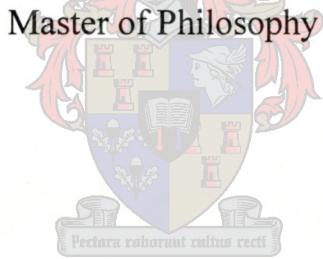


**EMPOWERMENT OF SMALL AND MEDIUM ENTERPRISES
THROUGH THE DEFENCE-RELATED INDUSTRY
PROGRAMME.**

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Thesis presented in partial fulfillment of the requirement for the degree of



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SUPERVISED BY PROF. J KINGHORN**

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DECLARATION

I, the undersigned, hereby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety in part submitted it at any university for a degree.

SIGNATURE

DATE

SUMMARY

The defence industry was established for the purpose of providing the then South African Defence Force (SADF) with armaments before. The SADF was there to serve the government of the day. Since then, the South African National Defence Force (SANDF) has been established to fulfil the same as the SADF, but is much more credible and representative. Thus there has been both continuity and renewal.

The idea of public policy presupposes that there is a sphere that is not private or purely individual, but is held in common. The public comprises that dimension of human activity that is regarded as requiring government or social regulation or intervention or at least common action. This related to the defence-related industries too, which require government intervention in ensuring that small and medium enterprises (SMEs) get involved in the defence industry in general. Public policy is really about defining what counts as public, who provides, who pays, and whom to pay.

The modern meaning of ‘policy’ is that of a course of action or plan, a set of political purposes – as opposed to ‘administration’. Policy is seen as rational, a manifestation of considered judgement. A policy is an attempt to define and structure a rational basis for action or inaction.

Policy involves deliberate behaviour to pursue certain objectives. The distinction between action and inaction properly emphasises that policies can initiate change or resist change. Policy is intended to affect all or selected points of the external and internal environment of the political system. Policy consists of a series of actions and decisions.

The policy needed by the defence-related industry is one that will allow the inflow of entrepreneurs with education to help them learn from the experienced engineers within the industry. The individual drive and interest will be the driving force for success as defined and understood by the free market economy without unnecessary government interference.

The development of SMEs in the defence-related industry is part of the renewal of the defence industry. The manufacturing can be left to small firms requiring less capital and sophisticated machines and processes.

OPSOMMING

Die verdedigingsnywerheid is tot stand gebring om die destydse Suid-Afrikaanse Weermag (SAW) van krygstuig te voorsien. Die SAW was daar om die regering van die dag te dien. Sedert die demokratiese verkiesing in 1994 is dit nou die Suid-Afrikaanse Nasionale Weermag (SANW), wat, alhoewel dit dieselfde funksie as die SAW vervul, meer geloofwaardig en meer verteenwoordigend is. Daar was dus kontinuïteit sowel as vernuwing.

Die konsep van openbare beleid veronderstel 'n sfeer of terrein van lewe wat nie privaat of alleenlik individueel is nie, maar eerder gemeenskaplik. Die openbare terrein is daardie dimensie van menslike aktiwiteit waarvoor staats- of sosiale regulering of intervensie nodig is, of ten minste gemeenskaplike aksie. Dit het ook betrekking op die verdedigingsnywerheid, waar staatsintervensie nodig is om te verseker dat klein en medium ondernemings by die verdedigingsnywerheid in die algemeen betrokke raak. Die doel met openbare beleid is eintlik om te bepaal wat openbaar is, wie verskaf, wie betaal, en wie betaal moet word.

Die konsep van "beleidbepaling" is om bewustelik 'n keuse te maak tussen twee hoofalternatiewe vir loodsgemeenskappe. Die moderne betekenis van die begrip "beleid" behels 'n rigting of aksie of plan, 'n stel politiese oogmerke – in teenstelling met "administrasie". Beleid word gesien as rasioneel, 'n manifestasie van weloorwoë oordeel. Dit is byvoorbeeld ondenkbaar dat politici sou toegee dat hulle nie 'n beleid insake X het nie. Beleid is 'n poging om 'n rasionele grondslag vir aksie te bepaal en te struktureer. Namate 'n staat sy wetgewingsprosedures verander, so behels die funksies van "beleid" die skep van 'n aanneemlike storie, wat die skrywer se doel verseker en waarin beleid 'n rolspeler is. Die betekenis het betekenis.

Die term "beleid" word gebruik om aan te toon dat daar 'n behoefte is om uit te klaar watter sosiale doelstellings gedien word deur die toedien (ook self-toedien) van wetenskaplike energie. Met ander woorde, die klem val spesifiek op die beleidwetenskap van demokrasie, waar realisering van menswaardigheid, in teorie en in praktyk, die uiteindelike doelwit is.

Beleid behels doelbewuste optrede om sekere doelwitte na te streef. Die onderskeid tussen aksie en in aksie beklemtoon huis dat beleid verandering kan inisieer of teenstaan. Beleid het ten doel om alle of geselecteerde punte buite en binne die politiese stelsel te beïnvloed.

In die soeke om die optimale toekoms te skep, is dit deurslaggewend om alternatiewe toekomsvorme wat tot stand kan kom, te identifiseer. Daarbenewens is dit nodig om vir die langtermyn te beplan ten einde sterk strategieë te kry wat oorlewing sal verseker.

‘n Belangrike realiteit wat van die begin af beklemtoon moet word, is dat dit nie moontlik is om die toekoms te voorspel nie. Ons kan egter kennis opdoen oor die toekoms. Daar is nie slegs een toekoms nie, maar verskeie toekomsvorme, ook ‘n toekoms wat verkies word (wat groter betrekking het op persoonlike en sosiale waardes). Die doel van strategiese transformasie is om die gemeenskap/organisasie ‘n ander rigting te laat inslaan, op bewuste en praktiese wyse, d.w.s. om die toekoms te maak.

Die ontwikkeling van klein en medium ondernemings in die verdedigingsnywerheid is deel van die vernuwing van die verdedigingsnywerheid. Die vervaardiging kan oorgelaat word aan kleiner firmas wat minder kapitaal en minder gesofistikeerde masjinerie en prosesse benodig.

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CHAPTER 1

INTRODUCTION:

THE DEFENCE INDUSTRY AND DEFENCE-RELATED SMALL AND MEDIUM ENTERPRISES

1. What this study is about

The defence industry was established for the purpose of providing the then South African Defence Force (SADF) with armaments. Before the first democratic elections in 1994, the South African Defence Force was there to serve the government of the day. Since then the South African National Defence Force (SANDF) has been established to fulfil the same function as the SADF, but is much more credible and representative. There has thus been both continuity and renewal.

In line with changes within the country, there is a need for transformation in the defence-related industry. In this thesis this need is seen as an opportunity to combat poverty through the development of small and medium enterprises (SMEs) relevant to the needs of the SANDF. This is an opportunity to integrate and kick-start the small, black entrepreneurs in particular in the defence-related industry.

Consequently the thesis will focus on aspects of public policy and practical measures to be implemented during the arms procurement process, which could facilitate the empowerment of SMEs.

It is hoped that this study will indicate the scope for change in the SANDF in view of its new role, as well as the opportunities available for new companies. These will however not materialise in the absence of public policy to support and encourage changes in the defence-related industries.

The study takes its point of departure in the spirit of the new South Africa as indicated in the Constitution (South African Constitution Act 108 of 1996). The inherent inclusivity of the Constitution is evident in the South African White Paper on Defence 1996, and makes it possible to think of SMEs being involved in the defence-related industry. Moreover, the need for an efficient and cost-efficient defence system makes it imperative to use all available resources within the country first. It also makes it possible to acquire SANDF

requirement from all over the world, wherever best prices and support can be found on the international market. This in turn creates the opportunity to promote the export of SME products in the military environment.

One gets a glimpse of such possibilities already when one scans the history of the arms industry in South Africa.

1.1 Arms industry prior to 1990

The domestic defence-related industries can be traced back to the 19th century. During the Second World War a great number of armaments were manufactured in local factories as the contribution and support to allied war efforts. This period relates to an era in which the military enjoyed a special relationship with government.

Following the declaration of South Africa as a republic in 1960, international pressure increased to isolate the government from international forums because of its apartheid policies, assisted by resistance at home and in the region. This culminated in the 1963 –64 Rivonia political trial.¹

At this stage armaments production was in the hands of the private industry. The government decided to expand defence-related industries, which was the first step of establishing a statutory body, the armaments production board in 1964. This Board was to become responsible for both acquisitions for the SADF (South African Defence Force) and the establishment and management of public sector defence-related industries.

The Board was also tasked with the coordination of production in the private sector, through this involvement, and by the mid-1960s nearly 1000 private sector firms were involved in the various aspects of domestic arms production.²

The changing world in the late 1960s necessitated change of the relations between firms in the private sector and the authorities. In 1968 the armaments production board was renamed the armaments board and was tasked with the acquisition of armaments for the South African Defence Force, as well as ensuring the optimal utilisation of the private

¹ 1998, Overview of Defence-related Industries. 15

² 1998, Overview of Defence Related Industries. 15

sector capacity. In the same year the government established the Armaments Development And Production Corporation of South Africa (Armscor) (act 57 of 1968). Armscor was then mandated to develop South Africa's domestic defence industry and to continue to supervise the manufacture of armaments. With time, a number of private companies, such as Atlas Aircraft Corporation, were taken over by the government, and a number of new production and research and development facilities, were established.³

The period between 19080 – 1990 saw the consolidation of the armaments industry with budgets supporting the local industry. The result was the development of self sufficiency by the local defence industry supported by local research.

1.2 Since 1990

South Africa's external strategic environment changed dramatically after 1989, in its favour. This was the end of east–west conflict and was accompanied by a reduction of hostilities within and amongst African countries. Informal discussion between external and internal forces helped to create the changes necessary to end apartheid in South Africa. The Lusaka meeting with the external wing of ANC took place in 1985 as the result of the dialogue being promoted at that time.

The democratisation of countries around South Africa and the possible following by South Africa had a positive impact on the process of disarmament of the countries and helped to reduce the perception of threat to South Africa. This had a positive effect on the foreign policy of South Africa towards its neighbours, which helped create an environment conducive to the decline of South Africa's defence budget.⁴

Between the period 1989/90 and 1997/98, the defence budget declined by over 50% in real terms, while the acquisition budget (that is the special defence account) declined by over 80% in real terms during the same period.⁵ During the same period the defence-related industry employed more than 30 000 employees.

³ 1996, South African White Paper on Defence. 17

⁴ 1996, South African White Paper on Defence. 18

⁵ 1996, South African White Paper on Defence. 18

The deep cuts in the defence spending had a major impact on domestic defence-related industries, which were forced to downsize and restructure as a result of the cancellation or postponement of defence contracts.

As the result of the changes arising from the reduction of the defence budget, Armscor made representation to government to commercialise some of its industrial facilities. For most of Armscor's industrial facilities it was felt that they could be utilised for commercial purposes, while being available as manufacturing reserves capable of supplying the country's defence needs. The industry was capable of producing dual use products, for both the defence and the civil commercial market. This was the beginning of privatisation of sections of the defence industry, and of its consolidation in order to reduce unnecessary competition and duplication so as to ensure the survival of the industry.

As the result of the negotiations that took place between the local defence industry and the state through the SANDF and Armscor, on 1 April 1992 Armscor was divided into two separate organisations. A new state-owned industrial company called Denel (Pty) Ltd. was established as a commercial enterprise reporting to the Minister of Public Enterprises. Armscor was thus involved in the production of armaments up until 1992, when finally its manufacturing capability was transferred to Denel.⁶

The result of this exercise was the appointment of Armscor as the acquisition agent for the SANDF and, to a lesser extent, for the South African Police Service (SAPS) and the South African Correctional Services. Two of the three primary roles of Armscor have thus been transferred: production to Denel in 1992 and arms control to the NCACC (National Convention Arms Control Committee) in 1995.

Armscor, as the designated acquisition agency of the Department of Defence (DoD), is responsible for professional programme management and the drafting of tender documentation for the contracting of industry on behalf of the DoD during the execution of armament acquisition programmes. Armscor must ensure that the technical, financial and legal integrity in contract management is in accordance with DoD requirements. The DoD and Armscor also jointly oversee industrial development of the defence industry, in order to

⁶ 1996, South African White Paper on Defence. 20

support DoD acquisition programmes and the retention of strategic defence technologies and capabilities.⁷

The result of all these changes is that the Armscor Board serves as a decision-making board for tender adjudication (Special Defence Account) and ensures that all contractual obligations of project management are in accordance with national procurement legislation and are in the national interest.⁸

The transformation of Armscor must be driven by two government imperatives, namely the attainment of efficiency and economy in acquisition management, and the fostering of civil control and accountability. The growth of the economy through SME's involvement, in the defence-related industry become essential in order to provide small once-off items and low volume productions. This is supported by low overhead costs compared to established firms in the industry.

In order to achieve efficiency and economy, the business processes of Armscor are to be aligned with the core of the Department of Defence business requirement and the maintenance of those specific strategic capabilities that are not possible to create or sustain in the private sector.⁹

The retention of Armscor as a state corporation could ensure that Armscor is accountable to a specific and identifiable member of the Executive and can be called to account by parliamentary oversight.

This concludes the overview of the defence-related industry prior to 1990 leading to the 1994 first general elections in which everybody within the country participated. The elections were the result of negotiations by the country's leaders.

The next chapter 2 will review the defence-related industry and its operating environment. This will help identify possible areas of involvement by SME's within the defence-related industry.

⁷ 1996, South African White Paper on Defence. 20

⁸ 1996, South African White Paper on Defence. 20

⁹ 1996, South African White Paper on Defence. 21

CHAPTER 2

THE DEFENCE-RELATED INDUSTRIES AND THEIR OPERATING ENVIRONMENT

2.1. Introduction

The study is concerned with the implications resulting from the South African White Paper on Defence and opportunities being created by this change of emphasis of the role of the defence-related industry. The opportunities are being looked at for small and medium enterprises (SME) development in the defence-related industry. In the search for opportunities the White Paper on Defence will be looked at together with the Black Economic Empowerment (BEE) Commission's report and relevant literature.¹⁰

The changes brought about by the last two general elections in the country demand, in terms of the Constitution of the Republic of South Africa Act 108 of 1996, that everyone has the same rights and responsibilities and that all people are equal before the courts of law.

Policies were needed to guide opportunities that have been created. The problem of gender issues, and black entrepreneurs, particularly in the defence industry, becomes important in meeting this requirement as a country. The problem of unemployed qualified youth creates a need for new job opportunities in the country.

The unit of analysis will be SME development in the defence-related industry. Here we will look at the opportunities given to SMEs particularly black entrepreneurs. The study will indicate what support they need to facilitate their introduction into the defence-related industry.

The objective of the study is to identify opportunities for SME development within the defence-related industry with related policies necessary for development, together with a policy framework that will support it.

2.2 The South African White Paper on Defence

The South African national security is no longer viewed as a predominantly military and/or policing problem. It has been broadened to incorporate political, economic, social and environmental matters. At the heart of this new approach is a paramount concern for the security of people.¹¹

Security is an all-encompassing condition in which individual citizens live in freedom, peace and safety; participate fully in the process of governance; enjoy the protection of fundamental rights; have access to resources and basic necessities of life; and inhabit an environment, which is not detrimental to their health and well-being. The individual's security can be realised through employment, and job security. Employed people become a wealth-creating population and a nation with a future.¹²

At national level the objectives of security policy therefore encompass the consolidation of democracy; the achievement of social justice, economic development and a safe environment; and a substantial reduction in the level of crime, violence and political instability. Stability and development are regarded as inextricably linked and reinforcing. This helps create a climate conducive to investment locally. The stability in the country together with a positive mood helps induce foreign investment, which is greatly needed by the country. Mr Bheki Sibiya of the Black Management Forum (BMF)¹³ (Impumelelo 2nd Edition p57 2001) says "our view is that the economic growth of this country must be predicted on black economic empowerment – this brings justice, and if there is no feeling of economic justice, then we are not going to grow". The growth he speaks of is the economic one necessary to help create jobs and reduce crime in the country.

The new approach to security does not imply an expanding role for the armed forces. The SANDF may be employed in a range of secondary roles as prescribed by law, but its

¹⁰ 2000, September BEE Commision Report

¹¹ 1996, South African White Paper on Defence 3

¹² 1996, South African White Paper on Defence. 3

¹³ 2001, Impumelelo 2nd Edition, BMF. 57

primary and essential function is service in defence of South Africa, for the protection of its sovereignty and territorial integrity.¹⁴

2.3 Defence in a democracy

The defence industry, like any other sector , is affected by changes taking place within the country. The formulation of a new defence policy is in line with the transformation of the Department of Defence. Transformation is essential in the light of three sets of factors: the history of armed forces in our country, new strategic environment at international, regional and domestic level; and, most importantly, the advent of democracy in South Africa.

For the transformation process to achieve and influence change it will be guided by principles of “defence in a democracy” as principles derived from the South African Constitution and government policy.

Some of the principles guiding and supporting the “defence in a democracy” principle are:

- a) National security shall be sought primarily through efforts to meet the political, economic, social and cultural rights and needs of South Africa’s people, and through efforts to promote and maintain regional security.
- b) South Africa shall pursue peaceful relations with other states. It will seek a high level of political, economic and military co-operation with Southern African States in particular.
- c) The SANDF shall be a balanced, modern, affordable and technologically advanced military force, capable of executing its tasks effectively and efficiently.
- d) The SANDF shall develop a non-racial, non-sexist and non-discriminatory institutional culture as required by the constitution¹⁵.

2.4. The strategic environment

With the first general elections in the country in 1994 and the second general elections in 2000, South Africa can be said to have truly become accepted in the league of free nations.

¹⁴ 1996, South African White Paper on Defence. 3-6

¹⁵ 1996, South African White Paper on Defence 7-8

The ending of apartheid and the establishment of democracy have given rise to dramatic changes in the external strategic environment from the perspective of South Africa.¹⁶

The country has been welcomed and accepted into many international organisations, most important the United Nations (UN), OAU (Organisation for African Unity) and the Southern African Development Community (SADC).

The end of the cold war resulted in a substantial decline in the volume of global arms sales. This has led to efforts, with mixed results, to convert armaments industries into civilian production. This is where the concept of duality comes into play. Duality in defence relates to products or processes, or technology that can be used in the military and the civil environment equally.¹⁷

The external strategic environments force the country to look at its defence differently, given the changing business environment it operates in. The ending of the cold war era has resulted in a decline in the volume of global arms sales; thus creating more capacity in existing companies but also creating opportunities for niches markets and specialists. The SME development intends to fulfil the niche created by changes in the environment.

The South African White Paper on Defence, as approved by Parliament on 14 May 1996, states that the SANDF will be a balanced, modern, affordable and technologically advanced military force, capable of executing its tasks effectively and efficiently. The support of the SANDF remains a big factor in the process of skills retention within the defence-related industries.¹⁸

A core capability includes a balanced and sustainable nucleus with, amongst other features, the maintenance and, where necessary, the adequate and appropriate upgrading or replacement of equipment and weaponry.¹⁹

The services of an efficient defence industry are required to maintain, upgrade and, where necessary, replace weapons and equipment of the SANDF. The industry will permit the cost-effective purchase of certain products and systems, ensure life-cycle maintenance and

¹⁶ 1996, South African White Paper on Defence. 12

¹⁷ 1996, South African White Paper on Defence. 12

¹⁸ 1996, South African White Paper on Defence. 13

¹⁹ 1996, South African White Paper on Defence. 120



support of such systems, and perform refurbishment and upgrade of existing equipment. However, the defence equipment by the SANDF cannot and should not be procured exclusively from the local industry. Provision is made that only essential and critical areas of defence need to be supported locally so as not to depend entirely on foreign suppliers.

For the purpose of the Defence Review 1998, the South African defence industry is defined as the sectors of organisations in the public and private sector, commercial companies and business units of such companies, mainly involved in the electronic, mechanical, aerospace, maritime and chemical sectors of the manufacturing, which are, directly or indirectly, active in research, design, development, production, assembly, test, evaluation, upgrading, procurement, export, import, maintenance, logistic support, human support and project management, of goods and services for security forces, local and overseas. This definition creates an opportunity for SMEs to find niche areas to operate in and to use their specialised skills to become suppliers in the defence-related industry.²⁰

2.5 Core defence capabilities

The SANDF needs certain basic capabilities to continue to operate and modernise in terms of its identified needs within the existing financial constraints. Defence contingencies, posture and, finally, the characteristics required in the core defence capability of the SANDF eventually lead to those specific capabilities, which should be provided for in such a force. The capabilities to provide a competent defence force needs to have the following capabilities: -

- a) Intelligence is an overarching capability required by the SANDF (both strategic and tactical).
- b) Landward defence capabilities to counter-attacks from overland. These forces should be mobile and largely self-contained.
- c) Air defence capabilities to counter air attacks, including both fighter-based capabilities, and sea as well as localised anti-aircraft defence capabilities.

²⁰ 1996, South African White Paper on Defence. 121

- d) Maritime defence capabilities to counter attack from seaward and attacks on seaward trade, including mine clearance capabilities and capabilities to act against air, surface and submarine attacks.
- e) Defence against chemical and biological warfare (CBW), with the emphasis on the detection of CBW agents and the protection and decontamination of forces and equipment.
- f) Once operation has begun, the SANDF should have an interdict capability for interdiction on the battlefield, and
- g) On halting enemy organisation, the SANDF must have counterattack capabilities to drive the enemy from own or friendly territory.²¹

To achieve the set objective of a competent and reliable defence force, the command and control function becomes critical for effective execution of the self-defence function at all levels. This function is also required at individual arms of service level as well as joint command and control. In this instance emphasis should be placed on electronic warfare and command information systems.

To complete the picture of an effective capable organisation, the SANDF must maintain an effective supporting capability which includes operational medical support, operational logistics support, land, air and sea transport and operational personnel services to ensure the high morale of soldiers engaged in operations.

2.6 Categories of local support required

Certain industry capabilities are required to support the SANDF. These industry capabilities can be divided into these categories as follows: -

2.6.1 Strategically essential

Technical capabilities can be classified as strategically essential if they potentially satisfy a unique environment, for instance a need that cannot be satisfied through procurement of standard equipment, or to ensure self-sufficiency in technologies for which high-priority

²¹ 1996, South African White Paper on Defence 121

operational requirements exist but which are effectively unavailable to the RSA due to political, economic and other considerations.²²

2.6.2 Cost-effective local sourcing and export

Due to an already established local capability, where the RSA has a global competitive edge, certain niche systems are more cost-effective, over the life cycle of the system, to source locally than to buy from foreign suppliers. These capabilities can ensure faster turnaround times for the servicing or upgrading of systems, battle damage repair, lead to import replacement (i.e. Foreign exchange savings and local employment) and to export opportunities.²³

2.6.3 Non-strategic capabilities

Some components, subsystems and systems are neither strategically essential nor economically viable to source locally. In these cases the local capability should be to understand and support these systems in order to enable informed specification and selection, and to maintain and upgrade them locally with support from the overseas supplier.

To be able to maintain the necessary capability, adequate manpower is needed at different levels of the SANDF. They are needed to carry out the mandate of effecting capable defence-related industry. Technology and resources support continues today to ensure that skills are being maintained and at the same time enhanced by the industry together with SANDF.

In order to be able to carry out its mandate the SANDF has to involve the local defence-related industry. To acquire what it needs from industry, be it local or international, it will use Armscor its official acquisition agent.

2.7. The SANDF requirement for local industry support capabilities

The equipment for the SANDF that involves strategically essential capabilities is that which will provide it with a distinct combat advantage. The latest generation equipment is often

²² 1996, South African White Paper on Defence. 121

²³ 1996, South African White Paper on Defence. 121

not available from foreign suppliers, or, where it is available, its combat effectiveness is reduced through the common knowledge of their performance characteristics and countermeasure susceptibility.

Examples of strategic systems requiring self-sufficiency in local design, development and production capabilities are:

- Command and control systems
- Secure communication system
- Electronic warfare systems
- Fusing systems for missiles, bombs, projectiles
- Sea mines.²⁴

There are capabilities that are necessary to ensure the survival of combat platforms, battle tanks, fighter aircraft, attack helicopters and combat vessels, which all need a self-protection capability to survive enemy attack. These capabilities are in addition to the ones listed above, and are needed by the SANDF in its operations.

Examples of such requirements are:

- Surveillance and threat detection systems
- Short-range air-to-air missiles
- Point defence surface-to-air missiles for naval vessels
- Ground-based air-defence systems
- Minor calibre guns
- Armour protection capabilities
- Camouflage and other signature control capabilities to reduce platform observability
- Electronic countermeasures (ECM)
- Iff (identification of friend or foe) systems.

²⁴ 1996, South African White Paper on Defence. 122

For certain capabilities South Africa needs skills locally to ensure they can be developed to suit the SANDF's, requirements locally.

Examples of such capabilities are:

- Ergonomic design that is the design of man-machine interfaces such as driver cabins, cockpits, gun control mechanism.
- Engine performance enhancement that is the ability to develop or adapt engine subsystems, such as cooling systems, dust filters and air-conditioning to suit climatic conditions.
- Vehicle mobility upgrades; local terrain characteristics demand the use of wheeled combat vehicles, requiring specific attention to tyres, suspension and drive train performance.
- The integration of new or improved weapons, sensors or other system on SAAF aircraft requires specialised aerodynamic, electromagnetic interference and structural dynamics expertise in order to qualify the combined systems and release them for service.
- The development or adaptation of medical equipment to suit local conditions and SANDF operational requirements, as well as for support in peacekeeping or peace support operations or disaster relief.²⁵

Other capabilities strategically needed are those of detecting and countering the rapidly emerging threats which requires a flexible engineering capability to develop a variety of systems and countermeasures to fit an evolving force design and threat assessment.

Examples of such systems capabilities include:

- Reconnaissance and surveillance systems, including unmanned aircraft.
- Airspace control systems, which include advanced radar systems and sensor fusion technologies.
- Multi-purpose standoff weapons.

²⁵ 1996, South African White Paper on Defence. 123

To be able to implement maintenance and upgrades for current equipment in service with the SANDF also requires specialist capabilities, in order to extend their usable life cycle, for example:

- All aircraft and helicopters
- All combat vehicles
- Tanks and armoured cars
- All command, control and communication systems, including radars, computers etc.

2.8. Department of Defence Policy for the defence industry

The SANDF requires the services of an efficient defence industry to address its needs for maintenance, upgrading and, where necessary, the replacement of weapons and equipment. The industry will be the centre of cost-effective purchase of certain products and systems, ensure the life-cycle maintenance and support of such systems, and perform refurbishment and upgrades of existing equipment.²⁶

The DoD is by far the largest, and in many cases the only, client of the defence industry. Most of the products produced by the industry are also developed to the specific requirements of the SANDF. The funds, a large portion of which (approximately 50%) for research and development in the industry, are currently provided by the SANDF, and therefore the SANDF owns much of the immaterial property right of the products manufactured in the industry.

Government also controls the industry in terms of conventional arms control measures and the non-proliferation of weapons of mass destruction.²⁷

The defence industry is also part of the larger industrial base of the Republic of South Africa, and as such participates and helps guide the national industrial policy.

The defence industry is, however, part of the SANDF's logistics and operational capability. The DoD, in its strategic planning, has the responsibility to determine the technology,

²⁶ 1996, South African White Paper on Defence. 124

²⁷ 1996, South African White Paper on Defence. 124

services and industrial capacity and capability it requires from industry, i.e. Departmental policy.

The defence industry is therefore regulated and supported by both national and departmental strategy and policy.

2.9. Department of Defence Acquisition Policy

The Joint Standing Committee on Defence makes recommendations on the defence budget, functions, organisation, armaments, policy, morale and state of preparedness of the SANDF and performs other functions related to parliamentary supervision of the Defence Force.

For the SANDF to carry out its primary role, the availability of armaments is essential. Optimal modern armaments for the SANDF are obtained through a process of armament acquisition.

2.9.1 The role of the ministry of defence

The ultimate political authority and responsibility for the acquisition function rests with the Minister of Defence. The Minister of Defence is responsible for the defence function of government and is accountable to the President, the Cabinet and Parliament for the management and execution of this function. The arms of service chiefs are responsible for stating the armaments requirements of the Defence Force, which are approved by the Minister. These stated requirements are satisfied through the acquisition of optimised user systems and final acceptance of these systems against the stated needs in a procurement plan.²⁸

The Chief of the SANDF states and specifies the equipment and services the SANDF requires to fulfil its specified obligations, roles, functions and tasks. The arms of service participate in various acquisition planning and approval forums as the users of the equipment and services.

The Secretary of Defence is responsible for ensuring that the acquisition activities are executed within national objectives, policies and constraints. The Secretary is furthermore primarily responsible for high-level programming and budget and in-year control and auditing of defence expenditure, and also for interdepartmental and political and industrial

²⁸ 1996, South African White Paper on Defence 125

coordination. The secretary is the accounting officer of the DoD. The Secretary will perform such duties and functions as may be necessary for civil control of the defence acquisition function and to enhance parliamentary and ministerial control over SANDF acquisition programmes.

The Departmental Acquisition and Procurement Division (DAPD) consists of a HQ division, responsible for specialist acquisition/ procurement, to ensure the acquisition of equipment and services on behalf of the DoD. The Chief of DAPD and his support staff are responsible for directing and co-ordinating all acquisition and procurement activities between the arms of service and Armscor. DAPD serves as a single nodal point between DoD and Armscor. Chief of DAPD is the process leader for acquisition and procurement. The Chief of Acquisition is also the chief policy adviser to the Head of the DoD on acquisition matters and reports to the Secretary for Defence.²⁹

Armscor is the acquisition agency of the DoD, responsible for professional programme management and the drafting of tender documentation for the contracting of industry on behalf of DAPD during the execution of armament acquisition programmes. This is in order to ensure that technical, financial and legal integrity in contract management is in accordance with DAPD requirements. DoD and Armscor will jointly oversee industrial development of the industry in order to support the DoD acquisition programme.

2.9.2 Acquisition management

Within the framework of defence management the acquisition function satisfied the needs to provide armaments to the SANDF. Defence management seeks the optimum combinations of personnel and equipment, which will provide the maximum defence capability for available funds. A structured decision-making and authorisation process is followed for the acquisition of armaments by means of baseline management and consequent phased contracting, resulting in transparency and accountability. The armament acquisition process is fundamentally a systems engineering process, requiring good programme management.

Programme management requires the management of many logistic, technical, financial and legal disciplines such as engineering, resource management, contracting, quality assurance and design assurance. To cope with the many acquisition functions, project teams, where

appropriate, consist of members from Armscor, the SANDF, and the Defence Secretary (DoD Acquisition Division). The appointed project officer must be the project team leader. The project team consists of members from the arms of service and Armscor allocated to DAPD, and shall preferably be co-located under DAPD.³⁰

2.9.3 Requirements planning

The Defence Budget is a result of a sequence of events. The Defence Review spells out what tasks the SANDF is required to execute, what course(s) of action and with what force structure and force support the SANDF can afford to execute these tasks. These planned activities will be converted into programmes to ensure that personnel and equipment are maintained in an orderly and economical fashion. Finally annual budgets will be so developed as to be efficient in manner. The process of requirements planning therefore is executed through a hierarchy process.

Through acquisition management a balance should be maintained between technology development, design development, industrial development and international marketing. Departmental policies, procedures and practices guide the process. Government and the defence industry have a direct interest in the successful export of armaments.

2.9.4. The acquisition process

Technology development and industrial development are closely related to armaments acquisition and are therefore part of the overall acquisition process. The model used for structuring the armaments acquisition management process allows for sequential and parallel phases separated by formalised baselines. Underlying the above phases approach is the systems engineering process. This process systematically translates functional needs stated by the operational user into technical design and manufacturing parameters. Appointed project teams, representing all members of the DoD and Armscor, manage the process. A project team is responsible for the execution of a project and for the submission of project milestone documents, as presented to the approval committees and boards for acquisition programme.³¹

²⁹ 1996, South African White Paper on Defence P26

³⁰ 1996, South African White Paper on Defence 126

³¹ 1996, South African White Paper on Defence 127

The approval structure for project submissions consists of three levels:

- a) The highest level of approval for acquisition is the Armament Acquisition Council (AAC) (chaired by the Minister of Defence).

The final selection of the equipment and supplier, as well as monetary commitments for cardinal projects, is undertaken at this level (Cardinal projects are defined as those worth R80-million or more, as well as projects with political implications.) The AAC will identify major armaments procurement projects that will be presented to parliament for approval.

- b) The second level of approval for acquisition is the Armaments Acquisition Steering Board (AASB) (chaired by the Secretary for Defence). This board approves non-cardinal projects and screens cardinal projects. The selection of the successful contractor and monetary commitments for non-cardinal projects and the screening of the successful contractor and monetary commitments for cardinal projects are undertaken at this level.
- c) The third level of control screens all projects and all other routine programmes in terms of requirements and amendments.

The Armscor Board serves as the decision-making board for tender adjudication and ensures that all contractual obligations of project management are in accordance with national procurement legislation, and that these decisions are made in the best interest of the State.

The White Paper on Defence clearly defines what the defence-related industry is to be concerned with and also indicate what areas it regards as strategic. This in turn help guide the SME possible involvement in the defence-related industry.

Chapter 3 will review literature relating to public policy and help define what policy is. The policy guide lines towards policy formulation is necessary for definition of policy supportive of SME involvement in the defence-related industry

CHAPTER 3

LITERATURE REVIEW RELATING TO PUBLIC POLICY – MAKING: PROBLEMS AND DEFINITIONS

3.1 Public Policy

To be able to make sense of policy options open to SME development in the defence-related industries, we will look at the theories and practices in policy analysis to guide our journey in policy-making for defence-related industries.

Karl Popper, a philosopher of science, proposed a different form of social organisation, one that recognised that nobody had access to the ultimate truth. Our understanding of the world in which we live is inherently imperfect, and a perfect society is unattainable. We must be content with the second best: an imperfect society that is, however, capable of infinite improvement.³¹

George Soros, an international banker, asks the old philosophical question: what is the relationship between thinking and reality? Fallibility means that our understanding of the world in which we live is inherently imperfect. Reflexivity means that our thinking actively influences the events in which we participate and about which we think. Because there is always a divergence between reality and our understanding of it, the gap between the two, which he calls the participants' bias, is an important element in shaping the course of history. The concept of open society is based on the recognition of our fallibility. Nobody is in possession of the ultimate truth.³²

A participatory democracy and a market economy are essential ingredients for an open society, and the SME development is based on the free market concept.

In people, thinking plays a dual role: it is both a passive reflection of the reality they seek to understand and an active ingredient in shaping the events in which they participate. Our thinking is part of reality; it guides us in our actions and our actions have an impact on what happens. The situation is contingent on what others (and we) think and how we act.

³¹ George Soros ix

³² George Soros 4

The events in which we participate do not constitute some sort of independent reality by which the truth or falsehood of our thoughts could be judged.³³

When it comes to decision-making, there is an inherent lack of correspondence between thinking and reality because the facts lie somewhere in the future and are contingent on the participants' decisions.³⁴

There is a two-way connection between present decisions and future events, which George Soros calls reflexivity. On the one hand, participants seek to understand the situation in which they participate. They seek to form a picture that corresponds with reality. He calls this *the passive or cognitive function*. On the other hand, they seek to make an impact, to mould reality to their desire. He calls this the *participating function*. When both functions are at work at the same time he calls the situation reflexive.³⁵

The SME development in the defence-related industry is to take place in an existing industry with traditions, customs and practices. These have helped create an environment that is self-supporting and sustaining. The new SMEs in the industry are to fit in and then they too are to influence this if they are to succeed.

Using generalisations, metaphors, analogies, comparisons, dichotomies, and other mental constructs serves to introduce some order into an otherwise confusing universe. But every mental construct distorts to some extent what it represents and every distortion adds something to the world that we need to understand. The more we think, the more we have to think about. This is because reality is not given. It is formed in the same process as the participants' thinking: The more complex the thinking, the more complicated reality becomes. Thinking can never quite catch up with reality: Reality is always richer than our comprehension. Reality has the power to surprise thinking, and thinking has the power to create reality.³⁶

³³ George Soros 5

³⁴ George Soros 5

³⁵ George Soros 7

³⁶ George Soros 17

The concept of fallibility means that there is a lack of correspondence between the participants' thinking and the actual state of affairs; as a result actions have unintended consequences. Fallibility has a negative sound, but it has a positive aspect, which can be very inspiring. What is imperfect can be improved. The fact that our understanding is inherently imperfect makes it possible to learn and to improve our understanding. All that is needed is to recognise our fallibility. That opens the way to critical thinking and there is no limit to how far our understanding of reality may go. There is infinite scope for improvement, not only in our thinking but also in our society.³⁷

The introduction of SME into the defence-related industry is the initial step in making it possible for smaller manufacturers to come into the industry. The programme can grow through the natural process by being given the opportunity to prove itself in the defence industry while today it is performing in the commercial world, which is said to be competitive in nature.

We must therefore be content with the next best thing a form of social organisation that falls short of perfection but is open to improvement. That is the concept of the open society; a society open to improvement. The concept rests on the recognition of our fallibility.³⁸

To realise and effect change in the defence-related industry, policy may be needed to facilitate this change and also to provide a formal base for the necessary actions by the individuals in the industry in general.

Wayne Parsons (1995: p3) in Meta Analysis says, "when we engage in meta analysis we are considering the methods and approaches used in the study of public policy and the discourse and language which it employs".³⁹

Meta analysis is analysis concerned with the activity of analysis. In another sense, meta analysis is concerned with understanding the idea that the analysis of public policy

³⁷ George Soros 19

³⁸ George Soros 19

³⁹ George Soros 19

proceeds by employing metaphors that we analyse by describing in terms of something else.

Public policy, like other forms of political analysis, uses metaphors or models as devices to explore the “unknown”. The idea of “public” policy and what it looks at may be understood by the notion of a public sphere, and how the changing conceptualisation of public and private has shaped the study of “public” policy.

Andrew Ortony says that the central supposition of our culture is that the description and explanation of physical reality is a respectable and worthwhile enterprise – an enterprise that we call ‘science’. Knowledge or reality, whether occasioned by perception, language, or memory, necessitates going beyond the information given. It arises through the interaction of that information with the context in which it is presented and with the knower’s pre-existing knowledge.⁴⁰

Metaphors characterise rhetoric and scientific discourse. They are vague, inessential frills, appropriate for the purposes of politicians and poets, but not for those of scientists because the goal of science is to furnish an accurate description of physical reality.⁴¹

3.2 “Public” and “Policy” as concepts

Wayne Parsons would argue that “public policy” has to do with those spheres which are so designated as “public” as opposed to a similar list we would make of expressions which involve the idea of “private”.⁴²

The idea of public policy presupposes that there is a sphere or domain life that is not private or purely individual, but is held in common. The public comprises that dimension of human activity which is regarded as requiring government or social regulation or intervention, or at least common action. This relates to the defence-related industries too, which require government intervention in ensuring that SMEs become involved in the defence industry in general.

⁴⁰ Andrew Ortony 1

⁴¹ Andrew Ortony 2

⁴² W Parsons 3

There has always been a tension or conflict between what is held to be ‘public’ and what is ‘private’, and it is vital that in studying ‘public’ policy we set our present arguments in this wider historical context. The existing big established firms in the defence industry have a problem with the need for SME development in the defence-related industries. The tension comes from government involvement through the SANDF in arms acquisition through ARMSCOR, the acquisition agency.

It is from the Romans that we derive our concept of public and private domain, as we understand it today:

Public	Private
Polis	Household
Freedom	Necessity
Male	Female
Equality	Inequality
Immortality	Mortality
Open	Closed

In theory and practice the relationship was more complex and reflected the ‘tragic’ interdependence of the two spheres. It is in the work of Aristotle that we find the earliest attempt to find some kind of resolution to the conflict between the public and private in the idea of the ‘polis’ as the highest form of human association.⁴³

It is this formulation of the ‘problem’ of the relationship of the public and private spheres that continues to predominate in contemporary arguments about the role of ‘public’ policy.⁴⁴

For the political economists the trick of resolving the tension between public and private in terms of ‘interest’ was in the deployment of their idea of markets.

⁴³ W Parsons 4

⁴⁴ W Parsons 4

Through markets forces the maximisation of individual interest would best promote the ‘public interest’. The role of the state and politics was thus to create the conditions in which the public interest could be so secured. Government was consequently best when it did the least, but the crucial line of demarcation was economic freedom.

Public interest in this sense was most likely to be served when the interest of economic freedom and the market were facilitated by the state, rather than being constrained or regulated. Order was essentially a spontaneous outcome of private choices.

Public intervention was primarily desired so as to source a framework of law, rights and order, rather than to interfere with the natural equilibrium, which was the outcome of self-interest; private interest was convergent with the public interest.⁴⁵

In France and Germany for example, the relationship between the state and business and trade was to be markedly different to that of the USA and Britain.

The penetration of the public policy into what the political economists would have regarded as private took place in almost all areas of ‘social-life’, education, health, housing, and urban planning, which were all to become subjected to regulation and/or state interference.⁴⁶

Hobhouse and Keynes in Britain took with the idea that the market could any longer bring about convergence in ‘public’ and ‘private’ interest, or, left to itself, could promote a spontaneous order. For both Dewey and Keynes it was knowledge – organised intelligence, as Dewey termed it – which could now provide the means by which private and public spheres, and interest, could be balanced and advanced: *Laissez faire* had had its day.⁴⁷

In the post-war era liberal ideas about the purpose of public policy-making were predicated in the belief that the role of the state was to manage the ‘public’ and its problems so as to deal with those aspects of social and economic life which markets were no longer capable

⁴⁵ W Parsons 4

⁴⁶ W Parsons 5

⁴⁷ W Parsons 5

of solving. The key to this brave new world was the development of a policy process and decision-making, which was more informed by knowledge than it had been in the past.

For, as the political economists of the nineteenth century had shown, the public interest could only be advanced through allowing private interests a free hand. Where there was a public sector, it functioned in a way that corresponded to market or ‘private sector’ principles of ‘management’.

One of the consequences of the growth of the state as a means of recording public and private interest was the development of ‘bureaucracy’ as a more rational form of organisation.

Like democracy or power, the word ‘policy’ has many different meanings for political scientists as well as for laymen. We are considering government policy as an activity that turns values into actions directed towards goals presumed to be in the public interest.

Policy is concerned with future activity, and must frequently be directed towards changing goals. For example, the current tensions in society resulting from managing values regarding such matters as war, morals, marriage, birth and human welfare, create an almost impossible demand for goals requiring new or amended policy. Goal conflict frequently requires a value judgement, which may be based on a subjective evaluation of the public interest. Goals are an important concern of politics. The means used to achieve goals are also important. Government exists for the achievement of goals. Since those goals change, policy must also be adjusted or developed to direct activity towards the new target.⁴⁸

The once popularly held belief of a clear distinction between policy determination and implementation may be more analytical than empirical. Elected political officials, political appointees, judges, career bureaucrats, legislators, and others make policy. Policy-making is also important and too time-consuming to be restricted to one branch of government or to one category of official.⁴⁹

⁴⁸ John M Nickerson 2

⁴⁹ John M Nickerson 3

To gain some understanding of policy-making, we will look at American public policy-making. In dealing with congressional policy-making four general categories apply: initiation, deliberation, ratification, and appropriation.⁵⁰

The administrative agencies were in many instances created both to formulate legislation through rulemaking and to recommend legislative proposals to Congress. Second, the ability to formulate policy depends upon organisational patterns and the attainment of ‘political support’, and here are most important indications to explain administrative power over legislation. Congress operates through the committee process.⁵¹

A final important factor should be noted as a determinant of policy-making power: legislation today, in regulatory and non-regulatory fields alike requires specialised information on the part of policy makers before it can be conceptualised and implemented. It is knowledge that can be acquired from specialisation and experience.⁵²

Administrative agencies have created public relations departments on a permanent basis to engineer consent for their legislative proposals. However, through what might be called undercover devices, the bureaucracy engages in extensive lobbying and propaganda activities.⁵³

Under the conditions (of uncertainty) policy has to be made incrementally over extended periods of time. Career experts in the bureaucracy are in a better position to devote continued attention to a particular problem and to develop policy standards and guidelines than are members of congress.⁵⁴

For the SME development programme to be effective it must become the government policy to help reduce the unemployment prevailing in the country. Also, changes in the country necessitate the need for representation in all spheres of life for all South Africans.

⁵⁰ John M Nickerson P5

⁵¹ Peter Woll 116

⁵² Peter Woll 125

⁵³ Peter Woll 128

⁵⁴ A Lee Fritschler 136

The defence-related industry is one area of interest, as blacks in general were excluded from this highly skilled environment by government authority.

‘Public administration’ evolved as a means by which the ‘positive interest’ could be secured through a neutral class of civil servants whose task it was to carry out the will of those elected by the people. Public bureaucracy was, therefore, different to that which existed in the private sector (business, commerce and industry) because it was motivated to secure the ‘national interest’ rather than private interest.

Public administration was a more rational means of promoting the public interest.⁵⁵

It was in the 1880s, when Woodrow Wilson formulated the essential theory for the conceptualisation of the bureaucracy as a defender of the ‘public interest’, that he posited that there was an important distinction to be made between politics and administration.

The idea of a rational, hierarchically arranged non-political form of administration was central to the idea of liberal democracy. The division of the state into a political realm and a rational or bureaucratic realm ran parallel to the demarcation between the public and private spheres.

The rational public interest arguments began to erode from the late 1940s onwards. It took three main directions:

- a) Studies that posited that bureaucratic rationality were a theory that needed re-examination.
- b) Studies that argued that in reality bureaucracy did not function in the ‘public interest’ but displayed the capacity to have distinct goals of its own.
- c) Research that questioned the distinction between policy and administration.

By the late 1970s the line of demarcation between public and private and policy and policy administration were looking increasingly less well defined.⁵⁶

Hayek, Friedman and others asserted that the relationship between the public and the private was best defined through the freedom of choice rather than by the state operating in

⁵⁵ W Parsons 7

⁵⁶ W Parsons 7

the ‘public interest’. During the 1980s and the 1990s this argument that the demarcation between the public and private spheres should be left to the market has formed the dominant framework within which the theory and practice of public policy has taken place.

The shift from the ‘new’ liberation to be ‘new right’ in public policy may be discerned most clearly in the rise of the ‘public-sector’ management approach and the demise of public administration.⁵⁷

The seed of modern policy analysis is to be found in the notion that society should aim to improve the ‘techniques’ of governing a capitalist system, so as to make it ‘more efficient’ through wise management.⁵⁸

What are the differences between the public and private sectors?

The public sector differs from the private sector in 10 key aspects:

- a) It faces more complex and ambiguous tasks.
- b) It has more problems in implementing its decisions.
- c) It employs more people with a wider range of motivations.
- d) It is more concerned with compensating for market failure.
- e) It engages in activities with greater symbolic significance.
- f) It is held to stricter standards of commitment and legality.
- g) It has a greater opportunity to respond to issues of fairness.
- h) It must operate or appear to operate in the public interest.
- i) It is more concerned with securing opportunities or capabilities.
- j) It must maintain minimal levels of public support above those required in private industry.⁵⁹

⁵⁷ W Parsons 8

⁵⁸ W Parsons 9

⁵⁹ W Parsons 9

But what is the public sector, exactly?

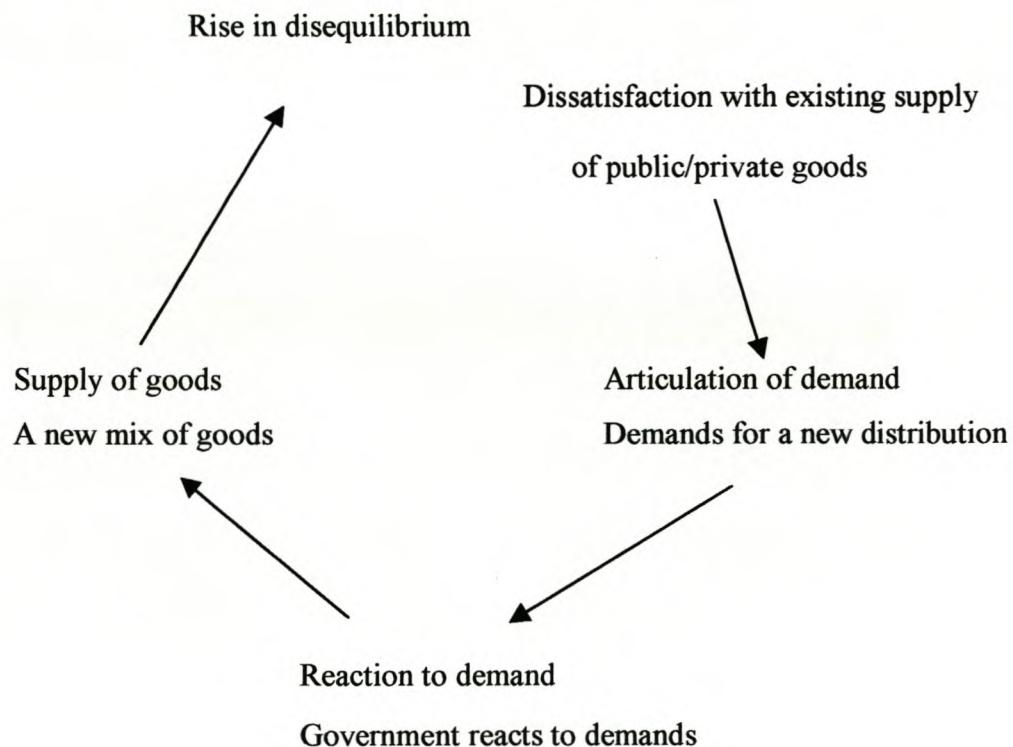
One of the main frameworks for considering this question is provided by economists, who argue that we can exchange the public and private in terms of ‘goods’.

A public good is ‘goods’ or service, which is available to all. Purely public goods are those that are produced by the state, rather than by the market. Purely private goods are those that are consumed by choice and only those who pay for them may consume them.

Public policy is really about defining what counts as public, who provides, who pays, how they pay, and whom they pay.⁶⁰

In other words, the public and private sector, when considered from the point of view of a theory and goods, reveal themselves as overlapping and interacting, rather than as well-defined categories. The public sector is a mix of public and private and of public goods, which are rationed through a tool, or by a criterion of merit.⁶¹

Figure 1.1 The cycle in the demand for public and private goods



⁶⁰ W Parsons 11

⁶¹ W Parsons 11

Since the 1970s and the 1980s feminist critiques of public policy have argued that policy-making has largely been framed by what men regard as the public domain. Ms Carole Pateman, 1983, says that the dichotomy between the private and public is central to almost two centuries of feminist writing and political struggle. It is, ultimately, what the feminist's movement is all about. The public sphere, and the principles that govern it, is seen as separate from, or independent of the relationships of the private sphere. Feminist argue that liberation is structured by patriarchal as well as class relations, and that the dichotomy between the private and public obscures the subject of women to men within an apparently universal, egalitarian and individual order.⁶²

The problem of defining public and private domains and the relationship between public policy and individual privacy lets J Pahl conclude that the way in which the private is defined (by men) tells us a great deal about power and powerlessness in society as a whole.⁶³

The context in which words are used changes their meaning. The notion of 'public', the idea of policy is, as Heclo (1972) argues, not a precise or evident term. As commonly used, the term policy is usually considered to apply to something 'bigger' than particular decisions, but 'smaller' than general social movement. Thus policy, in terms of levels of analysis, is a concept placed roughly in the middle range. A second and essential element is most writers' use of the term as purposiveness of some kind.⁶⁴

Dror (1989 p xiii) notes that the notion of 'policy-making' as a 'conscious awareness of choice between two main alternatives for steering societies' may be found in Greek and Renaissance political theory, but it is not so evident in Roman civilisation.⁶⁵

The modern meaning of the English notion of 'Policy" is that of a course of action or plan, a set of political purposes – as opposed to 'administration'. Policy is seen as a rationale, a manifestation of considered judgement. Imagine for example, politicians admitting that

⁶² W Parsons 12

⁶³ W Parsons 13

⁶⁴ Heclo, 1972 84

⁶⁵ W Parsons 13

they do not have a policy on X? A policy is an attempt to define and structure a rational basis for action or inaction. As the state changed its mode of legitimating discourse, so the functions of ‘policy’ were altered. The modern liberal democratic state, post second world war, was to be a system which chose to define its legitimacy in terms of policy.⁶⁶

Hogwood and Gunn (1984 p13-19) specify uses of the term ‘policy’ in this modern sense:

- a) As a label for a field of activity.
- b) As an expression of general purpose or desired state of affairs.
- c) As specific proposals.
- d) As decisions of government.
- e) As formal authorization.
- f) As a programme.
- g) As output.
- h) As outcome.
- i) As a theory or model, and
- j) As a process. Policy sits above conscience.

Policy has a duality of meaning. Simple and scheming, policy involves creating a plausible story, which secures the purpose of the plotter; policy is acting a part. The meaning has a meaning.⁶⁷

Fiction is often stranger than fact. Francis Bacon – a contemporary of Shakespeare and Marlowe, also defined policy in terms of rational cunning. Over time this notion of policy as politics and of politics as policy was replaced by the idea of policy as political whilst carrying it out, or implementation as ‘administration’ or ‘bureaucracy’.

Bureaucracy derived its legitimacy from its claims to being non-political, whilst politicians claimed that their authority rested on the approval of their policies or ‘platforms’ by

⁶⁶ W Parsons 14

⁶⁷ W Parsons 15

electorates. Policy therefore, as a term, becomes an expression of political rationality. To have a policy is to have rational reasons or arguments which contain both a claim to an understanding of a problem and a solution. It puts forward what is and what might be done. A policy offers a kind of theory upon which a claim for legitimacy is made. The politician is expected to have ‘policies’ as a shop is expected to have goods to sell.⁶⁸

Policy is the essential currency of democratic exchange, says Schumpeter. The language and rhetoric of ‘policy’ thus become the main instruments of political rationality. In other words, we expect government to have a policy.⁶⁹

The development of policy analysis must be placed in the context of this rationalisation of the state and politics as a ‘policy-making’ activity. As Trudi Miller notes, natural science represents the approach to public administration and political science that has prevailed for most of the twentieth century. The implicit assumptions of this favoured approach are that (1) the laws that govern human behaviour exist independent of human control and (2) the unit of analysis of social systems is highly similar over time and space.⁷⁰

The term ‘policy’ is used to indicate the need for clarifying the social ends to be served by a given allocation (including self-allocation) of scientific energy (Lasswell 1948: p122). In other words, the special emphasis is upon the policy sciences of democracy, in which the ultimate goal is the realisation of human dignity in theory and practice.

Harold D Lasswell introduces the idea of knowledge of the policy process, and argues that the distinctive outlook of the policy science is that it is problem oriented.⁷¹ Lasswell became a mediator between those who specialise in specific areas of knowledge that those who make the commitment in public and private life. Both the intellectual community and the community at large are beginning to acknowledge the indispensable place of the integrator, mediator, and go-between.

The policy sciences were therefore:

⁶⁸ W Parsons 16

⁶⁹ W Parsons 16

⁷⁰ W Parsons 17

⁷¹ W Parsons 19

- a) contextual
- b) multi-method
- c) problem-oriented.

A major feature of this orientation towards policy as a knowledge process was the designation of stages and functions within policy-making. Policy analysis is concerned with knowledge in and for the policy process, while the analysis of the policy process is concerned with knowledge about the formulation of public policy.⁷²

Policy analysis therefore evolved in an era in which government was seen as a ‘problem-solver’ and political system as a problem-processor. The main influence over policy analysis in government were theories and techniques borrowed from management in the private and corporate sector. The ‘think tank’ was to close the gap between knowledge and policy by fostering a constructive dialogue between social scientists, businessmen, and policy makers.⁷³

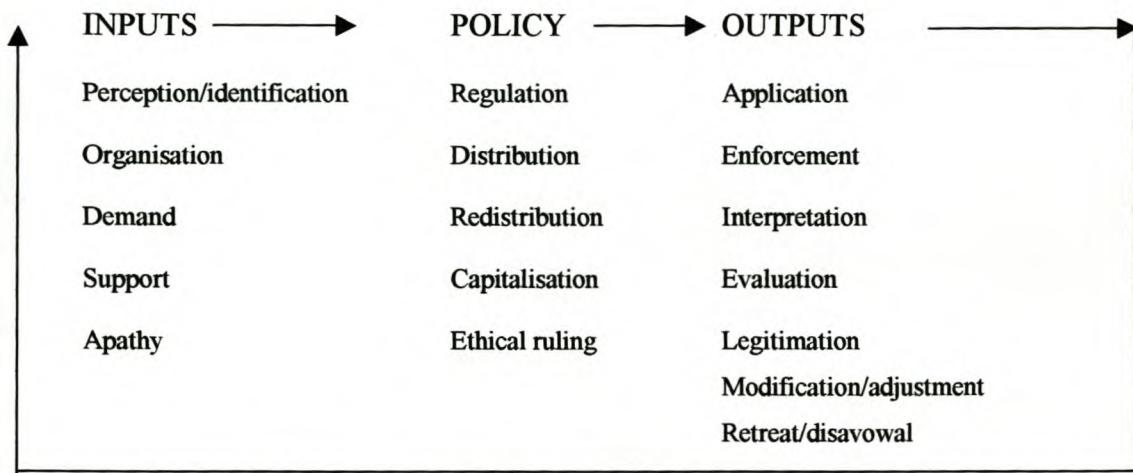
‘Policy-making’ is, instead, a completely interactive process without beginning or end. In studying the policy process we should take account of elections, bureaucracies, parties and politicians and interest groups, but also of ‘deeper forces’ – business, inequality, and the limited capacities of analysis – which structure and distort the policy process.⁷⁴

⁷² W Parsons 20

⁷³ W Parsons 21

⁷⁴ W Parsons 22

The policy process as inputs and outputs



The combination of rational stages and systems approaches thus afforded a more dynamic model policy-making, and a basis for understanding policy in terms other than institutional and constitutional arrangement.⁷⁵

Policy analysis emerged in the 1970s as an approach that offered the possibility of a unified or integrated social science, which could bridge the boundaries of academic disciplines.⁷⁶

Policy analysis is an applied subject, the contents of which cannot be determined by disciplinary boundaries but by whatever appears appropriate in the circumstances of the time and the nature of the problem. Policy and problems provide a common focus for social science and areas of scientific activity and research, which have become more aware of the political context within which they operate.⁷⁷

The policy analysts are concerned with ‘problems’ and the relationship between public policies and these problems. They are concerned with the content of public policies. They are concerned with what the decision-makers and policy makers do or do not do. They are

⁷⁵ W Parsons 24

⁷⁶ W Parsons 28

⁷⁷ W Parsons 29

interested in the inputs and processes of policy areas. They are concerned with the consequences of policy in terms of outputs and outcomes.⁷⁸

Public policy is a field that tends to be defined by policy areas or sectors, and it is largely in this setting that interdisciplinary and interinstitutional interaction may take place. They also provide the context of comparative studies.

Analysts focus on different stages of policy processes; they have a particular relationship with the policy process, and different ideas, beliefs and assumption about it. Public policy-making has different stages: policy formulation, implementation, and evaluation.

For Michael J Prince the major focus was on policy planning and research units as organisation, their origins, functions, staffing, and structure and members' attitudes. More specifically, the study is an examination of the establishment and performance of the policy planning and policy research organisation in the British system of government.⁷⁹

- This policy unit is a distinct and novel type of public organisation in Britain. The planning and research unit is a permanent government organisation, which performs the policy oriented staff function.
- The unit was specifically established to provide a range of policy and programme advice to policy makers and administrators.⁸⁰
- Furthermore, policy units are important to study because an understanding of their present uses may lead to future improvement. To understand these organizations, we must examine their origins, organisational goals, staffing, internal organisation, interorganisational relations, and the various types of effects.⁸¹

The unit staff should be able, skilled in their professions, far seeing, imaginative, sympathetic to the services, precise but not over-meticulous and able to work together with other departments.

⁷⁸ W Parsons 30

⁷⁹ Michael J Prince viii

⁸⁰ Michael J PrinceP1

⁸¹ Michael J PrinceP2

Michael J Prince (1995: p viii) defines policy as a deliberate course of action or inaction taken by those in office under the influence of values and pressures on the way resources (expenditure and coercion) are to be used in pursuit of objectives or in support of other policies.⁸²

Policy involves deliberate behaviour to pursue certain objectives. The distinction between action and inaction properly emphasises that policies can initiate change or resist change. Those who make those choices are in office, offices of the state or public authority at all levels of government in the political system. Public policy is an outcome of decisions about the political allocation of resources and is therefore characterised by the use of legal and coercive sanctions; by being of general concern and by the application of political values to problem solving.

Policy is intended to affect all or selected points of the external and internal environment of the political system. This suggests that ‘policy is not a final product but an aspect of an ongoing interaction among the various elements of the social situation’, government and private organisations, social groups and individuals.

Policy consists of a series of actions and decisions. A policy is not a single decision, although one of the more visible products of a policy is the formal or official decisions selecting one course of action or inaction from among various options.

As a process the interrelated events that lead up to a policy decision can be called policy formulation or policy-making. The series of events and activities following a policy decision undertaken to pursue that decision is called policy implementation or execution.⁸³

Policy and administration became closely intertwined through formulation as well as implementation and programmes. A programme is a subset of a policy and is often more specific and detailed than the policy decision. In this context, a programme is a concrete course of action intended to put into operation and pursue a policy decision.

The policy process then refers to the overall sequence of interrelated activities which make up and shape the formulation decision, programme, implementation, outcome and

⁸² Michael J Prince 8

⁸³ Michael J Prince 8

evaluation of policy. Planning as a government activity is one part of the policy process and is usually a method of policy formulation. In general, planning is the attempt to control or determine the future through present actions.

Planning is a purposive activity. Planning activities lead to a pattern of distribution of resources closer to that desired by the government in question that will result in their re-election.

Planning is an advisory process of preparing a set of choices for policy, a set of choices for policy decisions to be made and implemented elected by other and appointed officials and organisations. Planning is primarily action-oriented and may be seen as applied policy analysis.⁸⁴

Finally, planning is the co-ordination or accommodation of the intended goals with existing policies, interest and available resources. The planning process consists of the whole set of these related activities.⁸⁵

Calculated choices in policy-making are based on the evaluation of alternatives. The outcome of policy choice is often worse than the expected. Dealing with policy in a rational way without distorting the political context in which choices are made is a complex if not impossible matter.⁸⁶

The impact assessment was developed in order to avoid as many unseen consequences of policy decisions as possible. Deliberations can be more explicit, but can also remain implicit or intuitive. All choices are based on the (alleged) value or utility of alternatives and on the sum total of expected positive and negative effects.⁸⁷

In general there is a need for the understanding of how to make well-deliberated choices in a policy-making process. The structure of impact assessment is characterised by a number

⁸⁴ Michael J Prince 9

⁸⁵ Michael J Prince 10

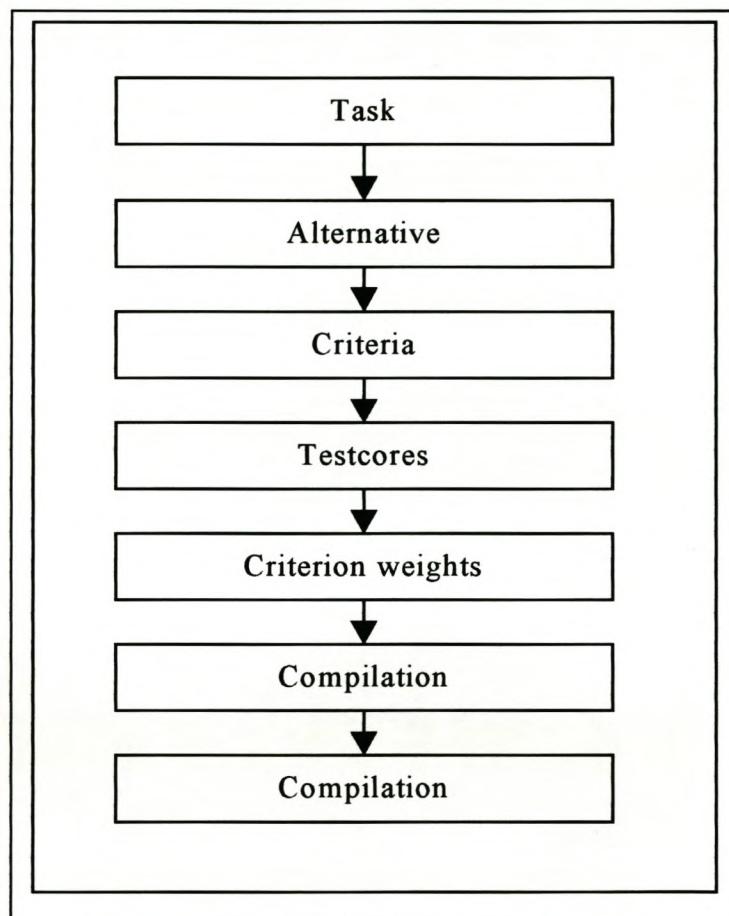
⁸⁶ Michael S de Vries xv

⁸⁷ Michael S de Vries 1

of stages. For example, an actor is faced with a problem. This means something needs to be done to bring the perceived situation close to a desirable situation.⁸⁸

The alternatives are formulated, and to assess them, criteria are chosen. Using these criteria, the alternatives are evaluated. Then the scores of each alternative to the criteria are determined.

Figure 1.2 Elements of multicriteria evaluation



(Michael S de Vries, 1997)

⁸⁸ Michael S de Vries 7

3.3 Development in the application of the methodology

Factors that led to the rise of impact assessment were, firstly, the kind of problems that have been dealt with by means of the methodology. The method serves as an ‘instrument’ for finding the most preferred alternative. Secondly, impact assessment is considered to be seen as an ‘adequate method’.⁸⁹

The choices in policy may start with the making of an arbitrary decision-maker. The content of a choice is of secondary importance. Choices can be made in a large number of ways:

First, when the emphasis is put on the theoretical capacities of the policy actor, policy-making can be considered a thinking process. Secondly, when social skills are emphasised, policy-making can be considered a social or political process. Thirdly, policy-making can be seen as a domination of both. In that case, political and theoretical factors together determine which alternative will be preferred.⁹⁰

This methodology distinguishes itself from other evaluation methodologies because:

- a) An evaluation takes place prior to a decision.
- b) Evaluation uses all relevant effects of a choice, not just the financial or desired ones.
- c) Evaluation does not depend on a specific research technique.
- d) Evaluation is value bound in the sense that the optimal decision is indicated, given explicit alternative and criteria and their importance.⁹¹

In government and business, a distinction is often drawn between policy-making and executive decisions. Policy-making is designed to give direction, coherence, and continuity to the course of action for which the decision-making body is responsible. Executive decisions are designed to give effect to the policies thus laid down.⁹²

⁸⁹ Michael S de Vries 8

⁹⁰ Michael S de Vries 28

⁹¹ Michael S de Vries 34

⁹² G Vickers 39

Every decision-making body is to be regarded as a regulated component of the dynamic system of which it forms part. This complexity resides chiefly in the presence of ‘policy-making as a constituent of regulation’. Thus, policy-making assumes, expresses, and helps to create a whole system of human ‘values’.⁹³

Policy has been described as the setting of governing relations or norms rather than in the more usual terms as the setting of goals, objectives, or ends. To appreciate relations in time and an enhanced capacity to appreciate relations in the meantime is clearly one of the distinguishing marks of own species. For goal setting is a distinct form of regulations, with its own specific mechanisations, a form less important, in G Vickers view, than norm setting but important enough to be separately distinguished.⁹⁴

To discharge a role, to exercise a profession, to live a life are, what G Vickers will suggest, even more obviously exercises in the maintenance of relationships in time. The goals we seek are changes in our relations or in our opportunities for relating; but the bulk of our activity consists in the ‘relating’ itself. The maintenance of relationships in time is what is understood as regulations.⁹⁵

The policy maker’s skill is defined as a continuing exercise in a dual process of ‘optimising’ and ‘balancing’ within a situation that does not, cannot, and should not admit the full realisation of all contemporary ‘values’.⁹⁶

One of the most valued skills in the policy maker is the obvious one, namely the skill of the balancer. The policy maker’s skills include skill in integrating in one solution aims that seemed at first incomparable. Another element in the skill of the policy maker is skill in designing priorities. Since policies are framed within a wider net of aspirations and apprehensions than can be fully realised, another skill will be to deal with those ‘ideal norms’ that are not currently included in policy.⁹⁷

⁹³ G Vickers 43

⁹⁴ G Vickers 46

⁹⁵ G Vickers 47

⁹⁶ G Vickers 130

⁹⁷ G Vickers 131

Policy-making institutions, however, depend not only on these individual skills but also on limitations and facilities inherent in institutional life. It is an institutional process, a function, in part, of the nature, structure, and history of the institution concerned.⁹⁸

Institutions determine the distribution of power in our society, they also express and preserve different, often divergent, cultural heritages. Indeed, the most far-reaching control possessed by any society over its future is the power to remake its institutions.⁹⁹

Groups of elementary constituents (who) may be entering into close relationships with each other build up complex entities, which then enter into further causal relations with each other as ‘units’. It is these facts of the integration of groups of constituents into complexes which in certain respects act as units, which is spoken of as an organization.¹⁰⁰

To complete the picture of units: the first is the dimension of duration. The coherence of social units may far outlast that of their transient human constituents, though their coherence is not inconsistent with constant change.

The second dimension is called the dimension of extension.

The third dimension is called the dimension of fragmentation.

The fourth distinction is worth noting. Some of the hierarchy’s relations rest on what is called authority.

Along the fifth dimension we may measure the strength or integrity of an organisation.¹⁰¹

For Geoffrey Vickers the policy maker has choices in making policies. The first kind of choice he calls ‘market choice’. These are choices made by the chooser between alternatives, each of, which has a cost, if only the giving up of the others and it is made to satisfy him.

The second kind of choice is called ‘political choice’; an exercise of power over the many and each of the many who are ‘chosen for’ can influence the choice only by exercising

⁹⁸ G Vickers 135

⁹⁹ G Vickers 136

¹⁰⁰ G Vickers 138

¹⁰¹ G Vickers 140

such power as he has over the chooser or by himself struggling into the chooser's seat of power.

A further increase of 'political' choice has arisen through the emergence of new demands by the many that can be satisfied only by a monopolist provider.¹⁰²

The administrative process has become the centre of activity of government. It is a major source of legislative, the predominate power in the shaping of basic policy decisions in many areas, and the primary mechanism for the implementation of public policy.¹⁰³

The administrative process has become a fundamental in the policy-making process. Citizen participation is provided for at the initial stage of agency action as individuals and groups can petition agencies to investigate particular problems or take specific actions.¹⁰⁴

3.4 Power

The contribution of the philosophical (ethical, normative, methodological) dimensional of the analysis of public policy is immense. Machiavelli believed that it was necessary for those in power to understand how power worked. Machiavelli was interested in the craft of the state ('statecraft'); his belief was that, through knowledge of reality of politics and power, decision makers could better control affairs and have a greater capacity to deal with problems.

Machiavelli was fascinated by power and outcome, with the use of policy to obtain whatever were the objectives of power-holders. He was concerned with the relationships of ends and means and their context in process of change that are beyond the rational control of them.¹⁰⁵

Policy is the strategy by which goals are reached. Whether a policy is right or wrong does not come into it. What matters in the end is that which the policy is designed to achieve. Therein lays the only real source of legitimacy as effectiveness.

¹⁰² G Vickers 145

¹⁰³ Bryner, Gary Clifford 1

¹⁰⁴ Bryner, Gary Clifford 125

¹⁰⁵ W Parsons 41

Good policy was essentially realising that the exercise of power required the ability to sustain authority and legitimacy by building up support and agreement rather than antagonism. Power was the exercise of knowledge. For Bacon, policy was the use of knowledge for the purpose of governance. For Machiavelli policy was an activity of sustaining power, for Bacon it was an activity of sustaining balance and authority.¹⁰⁶

Bentham and Mill of the utilitarian philosophy declared that the principle of utility – the greatest happiness for the greatest number – should serve as the foundation of individual actions and government policies.¹⁰⁷

The case of reform in public policy often takes the form of utilitarian arguments as to see promotion of greater services welfare and individual freedom. William James (1842-1910), who is the father of modern ‘pragmatism’, as philosopher argued that truth was something which happens to ideas. Ideas become true, or are made true by events. Ideas are in a biological sense the activity, which enables human beings to modify their environment in order to survive and develop. William James liked to distinguish between ‘tough-minded’ philosophers, who were alive to empirical knowledge, and the ‘tender-minded’, who derived their ideas from abstract thinking.

Pragmatism for John Dewey (1859-1952) was a method of social experiment, a form of trial and error learning. This call for a focus on problem solving was to be a core belief of the policy approach as it was to develop in the post war period.¹⁰⁸

In Nozick’s philosophy (Nozick’s Anarchy, State and Utopia 1974) justice has to do with what people are entitled to rather than what is fair. A distribution may be just, as everyone is entitled to what they have, but it may not be fair, in a distributive sense. Individuals and markets are the only way in a free world in which a society can be organised so as to attain justice. This was a thesis not lost on those who wished to see less public and more individual freedom of choice.¹⁰⁹

¹⁰⁶ W Parsons 44

¹⁰⁷ W Parsons 45

¹⁰⁸ W Parsons 45

¹⁰⁹ W Parsons 48

To understand the concept of shared power, one is to learn how to analyse the constraints and loopholes in the environment for action; to be able to guess where the inherited ‘policy’ comes from; to think hard about the future impacts of present actions. A recurring theme in this work is that, for leaders, uncertainty is somewhere near the centre of things.

A programme of education for leadership therefore cannot be focussed mainly on how-to-do skills, nor can it offer what-to-do prescriptions. Rather, it has to concentrate on helping each leader get used to the assessment of uncertainty, clarify his /her ethical values, and develop for his /her own personal use a comprehensive worldview appropriate for an ambiguous future. More even than practical skills, leadership is thought-through attitudes, educated instincts.

Education for leadership must therefore be an inquiry into the deeper forces at work, an attempt by leaders themselves to connect their small parts of a large complexity with the whole.

Events are now so interconnected that most important public issues of the day typically arise in settings in which no one is in charge, and in which organisations or institutions must share in order to address them effectively.

In other words, organisations or institutions must interact with one another in order to achieve their separate and shared aims. These sharing relationships take many forms, including intergovernmental, interagency, public/private, and joint private arrangements.

As more and more sharing relationships develop out of necessity, there is an urgent need for reflective practitioners and scholars to examine more closely the nature of shared power and how it can be used effectively, efficiently, justly, and with due regard to individual liberty.¹¹⁰

The focus on shared power management is prompted by the convergence of five trends and the attendant absence of suitable theory to explain what government and other organisations should do when confronted by these trends:

¹¹⁰ John M Bryson xxi

- a) Things appear to be increasingly interconnected.
- b) A number of traditional distinctions are blurring to the point of no longer making any sense of distinction between domestic and international, between public and private.
- c) The capacity to govern appears to be declining.
- d) ‘Shared power arrangement’ is used increasingly to deal with these changing circumstances.
- e) A number of questions are increasingly being asked about the effectiveness and desirability of these shared power arrangements.

Said differently, the first three trends are forcing a change in how organisations relate to each other to solve problems, make decisions, or pursue projects.¹¹¹

More and more changing relationships develop because they are the only way to obtain action in an increasingly interconnected and interdependent world. Separation was written into the constitution; important adversarial relationships emerge naturally from this separation. Separation and adversarial relationships have been embodied in legislation to correct abuses of power.

And they have been embedded in our evolved western culture that values individualism, equality, autonomy, self-constraint, self-sufficiency, independence, capitalism, and democracy.¹¹²

‘Shared-power arrangements’ is the term we use to focus attention on the emerging relationships and power dynamics among organisations and institutions. Regimes, policy network, interorganisational relations, and public private partnerships are all examples of shared power arrangements.¹¹³ John M Bryson defines ‘shared power’, following Giddens (1979:93), as ‘shared transformative capacity exercised in interaction between or among actors to further achievement of their separate and joint aims’. The actors can be in

¹¹¹ John M Bryson 1

¹¹² Huntington, 1981;Luke, Chapter 2

¹¹³ John M Bryson 2

individuals, groups, organisations, or institutions. However, because shared power situations are ‘mixed-motive’ situations, authority is not merged.¹¹⁴

Participants reserve the right of ‘exit’ (Hirshman, 1970) so that they can make sure their separate aims can be achieved, at the same time that they try to capture the benefits of sharing.

Sharing of course can involve increasing levels of commitment and loss of autonomy. For example:

- a) Sharing a common objective towards which organisations work through informal coordination,
- b) Sharing resources or activities to achieve a common or mutual objective,
- c) Sharing power and
- d) Sharing authority.

Shared-power relationships are in the mid-range of a continuum. At one end of the continuum we find two or more distinct organisations with no relationship to each other at all or else relating to one another in a competitive or adversarial way. Shared-power arrangement thus exists in a kind of ‘tension field’ (Wechsler and Backoff, 1987) created by forces extending to the organisation. Examples of shared power arrangement include interagency; as interconnectedness has risen, the number of different government agencies that have an interest in or must approve a public action has multiplied. Public or private initiatives in land development projects.¹¹⁵

John M Bryson refers to the increased complexity of the world in which public and private decisions must be made. Others refer to the uncertainty that occurs because of this complexity.

Risk increases for policy makers, decision-makers, and managers as a consequence of this lack of clarity and uncertainty. The risks increase because these people are expected to make good decisions and take effective actions in situations they do not fully (or

¹¹⁴ John M Bryson 3

¹¹⁵ John M Bryson 4

sometimes even partly) understand or control. This uncertainty is compounded by the unknown future. People in the U.S. have been taught to perceive and value separateness, autonomy, and capacity for unilateral action; we therefore see the increased interconnectedness in the world as troublesome. That is, we see the interconnectedness as increased complexity, uncertainty, turbulence and risk rather than as neutral or positive. And, finally, increased clarity and understanding increases our capacity to handle the complexities, uncertainties, turbulence, and risk we actually do face.¹¹⁶

The basic principle seems to be that decision of any activity or responsibility automatically creates the potential for shared-power relationship when tasks are involved that bridge the division. Individuals (or individualism) are typically equated with competition, while society is equated with cooperation.¹¹⁷

Shared-power arrangements typically are designed to increase governance and management capacity in this world that is ‘functionally’ interconnected by ‘structurally’ separated, divided, and fragmented and in which structural separations are based on strongly held ideological beliefs. Instead, they usually are difficult to implement and manage response to very difficult problems.¹¹⁸

Public policy instruments that cause fragmentations are for example grants, contracts and subsidies. The necessity to share authority, and therefore the inability to act unilaterally, was one of the founding concepts of the republic.¹¹⁹

First, in the public sector, unlike the private sector, the self-interest of the employee may not correlate with the interest of the organisation; this is true for elected as well as appointed individuals. Too little sharing among organisations creates too little stake in the joint effort. Too much sharing threatens authority.¹²⁰

¹¹⁶ John M Bryson 7

¹¹⁷ John M Bryson 9

¹¹⁸ John M Bryson 11

¹¹⁹ John M Bryson 11

¹²⁰ John M Bryson 12

We define power as a kind of capacity; it is also defined in terms of outcome. At present most important public issues arise in situations in which no one is in charge, and in which organisations or institutions must share power in order to address those issues effectively. We use the term ‘shared-power arrangement’ to focus attention on the emerging relations and power dynamics we see among organisations and institutions in a variety of different policy realms in response to similar environmental changes. Shared power is defined as shared transformative capacity exercised in interactions between or among actors to further achievement of their separate and joint aims.¹²¹

3.5 Bureaucratic Ethos

Bureaucratic ethos has long been associated with the historical mode of modern public administration, particularly its mainstream organisational locus. The content values of bureaucratic ethos are chiefly contained in five pervasive concepts:

- Efficiency
- Efficacy
- Expertise
- Loyalty, and
- Accountability

In one form or other these concepts and their inclusion as positive behavioural norms for public administration have remained viable in both theory and practice. Intellectually, this framework has been championed by several sources, including the Weberian model of bureaucracy, where the rational principles underlying this ethos are clearly articulated.¹²²

The social ongoing of bureaucratic ethos is numerous and cross-cultural. Certainly, some of the more profound social movements to advance bureaucratic ethos include social

¹²¹ John M Bryson 20

¹²² James S Bowman 10

movement, the progressive political movement, the scientific management movement, and the social science movement.¹²³

3.6 Democratic Ethos

The framework labelled by scholars as democratic ethos is considerably less precise than its bureaucratic counterpart. It is, to say the least, eclectic and broadly based. One can surmise from its content values that it is an evolving framework. Content values for democratic ethos include (1) regime values, (2) citizenship, (3) public interest, and (4) social equity. A set of values that clearly places the framework in the realm of political theory. The intellectual origins of this framework, unlike those of its bureaucratic alternative, are both historical and recent. The regime values include personal liberty, property and equality. According John Rohr, they represent ‘the values of the American peoples’.¹²⁴

In theory, these values are to serve as general guide ethical reasoning in public administration. The notion of citizenship – the ideal of a citizenry informed about government and active in its operation. Public interest is ‘what men would choose if they clearly thought rationally, and acted disinterestedly and voluntary’, says Walter Lippman.¹²⁵

A final content value that has emerged in the democratic framework is the concept of ‘social equity’ which, according to David K Hand, may be defined, as follows: In broadest and most general signification (equity) denotes the spirit and the habit and the habit of fairness, justness, and right dealing would regulate the intercourse of men with men. The rule of doing to all others as we desire them to do to us.

And, finally to live honestly, to harm nobody, to render to every man his due. It is therefore the synonym of natural right or justice. But in this sense its obligation is ethical

¹²³ James S Bowman 11

¹²⁴ James S Bowman 14

¹²⁵ James S Bowman 15

rather than jural, and its discussion belongs to the sphere of morals. It is grounded in the precepts of conscience, not in any sanction of positive law.¹²⁶

Lastly, the methodology of democratic ethos is different from that of its bureaucratic rivals. Specifically, its method is deductive (reasoning from a general truth to a particular instance of that truth), dialectical (whereby questions and their answers lead to their logical conclusion), and deontological (where the rightness or wrongness of a moral action is determined by referencing formal values of conduct rather than the action's result or consequences). Ethical codes, because they are intended to provide guidance to practitioners, can be important precursors to behaviour as well as formal measures by which behaviour can be judged.¹²⁷

3.7 Models, maps and metaphors

The world is a complex place, and in order to understand this complexity we need to simplify. When we simplify in order to comprehend the multiplicity of factors and forces which shape problems and social processes, we construct models, maps, or think in terms of a metaphor. These constitute frameworks within which and through which we can think and explain issues.¹²⁸

When we deploy a framework therefore, we are imposing a way of thinking about the world; we are creating an order out of what does not have an objective order in it. As Popper argued, the facts exist in the context of theories, values, and beliefs, not independently of them.¹²⁹

The scope of and influence of economic theory has expanded beyond that the postulates of an axiomatic system ought to impose. Market fundamentalists have transformed an axiomatic, value-neutral theory into an ideology, which has influenced political and business behaviour in a powerful and dangerous way. How market values penetrate into

¹²⁶ James S Bowman 10

¹²⁷ James S Bowman 17

¹²⁸ W Parsons 57

¹²⁹ W Parsons 58

areas of society where they do not properly belong is one of the key questions that need to be answered.¹³⁰

The values taken as given by economic theory always involve a choice between alternatives: So much of one thing can be equated to so much of another. The idea that some value may not be negotiable is not recognised or, more exactly, such values are excluded from the realm of economics. Generally speaking, only individual preferences are included, whereas collective needs are disregarded. This means that the entire social and political realm is left out of account.¹³¹

Instead of taking values as given, we treat them as reflexive. That means that different values prevail in different conditions and there is a two-way feedback mechanism that connects them with actual conditions, creating a unique path. We must also treat values as fallible. That means that those values that prevail at any moment in history are liable to prove inadequate and inappropriate at some other point. Market values have assumed an importance at the present moment in history that is way beyond what is appropriate and sustainable.¹³²

Peter Underdown sees the policy-making process as an involving policy–maker, firm’s auditors, individuals, and markets.¹³³

Theories which explain may set out principles of what ought to be, in which case they are normative. Alternatively, theories may explain observed phenomena, and are termed descriptive. Theories of both types may be found under the reading of accounting theory.¹³⁴

¹³⁰ W Parsons 43

¹³¹ W Parsons 43

¹³² W Parsons 46

¹³³ Brian Underdown 13

¹³⁴ Brian Underdown 11

In the absence of objectives policies makers may be forced to apply inadequate criteria to the evaluation of practice. Objectives are normative in character and will tend to reflect the value judgements of those who formulate them.¹³⁵

The setting of accounting standards is as much a product of political action as of flawless logic or empirical findings because the setting of standard is a social decision. Standards place restrictions on behaviour; therefore the affected parties must accept them. Acceptance may be forced or voluntary, or both.¹³⁶

Social welfare is an extension of the political approach and involves an assessment by policy makers of the effects of accounting policies on the behaviour of user groups and others and thereby upon the economy.

Accounting policies should be set so as to maximise social welfare rather than the welfare of any particular interest group or groups. This suggests rather broad objectives for financial reporting, such as the following set out by Mautz and May (1978):¹³⁷

- a) Improve capital formation.
- b) Assist in the allocation of resources.
- c) Economic innovation and risk-taking.
- d) Facilitate domestic enterprise to meet foreign competition.
- e) Provide benefits, which are greater than cash.¹³⁸

Between anarchy and hierarchy is, in the first place, an attempt to demonstrate that a general empirical behavioural theory purporting to explain social and political phenomena can indeed help us to gain a sound understanding of international issues, and thus of the issues that figure prominently in contemporary international policies such as those of peace and security, of underdevelopment and of European integration.

¹³⁵ Brian Underdown 16

¹³⁶ Brian Underdown 16

¹³⁷ Mautz and May 1978

¹³⁸ Brian Underdown 17

In the second place, this is an endeavour to integrate into the more classic, ‘realist’ theories of international relations the theories in the field of bureaucratic decision making (including the making of foreign policy) that have been developed in the course of the last twenty years or so.¹³⁹

Business managers need to understand the public policy process in order to be able to influence the process in the best interest of the corporations they represent. Such an understanding should enable business managers to identify issues important to the corporation early in the policy process and to view them as an opportunity and a challenge rather than simply as a threat.¹⁴⁰

Public policies are those policies developed by governmental bodies and officials (non-governmental actors and factors may, of course, influence policy development). The characteristics of public policies stem from the fact that they are formulated by what David Easton has called ‘authorities’, in a political system, mainly ‘elders, paramount chiefs, executives, legislations, judges, administrations, councillors, monarchs, etc’. These are the persons who “engage in the daily affairs of a political system” are “recognised by most members of the system as having responsibility for these matters”, and take action that are ‘accepted as binding most of the time by most of the members of the book’.¹⁴¹

Public policy may be defined as including: Laws (also often referred to as statutes) enacted by the US Congress and the state legislatures; Rules and regulations adopted by administrative agencies; Executive orders issued by the President of the United States pursuant to this constitutional authority or authority granted to him by the congress; and Judicial opinion handed down by the federal and state courts, especially opinions by the US Supreme Court and the various state supreme court.¹⁴²

Dan Bertozzi asks the question of how does issues arise in the public policy process, for issues to become sufficiently recognised to be added to the ‘public policy agenda’. For our

¹³⁹ Robert H Lieshout vii

¹⁴⁰ Dan Bertozzi 2

¹⁴¹ Dan Bertozzi 2

¹⁴² Dan Bertozzi 5

purpose we can define the public-policy agenda as that set of issues which has received sufficient attention or recognition so that they are being actively considered by the policy process for adoption as the public policy of a state or United State.

For issues to be identified for the public policy agenda they need to be:

Supported by social, political, economic, or religious leaders /or opinion makers.

- Media influence.
- Advances in science and technology.
- Level of education and leisure time in the population.
- Interest groups.
- Historical events: domestic and foreign.
- Changing economic and demographic conditions.
- And rational ignorance.

Analysing the operation of the public policy process is often referred to as policy analysis.

Policy analysis may be defined as an analysis of the forces or factors that help determine whether the issues will succeed in becoming a public policy.¹⁴³

Dan Bertozzi has developed a model to help us understand policy issues, the model sets forth four factors that will help determine whether policy issues placed on the public policy agenda succeed in being transformed into public policy by the legislative process.¹⁴⁴

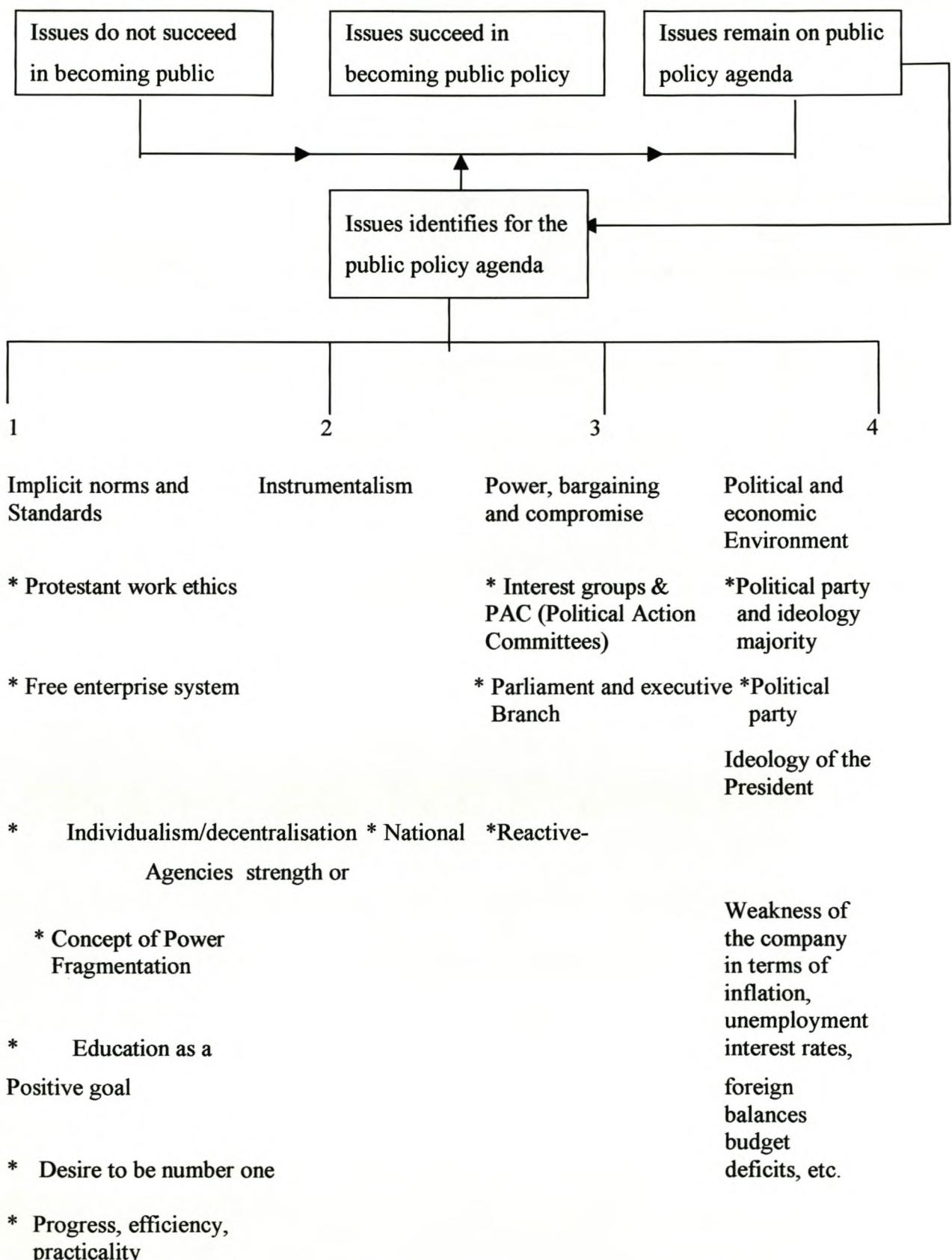
There are four factors which influence issues becoming public policy:

- Implicit norms and standards.
- Instrumentalism.
- Power, bargaining and compromise.
- Political and economic environment.

¹⁴³ Dan Bertozzi 13

¹⁴⁴ Dan Bertozzi 13

Figure 1.3 Model of the public policy process



This model of the public policy process argues those factors such as implicit norms and standards, instrumentalism, power, bargaining, and compromise and the political and economic environment are useful for evaluating issues in the policy process.

In this chapter, we reviewed literature defining what constitutes public policy and problems associated with it. This give input for the next chapter for the formulation of policy framework for SME involvement in the defence-related industry.

In chapter 4 we will formulate policy framework for SME and also draw conclusions of future activities and programmes for the success of SME introduction into the defence-related industry.

CHAPTER 4

POLICY FRAMEWORK FOR SMALL AND MEDIUM ENTERPRISES IN THE DEFENCE-RELATED INDUSTRY

4.1 The concept of economic empowerment for the development of SME in the defence related industries

A future-oriented state of mind is particularly important in the light of the current and expected social turbulence and discontinuities confronting all decision-makers. In the quest for creating the optimal future it is crucial to recognise the alternative futures which might come about. In addition, there is a need to plan for the longer term – to produce robust strategies, which ensure survival. To this end a system's rate of learning has to at least match the rate of change in the environment a pre-condition that is best met by the concept of a learning organisation (i.e. country). Foresight is indispensable in a learning organisation, is the product of knowledge (about factors shaping the future), good judgement and dialogue between concerned individuals.¹⁴⁵

An important reality, that needs to be stressed from the outset, is that it is not possible to predict the future. We can, however, gain knowledge about the future. Moreover, there is not one future, but many possible futures, including a preferable future (which is more related to personal and social values).

The purpose of strategic transformation is to redirect and transform society / an organisation in a purposeful and practical manner, i.e. to make the future. The product of such transformation should be organisational development and enhanced competence. Organisational development is not the same thing as organisational growth. An organisation can grow and, while doing so, die (or implode) in the absence of renewal strategies. Development means continuous renewal and capacity enhancement; the ability to be effective over the long term.¹⁴⁶

¹⁴⁵ Business Futures 2001 1-3

¹⁴⁶ Business Futures 2001 1-3

The development of SME in the defence-related industry is part of the renewal of the defence industry and moving forward towards, say, digital technology for established firms. The manufacturing can be left to small firms requiring less capital and sophisticated machines and processes.

Kevin Kelly believes that as complex as things are today, everything will be more complex tomorrow. From a business perspective the future is crucial for an additional reason. The central task of business leaders today is arguably the creation of sustainable value for organisational stakeholders. And at the core of value creation lies the leaders' ability to innovate and implement new solution faster than anybody else does. This requires knowledge about the future. About those things and patterns shaping the future in both a positive and negative way. The challenge then is to learn from complexity, to understand it; and manage it effectively at all times.¹⁴⁷

National development is a function of *human development* of the quality of life of the individual and of the quality of the family. The factors most important to national development are not the availability of natural resources, minerals and capital, but the enthusiasm, diligence, creativity, innovativeness and productivity of the ordinary citizen working together with others in society. Therefore, factors that enhance or obstruct human development will enhance and obstruct national development.¹⁴⁸

The vision of the country nationally should be shared sectorially by industries. The vision that the country can be productive with its citizens being fully employed can be achieved once all people throughout all levels of companies genuinely share individuals' visions. Thus focusing the energies of thousands and creating identity among enormously diverse people.¹⁴⁹

In a country, as in a corporation, a shared vision changes people's relationship with the country. It is no longer "their country/company", it becomes "our country/company". A

¹⁴⁷ Business Futures 2001 P1-4

¹⁴⁸ Business Futures 2001 P2.47

¹⁴⁹ PM Senge P207

shared vision is the first step in allowing people who mistrusted each other to begin to work together. It creates a common identity.¹⁵⁰

This new vision is required if SMEs in the defence-related industry are to be successful. Existing small engineering firms traditionally owned by white engineers can grow bigger by involving black engineers in the process of empowerment, and financial partnership instead of the traditional employer and employee relationships.

A new vision for South Africa demands faith in us; these are the words of Majakathata Mokoena in the City Press of January 06 2002,¹⁵¹ commenting on the state of the nation. He goes further, saying: "It is time to re-evaluate our visions and to develop plans to withstand the tough year ahead. Vision is central to everything we do. Have it and you have a map to guide you through life. An absence of it means you may have to follow others passively into their plans. Creating a vision forces us to take a stand for a preferred future as South Africans. It makes the entrepreneurial cycle work because it gives us something for which we are willing to take risks. The vision is also our way of discovering that serving the nation also serves our self-interest".

We provide leadership when we create a vision that positions our nation in relation to the global customer and to our own citizens. Our vision channels our deepest values into the workplace and civic society, and it becomes a picture of how we want our values to be lived out in our nation.

The doughnut principle, however, requires an inside-out doughnut, one with the hole on the outside and the dough in the middle. It can only, therefore, be an imaginary doughnut, a conceptual doughnut, one for thinking with, not eating. For Charles Handy, a doughnut may seem to be an unlikely pathway through paradox, but the concept of balancing a core and a bounded space is crucial to a proper understanding of most of life, as he shall hope. It is a way to find the balance between what we have to do and what we could do or could

¹⁵⁰ PM Senge 208

¹⁵¹ City Press of January 06 2002

be. It is a way of getting around the problem of the empty raincoat, of being an instrument of society but also an individual.¹⁵²

The policies necessary to facilitate the emergence of SME in the defence-related industries do not need to be perfect from day one. What is needed is the resolve to see the concerted effort of some SMEs being identified for the purpose.

As in the doughnut paradox, we need space for our opportunity to make a difference, to go beyond the bounds of duty, to live up to our full potential. That remains our ultimate responsibility in life, a responsibility that is always larger than our duty, just as the doughnut is larger than its core.¹⁵³

Zoli Kunene, chairman of South African electronics group Grintek says that Grintek eyes the future as a solution provider and is committed to the defence sector. While telecommunications is the group's bread and butter 'in terms of our long-term planning, defence still offers a real and very attractive opportunity, moving from a low base to exploit a wider market than was previously available' (2001, p20).

Grintek is implementing two core strategies to this end, a shift away from manufacturing components and developing alliances with selected foreign companies. They are increasingly moving away from making boxes for communication equipment of UF/VF radios. In communications, for instance, their focus is moving from Phoenix as a product to be sold as one of the building block of communications solutions. They are becoming solution-oriented. The move is away from selling boxes over the counter to providing solutions.¹⁵⁴

In a written answer to Parliament on 13 November 2001, the British Minister for the Armed Forces, Dr Lewis Moonie, said: it 'remains possible that a strategic partner will be brought in to assist with the commercial development of the company prior to a flotation'.

¹⁵² Charles Handy 65

¹⁵³ Charles Handy 65

¹⁵⁴ Janes Defence Weekly 28 November 2001 21

This is the indication of opportunities available in the defence-related industry. The opportunities do not relate to the local industry only but internationally.¹⁵⁵

The global economy is characterised not only by free trade in goods and services but even more by the free movement of capital. Interest rates, exchange rates, and stock prices in various countries are intimately interrelated, and global financial markets exert tremendous influence on economic conditions. Financial capital enjoys a privileged position. Capital is more mobile than the other factors of production and financial capital is even more mobile than direct investment. Financial capital moves however it is best rewarded; as it is the harbinger of prosperity, individual countries compete to attract it.¹⁵⁶

The SME development is aimed at taking advantage of these phenomenon of capital movement in the world as it relates to South Africa. This is the relative position today where the country is offering a relatively low labour rate in manufacturing. Major European countries face high labour costs due to their high standard of living, whereas our country has a relatively good standard of living with supportive services and the necessary technology.

Financial markets are inherently unstable and there are social needs that cannot be met by giving market forces free rein. Unfortunately these defects are not recognised. Instead there is a widespread belief that the markets are self-correcting and a global economy can flourish without any need for a global society. It is claimed that the common interest is best served by allowing everyone to look out for his or her interests and that attempts to protect the common interest by collective decision-making distort the market mechanism.¹⁵⁷

The development of SMEs is in line with the idea of a deliberate action to make this possible. A programme of action can help formulate the objectives to be achieved. This action can be self-sustaining in the manufacturing sector of the defence-related industry. Presently manufacturing is taking place in the commercial environment.

¹⁵⁵ Janes Defence Weekly 28 November 2001 20

¹⁵⁶ George Soros Pxix

¹⁵⁷ George Soros Pxx

The first concern is the defects of the market mechanism. George Soros is concerned primarily about the instabilities built into financial markets. The other concerns the deficiencies of what he calls, for a lack of a better name, the non-market sector. By this he means primarily the failure of politics and the erosion of moral values at both the national and the international level. At the outset he considers the failure of politics much more pervasive and debilitating than the failure of the market mechanism. Individual decision-making as expressed through the market mechanism is much more efficient than collective decision-making as practised in politics. This is particularly true in the international arena. One of the great defects of the global capitalist system is that it has allowed the markets mechanism and the profit motive to penetrate into fields of activity where they do not properly belong.¹⁵⁸

In an article in Business Day of 14th June 2001 p16, Ms Christine Qunta says that affirmative procurement has not been viewed as being as important as employment equity. While a broad government policy exists in theory, implementation has largely depended on the inclination of individual ministers and senior public servants. Sufficient pressure has not been brought to bear on government by black business organisations with regard to affirmative procurement. This is why the finance ministry could get away with disappointing legislation such as the Preferential Procurement Policy Framework Act. An early draft done by Fink Haysom, as legal advisor to then President Nelson Mandela, had much more substance. But it got stuck in the finance ministry for two years, was stripped of its essence, and rushed through Parliament during the holiday season.¹⁵⁹

We never put the impossible question – we are always putting the question of what is possible. If you put an impossible question, your mind then has to find the answer in terms of the impossible – not what is possible. All the great scientific discoveries are based on this, the impossible (J Krishnamurti p157).¹⁶⁰

In an article in Business Day of 9 July 2001, p9, John Dladlu write on empowerment that parastatals also have onerous obligations to service the other ‘nation’ in President Mbeki’s

¹⁵⁸ George Soros Pxxiii

¹⁵⁹ Business Day Wednesday 14 June 2001 16

¹⁶⁰ J Krishnamurti 157

infamous ‘two nations’ thesis. Through the Minerals Development Bill, government is seeking to leverage the increased participation of blacks in South Africa’s mining industry. Similar moves are being considered in the power sector. Without the possibility of a law, it is doubtful that the mining industry would have pledged R100m for a fund to shore up small-scale mining.¹⁶¹

4.2 The SME policy framework

The policy framework, if it is to work and produce the desired results, should and will include and try to satisfy the need of black entrepreneurs, women and the disabled wishing to enter the defence-related industry. The vehicle to achieve the transformation will be the SME presently operating in the commercial sector, particularly the manufacturing and services sectors. The policy framework will be a public statement outlining the processes to be followed in the defence-related industry when dealing with SME’s. This will include areas of involvement, type of work and support to be given to the SME’s in general.

PRINCIPLES

- a) Individual entrepreneurs must run the SMEs personally owned and managed.
- b) No investment holding entity will be regarded as an SME.
- c) Manufacturing will be the preferred area for SME involvement or participation.
- d) Technology will be transferred to an individual entrepreneur to become effective and acceptable.
- e) Orders placed will be for the benefit of the individual entrepreneur in an SME enterprise. (See 48 Parsons W p21)

4.3 Investment by SME: the business model

In a situation of empowerment, the minimum shareholding should be a minimum of 25% shareholding of the existing company. This is to be held for a minimum of three years. In the event of sale or forced sale, transfer should be to another SME with same or similar skills to those of the previous owner.

¹⁶¹ Business Day 9 July 2001 9

To facilitate transformation and transition, the black entrepreneurs should be people skilled, trained and experienced in a particular discipline, as the defence-related industry is a skills-based industry. In general people trained in the engineering field would be more appropriate. Their training would have been acquired through tecknikon or university training.

The business model needed for the success of the introduction of SME development in the defence-related industry is as described in Annexure B.

The concept of SME development in the defence-related industries would operate in an environment in which ARMSCOR is the acquisition agent of the SANDF, with its internal operations as the microenvironment. The macro or external environment relates to the existing defence industry, with major stakeholders being the original equipment manufacturers (OEM), the Council for Scientific and Industrial Research (CSIR), and the industry as represented by the Aerospace, Maritime and Defence Association (AMD).

Services to the SME environment will be delivered by companies like the Department of Trade and Industries (DTI), Industrial Development Corporation (IDC) and Khula Enterprises – these being government organisations set up to provide finance and support services through another organisation called Ntsika.

Internally within Armscor, the Small Business Development (SBD) Unit will help with identification of SME wanting to become suppliers to the defence-related industries. The SBD Unit will help also with monitoring the implementation of the Preferential Procurement Act of 2000.

The business model will be supported by implicit norms and standards as described in 3.6, and footnote 145, Dan Bertozzi (1990, p13) models, maps and metaphors. The norms and standards are to be introduced and maintained through a deliberate action of incrementalism to ensure that there is consistency in performance and that the industry standards, particularly military standards, are being maintained particularly by new entrepreneurs.

Since ARMSCOR is the acquisition agent for the SANDF, it will be more convenient for the initial promotion and development of SME in the defence-related industries to be housed in Small Business Development Unit (SBD).

The SBD Unit will help facilitate the interaction between the local SME with the OEMs as they also have an interest in facilitating the introduction of SME through their commitment of Black Economic Empowerment (BEE). The OEM will provide the local industry with work packages, from which local industries will quote prices on work to be done.

To complete the exercise the SBD Unit will identify SMEs, and in turn help the OEM to confirm, verify the skills claimed and their actual existence. In the process the quality control team will verify standards like ISO 2000 and also help introduce these standards where they do not exist.

The SBD Unit will greatly help to create match linkages among various actors and stakeholders in the defence-related industries. Through matchmaking, the local SMEs are being matched to the needs of OEM through BEE commitment. Once negotiations for price, delivery and quality are complete – orders can be placed.

The complexity of drawings and products to be produced will determine the involvement of established organisations in the defence-related industry with SME. Joint ventures will come into existence to ensure participation by existing defence industry that are more established and can deliver more complex systems. The function of joint ventures will help introduce SME in manufacturing once-off items and short-run productions which are expensive for the more established organisations in the defence-related industry to undertake. (See 155 Janes Defence Weekly 28 November 2001, p21)

In the case of joint ventures, the order will be placed with SME. The more established company will share the order placed to enable it to recoup its expenses but more specifically to help the SME in understanding that expertise costs money. The SME cannot subcontract at the beginning with BEE commitment transactions. The BEE order placement is the vehicle for their introduction into the defence-related industry. Since the SME wants to enter the defence-related industry (DRI) and make their living in the civil/market, the defence provides an additional income avenue that can help ensure their continued existence.

The BEE commitment will help to give SME some power in bargaining and therefore help find a compromise in developing a relationship between itself and the existing defence leaders. The current political and economic environment is conducive to a mood which

lends itself to cooperation. The small, typical white engineering companies will find it easy to continue receiving orders, subject to their teaming up with SME in DRI. The cooperation thus creates synergies that help create an exit mechanism for retiring owners, in turn creating an environment of good cooperation and not of competing interest in a market that is basically closed to new entrants. (See 60 Parsons W 1995, p11).

Finally, the procurement break-out will only help in a situation where orders placed through the tender process as supervised by ARMSCOR make it possible to split the order into small usable portions. Where it is possible this is being done, but in most cases it is not easily done. The cost to manage and supervise becomes a stumbling block. More coordination and goodwill is demanded, as compared to business sustainability.

4.4 Areas of involvement

As the defence-related industry is characterised by products that have long life terms, there will always be a need after say ten, fifteen or twenty years to produce small items on short runs.

The entrepreneur in an SME is in a better position to manufacture short run products. This stems from the point of low cost base, flexibility and entrepreneurship, the "I can" do attitudes. Small engineering using highly skilled labour and specialised machinery fits well here. A sector like looms for aircraft is one example of such manufacturing in the defence-related industry. Looms can also be produced for the motor industry – using the dual process. (See 148, Business Futures 2001, p1-4).

Another area for SME involvement is computer based training using simulation. The individual trained engineer can help the industry in training new recruits using simulation on the computer like pilots. The SME can be involved in the maintenance and update of the programs running the simulation. (See 149 Business Futures 2000, p2.47).

One key area with potential is in the software management. People with the background and training in writing computer programs need software management to run the acquisition and management of software acquisition and management. The challenge is to clearly distinguish between hardware and software management, particularly the since software environment is continuously changing. This requires dedication of a specialist to manage the process of software acquisition in the defence-related industry.

The introduction of SME in the defence-related industries is caught between two competing interests. The two main competing interests is politics and economics. The liberation of the majority in the country has created an expectation for redress. The gains achieved politically need to be translated into economical gains. The pressure is how to encourage without force for change in the economic mainstream. (See 59 and 61 Parons W 1995, p9-10.) The government of the day is expected to act and redress the past injustices in the country. The actions it can take are political, this is their sphere of influence. Resources at the government's disposal back this. The budget the government controls through various allocations makes it possible to influence the spending patterns. Equally, the problem they need to face is an economic one, in that for redress to take place, the economy through the market must make it possible for people of colour to be accommodated. The principle of free market dictates that it is the market that will determine what takes place in the open free market. (See 157-158 George Soros 1998, p xix, pxx.)

Lovemore Mbigi states that apartheid has separated the people of South Africa. The quest of organisations is now to find each other by accepting the country's cultural differences and focussing on similarities as well as by negotiating a shared agenda, which may lead to a sense of shared vision.¹⁶²

Historically the economy has been in white hands, together with the resultant expertise visibly missing in the black community. The challenge is how to accommodate black aspiration in the economy. The white community is faced with the problem of how to share the economy without loosing control and in turn influence. Their problem is that of economics, the country ascribes to free market ideals. The economy today reflects the past, including the financial achievement in the country and equally it is faced with the challenge to increase the economic cake without destroying the future. (See 155 Janes Defence Weekly 28 November 2001 p20).

¹⁶² Management Today, July 2001 14

The problem of black economic empowerment becomes a focused area. A vehicle is needed to orderly order change in the economy of the country. The idea of accelerated privatisation of state assets by the mainstream economy is being demanded today. On the other hand, workers' representatives as represented by the trade union, demands caution from the government. The government cannot be seen supporting old capital at the expense of the poor masses, as represented by those who were excluded by law from participating in the economy. What is being demanded is an orderly change, which will deliberately involve and include mass black participation in the economy for their benefit as a collective in general and specifically as individuals. These are the competing interests to be addressed and balanced with the view to a shared future. (See 160 Business Day Wednesday 14 June 2001, p16).

Earlier on we mentioned what George Soros said about the involvement of the free market into areas where they should not be involved. For the free market is in pursuit of profit, irrespective of the consequences, capital goes where it is well rewarded, whereas the government is expected to protect and look after the interest of the country and its citizens. The principle of fallibility warns or cautions us of the danger that the individual cannot pursue individual interest and at the same time look after the citizens of the country, including the sick and the lame. (See 35 George Soros 1998, p7).

The government has certain options at its disposal. It can pass laws that can enable it to redress the past unbalances as represented in our case by an apparent closed defence industry, which represents big companies in general. Or it can appeal to patriotism from the captains of industry, that they share with their fellow citizens. (See 160 Business Day Wednesday 14 June 2001, p16).

To be able to have an effective DRI that will be able to accommodate the SME development, political will is required. The political will helps define the problem within a certain context. The political will is needed to be able to address concerned white fears and equally accommodate black impatience. To address the economic problem politically it is necessary and requires skill to sell the concept of common destiny for all citizens of the country. The problem of globalisation is the typical challenge today facing the Nation State. The world has become a village. Events occurring in one corner of the world have an immediate effect on every citizen of the world. The information highway has made it

possible for 24 hour around the clock trading. Our problem in South Africa is important within a bigger context. As a country we do not have control of certain key issues affecting our country, like currency speculation. For the country to benefit from export drive necessary to stimulate the economy and to earn foreign currency, currency speculators affect our foreign earnings. The political will is necessary to take a stand and support a long-term view for the benefit of all. (See 55 Parsons W 1995, p7.)

The public interest can benefit from a stable political environment necessary for a good stable economic environment that is necessary for investment. In a free market economy the entrepreneur will invest if promised in a stable investment environment with decent returns coming from acceptable economic and political risk. A robust public debate on issues of national concern is necessary for a conducive, friendly SME environment. The desire of the majority to reap the benefit from political freedom will not realise if entrepreneurs are not investing and opened markets are for everyone in the country. Personal interest dominates the economy and in the process ends up setting national agenda. The national agenda supported by business is a precondition to SME development take-off. (See 60 Parsons W 1995, p11).

The introduction and development of SME in the DRI is subject to the goodwill of established industry players who make up the invested interest competing with the emerging entrepreneurs. The introduction will need implementation. The appeal to goodwill and patriotism may be appearing not to be delivering the desired results. An implementation mechanism becomes necessary. With the cry for less government and lack of skill and capacity within government, an impartial agency is needed for implementation. Since there are three stakeholders in this, namely the government, the labour movement and the industry, it follows that the agency for implementation must be acceptable to all to some extent, if not totally.¹⁶³

The problem of implementation creates in turn another problem of monitoring the process necessary for the successful implementation of SME introduction and development within the DRI. Equally, if a programme of introducing the SME in DRI requires evaluation for possible strategy changes and improvement as experience is being gained over a period of

¹⁶³ Business Day Friday 24 May 2002 P11

time. A verifiable process is needed to report on the implementation, and to record success envisaged and desired so that the defence industry becomes representative of the country's population. The monitoring is to report the redress being achieved and confirmation of freedom achieved in the political sphere as now being reflected in the economic sphere. (See 75 Parsons W 1995, p24.)

The programme of introducing the SME in the defence-related industries must agree to objectives to be achieved in time. The reporting to have any meaning in guiding future strategies must reflect what took place in DRI relating to say numbers achieved, the type or areas of involvement and additions being made in the different sectors of the defence industries. The different areas of involvement will be those defined under 2.8 the definition of defence industry. Transparency and accountability can go a long way in helping to win the support of all stakeholders, and industries help the country enjoy the economic fruits of freedom on a fair distribution without any favours to any sector of the population.

4.5 Incentive areas for small and medium enterprises involvement

The introduction of SME in the defence-related industry could be achieved at two levels. The first level relates to those companies existing already, particularly those in the commercial section. They are involved in the production of products with dual use.

The second level will be for new companies or joint ventures. The joint ventures are more pronounced in the engineering field. Here we are talking of a white-owned engineering company which wishes to grow through partnering with black entrepreneurs. This helps to create an empowered company for the benefit of the two entrepreneurs for their mutual benefit, where skills are joined with youth and enthusiasm.

In the case where there is an opportunity for technology transfer it makes more sense to transfer technology to a company where the black entrepreneur will be the recipient of the training. It is also critical to have experience as a guide. When technology is transferred to youth or young entrepreneurs to learn and supported by mature experience the learning curve becomes attractive and steep in a short period of time.

The older companies in the defence-related industry are the ones in a position to help with the process and programme of outsourcing. These companies are in a better position to subcontract work that an SME can handle and still be in a position to make handsome

profits. In turn they help to provide support to black entrepreneurs or people with the potential to operate as independent entrepreneurs.

One of the key issues in the defence-related industries is quality assurance. Established companies are in a better position to facilitate independent black entrepreneurs as quality assurance people. They can provide a platform to contract as quality assurance personnel with easy in terms of contract available.

To motivate and encourage, the forming of joint ventures can be accelerated through incentives. If the sector in which the defence industries fall was to extend the usage of education and training levy as an incentive to encourage people to do more than formalities, more could be achieved.

The cost of the joint venture together with those that relate to the gap filler could be claimed in a simple structured incentive scheme. An auditable process laid down with a percentage of costs could facilitate the refund process.

An industry recognition award for the most progressive company can create a climate of goodwill for winning the Presidential Award. It has been suggested that to give effect to the implementation of the SME programme, a statutory body be established and chaired by the State President, to give the necessary cloud needed for change to take place.¹⁶⁴

For the transfer of technology costs associated with SME, a percentage of them could qualify for refund, based on a simple auditable system supportive of empowerment and job creation.

Companies willing to outsource sustainable work to an SME can become legible for a refund and support.

The cost of, say, obtaining and maintaining ISO 9000 as supervised by the Bureau of Standards can be refunded to help reduce the cost to qualify by the SME. The official recognition and encouragement will help facilitate order placement by formal companies with SME entrepreneurs.

¹⁶⁴ Business Day Friday 24 May 2002 2

4.6 Areas for further study and research

The study has managed to highlight areas in which SMEs can be involved in the defence-related industries in a productive way without taking away work from major manufacturing organisations.

- a) Future studies are needed to help understand how to support SME's that are involved in the defence-related industries with a view to speeding up the opening of the industry to new entrepreneurs - particularly in sensitive areas like software writing and development of weapon systems.
- b) Confirmation is needed to see whatever SME involvement in the defence-related industry was due to compliance or through genuine black economic empowerment since to date no clear definition of black economic empowerment exists.
- c) A study is needed to determine whether pioneering SME's in the defence-related industries are commercially successful or not. Confirmation is needed to determine how sustainable the SME business has been and also to find out areas in which entrepreneurs were successful or financially rewarded.

4.7 SUMMARY

The overall conclusion is that there is movement towards SME involvement in the defence-related industries. What is needed is to increase the pace of involving new SMEs that want to come into the defence-related industry with skills that are relevant today which they already have together with services they can provide. These SMEs can provide dual use goods and services.

The existing defence industry can help SMEs by regarding them as business partners and not as social responsibility requirements. Partners in business generally have one common goal of survival capable of generating profits.

Finally, the study suggests that all role players need to give support and input in drafting an SME policy that can help bring certainty in the defence-related industries. In that way the definition of an SME can go a long way in helping the industry to plan programmes that involve SMEs.

GLOSSARY

AASSB	Armaments Acquisition Steering board
ACC	Armaments Acquisition Council
AMD	Aerospace, Maritime and Defence Association
ARMSCOR	Armaments Corporation of South Africa
AU	African Unity
BEE	Black Economic Empowerment
BEEC	Black Economic Empowerment Commission
BMF	Black Management Forum
CBW	Chemical and Biological Warfare
CSIR	Council for Scientific Industrial Research
DAPD	Departmental Acquisition and Procurement Division
DoD	Department of Defence
DRI	Defence-Related Industries
DTI	Department of Trade and Industry
ECM	Electronic Counter Measure
HQ	Headquarters
IDC	Industrial Development Corporation
IFF	Identification of Friend Foe
ISO	International Standards Organisation
MOD	Ministry of Defence
NCACC	National Conventional Arms Control Committee
NEDLAC	National Economic Development and Labour Council

NGO	Non-government Organisation
OAU	Organisation for African Unity
OEM	Original Equipment Manufacturers
PAC	Political Action Committees
RSA	Republic of South Africa
SAAF	South African Air Force
SACA	South African Correctional Services
SADC	Southern African Development Community
SADF	South African defence Force
SANDF	South African National Defence Force
SAPS	South African Police Services
SBDU	Small Business Development Unit
SDA	Special Defence Account
SME	Small and Medium Enterprises
SMME	Small, Micro and Medium Enterprises
UN	United Nations
UN	United States
USA	United States of America

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ANNEXURE A

Export Permit Values: Comparative Figures, 1995-97

South African Defence Market, 1989/90-1996/97

YEAR	TOTAL MARKET*	% CHANGE	IMPORTS/ TOTAL (%)	DOMESTIC MARKET+	% CHANGE	DOMESTIC TOTAL (%)
1989/90	6236		42	3618		58
1990/91	5126	-17.8	42	2973	-17.8	58
1991/92	3931	-23.3	21	3123	5.1	79
1992/93	3242	-17.5	17	2696	-13.7	83
1993/94	3162	-2.5	17	2625	-2.6	83
1994/95	2427	-23.2	14	2093	-20.3	86
1995/96	2167	-10.7	17	1808	13.6	83
1996/97	1984	-8.4	14	1707	5.6	86
AVERAGE		-14.8	23		9.8	77
1989 -1996						

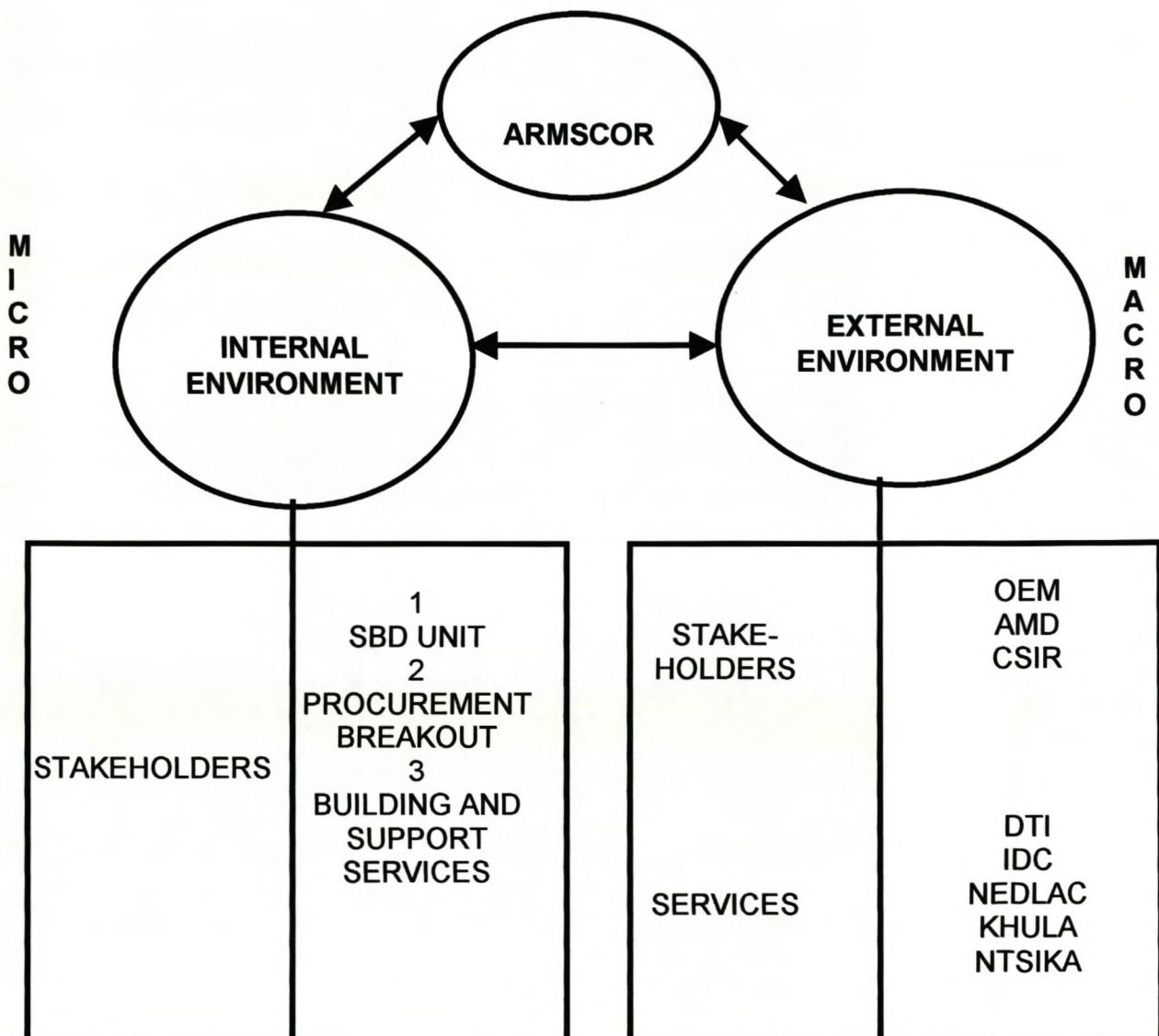
Notes:

Figures: Rand million in constant 1990 prices. (Figures in Italics are in %)

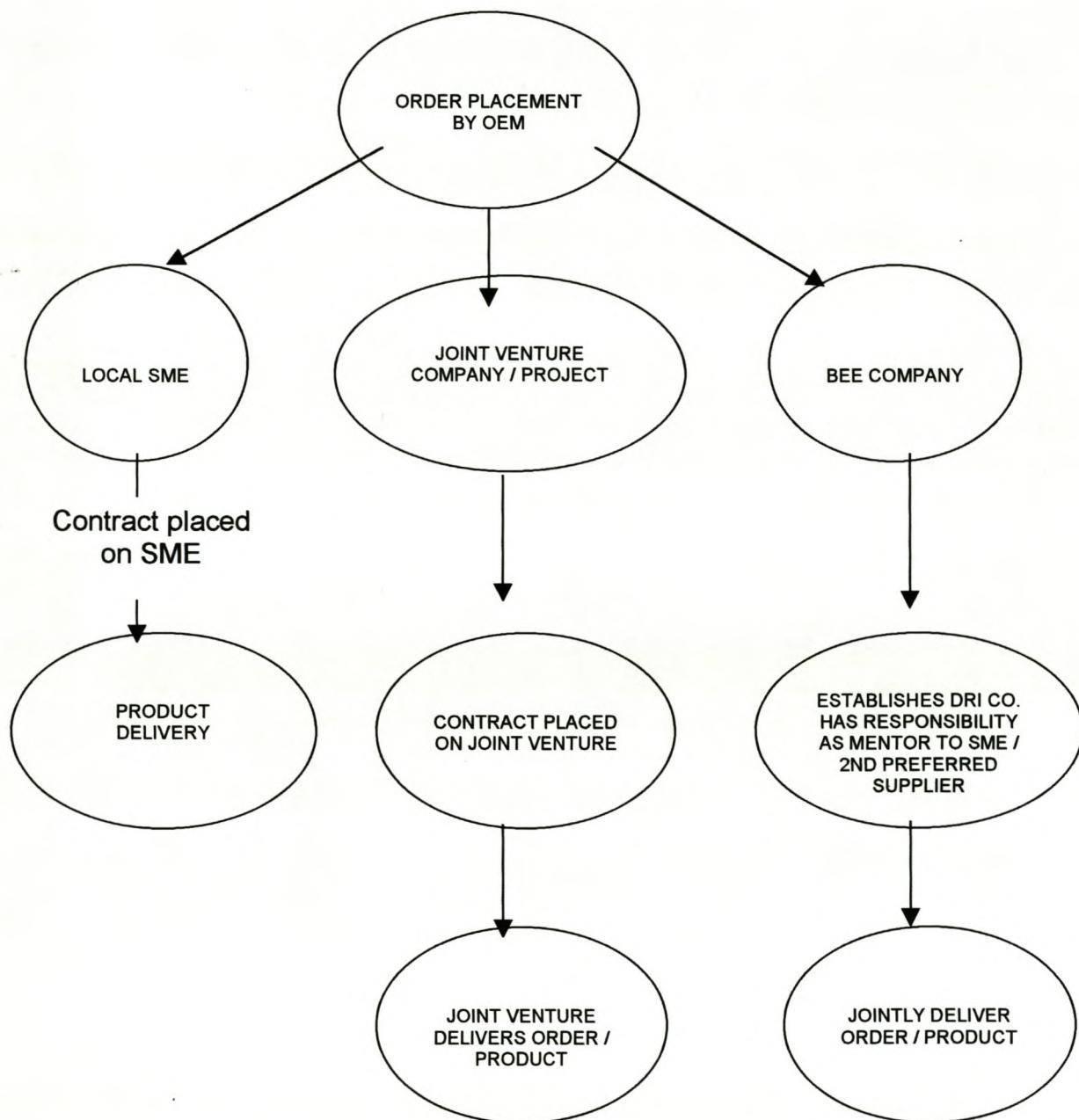
Source: ARMSCOR; ARMSCOR Annual Report (various years)

* *Based on total value of ARMSCOR Acquisition Spending for Departments of Defence, Safety and Security (Police) and Correctional Services (Prisons)*

+ *Value of Domestic Acquisition Spending*

ANNEXURE B**SMALL BUSINESS DEVELOPMENT UNIT
THE BUSINESS ENVIRONMENT**

ANNEXURE C
SMALL BUSINESS DEVELOPMENT UNIT
THE CONTRACTING MODEL



ANNEXURE D

SMALL BUSINESS DEVELOPMENT UNIT THE BUSINESS ENVIRONMENT

