

**Vendor and supplier evaluation and assessment  
practice for the steel industry and the effect it has  
on operations**

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University

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It all starts here <sup>™</sup>

## DECLARATION

I declare that the work in this mini-dissertation is my own personal work. I further declare that apart from the guidance that has also been acknowledged, the information contained in this mini dissertation is the information that I researched myself. It is being submitted in the partial fulfilment of the requirements for the degree Magister in Business Administration at the Potchefstroom Campus of the North West University. It has not been submitted before for any other degree or examination to any other University.

I also declare that nobody but me is responsible for the final version of this mini-dissertation.

Daniël Wilhelm Janse van Rensburg

Signature..........

Date: 2016.05.11.....

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## **ABSTRACT**

The purpose of this study is to understand the impact BBBEE vendors have on the operations of companies within the large steel manufacturing industry. In Chapter one all the necessary prerequisites discussed that are needed to become a vendor on the database of large steel manufacturing companies. Chapter two was narrowed down with the emphasis being placed on BBBEE vendors and the different rules and regulations for complying.

A quantitative research approach was followed which entailed for plant employees within the large steel manufacturing industry and vendors that rendered a service to the industry to complete a questionnaire. Out of the results of the two questionnaires it was evident that the standard of BBBEE vendors are not up to date and that there are certain risks by making use of a BBBEE vendor. Incubators will form an integral part of the development of BBBEE vendors. Funds will be needed to start up incubators which will give the relevant vendors the skills and technical expertise to form part of the success of a company. The relationship between the vendors and the industry needs to receive urgent attention as the vendors are not confident to approach the companies with their problems.

Another shortcoming showed by the study is that the internal non-conformance system does not provide any support in rectifying problems faced by the plants on a daily basis. This system must be improved to ensure that the quality of service is up to standard and any hick-ups will be removed from the manufacturing process.

The perceptions of the plant personnel are definitely an aspect that needs to be changed. Therefore, a change management programme will be beneficial for the industry as most of the employees within the industry feel that BBBEE is only advantageous because it is a prerequisite by the government and grants might be obtained by complying.

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## DEFINITIONS AND TERMS

SAP	System Application Program. – Purchasing system
ESD	Enterprise and Supplier Development
SAP P/ Req	SAP Purchase requisition
SAP PO	SAP Purchase order
End user	Plant personnel, Planner, Superintendent, Administrative Assistant, etc.
VM	Vendor Management
TMPS	Total Measured Procurement Spend
NSDS	The National Skills Development Strategy
QSE	Qualifying Small Enterprises
DTI	Department of Trade and Industry
AMSA	ArcelorMittal South-Africa
BBBEE	Broad-Based Black Economic Empowerment
Vendor	A company with a vendor number in the data base of large steel manufacturing companies
SMEs	Small, Medium Enterprises
B1SA	BBBEE verification agency
ISP	Incubation Support Programme
EME's	Exempted Micro Enterprises
NCR	Non- Conformance
SHEQ	Safety, Health, Environment and Quality

**KEYWORDS:** Vendor Evaluation, Vendor Assessment, Vendor performance, ISO 9001:2008 Quality Management System, ISO 14001:2004 Environmental Management System, OSHAS 18001:2007 Safety Management System, Occupational Health and Safety Act and Regulations (OSHACT 85 of 1993), Black Broad Based Economic Empowerment (BBBEE), Responsible Sourcing, Compliance, SAP, OEM, Integra.

## **CHAPTER 1**

### **1.1 Introduction**

According to Kerkhoff (2010)<sup>1</sup> the procurement concept for all types of businesses has change. Whereas the main purpose of a procurement department was to process orders, various trends and different supply chain scenarios must be considered nowadays before a purchase decision can be made. The procurement department negotiates with suppliers for better prices. Without a procurement department there will be no control over inventory and costs. The procurement department ensures that the item with the best quality is delivered at the best price at the right time.

According to Ernst & Young (2013:2) Broad-Based Black Economic Empowerment (BBBEE) is not simply an initiative to compensate for the damages caused by the past, but a practical strategy of growth that is aiming to recognize the country's complete economical prospective. BBBEE is not only the right thing to do, but can be beneficial for a country and its economic growth.

According to section 9 of the BBBEE Act, (2003) expansion and publication of unique sector codes are allowed. This in turn allows a business to adapt to the requests of the certain unique codes to allow for distinctions that are exceptional to the specific industry or business. The main aim of a BBBEE strategy for any company is to help the economy of South-Africa grow by giving individuals equal opportunities.

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<sup>1</sup> The Harvard Method of references is used in this study, however, where no page numbers are listed, the sources are from internet, which will be fully listed in the bibliography.

The strategy can restore the position of previous disadvantaged groups as well as women in the working environment. Individuals will have equal opportunities to work towards the growth of their fortune, and development of their skills.

BBBEE's main purpose is not to transfer ownership to previous disadvantaged groups. A company that is white owned can still have a higher BBBEE score than a black owned company (Ernst & Young, 2013:1).

There are, however, several BBBEE issues that complicate the procurement process and implementation of such a strategy within large manufacturing industries, for example:

### **1. Large industry tender processes**

Vendors don't have enough knowledge of the tender processes that are expected of them. This complicates the tender process and on time delivery.

### **2. Timeous quotation**

The closed tender system, tender box and closing time procedure are not known to the vendor.

### **3. Cash flow management**

Inability to plan and manage cash flow. Vendors want to do the work, but don't have the necessary cash flow to supply products on large projects.

### **4. No business skills**

The owners of certain BBBEE companies don't have sufficient background on business or financial management.

### **5. Communication**

Vendors don't maintain constant communication with plants. Plant personnel that are not informed of the delivery of items will experience a deviation in operations and are unable to plan their daily activities.

## **6. No disciplinary processes in place**

Insufficient expertise and knowledge to handle disciplinary or Human Resource matters, resulting from non-conformance.

### **1.1.1 Large Manufacturing companies divide their BBEE companies into three categories:**

Enterprise Development Group (Entry Level): This BBEE company needs a mentor as well as support from the organisation that it is doing business with. The staff only have basic technical skills and must be supported by plant personnel. (ArcelorMittal. 2014: Preferential Procurement Management. Unpublished.)

Supplier Development Group (Intermediate Level): Needs business administration support and has basic Safety, Health, Environment and Quality systems. The technical skills set are solidified and can work without plant support or supervision. (ArcelorMittal. 2014: Preferential Procurement Management. Unpublished.)

Preferential Procurement Group: This BBEE vendor is treated as a fully-fledged vendor and can compete in the normal tender market. (ArcelorMittal. 2014: Preferential Procurement Management. Unpublished.) Vendors play an extremely important role in the supply chain, especially in the steel industry. In addition, choosing the correct suppliers, the evaluation and monitoring of supplier performance should be the main concerns in strategic planning (Nguyen, 2013). (The term vendor is used in the study but there will also be referred to suppliers).

Vendor Management is responsible for the creation and maintaining of a total vendor database. In addition to this, the team is also held responsible for the tracking and reporting of all active vendors in the system as well as the updating of all master data. An assessment identifies non-conformances in all the relevant processes in a company, from manufacturing to shipment.

A vendor assessment is an analysis that is done to certify the relationship between a set of companies to verify if a supplier's products and processes are compliant (QSE, 2014).

The industry makes use of the Safety & Health, Environmental and Quality Management Systems when an audit is conducted. A minimum of 65% must be obtained by the vendor for all three systems, in his assessment to be compliant according to industry standards. By using the results of the vendor's evaluation in collaboration with the supplier, both parties will enjoy the benefit of improved performance.

### **1.1.2 The process**

Firstly, a need for a certain product or service arises from the plant. It can be a need for the on-site services of an item (where a company performs work on-site), the reconditioning of an item or the purchase of a new item.

The plant identifies a vendor that is capable of performing the service that is desired by the industry. A request is sent through to vendor management to create them as a vendor on the industry database, via an M36C (internal motivation form) that is signed off by the plant manager of the section.

As soon as the request is received by vendor management, the relevant vendor specialist logs the request and sends out a vendor application pack to the vendor. The entire registration form must be completed and supporting legal documents must be attached. The vendor must be at least level five BBBEE compliant. If not, his application will be rejected. All information provided to the industry must be complete and accurate.

The vendor will be evaluated on the following supporting documents (this information was obtained from ArcelorMittal South-Africa's vendor application pack):

- Certified copies of the required documentation must accompany the fully completed ArcelorMittal South Africa Vendor Application Form.
- Private or Public Company (CM1 or CM6 Certificate of incorporation)
- Closed Corporation (CK1 or CK2 – Founding Statement for Closed Corporation or amendment thereof)
- Certificate of name change (CM 9, CM31), Registrar of Companies change of company name (CM22, CM29, CM27)



- Sole Proprietor (SA Identification documentation of owner / proprietor)
- Trust (Trust deed, appointment of trustees by the master of the High Court and signed letter from trustees stating the names of the beneficiaries)
- VAT Registration certificate
- TAX Clearance certificate
- Registration certificate at Compensation Commissioner (Letter of Good Standing)
- Cancelled cheque or letter from Financial Institution confirming bank details
- Valid BBBEE Certificate from a SANAS Accredited institution
- ISO 9001:2008 - Quality accreditation or compliance certificate (If available)
- ISO 14001:2004 - Environmental accreditation or compliance certificate (If available)
- OSHAS 18001:2007 – Health and Safety accreditation or compliance certificate (If available)
- Additional Certificates:
- LME Certificates (Lifting Equipment Entity registration with the department of Labour)
- LMI Certificates (Lifting Equipment Inspector registered in terms of the engineering Profession Act, 2000. Act No. 46 of 2000)
- Electrical compliance certificates
- Welding standard compliance (ISO 3834)
- Certificate for pressure vessel testing / repair
- Provincial driver permits (PDP's) for drivers
- Department of Agriculture for Pest Control vendors

In the case of ArcelorMittal South Africa, the following supporting documentation needs to be completed and attached to the Vendor Application Pack:

- Electronic payment transfer instruction (Requirement for Accounts Payable)
- PAYE SARS questionnaire (Requirement to establish if a company trades as a labour broker)
- ArcelorMittal South Africa General conditions of purchase,

- Written agreement in accordance with the provision of Section 37.2 of the Occupational Health and Safety Act, Act No 85 of 1993,
- Code of responsible sourcing questionnaire,
- Should any of the required supporting documentation as listed above not be attached will the application be rejected.

Once all the relevant documentation has been received and the vendor has passed the Safety, Health, Environment and Quality audit, the vendor specialist will create the vendor in the INTEGRA software system. This will then be transferred to the industry's ERP software system, in most cases the well-known software programme SAP for large industries.

Each vendor has its own unique vendor code under which all the information is stored. The unique vendor code will be linked to a material number that the vendor specializes in. Each material number has an exact detailed description of what is expected from the vendor.

The specification, brand name and original equipment manufacturer must be clearly distinguishable, should the vendor receive an order on a certain material number. The material numbers are created by the industry's Cataloguing Department.

All potential on-site and contract suppliers will be audited to confirm their legal and SHEQ compliance with industry requirements. No vendor will be allowed on site if they have not passed their audit.

SHEQ management system is a specialized tool that facilitates the aim and implementation of management structures, based on the ISO / OHSAS standards relevant to a company (Gouws, 2014).

### **1.1.3 Tactical sourcing: Vendor Management**

Objectives are:

- Receive and govern requests for the creation and maintenance of new or active vendors within the vendor database (master data).
- Authorize the need for the creation of new vendors to ensure an optimally sized vendor database is being maintained.
- Conduct vendor assessments as part of the process of creating new vendors.
- Create and maintain vendor records within the industry's database.
- To ensure the correct vendor are linked to a specific material group on the source list within SAP.
- Measure, manage and promote vendor performance on an ongoing basis.
- Ensure audit compliance within the activities of Vendor Management.
- Promote previously disadvantaged groups (BBBEE).
- To ensure vendors complete a responsible sourcing questionnaire as part of the registration process.

### **1.2 Problem statement**

This dissertation investigates how non-compliant vendors have an influence on the operations of the steel industry and if the necessary measures are in place to assist vendors in becoming compliant.

The compliance of a vendor will have a direct effect on the image, long term supplier relationships, profitability and safety performance of the company. ArcelorMittal, one the largest steel manufacturing companies within the industry faces low profit margins and plant stoppages, and the main cause can be non-compliant vendors. According to Smarter procurement (2014) all successful companies build strong relationship with their vendors. Companies are not inaccessible entities that only purchase services or goods from vendors who are able to supply them with a specific product or service at a given time. Successful companies realize the importance to build bridges between them and their suppliers in order to establish long term agreements or contacts.

According to Vivian Vendor Rating (2014) supplier evaluation contributes to a better perspective into a company's processes and also helps to build better relationships with suppliers. The objective of any company should be to continually improve. The improvement of processes and systems within an organisation will lead to a better product or service.

The steel industry code for responsible sourcing communicates how current suppliers will be dealt with. It is expected of the suppliers to meet the minimum environmental as well as health and safety standards and to be subjected to an audit, which is a process of following procedures that are agreed upon during an assessment. Decrease in performance of certain role players and of the whole controlling system can be counterproductive in governing practice (Gosselt, J.F, Van Hoof, J.J. & De Jong, D.T, 2012).

### **1.3 Objectives**

#### **1.3.1 Main Objective**

The main aim of this study is to determine if non-compliant vendors have an influence on the operations of the steel industry and if the necessary measures are in place to assist vendors in becoming compliant.

Further to this, this research seeks to determine which vendors are performing within acceptable standards and which ones are not and the influence this has on the profitability of a large steel manufacturing company. Once those vendors have been identified, different reports can be used to analyse their individual details.

#### **1.3.2 Secondary Objectives**

- To determine how the industry deal with compliant vendors.
- To determine how companies deal with non-compliant vendors.
- To determine if vendor evaluation is on acceptable standard.
- To determine how active vendors are managed.
- To determine how performance influence profitability.
- To determine current problems experienced in major systems.

## **1.4 Research design and method**

### **1.4.1 Literature review**

This study contributes to existing literature that has been developed in the Procurement environment.

The study further contributes to the profitability of the steel manufacturing industry and include all the relevant stakeholders involved in the steelmaking process. New additions involve strategies and measures to enhance vendor performance and compliance and also to improve the profitability of the industry.

The internet was used to obtain information on the topic. Standard Operating Procedures were obtained from relevant managers from one of the largest steel manufacturers in South-Africa. Internet articles were studied to obtain more information on how to improve current systems. Textbooks that were relevant to the topic were used to get a bigger picture of how the Supply Chain should be utilized. Previous research (journal articles obtained from the North-West University) was also used to broaden the current research.

### **1.4.2 Empirical research**

Information access was obtained through personal contact with Vendor Management as well as reports generated on the system.

Different role players within the vendor management department were consulted to get a broader picture on the process of a vendor to be compliant according to generally accepted standards. Vendors that were willing to complete questionnaires were contacted individually and the main aim of the research was explained to them. The vendors understood why this was expected of them and that it was also beneficial for them to become more compliant. The researcher had to know exactly what aspects he wanted to research and a clear layout had to be presented. Convenience sampling techniques were used to acquire contributors from the target procurement environment, and a common offer-based method of choice for inclusion was utilized (Struwig & Stead, 2011:46). All the designated vendors were requested to complete a questionnaire.

To ensure all the relevant/necessary data was obtained, semi-structured interviews were held with the relevant managers of the departments from whom information was required. Topics that were covered had been decided on beforehand and were put forward to the relevant managers.

The information that was required from vendors was captured through an open-ended questionnaire in which vendors could explain their knowledge on certain topics/standards.

The questionnaire was based on the current system. The vendors were free to call, should they require any assistance with the questionnaire.

Permission was obtained from top management to extract data regarding the aspects that were researched from ArcelorMittal South-Africa's Vendor Management's database. System Application Program (SAP) reports were obtained from the industry's system. An informal meeting was held with the manager of Vendor Management to obtain the relevant information. All communication will be kept confidential as the industry has the right to privacy.

Questionnaires were sent out to vendors to complete. The questionnaires were analysed and the feedback transferred into an Excel spreadsheet. The data that was obtained from the system was put forward in an understandable format so that each person could understand what it entailed to do business with one of the largest steel manufacturers in the Southern hemisphere. Key concepts were identified and researched. The data that was obtained from the vendor's feedback was only used to see how compliant the data base in use was. The questionnaires were completed anonymously and disposed of after the data had been captured.

## **1.5 Outline of the study**

Figure 1 is a graphical illustration of the topics that are discussed throughout this dissertation in order to determine the effect of vendor and supplier evaluation and assessment practise on the steel industry and its operations. Each topic is discussed in order to reach a valuable conclusion.

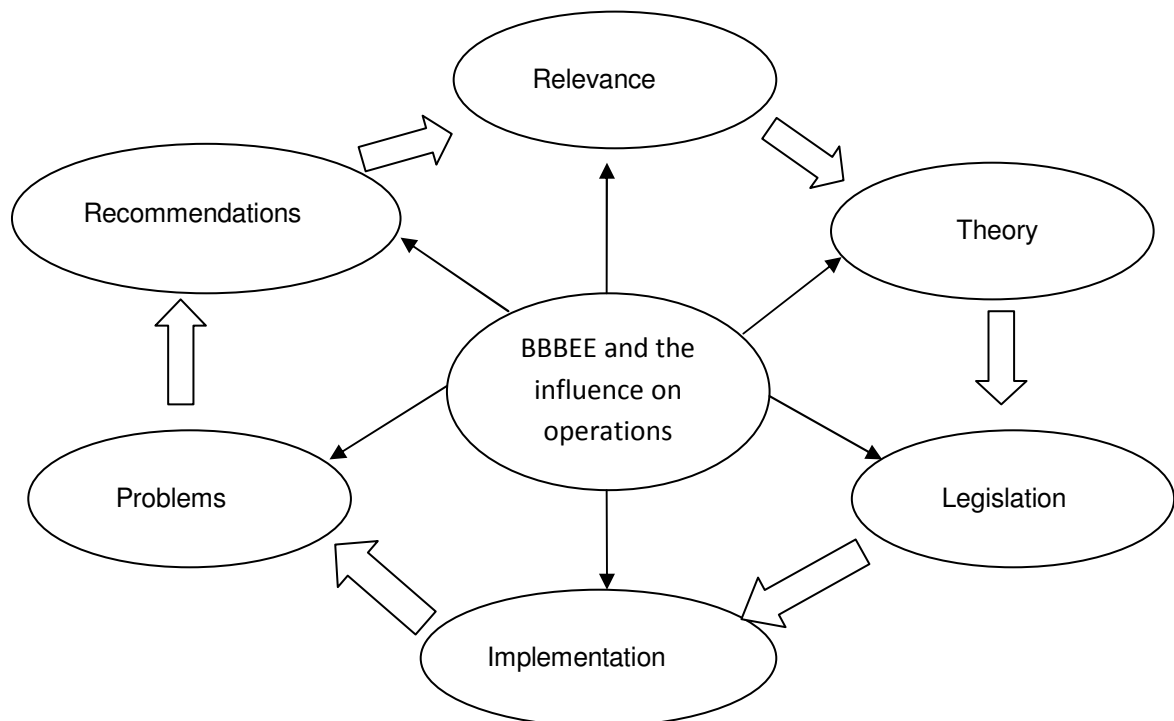
## Chapter 1: Introduction and information.

In Chapter one an introduction is given on procurement and how it has changed over the years. Relevant application and assessment information is given through to vendors that will enable them to determine what documentation and systems are required to be a compliant vendor to large steel manufacturing companies.

## Chapter 2: Literature review

A literature review on all the relevant policies and regulations are done from a BBBEE perspective. BBBEE has become an important aspect within the corporate world. The issues faced by large steel manufacturing industries and vendors are discussed. These issues include BBBEE compliance, Government regulations, Company Policy, Ethics, Standards and Infrastructure. This chapter also assists the vendor on the necessary socio-economic issues that need to be implemented to become a level one BBBEE contributor.

**Figure 1: Overview**



### **Chapter three: Survey results and interpretation**

In Chapter three, questionnaires that were obtained from plant managers, employees and vendors to determine the influence of non-compliant vendors on the operations of large steel manufacturing companies, are analysed. The feedback determines the influence that compliancy has on daily operations. The most important issues were addressed via a questionnaire by means of which both the vendors and plant personnel could express their feelings and perceptions towards BBBEE.

### **Chapter four: Summary and recommendations**

In Chapter four recommendations, based on the results of Chapter three, are made to large steel manufacturers on how to improve their vendor's compliancy and how to manage their vendors effectively. Vendors will gain better insight into what is expected of them to be more compliant. Recommendations are realistic and implementable over a given period.

These recommendations will help steel manufacturing companies to become more productive through a well-trained and informed vendor database. Areas of further research are also identified to assist steel manufacturing companies with future issues that might arise. In the next chapter the study investigates the origins of BBBEE and developments that have been made after the implementation of BBBEE within the South-African economy.



## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

A Broad Based Black Economic Empowerment strategy is incorporated to contribute to the growth of the South-African economy and prohibits the withholding of “non-white” people and women from access to South Africa’s prosperity, income impartiality, skills development and equal opportunities in the economy (Ernst & Young Global Limited, 2013:2). The aim of BBBEE is to guarantee that the South-African economy is controlled and rationalized and that the majority of South-African citizens are participating within the economy. It also aims to create capacity within the broader economy at all stages, through the development of skills, employment equity, development of socio-economic issues, BBBEE, development of enterprises, especially small and medium companies, endorsing the admission of black entrepreneurs into the economic activities of the country and the development of companies. BBBEE must be employed in a real and maintainable way to develop the full potential of black employees and their BBBEE objectives (EDD, 2015).

Even though there are more than one aspect of compliancy that must be adhered to (as set out in Chapter 1), the main focus in this chapter is BBBEE compliancy as part of the operations process.

For a company to be able to provide a product or service to the steel industry, the following standards must also be implemented, despite of the company’s BBBEE status:

#### **2.1.1 *ISO 9001:2008 Quality Management System***

This is the only system that needs to be in place, should the vendor be a supply only provider. ISO 9001:2008 is a quality management system whereby a company must give proof of the ability to continuously meet customer and regulatory demands. The ISO 9001:2008 system’s goal is to enhance customer satisfaction by implementing continuous improvement of systems and conformity to rules and regulations.

All the necessary requirements of the ISO 9001:2008 system are standard and not company or industry specific.

### **2.1.2 ISO 14001:2004 Environmental Management System**

The ISO 14001:2004 and the OSHAS 18001:2007 need to be audited and passed to do on-site work for companies within the steel industry. The ISO 14001:2004 system provides a guideline for companies to manage their environmental accountabilities. The ISO 14001:2004 can provide a company's management and shareholders with the assurance that the environmental impact of the company's operations is being tracked and improved.

### **2.1.3 OSHAS 18001:2007 Safety Management System**

OSHAS 18001:2007 is an international specification that includes occupational health and safety management specifications. OSHAS 18001:2007 minimises the risk for employees and a safety manual is included within this management system to look after the health and safety of employees. Each task that needs to be done by a company has to be occupied with a safety file.

## **2.2 Origins of Broad Based Black Economic Empowerment**

According to Gardee (2014) the South-African BBBEE policy drew inspiration from Bumiputera<sup>2</sup>, a Malaysian model that addressed elimination of the connotation of race with societal function. Independence was gained by Malaysia from Britain in 1957. Malaysia faced issues of inequality between most of the Malays and the minority of Chinese who controlled the Malaysian economy.

The Malaysian economy placed significant focus on education. This transformed the Malaysian economy into one of the largest exporters in the world. The Malaysian GDP per capita is \$5 higher than those of South-Africa's (Gardee, 2014). Unemployment is 3% in Malaysia, compared to South-Africa's 30% (Gardee, 2014).

The Malaysian government created a Bumiputera business class that ruled that all businesses over a certain edge need to apply for a license which required them to sell 30% of the ownership to Bumiputeras (Gardee, 2014).

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<sup>2</sup> Some sources also refer to the term **Bumiputra** instead of **Bumiputera**. In this study the term Bumiputera will be used.

This enabled the rural Malaysian population to become an urban working class, a middle professional class and a capitalist business class. Education was the main contributor to social mobility and reduction of inequality (Gardee, 2014).

According to Gardee (2014) the Malaysian model identified three ingredients that are essential for economic growth:

1. An educational system that is strong and easy accessible by previous disadvantaged groups, with the main emphasises on maths and science.
2. Growth rates within the economy that are increasing and will provide opportunities to the educated.
3. Medium to large businesses that are operated by black owners.

### **2.3 The employment equity act of 1998**

According to Meyer, Mabaso, Lancaster & Nenungwi (2004) the Employment Equity legislation was passed in 1998 by the South-African parliament. The act aims to eradicate unfair discrimination within the workplace and to provide for corrective actions to recover the imbalances that were caused in the past. This act provides previous disadvantaged persons with training, promotion and fair remuneration. Employment is developed on the basis of all-encompassing research and conferences within the government. The basic strategy framework promotes sector investment and labour engagement within the South-African economy.

This framework enhances job creation, human resource development and also provides for special employment programmes.

### **2.4 Development of the South-African workforce**

According to the Department of Labour (2005) the NSDS aims to develop the abilities of all employees within the South-African workforce, to develop the working environment as an active learning location, to encourage self-employment and to ensure employment for candidates who are new in the labour market. According to the NSDS (2007) all South-Africans must have the basic capabilities like reading and writing, and must also be able to compete within the international technological environment, which is constantly changing.

This entails increasing levels of practical proficiency. The NSDS is recommended for vendors to develop their employees in order to ensure optimal productivity and updated skills requirements.

According to (Cascio, 2003; Grobler *et al.*, 2006:34) there are ten reasons why the development of people can be beneficial for the industry:

1. Changes in technology leads to changes in jobs. The skills of employees must be evaluated and developed so that employees will be able to adapt to technological changes within the organisation.
2. Quickly changing technical, legal and social environments has a direct influence on how employees perform their daily jobs. Employees who are unable to adapt to such changes become inefficient and out of date.
3. Sometimes employees that have been promoted do not have the necessary skills to perform their tasks. All new employees must receive orientation and training to update their skills to fulfil their new roles within the company.
4. Promotion of employees - EDT allows the employee to develop to a stage where he is ready for promotion and accepts roles with greater accountabilities.
5. Satisfy own developmental needs - Education, training and continuous development can play a vital role in increasing the effectiveness of the organisation and personal growth for employees.
6. Solve problems within the organisation - EDT can solve the internal problems of an organisation, such as undesirable performance, decrease in productivity, increased employee turnover, disputes and poor delivery of services.
7. Enhanced employment - the current economic situation in South-Africa has led to high rates of unemployment. High unemployment rates have a direct influence on poverty and the levels of crime within a country.
8. Skills development ingenuities have strategies in place to place employees in employment, self-employment or incentives to study further. Such strategy motivates employees to enrich their current skills and knowledge.
9. Employment of selected groups - the NSDS assists unemployed people from selected groups to participate in skills development programmes. These initiatives will assist unemployed people to gain the necessary skills to enter the labour market or become owners of their own companies.

10. Endorse and accelerate occupation equity - the government provides grants for companies that develop black, coloured, Indian, female and also disabled persons. The skills and annual training reports must be maintained in the company's equity targets to qualify for such grants.

## **2.5 Preferential Procurement Policy**

Any company that is implementing preferential procurement, needs to have a BBBEE policy in place. Such policy needs to be the basis, and the framework can be used as a guideline to the implementation of BBBEE within a company. The policy should recognise that preferential procurement is an initiative that can assist in the development of companies.

A list of objectives should be attached to the BBBEE policy. These objectives can be used to establish, monitor and report on the progress of targets that are set to procure from BBBEE vendors.

A preferential procurement policy can provide an organization with guidelines on how to link BBBEE vendors to the procurement activities of an organization (Mokakala, 2010:16).

## **2.6 Procurement strategy to develop BBBEE vendors- Business Incubation**

According to the DTI handbook (2014:9) a business incubator is a physical or virtual facility that supports the early development of small and medium enterprises through a mixture of business improvement services, funding and admittance to the somatic space that is necessary to conduct trade.

### **2.6.1 *What is an incubator?***

- Physical or fundamental facilities that help develop the early SMEs.
- Provides temporary support to develop independent businesses.
- Helps SME's overcome challenges in start-up.
- Does not train people for employment within organisations (DTI handbook, 2014:12).

### **2.6.2 How do incubators vary?**

- Focus by sector: single sector or multi sector.
- Focus by geographical location, local, provincial or national
- By SMEs target group: vulnerable start-ups or high potential early stage companies.
- By operational model, physical, virtual or mixed incubation.
- Model of revenue generation: fees, equity or other mechanisms that generate revenue (DTI handbook, 2014:12).

### **2.6.3 Business incubators can be defined in the following three ways:**

1. Incubators focus on small and medium enterprises that are in the early stages of growth.
2. Incubators offer services that are aimed at consolidating the volume of SMEs to function individually.
3. Incubation is only temporary.

### **2.6.4 Incubational services**

Business incubators, as discussed in this chapter, are summarised in table 2.1. Each service rendered by business incubators is explained with a description of the benefits of each service type.

### 2.6.5 Services offered by business incubators

Type	Description	Examples
Business Development Services	<ul style="list-style-type: none"> <li>• Provide services that focus on strengthening the business intelligence of the entrepreneur, the systems of the business and the strategic focus of the company.</li> </ul>	<ul style="list-style-type: none"> <li>• Business strategy support</li> <li>• Support systems</li> <li>• Admittance to markets</li> <li>• Admittance to finance</li> <li>• Development and training of people</li> <li>• Networking and membership</li> </ul>
Provision of physical space and resources	<ul style="list-style-type: none"> <li>• Provision of physical space from where small, medium enterprises can operate. Incubators offer office space and basic resources.</li> </ul>	<ul style="list-style-type: none"> <li>• Office space</li> <li>• Specialised facilities and technical equipment</li> <li>• Conference rooms and meeting facilities</li> </ul>
Funding	Provides small, medium enterprises with capital and financial resources.	<ul style="list-style-type: none"> <li>• Grants</li> <li>• Equity</li> <li>• Debt/ Loans</li> </ul>

**Table 2.1: Services offered by business incubators, Source: DTI Handbook, (2007:15)**

### 2.7 Incubation Support Programme (ISP)

The Department of Trade and Industry introduced the Incubation Support Programme (ISP) to improve incubators and generate effective initiatives with the prospective to rejuvenate societies and reinforce local and domestic economies. In continuing to support economic development, the ISP aims to ensure that SMEs are part of the economy through the support of incubational services.

ISP is a support measure to encourage large companies to form partnership with SMEs through skills transfer, development of enterprises, development of suppliers and marketing opportunities (DTI, 2007).

#### *2.7.1 Programme Description*

- The objective of the ISP is to inspire private sector corporations to assist incubators in order to advance SME's and cultivate them into maintainable initiatives that can deliver employment and donate to economic development.
- The purpose of the plan is to provide capital for incubators that, over time, can produce revenue through the delivery of services and ingenuities that can be self-sustainable over a period.
- The incubation funding will be obtainable on a cost-sharing foundation between the government and the private sector.

It is necessary for organisation and business expansion services that are essential to guide and grow enterprises, to guarantee that within two to three years, the originalities will have graduated to a level of self-sustainability, by the provision of products and services to the market (DTI, 2007).



### 2.7.2 Incubation variation by type

Variation	Description	Examples
Sector Focus	Prominence or preference from specific economic sectors	Sector specific- delivery of sector specific services e.g. Manufacturing Multi sector- Delivery of services to SMEs from different sectors
Geographical Focus	Where incubators are to offer certain services	Country specific Province specific City/ town specific
Target Group of SME'S	SMES that the incubator is willing to offer its services to	At risk SMEs or disadvantaged entrepreneurs SMES with a successful business plan and prove to be successors
Operational Model	The structure of the incubator in order to achieve its tenacity	Virtual incubation model- remote delivery via internet or suitable location Bricks and Mortar Model- provision of incubational services from a physical location Mixed model- provision of physical resources and fundamental services
Revenue-Generating Model	The operating system by which the incubator converts its services	Fee-for service-model- Monthly charges for services or percentage of revenue Equity-swap model- obtain equity within the SME without a monthly fee
Mix of public/private support	Combination of public, semi-public and private sectors involved in operating the incubator	Incubator owned by government Incubator that was established between the private sector and the state Private Incubator

**Table 2.2: Incubation variation by type, Source: Incubator Handbook. (2014:17)**

## **2.8 Compliance as a legislative necessity**

A company needs to be in the position of a valid BBBEE certificate to prove its current BBBEE compliancy level. A company's BBBEE certificate includes indicators such as the level of black ownership within the company, the BBBEE status and the turnover of the company. The BBBEE certificate is valid for one year and must be renewed annually, based on the evidence of BBBEE implementation during the assessment period.

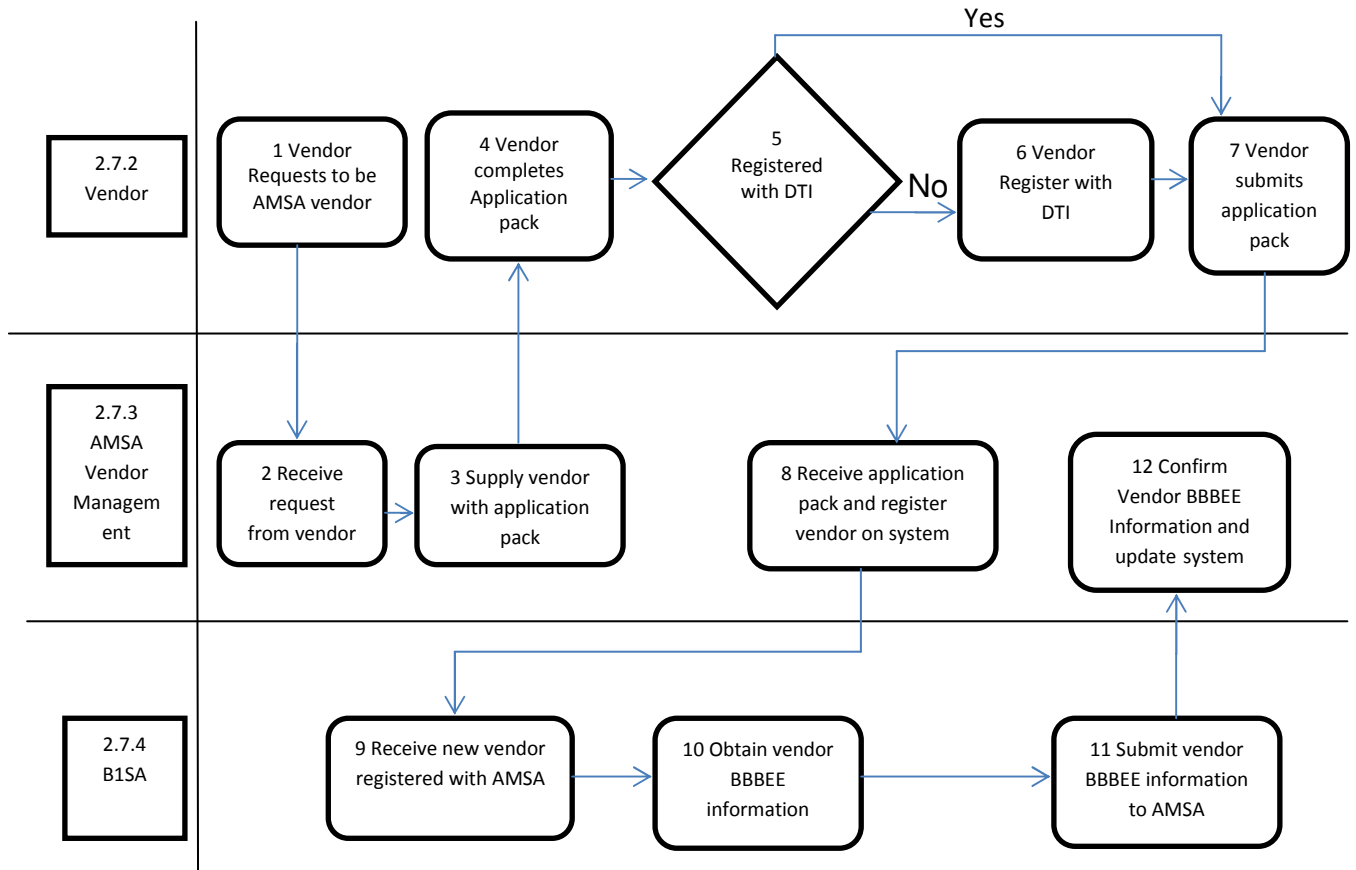
Pravin Gordon, the minister of finance of South-Africa, has governed that a company is not able to conduct any business with departments of the government, state owned entities and municipalities without a valid BBBEE certificate. A company will be disqualified should it be unable to give proof of such certificate. Procurement spent with BBBEE vendors can be claimed with a valid BBBEE certificate. In order for any company to claim procurement spent, they will have to buy from BBBEE companies to score preferential procurement points. If a company does not have a BBBEE certificate, its customers will look for a company that is BBBEE compliant (BEE and Your Business, 2011).

### **2.8.1 Benefits of complying**

1. Straight empowerment – possession and management control – Helps boost the strategic path and judgements of the business.
2. By developing Employment Equity and Skills, the skills of employees will be strengthened and the effectiveness of the business will increase. Diversity improves the organization's culture which will lead to more satisfied customers.
3. Acquiring from Broad Based Black Economic Empowerment companies, or empowering them, will help them achieve success in the commercial environment and help the economy to stabilize within the country.
4. Complying with BBBEE will increase an organization's chances to take part in the tender processes of major companies and increase the company's chances of obtaining contracts on the goods or services they provide.
5. BBBEE confirms the organization's obligation as an accountable organization that is willing to improve and develop populations.

6. The organizations fulfil their social responsibility, help the economy grow and reduce poverty (Ernst & Young Global Limited, 2013:3)

Figure 2 is explained by using the three main role players who are necessary in the creation of a new vendor, namely the vendor itself, vendor management and B1SA.



**Figure 2: AMSA and B1SA process for BBBEE information and vendor creation**

Source: ArcelorMittal. Standard Working Procedure: Preferential Procurement Management. Unpublished. 2014:5

### 2.8.2 Vendor

BBBEE vendors are invited on the ArcelorMittal portal to submit their company profiles. Should the need arise for a certain vendor, the vendor specialist will send the vendor an application pack. A vendor application checklist and application approval forms will be attached to the application pack.

The vendor will then complete the application pack and return it to ArcelorMittal Vendor Management. The complete pack will be handed over to the vendor specialist for evaluation. Existing contracted vendors are required to improve their BBBEE level rating annually, and this principle must be captured within contract documents.

### **2.8.3 Vendor Management**

Application packs are received from new vendors and captured on the application log sheet. The application is analysed and the offered product / service is compared with that of the current providers of similar commodities / services. It is then determined if a need for a new vendor exists. If the need exists, the vendor specialist will hand over the application pack with his recommendation for assessment to vendor manager for approval. A potential BBBEE vendor's application is forwarded from the Senior Consultant Preferential Procurement to vendor management for assessment and final approval before creation. Registration of new vendors within AMSA's vendor database requires of such vendors to possess a minimum of Level five or higher BBBEE compliant certificate. Such vendors are referred to as targeted vendors on the database of B1SA. The BBBEE status of any vendor can be confirmed on the B1SA website.

### **2.8.4 B1SA**

B1SA is a BBBEE verification company and all the preferential procurement vendors are registered on the website. Once ArcelorMittal confirms the status of the vendor via B1SA, the relevant vendor management specialist will continue to create the new potential BBBEE vendor on the database.

Preference will be given to the vendor with the higher BBBEE level. If a company is not registered with BBBEE, the company can obtain assistance from B1SA to become compliant.

## **2.9 Key Objectives for Broad Based Black Economic Empowerment**

AMSA, in an unpublished document, gave the following as the key objectives for Broad Based Black Economic Empowerment (ArcelorMittal. Standard Working Procedure: Preferential Procurement Management. Unpublished, 2014:3):

- Formulate and implement a preferential procurement policy and supplier development strategy with respect to preferential procurement.
- Lead and manage compliance to the set organisational policies and strategies with the view to encourage procurement from BBBEE compliant enterprises.
- Provide strategic direction and advisory service for the implementation of preferential procurement initiatives.
- Lead research and implement best practice methods, systems and processes in support of preferential procurement policy.
- Lead and manage the implementation of a supplier development programme in line with the preferential procurement policy objectives.
- Provide input with respect to supplier contracts, in line with the requirements of the preferential procurement policy.
- Lead and manage relations between BBBEE compliant vendors and internal stakeholders.
- Act as facilitator to appropriate deals to establish and develop BBBEE enterprises.
- Serve as the company's representative on relevant and appropriate national, regional and local associations and forums that are geared towards enhancing the development of BBBEE compliant enterprises.

## **2.10 Towards BBBEE growth**

According to the DTI (2007) the aim of BBBEE is not to take the wealth of one ethnic group and hand it over to another, but it is rather a strategy for growth, targeting inequality. Kleynhans & Kruger (2014:1-10) believe "the key obstacle hindering optimal profitability levels and competitiveness in firms in South Africa is the application of labour legislation policies and tools aimed at narrowing the income gap between different racial groups and resolving inequality amongst a diverse workforce. "

The economy won't be able to expand if some people are excluded from its activities and all citizens not integrated in a useful way. BBBEE is a policy tool that aims to broaden the economic base of the country. Economic growth will be stimulated and employment opportunities will be created.

The Broad Based Black Economic Empowerment Act of 2003 reflects the approach that the government is following to accommodate preferential procurement within the wider national enablement strategy. BBBEE focuses on people who were disadvantaged previously, particularly women, youth, disabled persons, black people and rural populations.

Table 2.3 gives an indication of how many points a vendor must earn to become compliant on a certain level, based on the 90/10 system or the 80/20 system. The number of points a vendor earns will determine his BBBEE status of contribution, which can be from level one to eight.

BBBEE Status of Contributor	BBBEE Procurement Recognition Level	Number of points (90/10 system)	Number of points (80/20 system)
1	135%	10	20
2	125%	9	18
3	110%	8	16
4	100%	5	12
5	80%	4	8
6	60%	3	6
7	50%	3	4
8	10%	1	2
Non-compliant contributor	0%	0	0

**Table 2.3: BBBEE balance scorecard, Source: Ernst & Young Global Limited (2013:2)**

### **2.10.1 The difference between a level three and a level four contributor**

According to Oosthuizen (2011) the difference between a level three and a level four can have a direct influence on the profitability of a company. The size of a tender will determine the amount of preference points that will be awarded on the basis of BBBEE compliancy. Tenders between R30 000.00 and R1 million are adjudicated according to the 80/20 BBBEE rule. For any tender above R1 million, the 90/10 BBBEE rule will be applied. When the above table is taken into consideration, it is clear that a company should aim for a BBBEE level three.

This is even more evident in the 90/10 table, and makes it clear that being a level four contributor is not good enough anymore. Oosthuizen (2011) uses the following scenario to explain the difference in BBBEE levels: If Company X sends in a tender with a price of R970 Million, Company Y can tender a price of R1.0023 billion and will still be allocated with the order due to its higher BBBEE score.

The potential benefit for being a level three contributor is R32.3 million above a level four BBBEE contributor. According to Oosthuizen (2011) it is beneficial to pay the price for investing in a company's BBBEE scorecard as it will help an organization to receive higher profits. Thus, company X will have to reduce its profits by R32 million to stand a chance to compete against company Y.

**2.10.2 The targets affect the Employment Equity and Procurement elements as follows:**

The Codes of Good practice outline the exact objectives for the essentials of Employment Equity and Procurement and specify purely that they must be functional from year six to year 10.

	Generic Scorecard		QSE Scorecard	
	Years 0-5	Years 6-10	Years 0-5	Years 6-10
<b><u>Employment Equity</u></b>				
Black Disabled employees	2%	3%	N/A	N/A
Senior Management (Black)	43%	60%	40%	60%
Middle Management (Black)	63%	75%		
Junior Management (Black)	68%	80%		
All Black Employees	N/A	N/A	60%	70%
<b><u>Preferential Procurement</u></b>				
All Suppliers	50%	70%	40%	50%
QSE and EME Suppliers	10%	15%	N/A	N/A
Black Owned Suppliers	15%	20%	N/A	N/A

**Table 2.4: The targets affecting the Employment Equity and Procurement, Source: <http://www.iquadvs.co.za/news.php>**

### **2.10.3 Exempted Micro Enterprises (EMEs)**

It will be unrealistic to assume that a newly formed micro company will contribute to BBBEE as it is likely that the company will only have a few employees. Companies will try to keep their overheads to a minimum in their first years of operations. Any company that has a turnover less than R10 million will be exempted and not measured against a BBBEE scorecard.

When a company has the proof that less than R10 million are earned annually, it will automatically be allocated with a BBBEE level.

EMEs have to produce an affidavit to declare their status as a Micro Enterprise that is being exempted. EMEs instantly qualify as empowering providers and their customers will be able to benefit from buying from them, as they will obtain BBBEE points. The reviewed BBBEE codes expect from companies to spend 15% of their procurement spent on EMEs every year. This will help EMEs to grow and develop within South-Africa.

### **2.10.4 Qualifying Small Enterprises (QSEs)**

Any company that has a turnover of more than R10 million, but less than R50 million, qualifies as a QSE. QSEs are normally family owned businesses that do not include additional people at ownership and top management. A QSE that is white owned, can employ, train and buy from BBBEE Certified Suppliers. A QSE that is 100% black owned automatically qualifies as a level one BEE supplier and a QSE that is 51% black owned automatically qualifies as a level two BBBEE supplier. If a QSE does not qualify as an empowering supplier, it will not obtain a BBBEE certificate.

### **2.10.5 Generic Enterprises**

Any business that has a turnover of more than R50 million per annum is measured against a general BBEEE scorecard. Generic entities must qualify as empowering providers in order to obtain a BBBEE certificate.



### **2.10.6 How points are lost in procurement?**

A vendor will lose points by making use of suppliers that do not comply to the rules and regulations of BBBEE, or if the vendor is unable to prove his compliancy with a BBBEE certificate. Points will be lost if a vendor does not have the sufficient records to prove its expenditure on BBBEE companies. When a vendor doesn't understand what must be excluded from total measured procurement spend, it can be beneficial for him and points will be deducted.

### **2.10.7 How to score points?**

According to BEE in the know (2012) a vendor will be awarded points when it can be proven that he spent money on a supplier that has made a contribution to BBBEE. The vendor will receive a BBBEE certificate as proof that he did contribute to such company. Suppliers in certain categories are counted twice on the BBBEE scorecard or receive more appreciation. If a QSE vendor that is black owned spends R100, his expenditure is acknowledged three times on the BBBEE scorecard. If the vendor is seen as a value adding supplier, the R100 that was spent is multiplied by 125%.

A vendor is seen as a value-adding supplier if his net profit, after tax, together with labour costs, surpasses 25% of its income. A business with high labour costs and high profits is more likely to be seen as a value-adding contributor. The objective on which appreciation is based, is a result of the total sum of money spent by a business in the financial period, known as the Total Measured Procurement Spend (TMPS).

Certain spent categories may be excluded from TMPS, thus targets will be reduced. The amount of points awarded to preferential procurement will increase if more money is spent on a BBBEE vendor or if the TMPS is being reduced (BEE in the know, 2012).

## **2.11 BBEE Challenges**

### **2.11.1 *Fronting***

According to the DTI (2007) fronting is a deliberate avoidance or attempted avoidance of the BBEE act and codes.

### **2.11.2 *There are several fronting practices***

#### **i. Window-dressing:**

Window dressing is when a black person is appointed in an organisation, but he is not actively part of the decision making process or the core activities of the organisation (DTI, 2007).

#### **ii. Benefit Diversion:**

According to the DTI (2007) benefit diversion includes activities where the economic profits of an organisation are not distributed to black persons according to the ratio, as agreed on in the legal documentation.

#### **iii. Opportunistic Intermediaries:**

These comprise of companies that have established settlements with other companies with the view to leverage the resourceful negotiator's favourable BBEE status in conditions where the agreement includes (DTI, 2007):

- substantial restrictions on the identity of the organisation's suppliers, clients and customers;
- the conservation of business operations in a framework sensibly measured unlikely having regard to wealth; and
- terms and conditions that are unfairly negotiated

### **2.11.3 Indicators of fronting**

According to the DTI (2007) fronting occurs when the black appointed shareholders of an organisation are not sure about their roles within the operations of the organization, or they have roles and responsibilities that differ significantly from those of the white shareholders.

When the black shareholders are paid less than the market related salary and there are no signs of any active participation within the organization by black shareholders, it is also a clear indication of fronting. Fronting also occurs when a company makes use of a third-party company to conduct its services or when the company can't operate efficiently without a third-party company, due to the lack of technical or operative competencies.

### **2.12 Summary**

In this chapter, an overview was given to the BBBEE vendor on what is expected of them to become a compliant vendor, according to industry standards. The advantages of complying also give the vendor the necessary motivation to adhere to the national rules and regulations. It will be beneficial for the organisation to become a preferred BBBEE vendor and it will also ensure development of the BBBEE vendor. Being a preferred BBBEE vendor also includes some challenges, therefore the BBBEE vendor must be able to adapt to change within the organization as well as the economy. The following chapter gives a graphical explanation on the perceptions of BBBEE vendors and plant personnel within the large steel manufacturing industry.

## **CHAPTER THREE: SURVEY RESULTS AND INTERPRETATION**

### **3.1 Introduction**

This chapter provides a detailed report on the perceptions of BBBEE vendors and plant personnel within the large steel manufacturing industry. The main objective of this study is to determine if non-compliant vendors have an influence on the operations of the steel industry and if the necessary measures are in place to assist vendors in becoming compliant. The perceptions of the plant personnel and vendors are also taken into consideration before a conclusion is made. In Chapter 2 it was established that there are different criteria that must be met to be compliant. With this study the researcher uses the data obtained by personnel and BBBEE vendors to determine the perceptions and problems companies face by making use of BBBEE vendors, and also the feelings of various levels of BBBEE compliant vendors towards the support given by large manufacturing companies to help them develop.

### **3.2 Gathering of data**

A questionnaire was sent out to vendors and plant personnel. The same questionnaire could not be used because the main aim was to determine the influence BBBEE had on the plants within the large steel manufacturing industry. The plant personnel that physically work with the BBBEE vendor have first-hand experience through previous dealings with BBBEE vendors on his/her plant and therefore will they have valuable feedback regarding the vendors. The support given by the industry to vendors helping them to become compliant also determines the performance of BBBEE vendors on the plant. This was measured with the questionnaire that was distributed to the vendors. The various responses for plants and BBBEE vendors were presented by a five-point Likert-type questionnaire, ranging from 1 ("not at all") to 5 ("completely"), depending on the level of agreement.

#### **3.2.1 *The Vendor Questionnaire***

The data was obtained from questionnaires which were distributed to BBBEE vendors with different turnovers and compliancy levels, ranging from 1 to 8.

The questionnaires were sent to 60 vendors via e-mail with 40 vendors responding and four that were late and not considered for evaluation. This study worked with a 66.6% response rate.

The vendor questionnaire was divided into two sections which are discussed graphically:

1. Biographic data
2. Vendor Compliancy

An effort was made to receive more questionnaires from black owned vendors, but the following obstacles prohibited the feedback from fully black owned companies:

- Lack of computer knowledge
- No feedback
- The vendors don't have the necessary facilities to complete the questionnaire
- Not active on their e-mails for long periods

### **3.2.2     *The Plant Questionnaire***

The empirical study was conducted by means of a questionnaire which was distributed to personnel on the plant. The personnel that completed this questionnaire ranged from plant managers, senior planners to clerks. Seventy questionnaires were sent out with only 40 individuals responding. These questionnaires were sent out via e-mail and also hard copy format. This study worked with a 57% response rate.

The plant questionnaire was divided into three sections which are also discussed graphically:

1. Biographic data
2. Plant experiences
3. Plant perceptions on BBBEE

### 3.2.3 Confidentiality

It was not required from the respondents to complete their names or surnames and total anonymity was guaranteed. As soon as the questionnaires were returned, it was printed and immediately converted into an excel spread sheet.

### 3.2.4 Statistical analysis of the data

The data that was obtained from the 80 questionnaires was sent to the Statistical Consultation Services of the North-West University via an excel spread sheet for analysing purposes. The programs used to analyse the data was Statsoft, 2009 and SPSS, 2009.

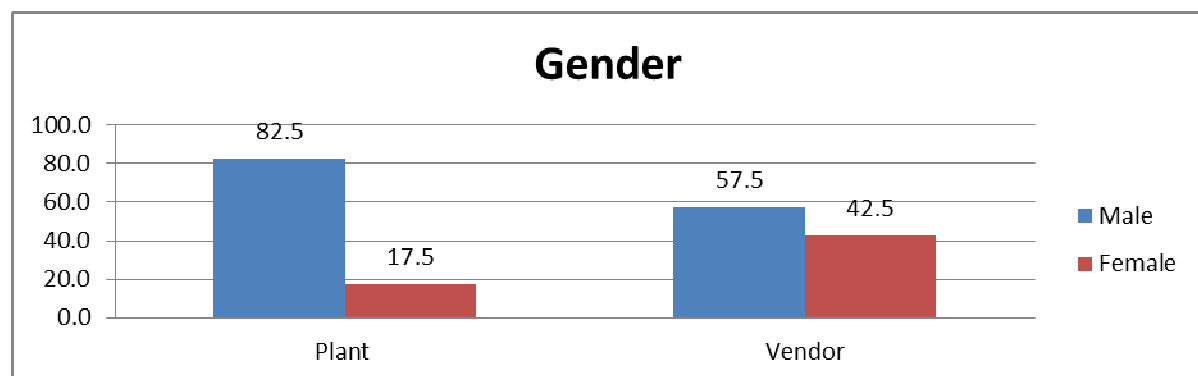
The most important responses from the different questionnaires are described graphically in the following section, using the actual percentage of respondents.

## 3.3 Comprehensive Analysis

The two questionnaires as well as the raw data are attached as Addendum 1, 2 and 3 respectively.

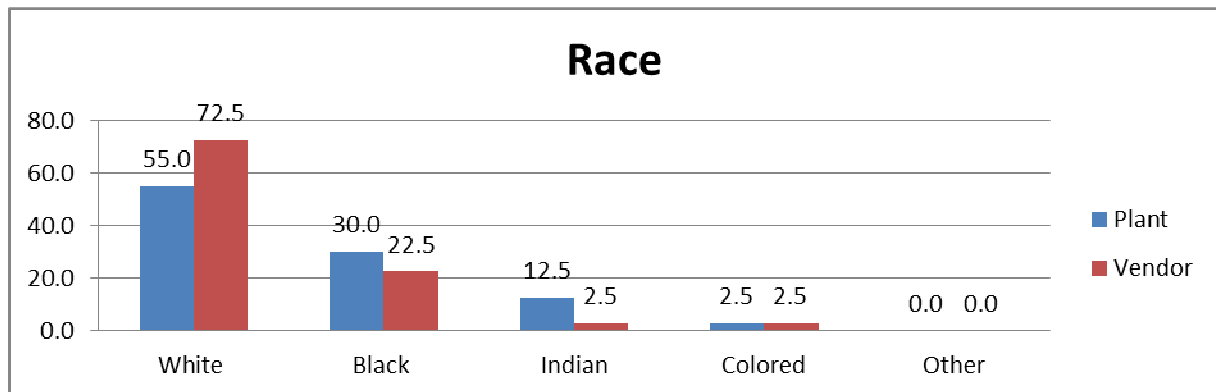
### 3.3.1 Biographic data (Vendor and Plant)

Figure 3.1 shows the combined results for both plant personnel and vendors. Out of the 40 plant personnel that completed this questionnaire, 82.5% were male participants and 17.5% were female. Out of the 40 vendors that completed their questionnaires, 57% were male and 42.5% female. Therefore, the feedback was male dominated.



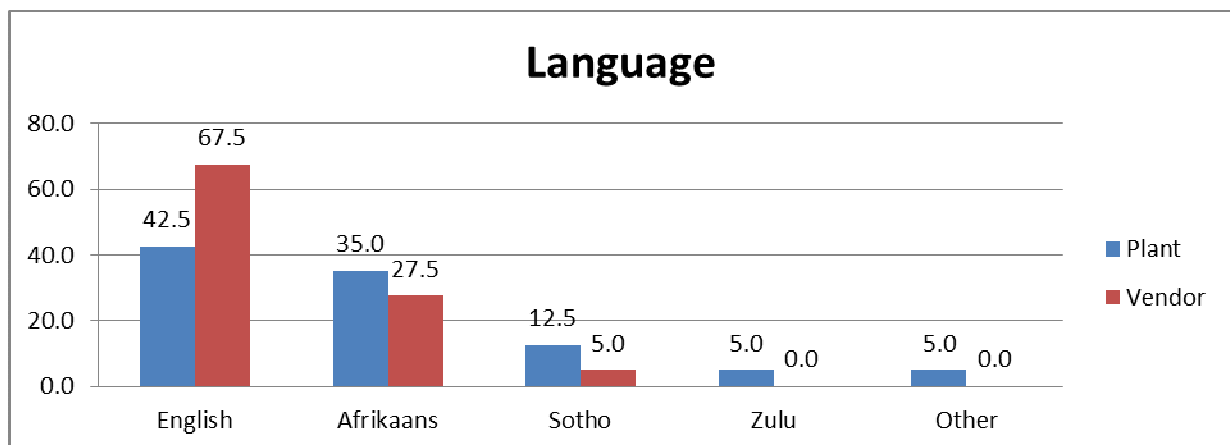
**Figure 3.1: Gender**

The majority of the participants were white - the plants with 55% and the vendors with 72.5%. Thirty per cent of the respondents were black from the plant's side while 22.5% from the vendor's side. Of the 40 plant personnel, 12.5% were Indian, with 2.5% from the vendors being Indian. Both the vendor and the plant had 2.5% coloured respondents.



**Figure 3.2: Race**

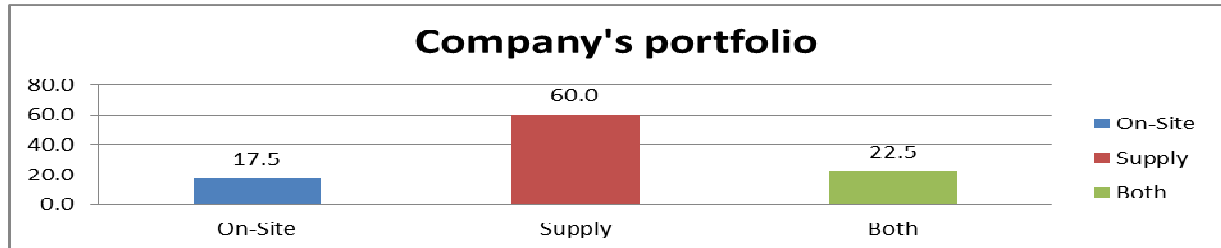
The main language spoken by the participants was English. The plant had 42% respondents and the vendors 67.5% whose home language was English. Thirty-five percent of the participants were Afrikaans speaking on the plant side and 27.5% on the vendor's side. Sotho was the 3<sup>rd</sup> most preferred language spoken by plant personnel and vendors, namely 12.5% and 5% respectively. Five percent of plant personnel spoke Zulu and 5% spoke a language other than the listed languages.



**Figure 3.3: Language**

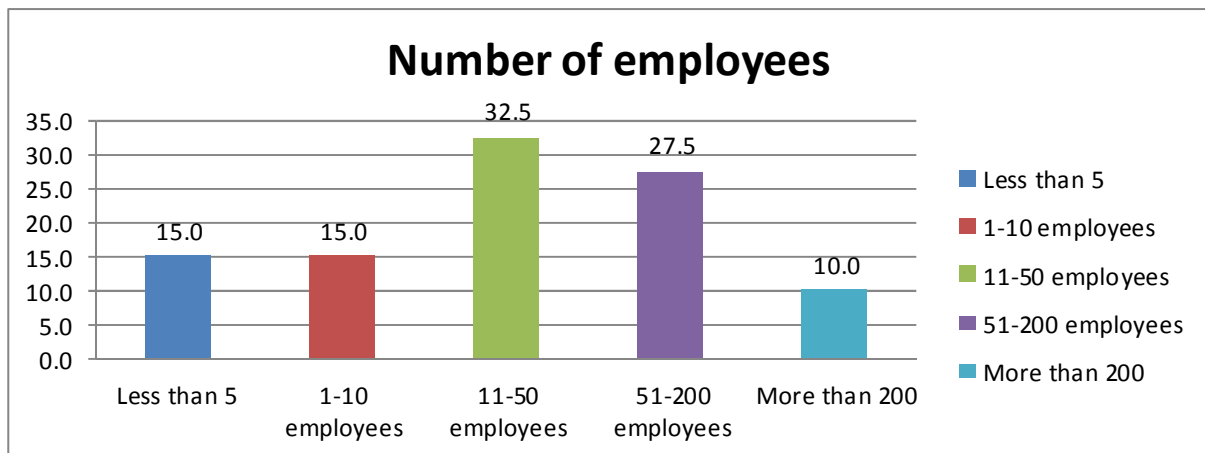
### 3.4 Vendor Evaluation

In the large steel manufacturing industry, a company's portfolio can consist of on-site work or only the supply of products. It is also possible for a company to do both site work and supply of products. Out of the 40 vendors that completed the questionnaires, 17.5% were on-site vendors, 60% supply vendors and 22.5% supplied and did site work. The on-site vendors must have passed a Safety, Health and Environment audit in order for them to perform any on-site work.



**Figure 3.4: Company's portfolio**

Based on Table 3.1 it is evident that the majority of the vendors fall in the class of small companies, while 27.5% of the vendors are classified as medium enterprises, and 10% being large enterprise.



**Figure 3.5: Number of employees**



### 3.4.1 Classification of SMME's

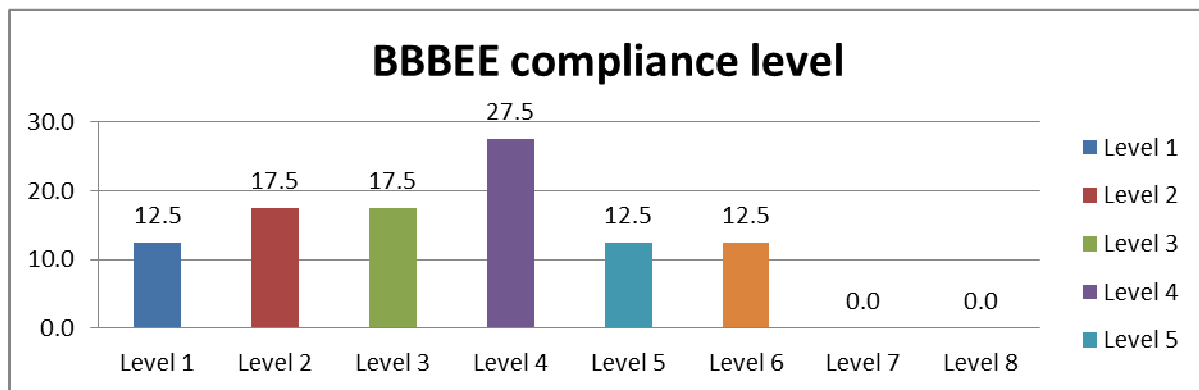
Table 3.1 gives an indication on how companies can be classified, based on the amount of people they employ and the annual turnover of the company.

<b>Category of SMME</b>	<b>Description</b>
<b>Survivalist enterprises</b>	This company normally operates in the informal sector. Survivalist companies have little capital and don't have a lot of assets.
<b>Micro enterprises</b>	1-5 employees Micro enterprises have a turnover less than the VAT registration level of R 300 000 per annum. They have the potential to become small formal businesses.
<b>Very small enterprise</b>	Less than 10 employees Can include independent artisans and experts.
<b>Small enterprise</b>	Less than 100 employees There is a management structure in place and small enterprises are formal and disclosed.
<b>Medium enterprise</b>	Up to 200 employees Mainly managed by the owner. Have all the formal requirements in place and operate from their own premises.

**Table 3. 1: Classification of SMME's, Source: <http://www.dti.gov.za/smme/act.pdf>**

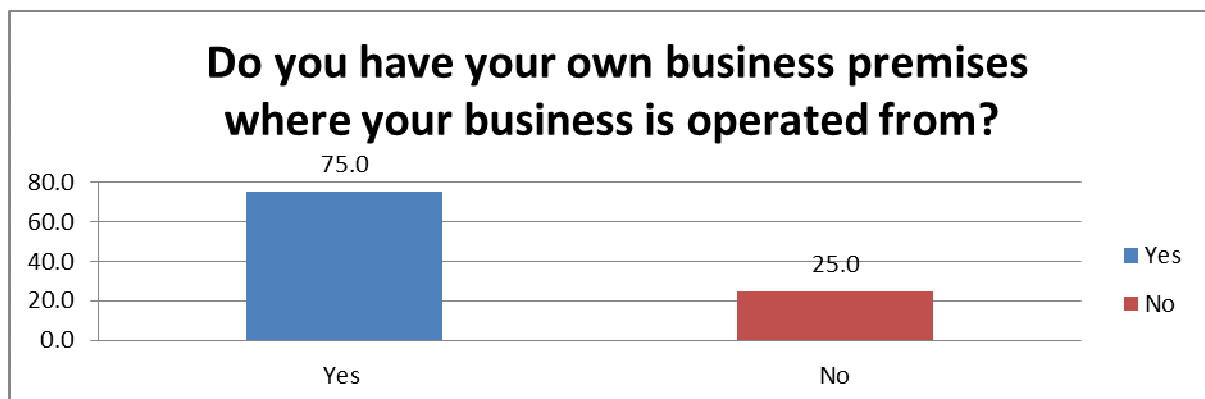
### 3.5 Vendor Compliancy

The 40 vendors that completed the questionnaire were quite evenly distributed between the different compliancy levels, except no level seven and level eight vendors were given questionnaires. Most of the vendors who completed the questionnaire were level four with the reason being that if a company's turnover is less than R10 million per annum, he is exempted from BBBEE and is seen as a level four contributor. Most of the level one contributor's have a black woman owner or is owned by a black person.



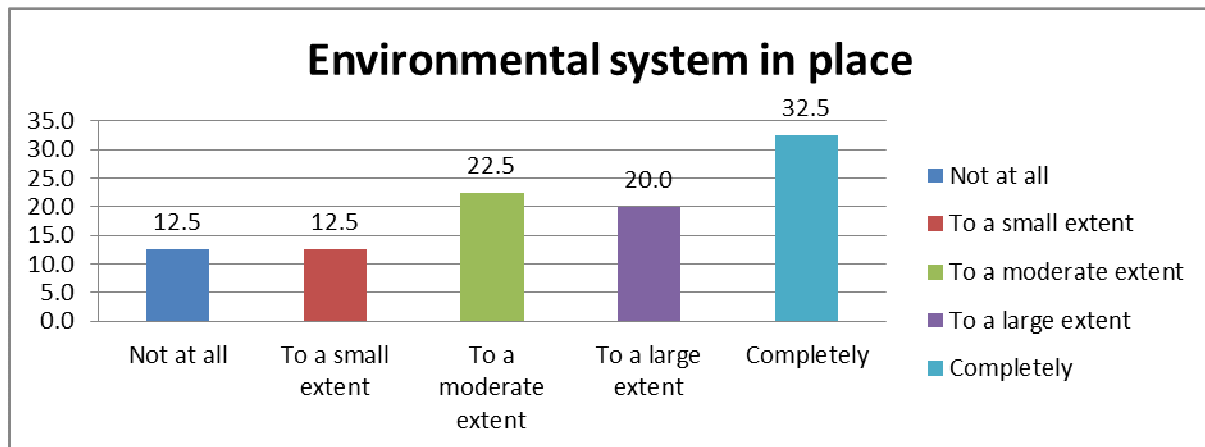
**Figure 3.6: BBBEE compliance level**

The majority (75%) of the 40 respondents have their own premises where they are operating from and 25% of the vendors are operating from a premises that is rented from someone else.



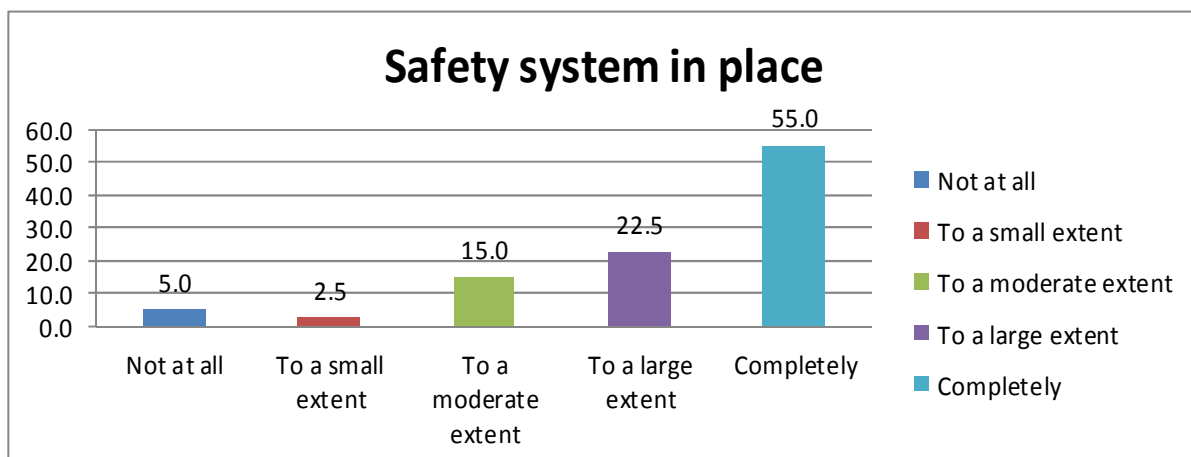
**Figure 3.7: Business premises**

The following system is not a pre-requisite for vendors that supply only, but the system must be in place for vendors that do on-site work. The majority (32.5%) of the vendors have an environmental system in place, while 12.5% of the 40 vendors do not have an environmental system at all. Sixty-five percent must be achieved when an audit is done, thus a system that is of a small (12.5%), moderate (22.5%) or large (20%) extent will not be sufficient for on-site purposes.



**Figure 3.8: Environmental systems**

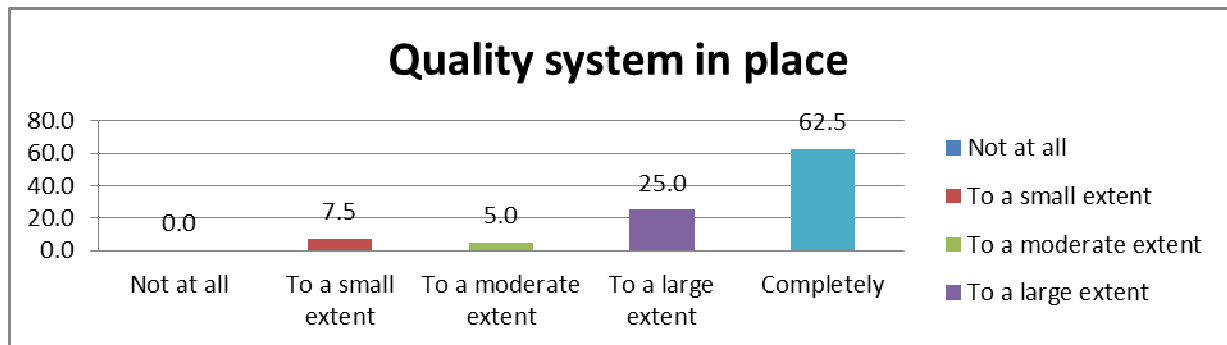
Safety is an important aspect when a vendor is on-site, due to different rules and regulations on different equipment. Safety can also be taken into consideration when a supply vendor is used, but is not a pre-requisite for a supply vendor. Fifty-five per cent of the 40 vendors have a complete safety system in place while 5% don't have any safety system.



**Figure 3.9: Safety System**

In order for a vendor to supply his products to the large manufacturing industry, they must have a quality system in place.

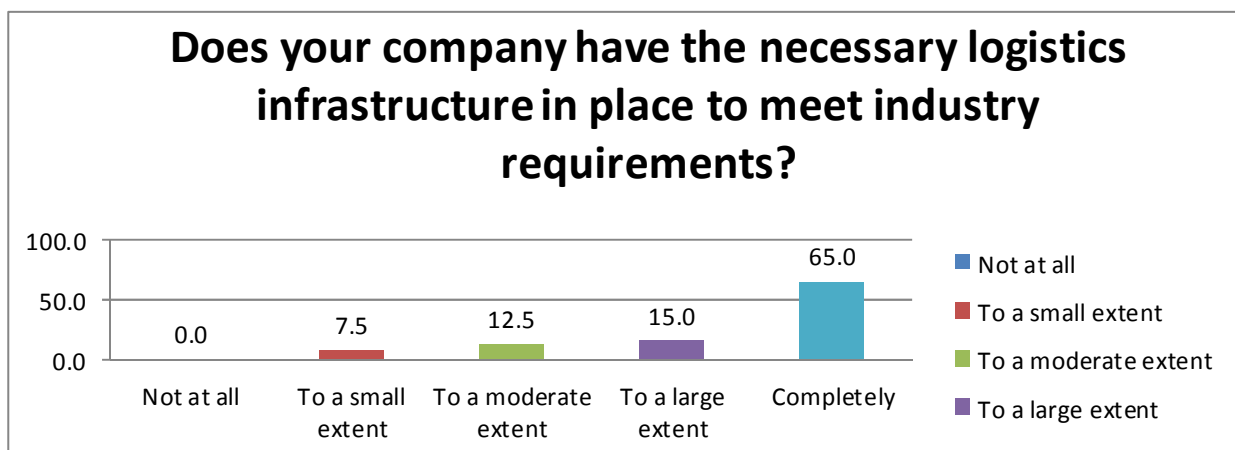
All the vendors have a quality system in place even if it is to a small extent (7.5%).



**Figure 3.10: Quality System**

### 3.6 Vendor competency

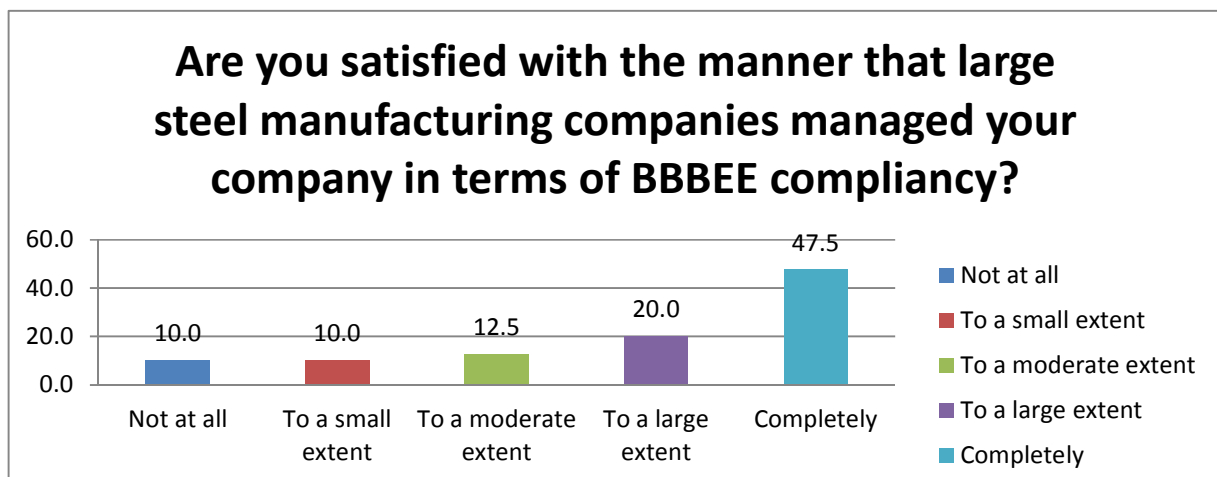
It is important for a vendor to have a well-managed logistics infrastructure in place to ensure products are delivered as required by companies. The majority of the vendors (65%) have a complete infrastructure in place which meets the industry requirements. Out of the 40 respondents 15% have an infrastructure in place that meets the industry requirements to a large extent, while 12% meet the industry requirements to a moderate extent and 7.5% to a small extent.



**Figure3.11: Does your company have the necessary logistics infrastructure in place?**

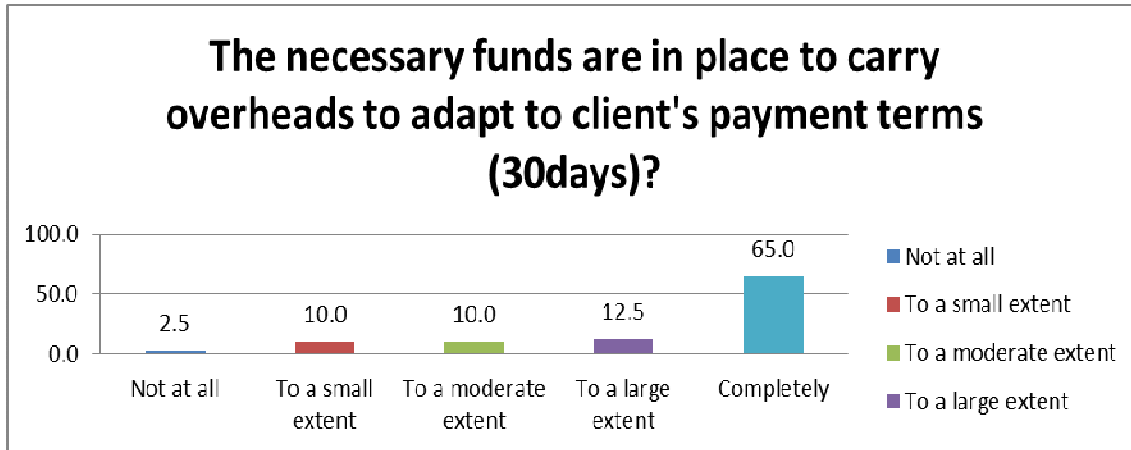
It is important for companies to support and develop their BBBEE vendors to ensure optimal productivity. According to Figure 3.12 it is evident that the BBBEE vendors are satisfied with the service they receive from manufacturing companies.

Only 10% of the 40 vendors feel that they are not satisfied with the manner they are managed. Only 47.5% of the vendors are completely satisfied with the manner they are managed. It is important for companies to build relationships with their vendors to ensure optimal productivity. After a crosstab has been done it is evident that 100% of the BBBEE vendors are satisfied with the manner they are being treated by large steel manufacturing companies, while only 34.5% of the white vendors are completely happy with the manner they are treated. A conclusion can be made that there is a big drive within the industry to develop BBBEE vendors.



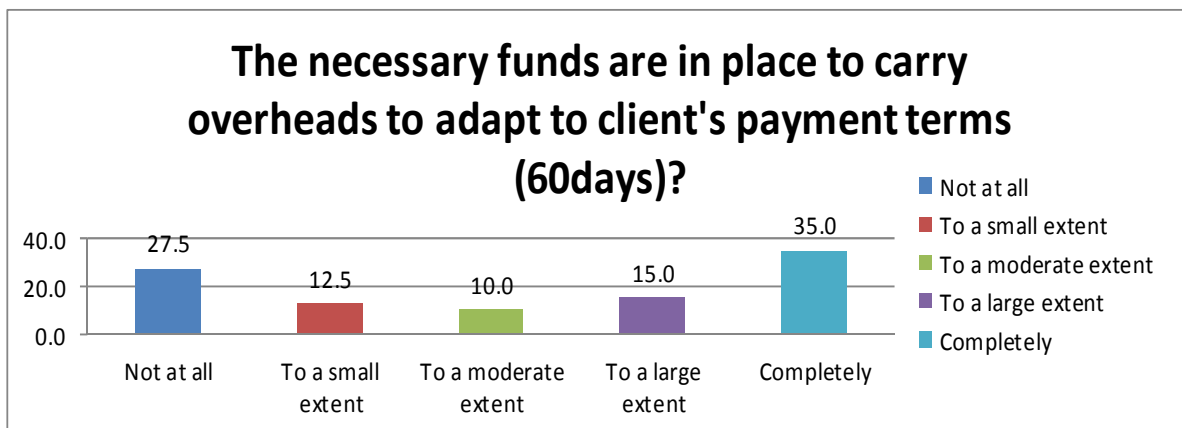
**Figure 3.12: Are you satisfied with the manner that large steel manufacturing companies managed your company in terms of BBBEE compliancy**

The norm for payment within the large steel manufacturing industry is 30 days. Sixty-five per cent of the 40 vendors will be able to carry the overheads for 30 days, irrelevant of the order value. The 2.5% of the vendors that are unable to carry the costs must be developed by companies and advance payment must be an option. New start-up companies will only be able to carry the cost to a small extent or a moderate extent (10%). After a crosstab has been done it is evident that 69% of white owned companies have the necessary funds in place to carry costs for 30 days, while only 55.6% of the black owned companies have the necessary funds in place to carry the costs.



**Figure 3.13: The necessary funds are in place to carry overheads to adapt to client's payment terms (30days)**

Even though 35% of the respondents have the necessary capital to adapt to 60 days' payment, the value of the order will determine if they are able to carry the cost. Twenty-seven per cent of the vendors don't have the capital at all to carry overheads for 60 days before payment. Twelve and a half percent of vendors can carry the cost to a small extent, while 10% can carry the cost to a moderate extent and 15% to a large extent. Once again, all of the above is determined by the value of the order.

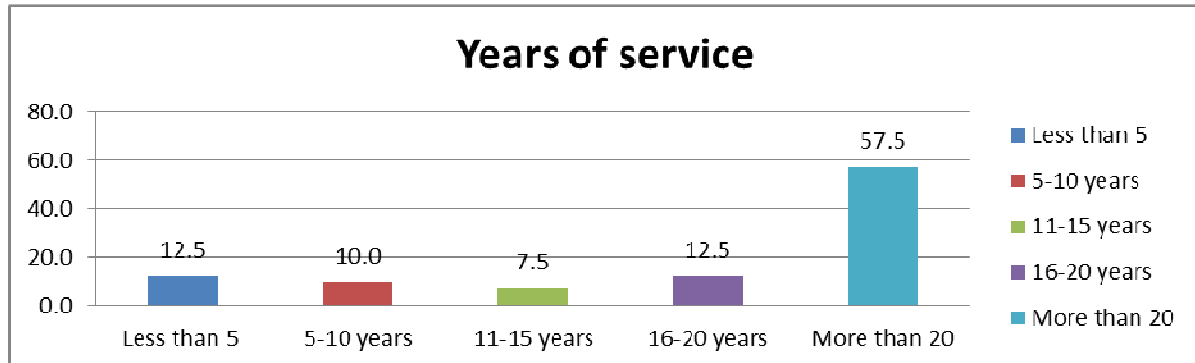


**Figure 3.14: The necessary funds are in place to carry overheads to adapt to client's payment terms (60 days)**

### 3.7 Plant evaluation

Fifty-seven and a half percent of the 40 respondents have more than 20 years of service, and they have been through several changes within the organisation with BBEE being the latest.

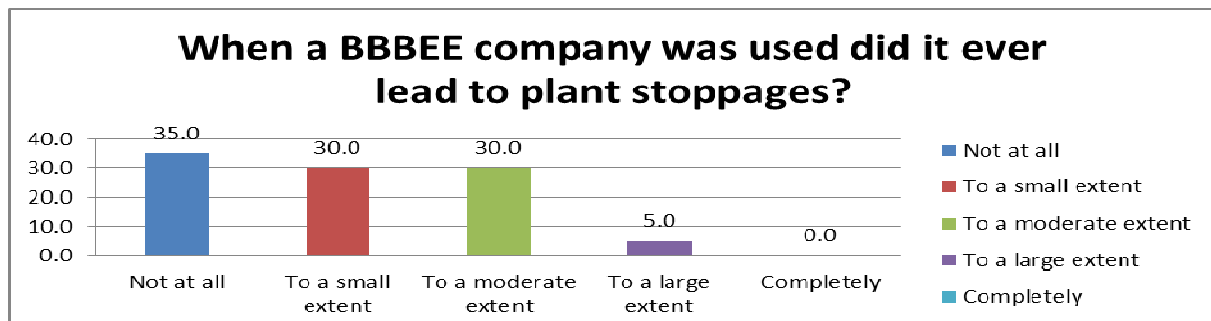
It is very clear that the younger generation is more comfortable with changes, while the older generation struggles to adapt with changes and they see it as a challenge rather than an opportunity.



**Figure 3.15: Years of service**

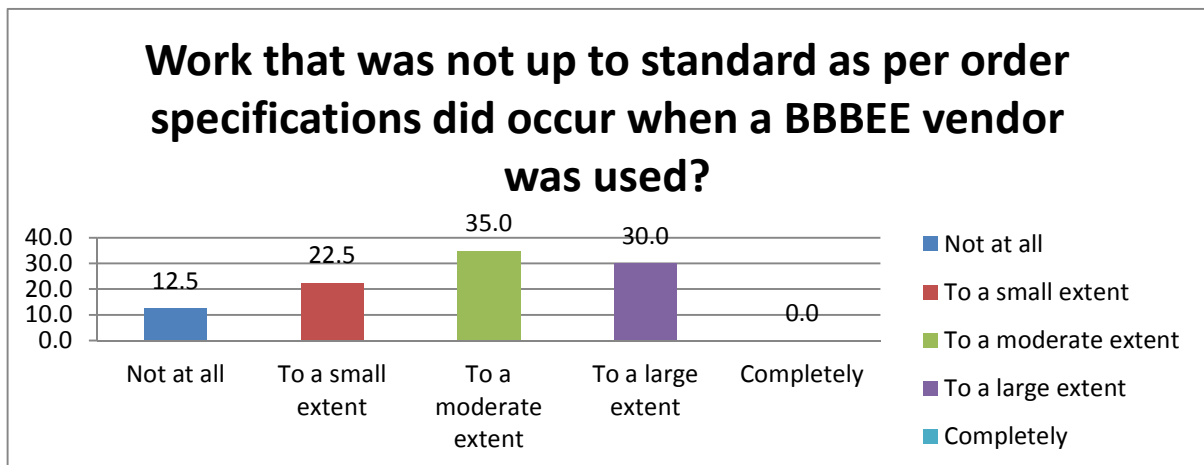
### 3.8 Plant experience

Even though 35% of the plant personnel said that using a BBEE vendor did not lead to a plant stoppage, it might have only been on a specific plant. Sixty-five per cent of the respondents stipulated that there was some form of plant stoppage when a BBEE vendor was used. The below answers differ from plant to plant, that completed the questionnaires. Plant stoppages can cost a plant thousands of rands an hour and the impact of it must be communicated to vendors.



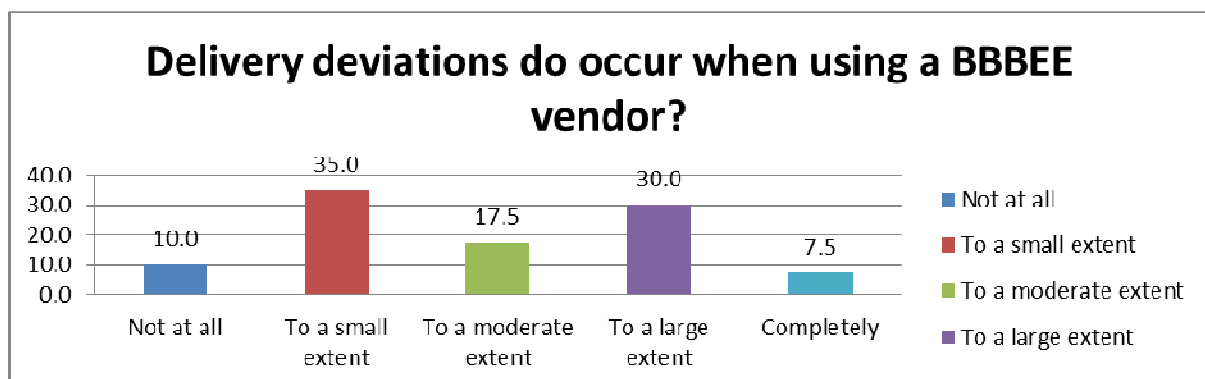
**Figure 3.16: When a BBEE company was used did it ever lead to plant stoppages?**

Only 12.5% of the 40 respondents feel that they never experienced work that was not up to standard from a BBBEE vendor. This is a huge concern for major steel manufacturing companies, as the standard of the product or service has a direct influence on plant stoppages. Eighty-seven and a half percent of the respondents feel that they received products that were not up to standard, even if it was only to a small extent.



**Figure 3.17: Work that was not up to standard as per order specifications did occur when a BBBEE vendor was used**

On-time delivery is a critical component of any operation. If a product is not delivered on time, the whole planning process is being delayed and this will have a direct impact on the lead time of products to consumers. Ninety percent of the 40 plant personnel experienced delivery deviations when they made use of a BBBEE vendor. This is an issue that must receive urgent attention from large steel manufacturing companies as this has a direct influence on the operations of a company.

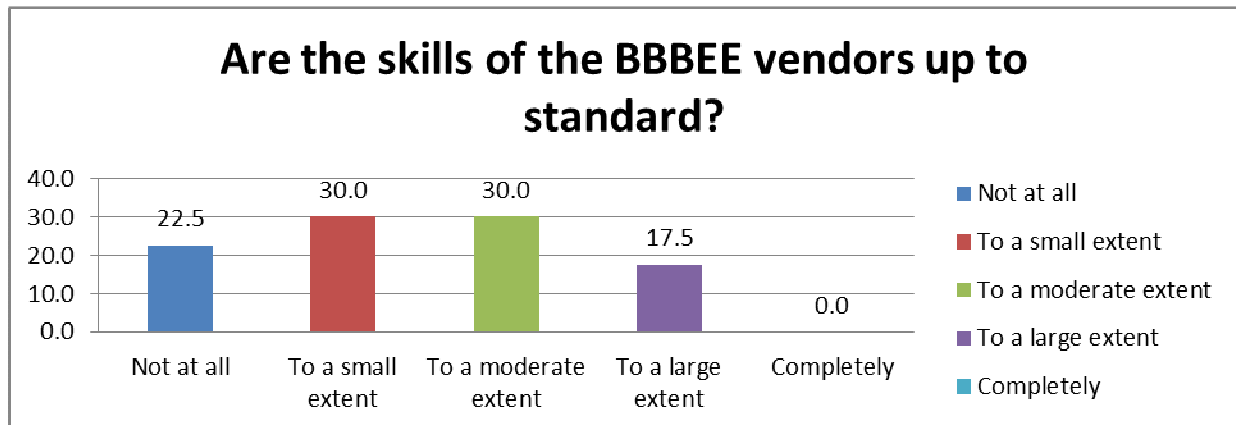


**Figure 3.18: Delivery deviations do occur when using a BBBEE vendor**



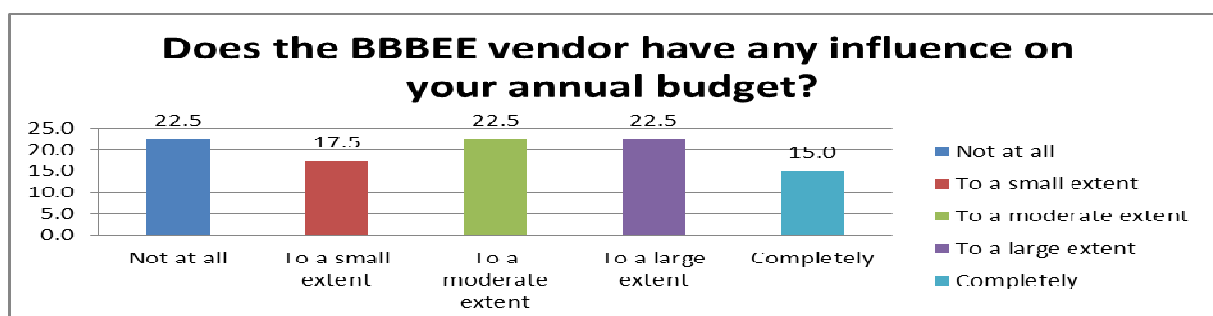
Figure 3.19 gives a clear indication that there is a skill shortage amongst the BBBEE vendors as 0 of the respondents feels that the BBBEE vendor's skills are completely up to standard and 22.5% of the respondents feel that the skills are not up to standard at all.

It is important for the companies to develop their vendors as 30% of the personnel feel that the vendors' skills are up to standard to a small extent and a moderate extent respectively.



**Figure 3.19: Are the skills of the BBBEE vendors up to standard**

It is evident that a BBBEE vendor has some sort of influence on the budget of a plant. Seventy-seven and a half percent of the 40 respondents feel that a BBBEE vendor influences their budget, even if it is to a small extent. When a job is not done correctly, the plant must get another vendor to rectify the problem and this leads to extra costs out of the relevant plant's budget.

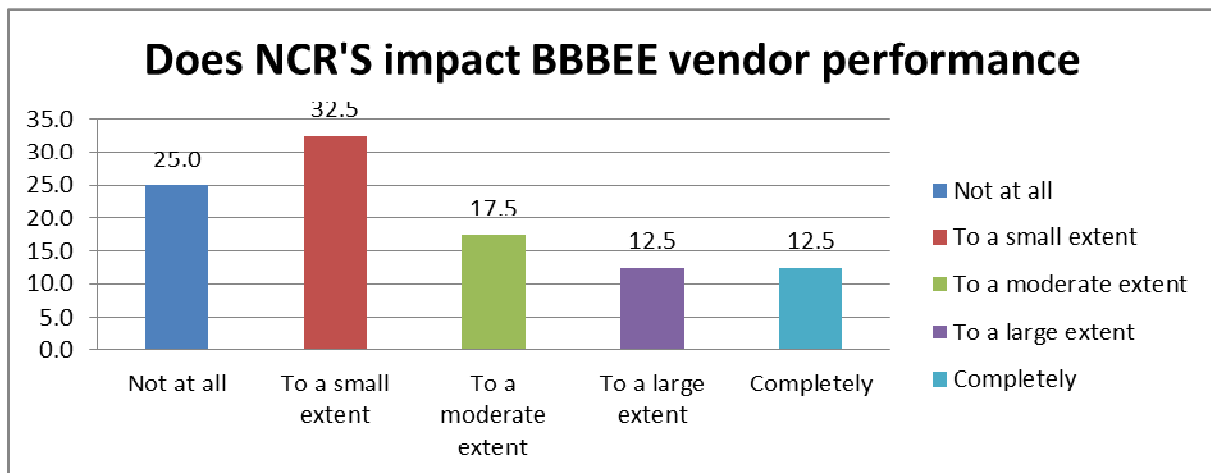


**Figure 3.20: Does the BBBEE vendor have any influence on your annual budget?**

### 3.9 Plant perception

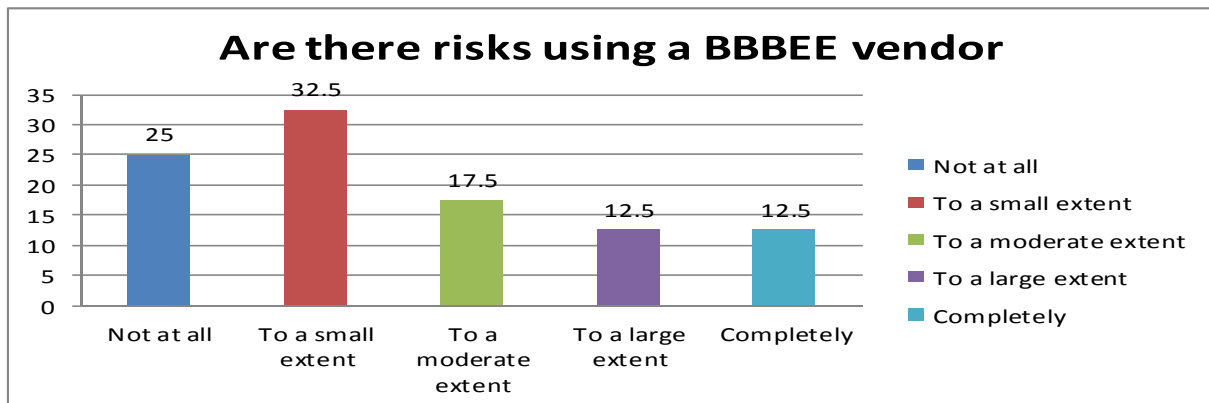
By analysing the below figure, it is evident that the current non-conformance system does not help vendors to increase their performance, as the majority of the feedback lies between “To a small extent” (32.5%) and “Not at all” (25%).

The non-conformance system is supposed to discipline/penalise vendors that do not adhere to company policies. It is clear that a greater emphasis must be put on this system to ensure that vendors adhere to policies set out by the large steel manufacturing companies. This will help companies to increase their quality and on time delivery of goods and services. The respondents feel that the non-conformances are ignored and closed externally against the vendors without the disciplinary actions taken to increase their performance.



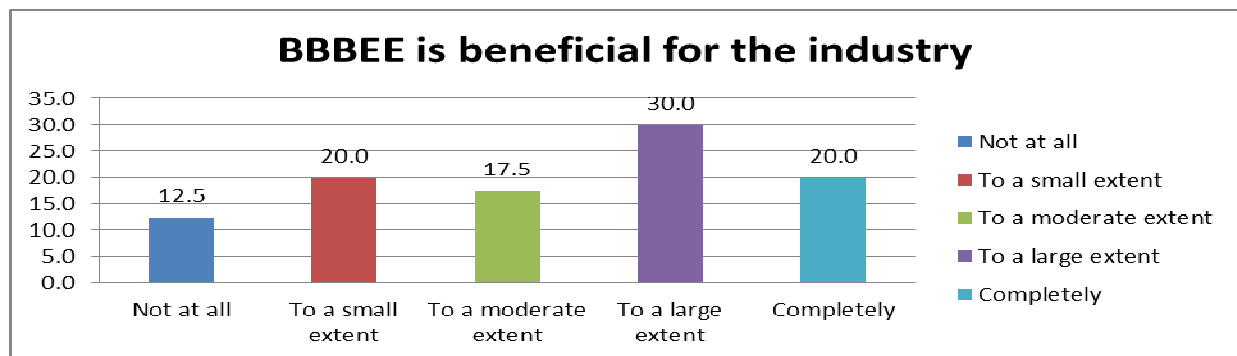
**Figure 3.21: Does NCR'S impact BBEE vendor performance**

Thirty-two and a half percent of the respondents believe there is a small extent of risk using a BBEE vendor, while 25% feel there is no risk using a BBEE vendor. By analysing Figure 3.22, it is evident that the majority of respondents feel there is some sort of risk using a BBEE vendor. This can be due to the perceptions of the respondents or physical evidence experienced on their plants. Some of the risks that might be encountered by plants can be administrative issues, late delivery and poor quality products. These risks must be minimised to ensure optimal plant productivity.



**Figure 3.22: Are there risks using a BBBEE vendor**

The majority of the 40 respondents feel that BBBEE is beneficial for the industry if it is well managed, 25% believe that BBBEE is not beneficial for the industry. When a conclusion is made, it is evident that the majority believe that BBBEE is beneficial for the industry because of government’s rules and regulations. It is necessary to comply with the government’s BBBEE standards in order to get the opportunity to become a preferred supplier for them. Considering the broader picture, it is evident from the respondent’s feedback that BBBEE is being forced onto companies and this leads to incapable people doing the jobs.



**Figure 3.23: BBBEE is beneficial for the industry**

### 3.10 Summary

A quantitative empirical approach was followed in this study. The vendor questionnaire was used to establish how compliant the vendors are and their feelings towards the support provided by large steel manufacturing companies. The plant questionnaire was used to get an insight into the perceptions of the people that work with BBBEE vendors, and also their experiences dealing with BBBEE vendors.

Out of the above analysis it is evident that the plant people feel BBBEE is forced onto companies and it will only be beneficial because of greater tender opportunities within the government. The internal Non-Conformance Report system is being implemented, but not used to its full efficiency to ensure coherence from vendors. The BBBEE vendor's skills are not up to standard and delivery deviations occur when a BBBEE vendor is being used. This is an aspect that will need immediate attention as this has a direct impact on the operations of an organisation. The majority of the plant personnel feel that there is a risk using a BBBEE vendor and that it has a direct influence on their annual budget.

The plants did experience work that was not up to standard and even though thirty-five per cent of the respondents stated that, when a BBBEE vendor was used, it did not lead to plant stoppages, the majority (65%) experienced some form of plant stoppages when a BBBEE vendor was used.

Most of the vendors have a Safety, Health and Environmental system in place. There must be a bigger drive from companies to help BBBEE vendors to become fully compliant to ensure quality products and increase in productivity. BBBEE is quite a new term within the large steel manufacturing industry and it is clear that BBBEE vendors lack the guidance and support needed from large companies.

Only forty-seven and a half percent of the respondents are completely satisfied with the manner in which they are being treated by companies within the steel manufacturing industry.

Even though certain companies can carry the cost for 30 or 60 days, this is an important aspect that is discussed in Chapter four to ensure the development of small BBBEE vendors. Next, recommendations, inventions and possible future plans are discussed, based on the findings in this chapter.

## **CHAPTER FOUR: SUMMARY AND RECOMMENDATIONS**

### **4.1 Introduction**

The focus of this study was to determine the vendor and supplier evaluation and assessment practice for the steel industry and the effect it has on operations. Therefore, the main objective of this study is to determine if non-compliant vendors have an influence on the operations of the steel industry and if the necessary measures are in place to assist vendors in becoming compliant.

This chapter gives current and potential BBBEE vendors an indication of how to become compliant and the support provided by large steel manufacturing industries to BBBEE vendors to play an integral part in the economy and its development. Funding is a major issue within the start-up of SMEs and therefore emphasis is put on the funding of such BBBEE vendors.

The following chapter focuses on the findings that were generated from the questionnaire in the previous chapter. The main evident issues that were encountered within the large steel industry were under developed BBBEE vendors and the internal non-conformance system that is not up to standard.

### **4.2 Objectives of this study**

The focus of this study is to determine if non-compliant vendors have an influence on the operations of the steel industry and if the necessary measures are in place to assist vendors in becoming compliant. The main objective of this research is further to determine which vendors are performing within acceptable standards and which ones are not and the influence it has on the profitability of a large steel manufacturing company. Once those vendors are identified different reports can be used to analyse their individual details.

### **4.3 Findings**

Out of the research done, the assumption can be made that the BBBEE vendor's skills are not up to standard as per industry requirements and there is a certain amount of risk involved when a BBBEE vendor is used.

There is a strong perception from the plant's side that BBBEE is forced on organisations by the government and the industry does not benefit from it at all. The internal non-conformance system is being neglected and is not used as a measure to improve vendor efficiency. Another finding that needs urgent attention across the industry is the perception from the vendors that they do not receive the necessary support to help them develop and become preferred suppliers. The vendors do not keep to the delivery schedule, with 90% plant personnel that have done experience delivery deviations on their plants. This will have a direct influence on the amount of plant stoppages that occur. The BBBEE vendors can only carry orders up till a certain amount and funds need to be available to help the BBBEE vendors carry the costs for large projects. Overall, BBBEE is still a new concept that needs a lot of development within the large steel industry and companies need to adhere to government rules and regulations to develop their BBBEE vendors to an acceptable standard.

#### **4.4 Recommendations**

##### **4.4.1 Recommendation 1: Business incubation**

Business incubators are establishments that aim to speed up the expansion and success of businesses that are in the start-up phase or in the early stages of operations. Incubators are often a good route to capital from investors, public governments and economic-development alliances (DTI, 2007).

Companies within the large steel manufacturing industry that have the necessary funds must develop their own incubation facility where all the different incubation support services are provided from. BBBEE vendors must be invited to attend the services on a monthly basis or for a fixed period. This facility must include all the different departments that are necessary for doing business, e.g. Human Resources, Accounts payable, Operations and Administration.

BBBEE vendors must be coached and developed to ensure they know exactly what is expected of them before doing any business with large steel manufacturing companies.

BBBEE companies that do not have the necessary funds to carry costs for 30 or 60 days must be supported with advance payments or immediate payments. This will ensure that the products are delivered on time. Both the BBBEE vendor and the company will benefit from this arrangement, as the vendor will pay back the money at a certain cost with interest over a certain period.

#### **4.4.2 Companies can qualify for the following incubation costs**

Large steel manufacturing companies can offer the following incubation support costs to vendors within the industry:

- Business improvement services (e.g. business counselling services, training and mentoring, acceleration of funding, assembly efficiency and improvement, quality and standards procurement)
- Access to markets
- Machinery, equipment and tools
- Infrastructure related to incubators (buildings, furniture)
- Achievability studies for launching and growing incubators
- Development of products or services
- Information and Communication Technology (ICT)
- Operating costs

#### **4.4.3 Offering of incubation services**

Large steel manufacturing companies can offer three types of incubation services to small and medium enterprises:

1. the development of business services - the aim is to support the business systems and calculated direction of small and medium enterprises;
2. physical space, joint office facilities and the necessary resources that are required to conduct main business undertakings; and
3. provision of funding that is required for the investment in development.

The support provided by incubators is important for the economic growth of small and medium enterprises.

Most of the small and medium enterprises are likely to fail within their first five years of doing business. The main reasons for such failures are poor business strategy and a lack of the necessary funds.

Many small and medium enterprises are unable to get early financing due to not meeting the necessary funding requirements or they are not aware of funding sources.

Many small and medium enterprises struggle to develop business policies and structures that allow them to enter markets and grow their revenues (DTI Handbook, 2007).

#### **4.5 Recommendation 2: Development for BBBEE success**

Companies within the large steel manufacturing industry must make funds available to develop their BBBEE vendors. Vendors must be developed to ensure a well informed and developed vendor base. A well-developed vendor base will ensure smooth operations without non-conformances and a lack of quality products. BBBEE vendors must be well informed of the complications of non-conforming vendors, e.g. plant stoppages and vendors not delivering on time. The BBBEE vendors must be invited to CIPS courses, for internal employees to attend. This will give the vendors a broader perspective of what is happening within the organization.

According to Rowe (2013) a company must, from a Human Resource viewpoint, double their personal development budgets from 3% to 6% of their net income after tax. A company's training budget must be strongly focused on learnership development and internships for unemployed black people and current black employees. A company must ensure that they are able to measure the extent to which they absorb previously disadvantaged people within the industry.

Enterprise and Supplier Development (ESD) is a new addition to the current BBBEE scorecard that combines Preferential Procurement and Enterprise Development aspects with one and another. ESD is responsible for 40% of a vendor's BBBEE score.



To ensure the BBBEE vendor's skills are up to date, companies within the large steel manufacturing industry can develop vendors by utilising their own internal training school to evaluate the skills of the vendors before awarding them with a vendor number. This process will ensure that the vendors on the database are capable of handling difficult jobs assigned to them.

For example, if a millwright is required for a job that needs to be done on-site, the company will be ensured that the millwright does comply with the necessary requirements for doing the job.

It is important for companies to take initiative and make ESD a strategic necessity (Rowe, 2013). According to Rowe (2013) the term "Empowering Suppliers" will form part of all future BBBEE developments. These suppliers are normally local, have a workforce of more than 50% black employees, and 25% of their inputs are transformed locally. Rowe (2013) believes that 12 days a year must be allocated to a supplier to help him develop and grow. Companies can earn a compliancy score of 22% by only supporting companies that are small black-owned companies.

#### **4.6 Recommendation 3: Implementation of the National Skills Development Strategy**

The large steel manufacturing industry must develop the skills of BBBEE vendors to ensure they are capable of more complicated tasks. Most of the BBBEE vendors deliver a basic service, like the supply of a product. BBBEE vendor's skills must be developed so that they can deliver more specialised products like engineering or laser cutting etc. The more complicated the tasks are, the quicker the BBBEE vendor will develop, due to higher costs involved in specialised services. This will ensure economic growth and reducing of unemployment. Workshops must be held where BBBEE vendors can be subjected to training on the different tasks that are expected of them. This will ensure that the BBBEE vendor's skills will be developed to perform complex tasks within the plants. The uplifting of skills will be beneficial for companies within the large steel industry as they will benefit from a more productive workforce and skilled personnel that adapt to constant changes within the technological environment.

According to Coetzee (2007) uplifting of skills is the enhancement of employees' competencies within their jobs.

Such competencies include awareness, abilities and attitudes. The employees' competencies can be improved through formal education, training of skills and constant development. Having a skilled workforce is the most important aspect for competing globally.

**4.6.1 Vision, Mission and principles of National Skills Development Strategy (2005-2010)**

Vision	Developing skills for sustainable growth and equity.
Mission	The NSDS contributes to viable growth of skills and equity by lining up their work and resources to the skills needed for active implementation and delivery.
Strategic Indicator	The contribution of the National Skills Development Act is being assessed by the government and its social partners to ensure they comply with the agreed strategies for development and impartiality.
Principles	<p>Funding economic growth by creating jobs and poverty extermination.</p> <p>Ensure a productive workforce by aligning national strategies with the development of skills to achieve growth.</p> <p>Quicken BBBEE and employment impartiality.</p> <p>Persons that have disabilities should be quartered to give them access to basic development of skills.</p> <p>Support, observe and calculate the necessary systems for the implementation of NSDS.</p> <p>Enhance the culture of superiority in developing of skills and constant learning.</p>

**Table 4. 1: Vision, Mission and principles of National Skills Development Strategy (2005-2010), Source: Practising Education, Training and Development in South-African Organisations (2007).**

#### **4.7 Recommendation 4: Relationship with suppliers (Vendors)**

With only 47.5% of the respondents being completely satisfied with the manner they are treated by large steel manufacturing companies, it is evident that the companies do not have an open relationship with their BBBEE vendors. Companies within the industry must follow an open approach with their vendors and quarterly meetings must be held with their vendors to ensure that all issues are being resolved. BBBEE vendors must get preference within the procurement and contract process.

When requests for quotations are sent out, the buyer or contract specialist must ensure to include level one BBBEE vendors in the tender process. There will be a greater benefit for the company if they can increase their expenditure on BBBEE vendors.

There must also be a search platform where the relevant procurement personnel can search for a potential BBBEE vendor. Should the vendor be successful with the tender process, the buyer/ specialist must have the necessary authority to request vendor management to create the vendor on the database to ensure he will be included in future tender processes.

#### **4.8 Recommendation 5: Non-Conformance Management**

For companies to achieve a zero non-conformance vendor base, there must be a well-managed development structure within the organisation. The procurement personnel that are responsible for the non-conforming vendor must ensure the non-conformance is resolved within a reasonable time with both parties benefiting from the process.

Vendors must be given enough time to respond to the non-conformance and a detailed report must be in place to ensure that the problem is rectified without any relationships being broken. Even though the system is in place, it is not utilized to the benefit of the vendor or the company. The non-conformance system is not necessarily in place to punish a vendor, but instead to guide them on the correct procedures. Meetings must be held by procurement personnel with their relevant suppliers to be informed on the issues they face on a weekly/monthly basis.

The vendor is not always at fault. Therefore the system must be utilized in a fair and respectful manner.

An industrial non-conformance is an unforeseen incident that arises in the process of manufacturing, that differs from a set of standards or requirements set by the industry. A non-conformance system enables the identification of a certain deviation within a quality incident. A complete analysis will be done on the failure, the cause of the failure and proposed rectification of the quality failure.

Detailed reports and findings will be part of the investigation in case of non-conformance by a vendor (Siemens, 2015). According to Siemens (2015) the following are benefits of non-conformance management:

1. Focus on a certain event or failure prevention
2. Efficient compliancy
3. Reduced rates of quality
4. Decrease in governing and merchandise risk

#### ***4.8.1 Correct procedure to be followed when a Non- Conformance is being registered against a vendor:***

The notification (non-conformance) creator must ensure that he/she selects the correct notification type to ensure that the correct input screen is displayed for him/her to populate.

It is important that a purchase order is specified (PO) and that all the mandatory fields are maintained before one can proceed to the next tab views of the notification. The system will automatically populate the relevant PO data on one's notification.

The notification creator must then assign a coordinator on the notification. This can be himself or another agent within the plant whose responsibility would be to oversee a proper resolution of the vendor's transgressions. The coordinator will receive the notification in his/her inbox and then assign a task. A Vendor Management (VM) specialist or inspector whose responsibility would be to negotiate and reach an agreement with the vendor, in relation to the non-conformance performed.

The notification will, at this stage, flow to the VM Specialist or Inspector (via his/her inbox). He/she will be in direct communication with the vendor with whom he/she will reach an agreement on how to resolve the non-conformance. The task must then be released and completed in order for it to flow back to the notification creator.

A vendor non-conformance (notification) will be created with all the necessary data, for the vendor management specialist/inspector to act and resolve it with the vendor.

The workflow could assist in realising a more effective means of communication and the assignment of resources (agents) responsible for the resolution of the vendor non-conformances. These can then be monitored through certain reports, aimed at tracking the statuses of these notifications. The corrective measures must be implemented to ensure the failure is being rectified. A formal disciplinary hearing can be held between the company and the vendor. This can lead to a block of the vendor number or penalty charges to the vendor, which will be used to rectify the failure. The vendor Specialist will then assess the resolutions, determine if the transgression was on the side of ArcelorMittal South Africa or the vendor's, and concludes the notification accordingly.

The amount of non-conformances against a certain vendor must also be taken into consideration when a contract is being rewarded (ArcelorMittal. Standard Working Procedure: non-conformance management. Unpublished, 2014:3)

#### **4.9 Recommendation 6: On-site shops/storage**

Another recommendation for companies to consider is the rewarding of on-site shops to BBBEE vendors whose expenditure exceeds a certain amount. Such on-site shops will eliminate all logistics obstacles and on-time delivery will improve due to the stock that is kept on the premises. There will be no waiting periods and when a product is required, it can be obtained instantly. The plant can use their own logistics to pick up the product needed.

#### **4.10 Further Research**

Further research can be done on the following aspects:

- Efficiency of incubation services
- Perceptions of personnel on BBBEE
- If BBBEE is implemented in a rational way within large companies

#### **4.11 Conclusion**

After analysing the questionnaires in Chapter three, it is evident that development of BBBEE is needed to ensure optimal productivity of vendors within the large steel manufacturing industry. A business incubation strategy must be implemented to ensure the BBBEE vendors are being developed/managed to eliminate administration, production and financial issues that the current vendors face within the large steel manufacturing industry. The Internal non-conformance system is also not used to the benefit of companies within the industry. Non-conformances are being registered against vendors without the necessary corrective actions being implemented before the non-conformance is closed.

When the companies make use of business incubators, it will ensure that their vendors are competent in all aspects of operations and that the quality of products and services will increase.

Unnecessary admin confusions will be eliminated and optimal productivity will be achieved. The above recommendations will help start-up BBBEE vendors to comply with the requirements within the large steel manufacturing industries and BBBEE vendors that are in their early stages of operations will benefit by the guidance to become preferred BBBEE vendors. Out of the findings in Chapter three it is also evident that change management must be implemented within the plants of large steel manufacturing industries, as the majority of the respondents feel that BBBEE is only beneficial because it is enforced by the government and grants offered by government to comply with BBBEE requirements. The image of the company will be uplifted when complying with government BBBEE regulations.

This will ensure that the company becomes a preferred organisation when government tenders are being awarded.

By implementing the above recommendations, the large steel manufacturing industry will benefit in the following ways:

1. Compliant vendors
2. Quality products and services
3. Financial stable vendors
4. On Time delivery
5. Reduced prices due to competition
6. Compliancy to government rules & regulations
7. Long term business relationships
8. Skilled workforce

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# ANNEXURE A

## Valid BBEE certificate



### MEASURED ENTERPRISE

Company Name	ArcelorMittal South Africa Limited
Trade Name	ArcelorMittal South Africa Limited
Location	Delfos blvb, Vanderbijlpark
Registration Number	1989/00216406
VAT Number	4920114990
Certificate Number	GEN 11215 REV1

### B-BBEE SCORE PER ELEMENT

Equity Ownership	0.00
Management & Control	8.93
Employment Equity	0.00
Skills Development	12.00
Preferential Procurement	16.94
Enterprise Development	0.00
Socio Economic Development	5.00

### B-BBEE STATUS

B-BBEE Recognition Level	50 %
B-BBEE Status	Level 7 Contributor
Black Ownership	0.00 %
Black Female Ownership	0.00 %
Value Added Supplier	No
Enterprise Development Beneficiary	No
Beneficiary Category	N/A
Applicable Scorecard	Generic Scorecard
Applicable BEE Code	Gazette Codes 29617
Verification Date	03-December-2012
Expiry Date	02-December-2013

Ebrahim Mohamed  
Verification Manager



NERA is a SANAS Accredited Verification Agency. NERA has assessed and verified the relevant B-BBEE Elements of the above mentioned enterprise, to provide an independent and impartial opinion on the B-BBEE status of the enterprise, based on the Broad-Based BEE Codes of Good Practice (Codes 000-800).

www.nerasa.co.za  
National Empowerment Rating Agency (Pty) Ltd Reg. 2005/041665/07

## ANNEXURE B

### Vendor Compliancy questionnaire (Vendor)

#### Declaration:

I am a final year MBA student at the North-West University and appreciate your willingness to complete this questionnaire. The aim of this questionnaire is to determine the influence BBBEE as a policy has on the operations of large steel manufacturing companies. All your answers in this questionnaire will be treated as confidential. Your anonymity will be guaranteed and your participation is voluntary.

#### Biographic Data

1. Gender

M	F
---	---

2. Race

White	Black	Indian	Coloured	Other
-------	-------	--------	----------	-------

3. Language

English	Afrikaans	Sotho	Zulu	Other
---------	-----------	-------	------	-------

4. Company's portfolio (On- Site, Supply vendor)

--

5. Scope of supply

--

6. How many workers do you employ?

Less than 5	1-10	11-50	51-200	More than 200

**SECTION 1: VENDOR COMPLIANCY**

7. What is your current BBBEE compliance level?

1	2	3	4	5	6	7	8

8. % Black woman owned

.....

9. % Black owned

.....

10. Company Turnover

Less than R5m	R 5m- R 10m	R 10 Mil – 15 Mil	More than R 15m

NO.	Statement	Yes	No
11.	Do you have your own business premises where your business is operated from?		
12.	Is your company in a partnership with another company?		
13.	You are insured for public liability		

Please read through the following statements and provide me with the answer that you consider to be a fair reflection of your company.

NO.	Statements	Not at all	To a small extent	To a moderate extent	To a large extent	Completely
14.	You have an environmental system in place?					
15.	You have a safety system in place?					
16.	You have a quality system in place?					
17.	To what extent is your concern on BBBEE compliancy?					

18. You are registered with the Department of labour?

Yes	
In process to be registered	
Registration lapsed/ cancelled?	
No	

Not at all	To a small extent	To a moderate extent	To a large extent	Completely

19. Have you ever been non-compliant?

How did you resolve it?



.....

**SECTION 2: VENDOR COMPETENCY**

**Please read through the following statements and provide me with the answer that you consider to be a fair reflection of your company.**

NO.	Statements	Not at all	To a small extent	To a moderate extent	To a large extent	Completely
20.	Is your BBBEE documentation up to date with the steel manufacturing industry standards?					
21.	Does your company have the necessary Logistics infrastructure in place to meet industry requirements?					

NO.	Statements	Not at all	To a small extent	To a moderate extent	To a large extent	Completely
22.	Are you satisfied with the manner that large steel manufacturing companies managed your company in terms of BBBEE compliancy					
23.	The necessary funds are in place to carry overheads to adapt to client's payment terms (30days)?					
24.	The necessary funds are in place to carry overheads to adapt to client's payment terms (60days)?					

25.	Are you dependent on advance payments before acceptance of an order?					
26.	Do you have audited financial statements for the last financial year?					
27.	When my company experience problems with BBBEE or SHEQ compliancy I feel free to contact the company I am doing business with since they are able to assist					

## ANNEXURE C

### Vendor Compliancy questionnaire (Plant)

#### Declaration

I am a final year MBA student at the North-West University. The aim of this questionnaire is to determine the influence BBBEE have on the operations of large steel manufacturing companies. All answers in this questionnaire will be confidential. Your anonymity will be guaranteed and your participation is voluntary.

Your contribution will be appreciated.

#### Biographic Data

1. Gender

M	F
---	---

2. Race

White	Black	Indian	Coloured	Other
-------	-------	--------	----------	-------

3. Language

English	Afrikaans	Sotho	Zulu	Other
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4. Job Title

5. Years of service

Less than 5	5-10	11-15	16-20	More than 20
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## SECTION 1: PLANT EXPERIENCE

Please read through the following statements and provide me with the answer that you consider to be a fair reflection of your company.

NO.	Statements	Not at all	To a small extent	To a moderate extent	To a large extent	Completely
6.	When a BBEE company was used did it ever lead to plant stoppages?					
7.	Work that was not up to standard as per order specifications did occur when a BBEE vendor was used?					
8.	Delivery deviations do occur when using a BBEE vendor?					
9.	Do the BBEE vendors stick to your planning requirements?					
10.	Are the skills of the BBEE vendors up to standard?					
11.	Were any problems with the administration functions of the BBEE vendors encountered?					
12.	Do the BBEE vendors on your plant have the necessary logistic infrastructure to meet your requirements?					

13.	Is communication a constraint when dealing with a BBBEE vendor?					
14.	Does the BBBEE vendor have any influence on your annual budget?					

**SECTION 2: PLANT PERCEPTION**

**Please read through the following statements and provide me with the answer that you consider to be a fair reflection of your company.**

15. Does the internal Non-conformance system have an impact on the improvement of BBBEE vendor’s performance?

Not at all	To a small extent	To a moderate extent	To a large extent	Completely

Please specify:

.....

16. Are there any risks using a BBBEE vendor?

Not at all	To a small extent	To a moderate extent	To a large extent	Completely

17. BBBEE is beneficial for the industry?

Not at all	To a small extent	To a moderate extent	To a large extent	Completely

Please provide reason for answer:.....

**ANNEXURE D**



To Whom it may concern,

I am currently doing my Masters in Business Administration at the North-West University. Part of my course entails the writing of a thesis that could possibly be published.

I would hereby like to request approval to make use of ArcelorMittal information in the writing of this thesis.

Topic: World class vendor evaluation and assessment of current and prospective vendors within ArcelorMittal South-Africa.

How Information will be obtained: Information will be obtained from the Vendor Management department, this includes SOP'S, communication to vendors, meetings held at Vendor Management and also questionnaires to vendors.

Your approval would be highly appreciated.

Kind Regards

Danie Janse van Rensburg

(Original signed by)

Alex Slater

Group Manager

Procurement & Logistics

(Original signed by)

Willem Nel

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