ICSB 2015

FINAL SUBMISSION

Integrating women into the rail engineering industry – a pragmatic South African approach

BACKGROUND

The Passenger Rail Agency of South Africa (PRASA) is a state owned enterprise responsible for most passenger rail services in the country. It was formed in 1990 as the South African Rail Commuter Services. In 2011 it announced a rail recapitalisation and modernisation plan worth R97 billion. As part of this recapitalisation programme PASA seeks to implement its women in rail programme as part of its enterprise development strategy.

PRASA recognised that currently there are very few women owned enterprises in the passenger rail industry. Thus, although a set aside for procurement has been made for women owned entities, without an intervention there may be no takers for this set-aside. For this reason Prasa created a specific focus on Women in Rail (WiR) with the objective of creating WiR entities which will eventually be transformed to become rail industrialists

Out of a total of over 2000 entitities that submitted their profiles, PRASA identified 540 small and medium enterprises and women industrialists within and/or for the PRASA enterprise development programme. These must be developed and strengthened to provide goods and services to PRASA standards of competency and excellence. They will service the entirety of the PRASA value chain. The following areas have been identified as the core areas in which they must participate:

- Rail engineering and technology;
- Property and construction;
- Information and communication technology; and
- Professional services (e.g. legal, quantity surveying, technology etc)

The project objectives are:

- To develop and support small and medium enterprises and women industrialists within the Prasa supply chain
- To nurture women –owned businesses identified by Prasa and maximise the productivity of these enterprises

- To stimulate economic growth and job creation
- To develop technical skills and, in the process, focus acquisition of scarce and critical skills by young women, and
- To enhance and sustain commuter rail knowledge through research and development and to position women businesses in the sector among the best in the world.

OBJECTIVES OF THE PAPER

The purpose of this paper is to share the experiences of the first phase of this case study with other countries and to get feedback and suggestions on the project design and implementation.

METHODOLOGY

An initial classification by PRASA grouped entities into greenfields, brownfields and mature enterprises. Greenfields are businesses which have been in business for 0-2 years, brownfields are businesses that have been in business between 2 and 5 years and mature enterprises that have been in business for more than 5 years. (Mtiya, 2014).

These enterprises were then subjected to assessment. The Assessment Approach entailed a detailed analysis of each entity focusing on the following key areas:

Business processes gap analysis

The business processes gap analysis is based on the application of various diagnostic tools that enables one to identify the problem and situation of the Women in Rail entities as they relate to issues such as: funding structure, financial management, performance management and need for incubation, amongst others.

Technical gap analysis (for Entities in Building/Construction and Rail Engineering Sectors);

Technical gap analysis relates to experience in the sector; industry certification; availability of technical personnel and adherence to industry standards, amongst others.

Compliance gap analysis

The compliance gap analysis relate to an understanding of the legislative framework which includes issues such as tax compliance, Coida, governance, contractual arrangements and compliance with sector specific legislation, amongst others.

Skills gap analysis

The skills gap analysis relates to qualifications and experience of the entrepreneur and staff, management and leadership qualities, customer care, hard and soft skills and technical skills amongst others.

The assessment approach provided recommendations on capacitating the entities so that they deliver quality services to PRASA and other potential clients; and also to grow them into sizeable entities as tomorrow's industrial giants.

FINDINGS

General findings

Any Supplier (Enterprise) Data Assessment Approach is designed to firstly highlight the strengths and weaknesses of each business; secondly, to propose interventions to deal with the gaps; and thirdly, to prepare entities to provide quality service. This is what this assessment has achieved and, worryingly, some of the entities are not active in business. They saw the PRASA Women in Rail project as an opportunity to get into business. This aspect is highlighted as it not only justifies the project, but means that interventions will need to be robust. On the other hand, the findings suggest that they will solely be dependent on PRASA. This means that PRASA's efforts to create a self-sustaining ecosystem within PRASA and also establish a relationship between the Steel, Engineering Industries Federation of SA (SEIFSA) will go a long way in getting these entities to be viable as this opens new areas of business and relationship.

An assessment of 378 Gauteng based entities revealed that:

Tier 1

Half of the respondents (50%) (132) of the respondents are not able to perform to the requirements of the grade. Of this 50%, there is a 10% (13) that needs minimal intervention and the other 40% (119) would need a comprehensive enterprise development plan to meet the grade requirements (Mtiya, 2014a0.

Tier 2

Forty-five per cent (45%) (52) of the respondents are not able to perform to the requirements of the grade. Of this 45%, there is a 30% (16) that needs minimal intervention and the other 15% (36) would need a comprehensive enterprise development plan to meet the grade requirements.

The detailed individual company assessment reports provide recommendations on what needs to be done in order to capacitate the entities so that they can be in a position to effectively deliver goods and services to PRASA and other potential clients (Mtiya, 2014a).

Tier 3

The assessment of the Tier 3 companies revealed the following:

Poor financial management

In addition to the long financial cycle that SMMEs must endure, they themselves are very weak financially. Many business owners do not use financial indicators for decision making. The accounting is done by bookkeepers to meet tax requirements, but they lack the financial management skills. Low profitability, weak financial position, and high leverage levels are common weaknesses in the SMMEs that were evaluated.

The example below demonstrates the complete lack of understanding of the financial statement and the limited use of financial indicators to drive the company to being profitable and a generator of wealth (Mtiya, 2014b)

Poor organisational management

Operational efficiency depends on a clear definition of roles, responsibilities, spans of control and job profile. We found businesses that depend on the abilities that workers brought with them and do not train or develop their employees' skills. It was rare to find a company that had a medium and long term training and development plan.

Regulatory understanding.

The WIR programme has raised expectations and there is therefore a need to clearly define the real scope of the programme. SMMEs are expecting some sort of special treatment and are not working hard enough to improve their competitiveness and their product or service offerings.

SMMEs need to understand the rules of the market and particularly the specifications and requirements of the sector.

SMMEs lack a vast knowledge of the fundamentals on the subject of intellectual property, the fundamentals that would provide legal certainty on the innovations that some companies are developing.

SMMEs lack professional advice to make the business operations of the companies less uncertain -advice on commercial contracts, commitments, payment guarantees, bonds, insurance and delivery compliance.

Capital funding.

The owners are expecting assurances and government funds to help them design strategies that allow them to increase their profitability and the rate of capital formation. Lacking financial viability, unable to control their costs and highly leveraged, firms do not find partners willing to invest or banks willing to release credits to access larger tenders.

Market understanding.

Very few SMMEs are able to identify real business strategies, define sales procedures or have a sales system that allows them to access more customers. Gaining market share or expanding market niches depends on the capacity to exploit commercial opportunities and access to market channels. Companies generally do not have sales budgets, professional marketers and product/services defined portfolios (Mtiya, 2014b).

Overall challenges and risks of the assessment programme

Challenges relating to the broader assessment process were:

- Entities did not receive invitations because their contact details had changed or were not captured correctly nor updated.
- Entities confirmed their attendance but did not attend on the day of the assessment.
- Entities that requested a reschedule of their assessment and either arrived late or did not attend at all on the rescheduled assessment date and
- Entities incorrectly classified or incorrectly graded.

Challenges relating to the entities were:

It was established that 31% (117) of women formed their companies in response to the Request for Information (RFI) and have not traded. This could affect their participation in the tenders because activity has taken a while to materialize and they have also since lost interest.

This might result in a situation where some of these entities will not qualify for tenders in the first stages of the project while they receive the necessary remedial interventions, as is the case with Tier 1 property and construction and Tier 1 Professionals. This creates a risk of dissatisfaction and increased drop-out rates by participating entities.

Sixty per cent (60%) (227) of entities indicated a lack of working capital to enable them to obtain BBBEE certificates or other required training to empower them to be accredited and to meaningfully participate in business. It also became clear in the assessments that some of the submissions made were based on projections rather than actual information. This particularly related to company structures, workforce and in some instances expertise. Some of these entities are owned by elderly women; and these will not necessarily respond to training or be able to do things differently. This poses a great challenge as a great part of this programme (especially for Tier 1 & 2) is about development.

In some relationships, bigger companies dominate their smaller partners who are desperate or vulnerable. This has to be carefully managed and the smaller enterprises assisted to understand the implications of the agreements they get into. For instance, we have been requested, on at least on two occasions, to act as an advisor/mediator in disputes in these relationships.

Further, there is expectation from the entities that PRASA will grant them contracts right from the start and they strongly believe that was the purpose of the Women in Rail programme hence they decided to participate in it. This needs to be clarified and managed accordingly to avoid unexpected reactions (Mtiya, 2014b)

Conclusion and recommendations

The entities understood that the Assessment Process ensures a thorough Gap Analysis is conducted on their businesses to be followed by appropriate interventions that ensure that their businesses grow to the next level. However, there were fears and perceptions that the information they supplied exposed their weaknesses as businesses and that this could result in a downward push in terms of their rating within the PRASA database.

Most entities became more comfortable and provided accurate information as their confidence grew that the information will be used as the basis to design effective Enterprise Development Interventions to help them grow their businesses.

On the whole, the distinct gratitude that the entities expressed at the opportunity to be assessed on the basic guiding principles of conducting a business particularly in the government tendering system at no cost to them, was noted. The entities welcomed the fact that PRASA was not only preparing them to tender for their organisation but also preparing them to be formidable business people who can conduct sustainable businesses outside PRASA.

Based on the work done and the observation to date, there are a lot of expectations and enthusiasm from the entities participating in the Women in Rail Programme. Some entities are however more committed than others. There is still a lot of confusion regarding services that PRASA will provide and whether these entities will still need to compete amongst themselves or not for tenders. It was explained what PRASA can and cannot do, but it is our view that the people still expect PRASA to do more. It is important that this programme be conducted on strict business principles as a culture of entitlement amongst some of the entities was picked up.

It was found that the classification of companies by age and activity is too ambiguous and inefficient. Classifying companies as Tier 3 for simply being in the market for more than 5 years does not take into account the financial, strategic and/or operational performance.

In the same way, classification by activity is too broad because each one of the activities involves a wide variety of specialties, products, services and, most importantly, does not differentiate between companies engaged in just trading from those that transform and generate added value..

An illustration is a company named Customer Relationship Management that is classified as a Rail Engineering Manufacturer when in truth it is an ITC software dealer. Other companies are listed as Rail Engineering/Professional services when their main activities are related to cleaning services.

The three negative effects on the development of the sector in the current procurement process are:

a) Price. Focus on price does not allow for the purchase of products that can translate into lower operating costs.

a. Local content. The source could be evaluated and greater value and benefits be placed on goods with local content.

b. Joint Ventures. Large companies are linked to SMMEs, but the owners of the SMMEs receive only a fraction of the profits, but don't benefit enough to help develop technology in their enterprises nor do they benefit through fixed capital investment

The most constant complaints are; a) tenders are published late in the fiscal year; b) excessive time required and delayed payments by Prasa. Small and medium enterprises have financial cycles of up to 10 months without cash flow, which makes them extremely vulnerable.

There is confusion between certification and proof of execution of the work. When Prasa asks for validation of some work performed, the SMME assumes that it is certification that is required. Very few companies have third party accreditation to certify the quality and standardisation of processes. Almost all companies recognise IRIS as the certifying body for the sector.

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