√	√	
Company C	√	√	√		√		√	√	√	
Frequency	3	1	2	0	2	1	2	2	2	0
Cum. Percent	100	33.3	66.6	0	66.6	33.3	66.6	66.6	66.6	0

All organisations see their manufacturing function as being core to their activities. Two organisations considered other areas of the organisation as being core. Outsourcing of the core activities was low and in some areas organisations simply do not outsource core activities. Where a core activity was outsourced, it was not fully outsourced.

Table 5.6a Split of the outsourced activities by function: Manufacturing (B11)

	Production	Maintenance	Labour	Packing	Waste Management	Other
Company A			√	√	√	
Company B	√	√	√	√	√	
Company C					√	
Frequency	1	1	2	2	3	0

Waste management is the most outsourced activity within manufacturing followed by labour and packing/repacking.

Table 5.6b: Split of the outsourced activities by function: Human Resources (B11)

	Recruitment	Payroll Admin	Pension Fund Admin	Training & Development	Other
Company A	√		√		
Company B	√	√	√	√	
Company C					
Frequency	2	1	2	1	0

Human resources recruitment and Pension Administration were outsourced by two of the 3 employers. Company C did not outsource any of these two functions.

Table 5.6c Split of the outsourced activities by function: Supply Chain (B11)

	Warehousing	Transportation	Labour	Other
Company A				
Company B	√	√	√	
Company C	√	√		
Frequency	2	2	1	

The Supply chain has historically been a hive for outsourcing activity. Warehousing and transportation of goods are the main areas that are outsourced.

Sales and Marketing

There were no responses of outsourcing in this area. The reason for companies opting not to outsource in this area might be that the bulk of the organisation strategy is contained in their sales and marketing functions.

Commercial

A similar trend of not outsourcing was also evident in the commercial area. This again could be attributed to the fact that the commercial departments normally carry most of the confidential information about the viability and profitability of an organisation.

Table 5.7: Reason to outsource (C12 – C17)

CRITERIA	Company A					Company B					Company C					
	Strongly Agree	Agree	neither agree or disagree	disagree	strongly disagree	Strongly Agree	Agree	neither agree or disagree	disagree	strongly disagree	Strongly Agree	Agree	neither agree or disagree	disagree	strongly disagree	Cum Percent
Cost benefits		√				√						√				100
Focus on core activities		√				√						√				100
Free resources		√							√				√			33.3
Share risk		√							√					√		33.3
Function difficult to manage				√					√					√		0

In agreement with the established theory, cost benefits and a focus on core activities are the leading reasons why organisations outsource.

Outsourcing guidelines (D18)

Two of the organisations reported that their outsourcing policy/guidelines are vague defined. The other reported that a policy document existed.

Table 5.8: Factors considered when awarding contract (D19 –D22)

CRITERIA	Company A					Company B					Company C					
	Very important	Substantially important	Important	Moderately important	Not important	Very important	Substantially important	Important	Moderately important	Not important	Very important	Substantially important	Important	Moderately important	Not important	Cum Percent
Expertise		√				√					√					100
BEE status		√					√				√					100
Price		√				√					√					100
Past experience		√				√						√				100

All factors listed above are considered important in the decision to award an outsourcing contract.

Table 5.9: Core functions outsourced to affirmable businesses (E25 – E 26)

	Company A	Company B	Company C	Frequency
Maintenance		√	√	2
Production	√		√	2
Labour			√	1
Packing			√	1
Waste management				0
Engineering				0
Recruitment			√	1
Payroll Admin				0
Pension fund Admin				0
Training & Dev				0
Warehousing		√	√	2
Transport		√	√	2
Logistics labour			√	1
IT support			√	1

Figure 5.1: Core functions outsourced to affirmable businesses (E25 – E 26)

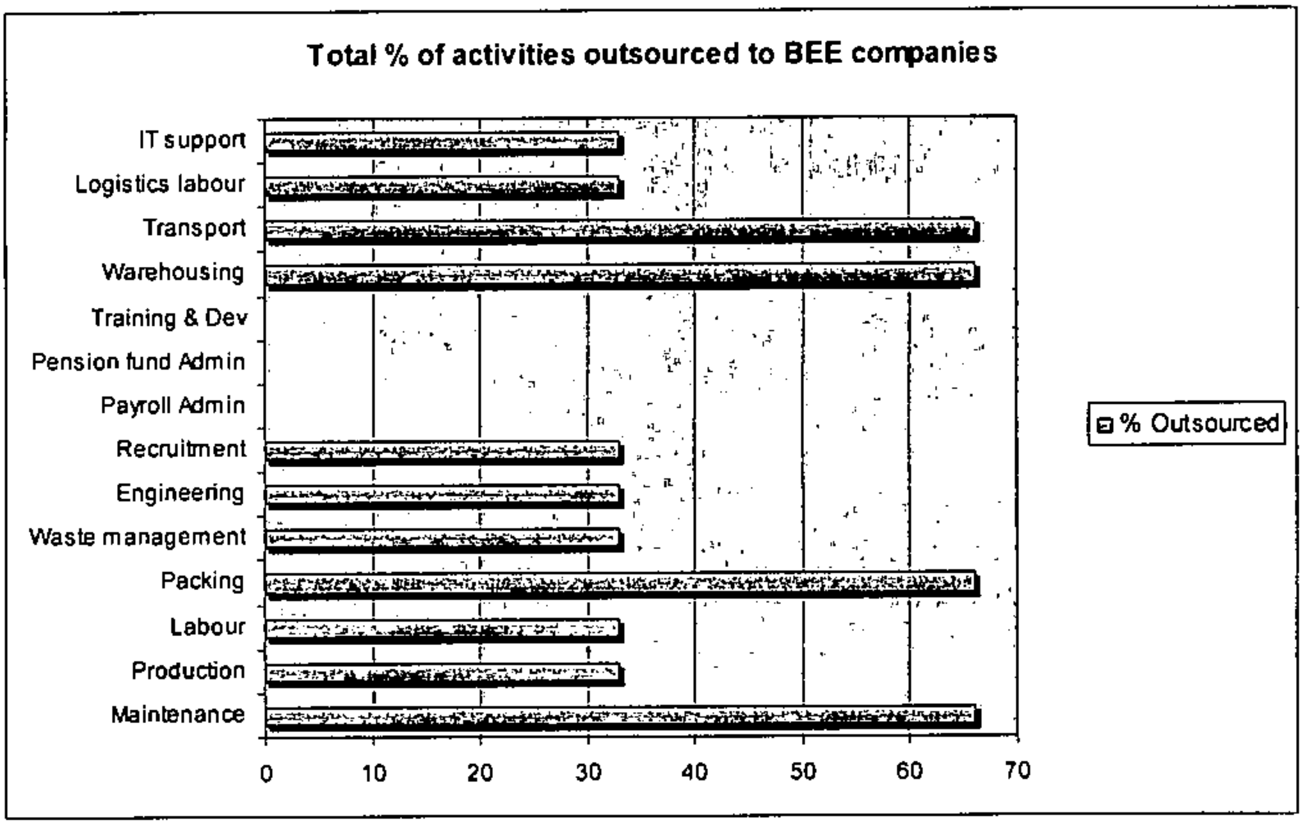
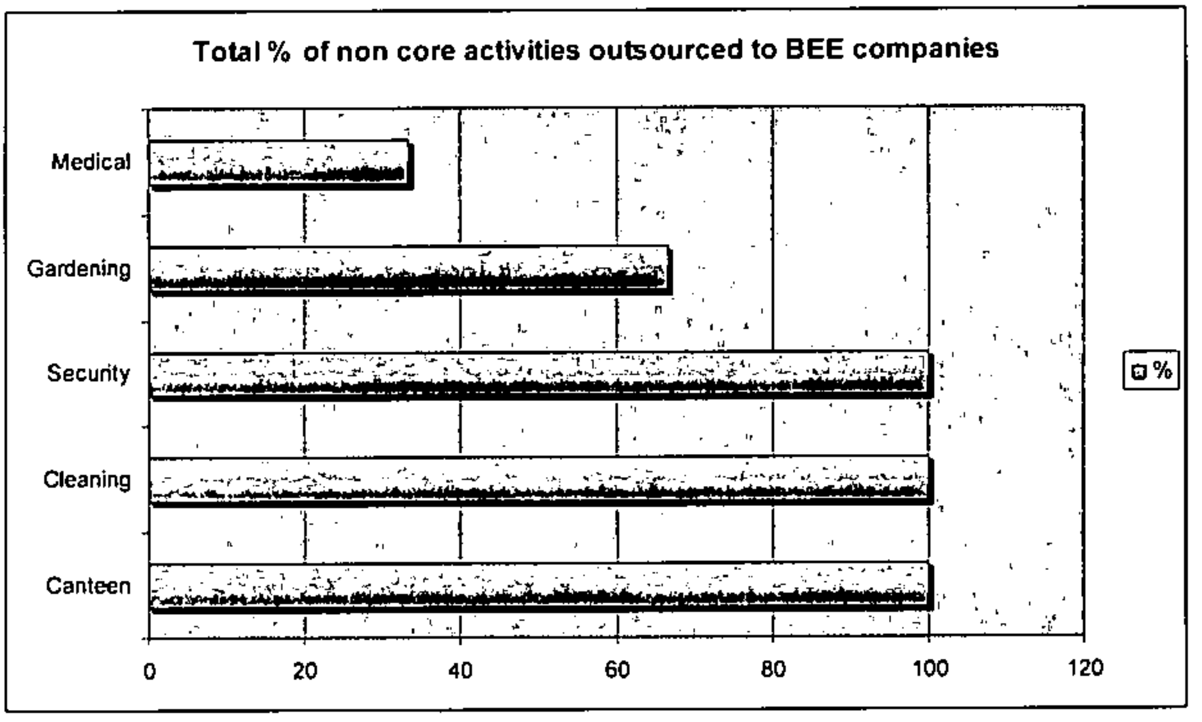


Table 5.10: Non Core functions outsourced to BEE companies

	Canteen	Cleaning	Security	Gardening	Medical
Company A	√	√	√	√	√
Company B	√	√	√	√	
Company C	√	√	√		
Cum Percent	100	100	100	66.6	33.3

Figure 5.2: Non Core functions outsourced to BEE companies



Warehousing, transportation of goods, packing and maintenance are some of the leading core activities that have been outsourced to affirmable businesses, whilst canteen and cleaning services are the non core functions mostly awarded to affirmable businesses.

Nature of Affirmable businesses (E27 – E28)

Companies revealed that the nature of the BEE companies was either 100% black or partially black. Also, the majority of the affirmable businesses were Small, Medium & Micro enterprise (SMME's).

Table 5.11: Reasons for not outsourcing to affirmable businesses (E29)

	Business does not exist	No proven record	Not enough business expertise	Size of the business small	Financial status of the business	Did not prefer a BEE company
Company A			√			
Company B	√					
Company C	√		√	√		
Cum Percent	66.6	0	66.6	33.3	0	0

The non existence of an affirmable business to be awarded a contract is the main reason why non affirmable businesses do not get contracts.

Code of Good Practises (E30)

All organisations indicated that they are aware of the Codes of Good Practise no. 500 of the Broad Based Black Empowerment Enterprise. This code is related to outsourcing.

Table 5.12: Application of the Code of Good Practise (E31)

	Always applied	Often applied	sometimes applied	never applies
Company A		√		
Company B		√		
Company C		√		
Frequency		3		

Organisations indicated that they often apply the code when awarding outsourcing contracts.

Table 5.13: Spending on outsourcing (F32 – F35)

	Company A					Company A					Company A				
	<R1m	R1.1 - R10m	R11 - R100m	R101 - R1000m	> R1billion	<R1m	R1.1 - R10m	R11 - R100m	R101 - R1000m	> R1billion	<R1m	R1.1 - R10m	R11 - R100m	R101 - R1000m	> R1billion
Total spend on outsourcing			√					√					√		
Spend on non core activities			√				√					√			
Spend on core activities			√				√						√		
Total spend on BEE businesses			√					√				√			

Overall organisations spend a small percent of their turnover on outsourcing.

Table 5.14 Initiatives to address past economic imbalances (H38)

	BEE transactions	Affirmative action	Charter development	Skills Development	In house programmes	Other (please specify)
Company A	√	√		√	√	
Company B	√	√		√	√	
Company C	√	√		√	√	

CHAPTER 6
SYNTHESIS AND ANALYSIS OF RESULTS

6.1 Introduction

In this chapter the findings in Chapter five are discussed in detail. Based on the findings the three stated propositions will either be approved or disapproved. The overall objective of the study was to establish whether organisations in the Pulp and Paper industry outsource some of their activities and the reasons thereof. The study also wanted to establish whether there are any affirmable businesses that have benefited from the outsourced functions by the industry. Although the response rate was 60%, three out of the five organisations that make up the industry participated in the study and are considered significant players.

6.2 Analysis

6.2.1 Demographics

Section A1 to A6 of the questionnaire was to establish the size of this industry. The results show that the industry is a significant player in the economy of the country and is estimated to employ more than 2500 people. The size of the various organisation is also significant with high turnovers of more than R1 billion for two organisations and the other one being between R101 – 1000m. The organisations are also well established players with a total longevity of over 150 years. Their mere size make them key players in the government's objective of addressing past economic imbalances.

6.2.2 Outsourced functions

Section B7 – B11 of the questionnaire asked specific questions around the core and non core functions of the organisation and the outsourcing thereof. In classifying the core and non-core functions, all organisations identified their peripheral functions as being non-core, in line with the findings from previous studies. Typical non core activities of the organisations are canteen services, cleaning services, security services and gardening services. The level of outsourcing of the non-core activities was also found to be high. In line with the theory, organisations tend to outsource more non-core functions.

The organisations that participated in the study are traditionally manufacturing organisations. It is therefore not surprising that the level of outsourcing in this area is low. Paper manufacturing is capital intensive and requires highly skilled personnel. The organisation that reported to outsource its manufacturing activity referred to 'part manufacturing' and not the entire manufacturing function. Also, not surprisingly, although inbound and outbound logistics function (Supply Chain) are seen as core functions, there is a high activity of outsourcing in this area. This function comprises largely of transportation of goods and warehousing. The latter two functions are not specialised or unique for each industry hence outsourcing is easy as there are usually many available service providers. The other functions viz; Human Resources, Sales & Marketing and Commercial responsibilities were found not to be outsourced by the organisations. These functions tend to differ from one organisation to the other and in some cases specialised, hence the organisations are not prepared to outsource them as they hold the core competencies of the organisation. The systems used in these functions also tend to differ from one organisation to the other.

Waste management is the preferred function to be outsourced within manufacturing. Companies still view sales & marketing and commercial related functions as being important and highly confidential, which is the reason why outsourcing activity is very low or non existent in these areas.

6.2.3 Reason to outsource

The reasons to outsource by companies in this industry are in agreement with what has been established in prior studies. In section C12 to C17, organisations were asked to agree or disagree with the reasons established in the theory why organisations outsource. The main ones sighted by the industry were cost benefits and focus on core competencies. Other reasons to outsource that were sighted in the previous studies were also included in this study to establish if the same trend would emerge. These reasons included freeing of resources, sharing of risks and function being difficult to manage. As far as the latter two reasons are concerned, the study revealed trends that contrast the previous studies. Two organisations disagreed that the sharing of risk was one of the reasons for outsourcing, and all organisations disagreed that a function being difficult to manage could be a reason for outsourcing. This finding is in agreement with a tendency by the organisations not to outsource the areas of specialisation, which can be viewed to be difficult.

6.2.4 Outsourcing guidelines

There was no evidence that the organisations have developed or adopted specific guidelines when awarding outsourcing contracts (section D18 of the questionnaire). All organisations reported however that there were factors that were taken into consideration in relation to the service provider when a decision to outsource is made. The expertise and the price offered by the contract receiving provider were listed as being very important, and the BEE status of the provider and past experience were listed as being substantially important when awarding an outsourcing contract. The price aspect supports earlier findings that organisations outsource primarily to achieve cost benefits.

Based on the results thus far, proposition 1 is stated again to be proved or disproved.

Proposition 1: There is a level of outsourcing of business functions within the organisations in the Pulp and Paper Industry

The results of section B7 – B10, Tables 5.5a and 5.5b show that in the majority of instances, organisations in the Pulp and Paper industry outsource some of their activities. The activities included both core and non-core areas. The organisations did not outsource those functions where they held a competitive advantage however. Manufacturing (paper making) was arguably one particular function where organisations were not willing to outsource as the technology that is involved in making paper is complex.

The areas of sales and marketing and commercial functions were found not to be outsourced. These functions usually carry the strategic information of the businesses and organisations view the outsourcing of these functions as a potential risk to their businesses. Overall, company B was the lead outsourcer (Table 6.1).

Table 6.1: Leading outsourcing company

Organisation	No. of times outsourcing applicable
Company A	10
Company B	19
Company C	11

6.2.5 Participation by Affirmable businesses

With the results showing that there is outsourcing activity in the Pulp and Paper industry, the next step was to establish the participation of affirmable businesses in outsourced deals. Questions E27 - E28 of the questionnaire investigated this phenomenon. Warehousing, Transportation, Maintenance labour and Packing were the leading functions where the majority of the organisations awarded outsourcing contracts to affirmable businesses (Table 5.9). Furthermore, there was one frequency where the organisation outsourced some of its core functions within Manufacturing, Human resources and Commercial (IT) to affirmable businesses. Outsourcing of non-core activities, mainly canteen and cleaning recorded a high frequency of three (Figure 5.1b). Two organisations outsourced their security and garden services to affirmable businesses. In further categorising the nature of the affirmable business, the organisations classified them as Small Medium & Micro Enterprises (SMME's). In trying to find out the reason why affirmable businesses were not awarded outsourcing contracts, 'business does not exist' was the most frequently mentioned reason. This is in agreement with what has just been mentioned that most of the affirmable businesses are still SMME's and therefore not big enough to service big contracts and commitments. This preposition is further supported by the outsourcing amount spent on affirmable businesses. Two organisations spent between R11 & R100m on outsourcing to affirmable businesses (Table 5.13). Considering that this amount is spread amongst various companies awarded outsourced contracts, this gives away the nature of these businesses, which suggests that the majority are indeed SMME's. These amounts suggests not only the sizes of the businesses but also supports the results above that most affirmable businesses are recipients of non core outsourcing contracts.

Revisiting the second proposition:

Proposition 2: The outsourcing contracts are generally awarded to the affirmable businesses

Exploratory Data Analysis (EDA) shows that affirmable businesses do receive outsourcing contracts. The sizes of these contracts are considered small. It is further noted that the outsourcing contracts that are awarded to the affirmable businesses are in areas which are not core to these organisations. The organisations rated the unavailability or non existence of an affirmable business to be awarded contract of significant value. Observers in the industry have argued that the organisations are responsible for creating barriers to entry as the demands that they place on affirmable businesses are not achievable. These are tenders that often call for impossible quantities, the logistics of the initial capital outlays of storage, and transportation and extended patterns of payment.

6.2.6 Economic Imbalances

All organisations reported that they are actively participating in other initiatives to address past economic imbalances within the workplace. The most notable of these being affirmative action, skills development and in house programmes (Table 5.14).

Proposition 3: The Pulp and Paper industry is actively participating in achieving the objectives of BEE through other initiatives

All organisations reported that they participate or have in house programmes that seek to address economic imbalances in the workplace. The majority of these programmes are legislated by the government and organisations that fail to implement these programmes could be fined. The industry is however yet to get together to present a comprehensive plan to address economic imbalances. In other industries / sectors for example, the financial and mining sectors, there are charters that have been developed which map out ways of achieving broad based black economic empowerment. The industry that is closer to Pulp and Paper that has made significant progress in developing an industry charter is Forestry. Their draft charter from the Pulp and Paper Industry can learn a lot from it, and is attached in appendix B.

The overall objective of the research project was to investigate if the Pulp and Paper industry is actively promoting participation of affirmable businesses through outsourcing activities whilst achieving operational efficiencies. The results and analysis above support the first and second propositions, which imply that the Pulp and Paper industry is outsourcing to affirmable businesses. The results, however show that a significant portion of core activities of the industry still remain untapped by affirmable businesses and that therefore there is still scope for growth.

CHAPTER 7
CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

The principle of outsourcing is embraced by organisations that seek to achieve operational excellence and efficiency. Outsourcing has taken over other management practises that have been embraced in the past. These practises include lean manufacturing, TQM and BPR among others. One of the many advantages that outsourcing has over the other management practises is that it can be done across country and continental borders. The example of Nike Inc is a perfect illustration of this point: Nike Inc outsources the production of its shoe operations and retains only the key technical components. The Nike headquarters are bases in the United States whilst the production facilities of its products are mainly in China. Other big United States corporates have followed suit. By outsourcing its production facilities to other regions and businesses, Nike did not only achieved efficiencies in their operation, but created thousands of jobs in areas where unemployment is high. The creation of employment most likely presented an opportunity for entrepreneurship and introduced small players into the economy. One of the strong features of outsourcing is that although jobs might be lost in the outsourcing organisation, employment and entrepreneurship opportunities get created somewhere.

In South Africa, the government has enacted laws that encourage the private sector to transact their outsourcing activities with specific businesses. The businesses that have been targeted by the government are black owned and mainly SMME's. The government of South Africa believes that based on the experience in other countries, and as the Nike Inc example above shows, they can grow the economy and reduce the high unemployment levels by encouraging the private sector to outsource more of their activities to these businesses.

This chapter summarises the findings of the study based on the results that were obtained and analysed. Conclusions, recommendation and possible arrears of further research are also discussed.

7.2 Summary of the findings

The theory and literature of outsourcing show that western developed countries are have long ago adopted outsourcing as the new management practise. Other countries outside the west; India and China are also embracing outsourcing and the government of China for example has identified the area of logistic as an outsourcing priority (Lau and Zhang, 2006). Across the globe, the main reasons for outsourcing were found to be the same i.e.

- Cost reduction
- Focus on core activities
- Free resource for other purposes

The same picture emerged in the Pulp and Paper industry in South Africa. Hundred percent of the organisation surveyed identified cost benefits and focus on core activities as the main reasons for outsourcing (Table 5.7). The outsourcing amounts involved however remains little compared to the size of the companies. The study also showed that outsourcing in the Pulp and Paper industry is happening largely in the non core activities of a firm. Two companies are outsourcing 100% of their non core activities whilst company B also outsourced all its non core activities except the medical services. The money involved in these activities is usually low compared with other core activities; hence the overall amount the organisations spent on outsourcing still remained low compared to their sizes. The total amount spent of BEE businesses was even lower; between R1.1m and R10m as reported by two companies. The non existence of a BEE company to conduct outsourcing transactions with was the leading reason for two companies in the survey for not having a BEE outsourcing partner. The lack of business expertise was also another frequently mentioned reason for not having a BEE outsourcing partner.

All organisations reported that their sales, marketing and commercial functions remain internal and were not outsourced. These functions are seen by the organisations as containing core business information and therefore do not want to compromise their confidentiality.

Due to the technology and complexity of paper manufacturing, two companies reported no outsourcing in this area. The only company that reported outsourcing in their manufacturing specified that it was part manufacturing in the area of packing and/or repacking. A similar observation can be drawn from the Nike case: although Nike outsources its production functions, it still manufactures key components in house.

All three companies do not seem to have a well developed outsourcing guideline. One company reported that the guideline existed but does not seem to be followed.

7.3 Conclusion

In chapter six it was shown that the propositions that this study formulated were supported by the survey results. It can be concluded that the organisations in the Pulp and Paper industry are outsourcing some of their activities with the purpose to reducing costs and focus on core activities. It was observed also that the outsourcing activities are prevalent in the areas that are not core to their operations. It is also in the non core section where affirmable businesses seem to be getting outsourcing contracts. According to the industry, the reason for the minimal participation of black owned businesses in the core areas of their organisations is that no affirmable businesses exist to provide the necessary expertise. This is the area where the industry and the government will have to come up with good support mechanism for affirmable business to deliver the business acumen and skills required to handle main business contracts. As long as outsourcing is limited to areas that are not core to the industry, the efforts by the government of South Africa to introduce new entrants into the industry and grow the economy will remain a big challenge.

7.4 Recommendations

The results show that the Pulp and Paper industry is committed to sustain this industry by achieving operational efficiency and growth. In order to introduce many affirmable people to the industry, it is recommended that;

- The industry participates fully in the drafting of the charter that will spell out specific goals and target to be met in order to transform the industry. Currently, there is no evidence of a concerted effort by the industry to advance the principle of black economic empowerment.

- Each company devise a mentorship programme for the current employees who show entrepreneurship potential. These individuals can be groomed to become strategic partners when they are ready to do so. There have been cases reported recently in other industries where companies identified potential entrepreneurs and provided them with support to set up their own businesses. The well known published case that of Pick & Pay where the offered some of their employees the opportunity to own their own outlets. Although this was modelled along the franchise lines, a similar model can be adopted for the manufacturing industries.

- In the event of restructuring of the company, break up the company and sell part of the core activity to current employees who have the potential and make them the company supplier/provider.

- Where possible companies can set their own internal transformation targets and put in place accelerated programmes to achieve those targets.

7.5 Areas for further research

This study investigated the state of black economic empowerment and how the Pulp and Paper industry can assist in achieving the goals of black economic empowerment through outsourcing principles. The study can be improved further by;

- Studying the level of outsourcing in other major industries in South Africa to understand the extent and scale involved. A comparison with another industry would give a better view of how far the Pulp and Paper industry has achieved.

- The factors that impede the establishment of black businesses that have the technical knowledge and expertise of the Pulp and Paper industry. Lack of existence of such businesses was mentioned as a reason why the industry cannot outsource to BEE companies.

- The industry has grown over the years with new small players setting up their own operations. In total these players have taken more that 30% of the market share from the main players (PAMSA, 2005/06). A detailed study of the profile of these small players and how they are surviving would enhance the understanding of this industry.

- Although there is scant proof that outsourcing is done to affirmable businesses, more studies can be done to reveal the split between white and black owned businesses in contracts awarded.

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Appendix A

SBL
GRADUATE SCHOOL OF
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2007-11-27

TO WHOM IT MAY CONCERN

This letter serves to confirm that Mr TT Ndlovu, student number 31389945, a registered final year student at the Graduate School of Business Leadership is for 2007. He will be doing the Research Report (MBLREP-P) in 2007/2008 as part of the requirements of obtaining the MBL postgraduate degree.

The Business School will observe any confidentiality requirements regarding information made available to the student in assisting with this study. The content of research reports may not be used by the author or any other person without the permission of the SBL. The student must give this agreement as well to the confidentiality requirement.

Please be of assistance with the questionnaires.

On behalf of the Business School and Mr Ndlovu, we thank you for participating in this research project.

Yours sincerely

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OUTSOURCING QUESTIONNNAIRE

No.	Questions
A1	**The average annual turnover of your organisation is**
	O <R1m O R1m O R1.1 - R10m O R11 - R100m O R101 - R1000m O R1 billion - R5billion O > R5billion
A2	**Number of people employed by your organisation on full time basis**
	O <10 O 10 - 100 O 101 - 500 O 501 - 1000 O >1000
A3	**The overall responsibility of management of outsourcing activities is the**
	O Managing Director O Supply Chain Director O Chief Buyer O Operations Director O Commercial Director O Other (please specify)
A4	**Your organisation has been in existence for**
	O 1 - 5 yrs O 6 - 10yrs O 11 - 20yrs O 21 -50yrs O > 50 yrs
A5	**Is your organisation required to submit affirmative action report as per the Act?**
	O Yes O No
A6	**Which of the following best catergorises your business?**
	O Manufacturing O Services O Retail O Wholesale O Logistics O Other (please specify)
B7	**Please indicate below which these functions are considered non core activities by your organisation**
	O Canteen services O Cleaning services O Security services O Garden services O Medical services O All of the above O Other (please specify)
B8	**Which of these services mentioned above have been outsourced by your organisation?**
	O Canteen services O Cleaning services O Security services O Garden services O Medical services O All of the above O Other (please specify)
B9	**Please indicate below which these functions are considered core activities by your organisation**
	O Manufacturing (including engineering) O Human Resources O Sales and Marketing O Supply Chain (inbound ant outbound logistics) O Commercial O Other (please specify)
B10	**Please indicate if there is any outsourcing activities in the following functions in your organisation**
	O Manufacturing (including engineering) O Human Resources O Sales and Marketing O Supply Chain (inbound ant outbound logistics) O Commercial O Other (please specify)
B11	**Please specify the area that is outsourced (contracted out) under each function and indicate (by ticking the approprite box) whether fully or partially**
	Manufacturing O Maintenance — fully / partially O Production — fully / partially O Labour — fully / partially O Packing/Repacking — fully / partially O Waste management — fully / partially O Other (please specify) — fully / partially

Human Resources

- O Recruitment services — fully / partially
- O Payroll administration — fully / partially
- O Pension fund administration — fully / partially
- O Training and Development — fully / partially
- O Other (please specify)__________ — fully / partially

Sales & Marketing

- O Promotional activities — fully / partially
- O Advertising activities — fully / partially
- O Product Development — fully / partially
- O Labour — fully / partially
- O Other (please specify)__________ — fully / partially

Supply Chain

- O Warehousing — fully / partially
- O Transportation — fully / partially
- O Labour — fully / partially
- O Other (please specify)__________ — fully / partially

Commercial

- O IT support — fully / partially
- O Computers — fully / partially
- O Stationery — fully / partially
- O Accounting services — fully / partially
- O Other (please specify)__________ — fully / partially

C12 **The decision to outsource these activities was driven by *cost benefits***

O strongly agree O agree O neither agree nor disagree O disagree O strongly disagree

C13 **The decision to outsource these activities was to focus on *core activities***

O strongly agree O agree O neither agree nor disagree O disagree O strongly disagree

C14 **The decision to outsource these activities was to *free resources***

O strongly agree O agree O neither agree nor disagree O disagree O strongly disagree

C15 **The decision to outsource these activities was to *share risks* with the contract receiver**

O strongly agree O agree O neither agree nor disagree O disagree O strongly disagree

C16 **The decision to outsource these activities was that the function was *difficult to manage***

O strongly agree O agree O neither agree nor disagree O disagree O strongly disagree

C17 **Please state other reasons why these and other functions were outsourced by your organisation**

____
____
____
____

D18 **Is there a clearly defined outsourcing policy/guidelines in your organisation ?**

O Clearly defined O vague defined O exists O being developed O does not exist

D19 **In awarding the outsourced activity to the service provider, the expertise of the service provider were considered as**

O very important O substantially important O important O moderately important O not important

D20 **In awarding the outsourced activity to the service provider, the BEE status of the service provider was considered as**

O very important O substantially important O important O moderately important O not important

D21 **In awarding the outsourced activity to the service provider, the price offered compared to other providers was considered as**

O very important O substantially important O important O moderately important O not important

D22 **In awarding the outsourced activity to the service provider, past experience of the service provider was considered as**

O very important O substantially important O important O moderately important O not important

D23	Rank the important criteria in awarding contracts to service providers with '1 being the most important criteria and 2 the second most important and so forth'
	________ BEE status ________ Price offered ________ Past experience ________ Service quality ________ Financial position ________ Company reputation
D24	What other factors are important when awarding an outsourcing contract?
	____ ____ ____ ____ ____
E25	Which of the core outsourced functions in each categoty has been awarded to a BEE company ?
	Manufacturing O Maintenace O Production O Labour O Packing/Repacking O Waste management O Other (please specify)________________ Human Resources O Recruitment services O Payroll administration O Pension fund administration O Training and Development O Other (please specify)________________
	Sales & Marketing O Promotional activities O Advertising activities O Product Development O Labour O Other (please specify)________________ Supply Chain O Warehousing O Transportation O Labour O Other (please specify)________________ Commercial O IT support O Computers O Stationery O Accounting services O Other (please specify)________________
E26	Which of these non-core functions outsourcing contracts have been awarded to BEE company?
	O Canteen services O Cleaning services O Security services O Garden services O Medical services O All of the above O Other (please specify)________________
E27	How would you descibe the nature of the BEE business that has/have been awarded outsourcing contracts?
	O 100% black owned O Partially black owned

E28	How would you descibe the nature of a non-BEE company that has/have been awarded outsourcing contracts? (choose any of the following) O Established industry player O Small Medium & Micro Enterprise O Family owned business O Female owned Enterprise O Leader in the field O Other (please specify)
E29	Where the outsourcing contract was not awarded to a black owned business what were the reason/s for not doing so? O Business does not exist O No proven record O Not enough expertise O Business not big enough for the size of the contract O Financial position of the business not satisfactory O Did not prefer a black owned business O Other (please specify)
E30	Is your organisation aware of the Codes of Good Practise no 600 of Broad Based Black Empowerment Enterprise that relates to outsourcing? O Yes O No
E31	If YES, the application of this code in your organisation when awarding outsourcing contract is O Always applied O Often applied O sometimes applied O never applied
F32	Estimate the total amount of outsourcing in your organisation (based on the last financial year) O <R1m O R1.1 - R10m O R11 - R100m O R101 - R1000m O > R1billion
F33	Estimate the total amount of outsourcing on non core activities (based on the last financial year) O < R1m O R1.1 - R10m O R11 - R100m O R101 - R1000m O > R1billion

F34	Estimate the total amount spent on core outsourcing activities in the past financial year O < R1m O R1.1 - R10m O R11 - R100m O R101 - R1000m O > R1billion
F35	Estimate the total amount of outsourcing spent on BEE businesses O < R1m O R1.1 - R10m O R11 - R100m O R101 - R1000m O > R1billion
G36	Have the overall objectives of outsourcing been achieved by your organisation ? O Exceded objectives O Fully achived O Achieved O Partially achieved O Not achieved
G37	In particular, were you satisfied with the service of the black owned business? O Very satisfied O Moderately satisfied O Satisfied O Slightly satisfied O Not satisfied
H38	Which other activity is your organisation contributing to addressing past economic imbalances O BEE transactions O Affirmative action in the work place O Participation in sector charter development O Development of skills O In house programmes O Other (please specify)
H39	Based on the theme of this urvey are there any additional points you would like to make O Yes O No
H40	If YES please explain briefly

END OF SURVEY - THANK YOU FOR YOUR COOPERATION

Appendix B

FORESTRY SOUTH AFRICA

Towards a Forestry Industry Transformation Charter

Forestry South Africa's Viewpoint

M B P Edwards
Forestry South Africa

18th April 2005

Forestry South Africa

What is it?

FSA is a voluntary non-profit organization representing growers of commercial timber throughout South Africa

What its Mission is?

"To serve the interests of the organisation african timber growers in a manner that will enhance the long-term sustainability and profitability of their activities and which will promote the growth and development of the commercial forestry industry."

Forestrv South Africa

What is its Objective?

To promote the growth, development and well-being of the forestry industry through:

- Fostering the commercial production and utilisation of timber and forest products.
- Promoting policies and practices that support representivity, entrepreneurship and free competition.
- Promoting and supporting education & training, research & development, innovation and technology transfer in the interests of all members.
- Representing the interests and views of all its members to national, provincial and local government and other public and private bodies in and outside South Africa.

Forestry South Africa

Its Membership:

- Membership is voluntary and includes corporate and individuals involved in the growing of commercial timber.
- FSA's Constitution places no restriction on membership through size or scale of enterprise, geographic location, race, gender or other criteria and encourages membership from new entrants into the forestry industry.
- By area of commercial plantation, membership comprises 92% of all commercial forests in South Africa.

↓

FSA views itself as being representative of the industry

FSA's Perspective on B-BBEE (1)

Although FSA has a commercial perspective, its Constitution mandates it to:

- Promote complete and inclusive representation.
- Promote and encourage new entrants into the Forestry Industry.
- Facilitate the growth of forestry amongst individuals and communities from previously disadvantaged backgrounds.
- Promote forestry as a mechanism to enhance sustainable rural development, social upliftment and poverty alleviation.

FSA's Perspective on B-BBEE (2)

- Promote the equitable distribution of the benefits flowing from forestry activities amongst participants, particularly women.
- Promote ownership of such activities by participants.
- Promote equity in the workplace through education and training, research and skills transfer.

↓

FSA will therefore fully participate in the process of developing a Forestry Sector Charter

Forestry Charter Cannot be Developed in Isolation

FSA is of the strong opinion that, for transformation to be successful and sustainable in the long-term, forestry has to be allowed and be encouraged to grow. Transformation will not work in an industry that is static or declining.

For Forestry to support the transformation process, Government must support the development and implementation of a Sector Growth Strategy simultaneously with that of the Forestry Sector Charter

Forestry Charter Development Process

FSA will:

- Fully participate in the process.
- Nominate representatives to sit on the proposed Steering Committee and Working Groups.
- Ensure that all its constituencies are represented and consulted throughout the process.
- Engage the process in an open, transparent and constructive manner.
- Support the appointment of a neutral and independent

To ensure a successful outcome, time must be allocated, which if not sufficient, is flexible enough to be reasonably extended

Issues of Specific Concern to Forestry (1)

FSA requests that the following be given particular attention when developing the Charter:

- Due recognition be given to transformation initiatives that the Industry and its members have already undertaken, namely, no time penalty or bias.
- The State Forest restructuring exercise be included as part of the transformation efforts of the Sector.
- Land claims that have been or which are currently lodged with the Land Claims Commissioner be included.
- Recognition must be given to the differing ownership structures within the Industry so that flexibility and differentiation in defining targets is included, namely, the "one size fits all" principle be excluded.

Issues of Specific Concern to Forestry (2)

- The financial impacts of transformation not being "unaffordable" with tax concessions and external funding sources to be considered.
- The raising of capital to fund transformation initiatives through the raising of loans being permitted without restrictive conditions.
- To avoid confusion, special attention being focussed on differentiation with other Sector Charters, for example: Agriculture vs. Forestry.
- Overregulation and constraint to Industry growth be avoided.

Outcome of the Process

It is necessary to ensure that:

- All involved in the Industry can willingly and meaningfully subscribe and support the Charter.
- All involved in the Industry, both existing and new, must benefit.
- The Industry will be able to sustain growth.
- Long-term investor confidence is maintained.
- Transformation and growth are recognised as being interdependent and necessary.
- Employment creation in the Industry is enhanced.
- The Industry can maintain and improve its global competitiveness and domestic sensitivity.