The link between organisational culture and organisational performance:

A case study of a South African organisation

A Case Study Research Proposal presented to

The Graduate School of Business
University of Cape Town

In partial fulfilment of the requirements for the
Masters of Business Administration (MBA) Degree

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PREFACE

This report was prepared as part-fulfillment of the MBA course and it will be used for academic purposes at the University of Cape Town.

I wish to thank Dr Jerry Gule, the General Manager Human Resources and Transformation and his office at TOTAL South Africa (TSA) for being extremely helpful in facilitating access into the organisation. I wish to thank the managers and employees of Total South Africa who gladly gave up time to provide valuable input into this case study, without them this report would not exist.

I would also like to thank my family (especially my daughter Oluhle), my friends and my supervisor for their support in the process. Most importantly I wish to dedicate this report to my late father who passed on in June 2008, his love and support was unconditional. Also to a close friend, the late Monde Mama, who passed on in September of 2007 for his contribution in the enlightening discussions we had.

I declare that this report is my original work and that any references and quotes used are accurately reported and presented.

Signed by: Zukiswa Ncunyana
ABSTRACT

In management’s need to continuously improve the performance of the organisation various aspects of the organisation, including organizational culture, are being explored and new initiatives implemented to improve performance. Generally, discussions and definitions on organizational culture tend to differ and so do cultures in the different organizations. Management often seeks to create, change or improve the culture of the organization by implementing various initiatives such as changing leadership, introducing new values or mission statements, amongst many others, to shape the way employees in the organisation behave, feel, interact, contribute and experience the organisation.

This study investigates the link between organizational culture and organizational performance at TSA. This study assesses employee perceptions of the culture that currently exists at TSA Head Office in Rosebank, Johannesburg and how it has influenced the general performance of the organisation. This study also explores the aspects of the TSA culture that enhance organizational performance as well as those that detract from performance. Further to this, the study identifies factors that seem to critical to develop an organizational culture that enhances performance.

KEY WORDS: Organisational Culture, Organisational Performance, Culture Change Management, TOTAL South Africa (TSA)
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CHAPTER 1

1.1 Introduction

This case study focuses on the impact of organisational culture on organisational performance. This section is aimed at providing the background to this topic to also discuss the main objectives of the study. At the end of this section the layout of the report will be presented.

1.2 Background

The primary responsibility of every organization is to create and maintain organisational capabilities that ensure high performance of the organisation in delivering value for its customers and shareholders. Nowadays, due to ever changing market conditions, organisations undergo numerous changes to ensure survival and sustainable performance; hence most leaders in organisations are seeking and implementing interventions to ensure their organisations deliver value for the shareholder by maximising profits. Interestingly in the last few decades the United States(US) has seen top performers such as South West Airlines who had surpassed competition in the industries where others could not survive, such as in the low-cost airlines and retail and one of the key ingredients for high performance is the organisational culture(Cameron and Quinn(1999).

One of the management theories that emerged almost two decades ago that supports this assertion on organisational culture, is the ‘Resource Based Theory’ which seeks to explain how resources within an organisation can be used as a source of sustained high performance. In their work, Barney and Clark (2007) on the resource based view of strategy, amongst other things, explored the potential of four organisational capabilities to be sources of superior performance namely; organisational culture, trust, human resources and information technology. Barney and Clark (2007) make an assertion that for an organisation’s culture to contribute to the performance of the organisation, it must be valuable; meaning that it must enable the organisation to do things that
will lead to achieving the desired outcomes such as sales growth, improving profitability etc. It must also be different and must not be easily copied.

Schein (1997) contends that many of the challenges faced by organisations and leadership can be traced to the inability to analyse and evaluate organisational cultures. Responding to this challenge it is important to determine the link between organisational culture and organisational performance as managers and leadership are driven more by performance. Therefore this case study will focus on determining the link between organisational culture and organisational performance at TSA. The concepts used in this research are explored further in the literature review.

TSA is part of the TOTAL Group which is a French owned multi-national energy company. TSA has over 530 service stations located in different parts of Southern Africa with the Head Office located in Johannesburg. Total South Africa is one of the key role-players in the petro-chemicals sector with products ranging from jet fuel and liquid petroleum gas to lubricants, grease and kerosene. Total South Africa’s shareholding structure is as follows; TOTAL Group (50.1%), TOSACO which is a BEE partner (25%) and Remgro (24.9%).

1.3 Objectives

The objectives of the study are to explore the impact that organisational culture can have on organisational performance and deepen an understanding of the aspects of organisational culture that enhance performance and those that detract from performance at TSA. Further to this, the study will seek to identify factors that are critical to developing an organisational culture that enhances organisational performance. The researcher selected TSA because the organisation has recently undertaken initiatives to change the behaviour of employees in the organisation and these include the introduction of the New Economy Leadership Model in 2003. Continuing on this path to transform organisational performance TSA has also adopted the ‘TOTAL Attitude’ which promotes four behaviours in the organisation as well as creating and enforcing a strong ethical code.
The questions the researcher seeks to answer are as follows;

1. What impact can organisational culture have on organisational performance?
2. What aspects of organisational culture enhance and detract from organisational performance?
3. What factors are critical to develop an organisational culture that enhances organisational performance?

1.4 Structure

The report is written in the following format;

- A description of the methodology adopted to collect and analyse data.
- A chapter on the literature review which explores the concepts used in this report including organisational culture, organisational performance and lastly, the link between organisational culture and organisational performance.
- The Total South Africa case study presenting the findings presented with all the accompanying appendices.
- The report ends with an instructor guide which will provide a guideline on using the case study in the classroom.

1.5 Relevance

The business landscape is continuously changing; more and more organisations are looking for ways to improve performance as shareholders are demanding high returns on investment. Managers are now looking into the softer side of the business, people and culture as key to create high performing organisations. The challenge though is that managers do not fully understand how the culture promoted in the organisation is impacting on organisational performance and, even more important what is required for the culture change initiatives to successfully impact behaviour to enhance performance in the organisation. It is noted that “Culture is the result of a complex group learning process that is only partially influenced by the leader behaviour. But if the group’s survival is threatened because elements of its culture have become maladapted, it is ultimately the function of leadership at all levels of the organisation to recognise and do
something about this situation. It is in this sense that leadership and culture are conceptually intertwined.” (Schein, 2004, p11). Leadership has a responsibility to create organisational cultures that enhance performance hence this topic is relevant for further exploration in the MBA class in order to develop effective leadership skills.
CHAPTER 2

2.1 Approach

A single case study through a qualitative research methodology was followed for this work. Case studies are mostly suitable for exploring or learning more about a poorly understood phenomena or situation (Leedy and Ormord, 2005). Schools of business have been most aggressive in the implementation of case based learning, or "active learning" (Boisjoly and DeMichiell, 1994).

The first phase of the case study focused on the literature review and the second phase focused on the collection of primary data.

2.2 Literature Review

A variety of secondary sources were accessed during the literature review ranging from books, journals, on-line resources etc. The following theories were reviewed:

- Defining Organisational Culture;
- Models for understanding Organisational Culture;
- Linking Organisational Culture with Organisational Performance;
- Changing Organisational Culture.

2.3 Primary Data Collection

Semi-structured interviews were conducted with TOTAL South Africa management and employees as sources of primary data. One executive member and nine employees were interviewed with the aim to gather perceptions on the link between organisational culture and organisational performance at TSA. A list of TSA Head Office employees and date employed was provided. It was divided into three groups based on the tenure at the company (< 1-5 years, 5 to 10 years and Over 10 years). A random iteration to produce a selection of 20 employees was done. The justification for the sample size is that ‘for grounded theory relies on the point of theoretical saturation (Glaser & Strauss, 1967; Locke, 2001, Goulding, 2002, Strauss & Corbin, 1998). Theoretical saturation normally occurs between 10 and 30 interviews (Thompson, 2004).
They were invited to participate by the General Manager HR and they then received emails from the researcher inviting them to participate in the study. Further contact was made by telephone. 8 employees declined to participate because of either time constraints as they had other commitments and others did not give reasons for declining to participate. 2 employees agreed to participate but did not make it to the interviews on the date schedule for.

Ten employees agreed to be interviewed, four males and 6 females.

<table>
<thead>
<tr>
<th>Tenure</th>
<th>Female</th>
<th>Male</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group 1 = 1-5 years</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Group 2 = 5 – 10 years</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Group 3 = &gt; 10 years</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

Table1: Sample Groups

Due to the level of sensitivity in this study, the interviewees preferred to be anonymous however their roles within TSA are in listed in table 2 below. These semi-structured interviews were guided by a questionnaire. Detailed notes were taken during the interviews and these were reviewed after each interview. The detailed notes were then analysed to determine common themes to build the case study; quotes from some of the interviews are used in the case study.

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr Jerry Gule</td>
<td>General Manager</td>
<td>HR and Transformation</td>
</tr>
<tr>
<td>Employee 1</td>
<td>Marketing Manager</td>
<td>Marketing</td>
</tr>
<tr>
<td>Employee 2</td>
<td>Stock Analyst</td>
<td>Supply</td>
</tr>
<tr>
<td>Employee 3</td>
<td>Sales representative</td>
<td>Commercial</td>
</tr>
<tr>
<td>Employee 4</td>
<td>Account Receivable Specialist</td>
<td>Finance</td>
</tr>
<tr>
<td>Employee 5</td>
<td>Internal Auditor</td>
<td>Internal Audit</td>
</tr>
<tr>
<td>Employee 6</td>
<td>Insurance Risk Controller</td>
<td>Financial Services</td>
</tr>
<tr>
<td>Employee 7</td>
<td>Project Lead</td>
<td>Debtors and Creditors</td>
</tr>
<tr>
<td>Employee 8</td>
<td>Area Manager</td>
<td>Commercial</td>
</tr>
<tr>
<td>Employee 9</td>
<td>Supplier Performance Specialist</td>
<td>Transformation</td>
</tr>
</tbody>
</table>
2.4 Secondary Data Collection

Other data was collected from company documents that have been made available on the company’s website and this includes the company’s profile, the company values and the code of conduct. Also, other documents that have been made available to the researcher are the TOTAL Transformation Report 2007, the CSI handbook (2008) and the TOTAL Newsletter ‘(TOTAL).

2.5 Data Analysis

Analysis is the interplay between the researcher and data (Strauss and Cobin, 1998, p.13). Data was analysed using the qualitative methodology of coding and identifying key themes. The first step was to identify key patterns based on the key dimensions of the Denison Model (Denison and Mishra, 1995) which is explored further in Chapter 2. All of the data that fits under the specific dimension is identified and placed with the corresponding dimension. The themes that emerge from the interviewee feedback are pieced together to form a comprehensive picture of their collective view. “The coherence of ideas rests with the analyst who has rigorously studied how different ideas or components fit together in a meaningful way when linked together” (Leininger, 1985, p. 60).

2.6 Limitations of the study

Firstly the case study is a reflection of a point in time; meaning that the results could be different if the study was conducted 2 years earlier or later. Also there is a potential for a subjective bias by the interviewer, however this has been safeguarded by the interview guide. In addition- a single case study is less compelling than a multiple case study therefore as proffered by De Vaus (2001) this case study may not provide a robust test of theory.
CHAPTER 3

3.1 Literature Review

3.1.1 Defining Organisational Culture

From literature reviewed, many definitions of ‘organizational culture’ exist. One of the prominent researchers and writers on theory around organizational culture, Edgar Schein, simply defines it as ‘a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems’ (Schein, 1992). French and Bell (1984, p18) broadly define culture as ‘the dominating patterns of values, attitudes, beliefs, assumptions, expectations, activities, interactions, norms, and sentiments that exists within an organisation’. However others such as Deal and Kennedy (1982) tend to narrow organisational culture to mean only dominant values adopted by an organisation. In the same simplistic and narrow view on culture Irani, Sharp and Kagioglou (1997) define culture as a set of ‘collective norms that govern the behaviour of people within the company’ (Irani et al, 1997, Pg 207) which supports Deal and Kennedy (1982). Seemingly based on the above definitions organizational culture is about the people and environment within an organization.’ In a sense, culture is to an organisation what personality is to an individual’ (Schein, 2004, p8).

On the other hand similarly with Schein (2004) Resource Based Theorists such as Barney and Clark (2007) observe a different characteristic of organisational culture which is ‘complexity’ in nature hence they define organisational culture ‘as a complex set of values, beliefs, assumptions and symbols that define the way in which an organization conducts its business’ (Barney & Clark, 2007, Pg 80). For the purpose of this case study this is the definition that will be adopted because it creates the direct link between organisational culture with the way the organisation performs its business. Taking it further the Resource Based View of the organisation, it attempts to explain why the most talked about organisations such as South West Airlines and McDonalds
have been able to sustain superior performance by focussing on the managerial values and beliefs ingrained in their cultures and it suggests that organisations with sustained superior performance are characterised by ‘a strong set of core values that define the way they conduct business’ (Barney & Clark, 2007, p79). Kotter and Heskett (1992) also assert the thinking that organisational culture has a degree of complexity and to demonstrate this they refer to two levels of organizational culture based on visibility; ‘the deeper and less visible level, culture refers to values that are shared by the people in a group and that tends to persist over time even when group membership changes’ and ‘at a more visible level, culture represents the behavioural patterns or style of an organization that new employees are automatically encouraged to follow by their fellow employees’, (Kotter & Heskett, 1992, Pg 4).

In addition to this complexity about organisational culture, Schein (2004) argues that organisational culture is dynamic in nature and it always surrounds us. Schein (2004) also refers to three levels at which to analyse culture based on its visibility. These levels are: Level 1: artefacts, Level 2: espoused beliefs and values, and Level 3: underlying assumptions and His reasons for including this third level is that behaviour can be determined by factors other than culture therefore one must go to a lower level of assumptions. This is a perspective shared by researchers on dynamic capabilities which arose after they identified shortcomings of the RBV. (Eisenhardt and Martin, 2000). Their view on dynamic capabilities asserts that considerations on how resources can sustain superior performance of an organisation should further consider the processes how these are integrated, developed and renewed within the organisation to ensure continued sustainability. This brings in the aspect of organizational culture development and renewal. These dynamic capabilities ensure continued superior performance of the organisation in unstable environments (Eisenhardt and Martin, 2000).

3.1.2 Models to understand Organisational Culture

There are various models that exist on how to explain organisational culture and there is currently no consensus as to which is best. The Denison model was selected for this purpose by the researcher as it is the most widely used.
Barney and Clark

The first is the VRIO (Value, Rare, Inimitable and Organisational Exploitability) Framework which according to Barney and Clark (2007) each organisational resource must meet four conditions to provide sustained superior performance (Barney and Clark, 2007,).

- **Valuable** - meaning ‘it must enable a firm to do things and behave in ways that lead to high sales, low costs, high margins, or in other ways create economic value for the firm’ (Barney and Clark, 2007, Pg 81).

- **Rare** - meaning it must have unique attributes that makes it different from other firms.

- **Inimitable** – meaning it must almost be impossible for others to duplicate.

- **Organisational exploitation** - organization must be able to exploit the potential offered by the resource.

Barney and Clark (2007) assert that organizational culture must meet the first three of these conditions to positively contribute to sustainable superior performance.

Kotter and Heskett

Kotter and Heskett (1992) share various perspectives of cultures that impact on performances. Firstly they describe culture at two levels based on visibility. The first level is refers to **values shared** by the group that continue to persist over time as group membership change. The second level is the values that bind the group together at a much deeper and therefore difficult to change at this level. Secondly they distinguish between adaptive and un-adaptive cultures as they assert
that ‘cultures that facilitate the adoption of strategies and practices that continuously respond to changing markets and new competitive and those that are inward focused and bureaucratic. Although these characteristics may support an organization’s immediate strategy and business context, they undermine its ability to adapt to change. The first perspective is that these cultures need to be strong where almost all managers share a common set of consistent values such as the Johnson and Johnson ‘way of doing things’. They also refer to strong cultures involving three aspects: goal alignment, an unusual level of motivation and it provides structure and controls needed without bureaucracy. The second perspective they share is that these cultures need to be strategically appropriate therefore before these cultures are able to motivate employees they must be aligned to the direction the firm is taking. Culture fit is critical as there is no one size fits all culture and the ‘better the fit, the better the performance; the poorer the fit, the poorer the performance’ (Kotter and Heskett, 1992, p28). The third and last perspective according to Kotter and Heskett is that only cultures that are can anticipate and adapt to change will be associated with superior performance.

**Cameron and Quinn**

Cameron has developed an organizational culture framework built upon a theoretical model called the "Competing Values Framework." This framework refers to whether an organization has a predominant internal or external focus and whether it strives for flexibility and individuality or stability and control. The framework is also based on six organizational culture dimensions and four dominant culture types (i.e., clan, adhocracy, market, and hierarchy). In addition the framework the authors generated an Organizational Culture Assessment Instrument (OCAI) which is used to identify the organizational culture profile based on the core values, assumptions, interpretations, and approaches that characterize organizations (Cameron & Quinn, 1999).
Denison and Mishra

Denison and Mishra (1995) also developed a model (see figure 1 below) of 21 cultural dimensions that have an impact on effectiveness which presents how interrelated organisational culture, management practices, organisational performance and effectiveness. The 21 cultural dimensions are grouped into four main areas.

The first cultural trait, **involvement**, suggests that ‘high levels of involvement and participation create a sense of ownership’ (Denison & Mishra, 1995, pg 214). A sense of ownership impacts on commitment to the organization, it may also impact on the quality of decisions and implementation thereof.

The second cultural trait, **consistency**, emerged from the observation that involvement and consistency have an internal integration focus. The concept behind this trait is that an internalized set of value, in agreement with the first perspective shared by Kotter and Heskett (1992), can be effective in achieving coordination and integration rather than an explicit system of rules and regulations. It has, though, a negative aspect to it that highly consistent cultures can be resistant to change.

The third cultural trait, **adaptability**, refers to the capacity to change internally due to changes in the external environment. Here as well, Kotter and Heskett (1992) found a close relationship between this trait and performance. It refers to the ability to anticipate and adapt to changes in the environment.

The final cultural trait observed to influence performance is the **mission** the organization pursued by combining economic and non-economic objectives providing meaning to employees.
Extensive studies have been conducted to validate the Denison Model and one of those is a study on Indian firms (Nazir & Lone, 2008) in which the Denison’s Organizational Culture Survey on the four cultural traits was used. Found strong empirical evidence for the link between Denison’s model and measures of effectiveness particularly the fourth cultural trait. They found the Denison’s model, widely used in Western countries, to be a reliable and robust instrument in different cultural settings. Also, it seemed to be the only one to consider both internal behaviours and external factors when considering organisational culture and organisational performance. As in the table, there are major similarities between the bottom three models and these researchers tend to agree on how to assess and describe organisational culture.

<table>
<thead>
<tr>
<th>Models</th>
<th>Dimensions</th>
</tr>
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<tbody>
<tr>
<td>Barney and Clark</td>
<td>Value</td>
</tr>
<tr>
<td></td>
<td>Rarity</td>
</tr>
<tr>
<td></td>
<td>Inimitable</td>
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<tr>
<td></td>
<td>Organisational Exploitability</td>
</tr>
<tr>
<td>Kotter and Heskett</td>
<td>Group Behaviour</td>
</tr>
<tr>
<td></td>
<td>Shared Values</td>
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<tr>
<td></td>
<td>Goal alignment</td>
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<td></td>
<td>Levels of motivation</td>
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<tr>
<td></td>
<td>Provide structure and controls</td>
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<tr>
<td></td>
<td>Strategic fit</td>
</tr>
<tr>
<td></td>
<td>Adaptation</td>
</tr>
<tr>
<td>Cameroon and Quin(1999)</td>
<td>Internal vs External Focus</td>
</tr>
<tr>
<td></td>
<td>Flexibility versus control</td>
</tr>
<tr>
<td>Denison and Mishra</td>
<td>Levels of involvement</td>
</tr>
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<td></td>
<td>Consistency</td>
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<tr>
<td></td>
<td>Adaptability</td>
</tr>
<tr>
<td></td>
<td>Mission</td>
</tr>
</tbody>
</table>

Table 3: Similarities in the models
3.1.3 Organisational Culture and Organisational Performance link

After a study conducted by Kotter and Heskett (1992) of 207 US base firms they asserted that organizational culture can have a significant effect on an organization’s performance. The study affirms that organizations which focused on all key managerial constituencies and leadership at all levels outperformed those that did not support such cultural traits by a significant margin. Furthermore Barney and Clark (2007) state that organization culture has a direct link to strategy as it is a manifestation of cultural assumptions made in defining the structure and strategy of the firm on delivering its services/products. Also, more and more empirical studies have been conducted asserting that organizational culture has a significant impact on the performance of organizations. Supporting this assertion is Schein (2004) when he contends that ‘every new group or organisation must develop a shared concept of its ultimate survival problem,…,this shared definition revolves around the issue of economic survival and growth, which, in turn involves the maintenance of good relationship with major stakeholders of the organisation’. (Schein, 2004, p89)

In a five year comparative survey conducted by Denison of 34 companies in the US where he looked at corporate cultural features such as decision making practices ad performance measures such as the income/sales ratio which compares income with net sales he found that cultural characteristics of organizations have a measurable effect on its performance (Denison, 1982).

One of the key challenges in this area of research is the applicability of the theories and models that have largely been developed in the US across other cultural boundaries. Differences in behaviour, work values and culture have been studied by other researchers. Denison et al (2003) conducted a two part study; the first examining the link between organizational culture and organisational performance in 230 organizations in Europe, North America and Asia and the second examines the same topic using data from 218 organizations in Canada, Australia, Brazil,
the US, Japan, Jamaica and South Africa. The results in the first part of the study showed a similar pattern across the regions and the link between the two concepts appeared to be strong and consistent. In the second part all the twelve culture indices assessed were significantly correlated with performance ratings in the US and Australia however in South Africa all but one which is organizational learning is correlated.

In a recent study conducted on Indian firms by Nazir and Lone (2008) they affirm that there is a strong empirical support that there is a significant relationship between organizational culture and effectiveness measures i.e. performance within the Indian context. Kim, Lee and Yu (2004) conducted a study to investigate the possible link between organizational culture and performance in Singapore involving 72 firms. The results obtained indicated using Barney’s (1986) model the strength of culture in organizations was related to organizational performance in some cases. In another empirical study conducted by Alessandro, Vincenzo, Franco and Paola (2006) on the Banking Industry, the results showed that there is a link between culture and shareholder value and therefore corporate culture is a value driver that banks have to control to achieve strategic change. Interestingly in contradiction to Kotter and Heskett (1992) found that the link between organisational culture and organisational performance seems to be consistent also over short time periods. In a South African context, a study conducted by Van der Post, et al (1998) on the relationship between organizational culture and performance the results showed a positive relationship.

3.1.4 Changing Organisational Culture

Organisations spend a considerable amount of resources on change initiatives almost every year. As the context in which organisations exist is changing rapidly the rules of the game are continuously being redefined and organisations need to adapt to these new rules. New rules means that organisations have to change their way of doing things and in essence this means new behaviours are required in the work place therefore an organisational culture change. Adding to this complexity is that more and more young people are entering the workplace and have different work conditions to the more matured workforce who are used to the old way of doing things.
Barney and Clark (2007) contend that organisational culture is difficult to change because it is difficult to describe as it is socially complex and causally ambiguous. Schein (2004) asserts that in-order for any transformation change to happen in organisational culture there must be a level of discomfort with the status quo, or a sense of failure or a crisis to motivate people to make changes.

Kotter and Heskett studied 10 cases of major culture change that seemed to have a positive impact on organizational performance. What was key in their findings, similarly to Schein’s contention is that, the single most important factor that distinguishes major culture changes that succeed from those that fail is competent leadership at the top. In the ten cases of major change that observed occurred after an individual with a track record for leadership was appointed head of the organization. Secondly the change implemented was on a grander scale. All of these leaders either came from the outside or came to their firms after an early career somewhere else. While a limited sample, one can theorize that an outsider's perspective is important to change. Also the sheer resistance to change in an organization requires great power to overcome, and that power resides at the top (Kotter and Heskett, 1992).

3.2 Analysis

The interviews were coded in table 5 based on the dimensions of the Denison Model(Appendix 1) and key themes identified as in table 4 below.

<table>
<thead>
<tr>
<th>Denison Model Dimension</th>
<th>Key Positive Themes (Yellow)</th>
<th>Key Negative Themes (Red)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Involvement (35 vs 6)</td>
<td>Opportunity/Growth Learning/Training People/Relationships Empower Assistance/Support</td>
<td>No Support/Hand-holding at managerial position No Company events interaction</td>
</tr>
</tbody>
</table>
According to the Denison Model organizations with strengths in two of the dimensions or traits often share certain orientations and outcomes. An organisation which is strong on Adaptability and Mission is an organization with a strong external focus is mainly focused on adapting and changing in response to the external environment. It has a constant eye on the marketplace and a strong sense of where it is headed. A strong external focus typically impacts revenue, sales growth, and market share. Internal Focus (Involvement + Consistency): An organization with a strong internal focus is focused on the dynamics of the internal integration of systems, structures, and processes. It values its people and prides itself on the quality of its products or services. A strong internal focus has been linked to higher levels of quality, fewer defects and less rework, good resource utilization, and high employee satisfaction. Flexibility (Adaptability + Involvement): A flexible organization has the capability to change in response to the environment. Its focus is on the marketplace and its people. A flexible organization is typically linked to higher levels of product and service innovation, creativity, and a fast response to the changing needs of customers and employees. Stability (Mission + Consistency): A stable organization has the capacity to remain focused and predictable over time. A stable organization
is typically linked to high return on assets, investments and sales, as well as strong business operations (Denison and Mishra, 1995). These observations are consistent with Schein’s (1990) that culture is developed as the organisation learns how to adapt in its external environment whilst it struggles to integrate internally as Adaptability and Mission are externally focused whilst Involvement and Consistency are internally focused and all positively impact on the performance of the organisation.

A qualitative assessment of TSA seems to indicate that the organisational culture is that which is of high levels of involvement specifically where people development is concerned. This reflects an interest of the organisation on its people and this is supported by Denison and Mishra (1995) asserting that ‘High involvement fosters a strong sense of ownership and commitment to the organisation and its goals (Denison and Mishra, 1995, p 213)’ hence high levels of involvement positively impacts on the performance of the organisation (Denison and Mishra, 1995). The mission trait which came out more positively at TSA may symbolize the stability of the organisation. The two are on contradicting ends of the spectrum as Mission is externally focused whilst Involvement is internally focused however the strong existence of both may be a balancing act between the external and internal struggles. The strong negative feedback on Consistency and Adaptability, though there is an existence of a strong ethical code driven by the organisation but lack of consistency in application and enforcement may negatively be impacting the performance of the organisation. Other key themes highlighted in the interviews are the lack of consequence management or transparency thereof which employees said needed to display leadership’s ability to ‘walk the talk’. Another important theme raised is the poor communication particularly that it is often too late and improper, it may result in de-motivation of staff and lower levels of productivity thereby impacting negatively on the performance as staff morale maybe low.
<table>
<thead>
<tr>
<th>Denison Model</th>
<th>Interviewee 1</th>
<th>Interviewee 2</th>
<th>Interviewee 3</th>
<th>Interviewee 4</th>
<th>Interviewee 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dimension</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Involvement</td>
<td>‘high levels of involvement exist’</td>
<td>‘growth and opportunity’</td>
<td>‘the support structure is very good’</td>
<td>‘no company events to interact’</td>
<td>‘looks after staff’</td>
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<tr>
<td></td>
<td></td>
<td>‘conducive to learning’</td>
<td>‘the people around you’</td>
<td>‘opportunities galore’</td>
<td>‘going an extra mile’</td>
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<tr>
<td></td>
<td></td>
<td>‘trained for required skills’</td>
<td>‘new training interventions’</td>
<td>‘Total Family’</td>
<td>‘the people I work with’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>‘management willing to listen and take action’</td>
<td>‘there’s a sense of belonging’</td>
<td>‘no support when promoted to managerial position’</td>
<td>‘opportunities at TOTAL are endless’</td>
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<tr>
<td></td>
<td></td>
<td>‘career growth is taken seriously’</td>
<td>‘it’s open for you to design your own goal’</td>
<td>‘open relationship’</td>
<td>‘open relationship’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>‘as an individual you can empower yourself’</td>
<td></td>
<td>‘willingness to assist’</td>
<td></td>
</tr>
<tr>
<td>Consistency</td>
<td>‘promoting organisational values’</td>
<td>‘organisational values drive motivation’</td>
<td>‘some managers are more open but others prefer top-down approach’</td>
<td>‘no consequence management’</td>
<td>‘lacks transparency’</td>
</tr>
<tr>
<td></td>
<td>‘there is no culture of accountability and consequence management’</td>
<td>‘way of doing things varies from department to department’</td>
<td>‘we need to improve on integration, cross-functionality’</td>
<td>‘too segmented in the company’</td>
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<tr>
<td></td>
<td></td>
<td>‘we need to improve on integration, cross-functionality’</td>
<td>‘we need high levels of integrity’</td>
<td>‘no proper consequence management’</td>
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<td></td>
<td></td>
<td>‘higher and transparent consequence management is required’</td>
<td>‘there’s been the ethics drive to get people to do the right things’</td>
<td>‘information does not filter down’</td>
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<tr>
<td></td>
<td></td>
<td>‘We must break the silo as they hamper growth’</td>
<td>‘the grapevine is strong and also hold to be true’</td>
<td></td>
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</tr>
<tr>
<td>Adaptability</td>
<td>‘change doesn’t happen in some departments’</td>
<td>‘Attitude towards risk’</td>
<td>‘no customer focus’</td>
<td>‘much freedom to be creative’</td>
<td></td>
</tr>
<tr>
<td>Denison Model Dimension</td>
<td>Interviewee 6</td>
<td>Interviewee 7</td>
<td>Interviewee 8</td>
<td>Interviewee 9</td>
<td>Interviewee 10</td>
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</tr>
<tr>
<td><strong>Involvement</strong></td>
<td>‘people try and live together’</td>
<td>‘Allows people to grow’</td>
<td>‘our strength is in our people’</td>
<td>‘The opportunity to train you is always there but you sort of have to fight to go where you want to go’</td>
<td>‘I guess that working with most of my colleagues makes me look forward coming to work.’</td>
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<tr>
<td></td>
<td>‘I like the people who support one another’</td>
<td>‘little hand-holding’</td>
<td>‘Introduced a TOTAL attitude’</td>
<td>‘you are given an opportunity’</td>
<td>‘sometimes take into account my suggestions and make the necessary changes.’</td>
</tr>
<tr>
<td></td>
<td>‘learning environment’</td>
<td>‘opportunities that I had’</td>
<td>‘There’s recognition’</td>
<td>‘Managers are not really listening’</td>
<td></td>
</tr>
<tr>
<td></td>
<td>‘opportunities in various areas’</td>
<td>‘good relationships’</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>‘It was changed from a top-down approach’</td>
<td>‘strong relationship building’</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>‘if there’s call it never comes down to people’</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Consistency</strong></td>
<td>‘silo – approach’</td>
<td>Top-down approach</td>
<td>‘silo mentality is’</td>
<td></td>
<td>Management style differs from</td>
</tr>
</tbody>
</table>

Quickly due to highly regulated conditions, ‘little room to maneuver’, laggard mentality management style is hostile, not responsive to change. Ethics DVD says as long as we don’t hide our errors and failure thereby learning from them.

Varieties within the organisation.

Now stating to check the competition.

Mission

Invitation to different centers and executive addresses staff.

‘there is a strategy and vision but I’m, not sure if its shared by the whole company.’

‘there is the 2008 strategy but it has not been communicated to the lowest level’

‘the vision is there but not communicated simplistically’

We don’t really know where it’s going yet.”
<table>
<thead>
<tr>
<th>Adaptability</th>
<th>Mission</th>
</tr>
</thead>
<tbody>
<tr>
<td>No support for risk and failure</td>
<td>my personal objective does not express what the company is trying to do</td>
</tr>
<tr>
<td>too much change internally</td>
<td>TOTAL wants to survive but I don’t know what my contribution is</td>
</tr>
<tr>
<td>remain slow to respond to market change</td>
<td>There is a ten year strategic plan but it is not living and breathing</td>
</tr>
<tr>
<td>‘old-fashioned’</td>
<td>‘recent change in TOTAL is taking risk and accepting failure’</td>
</tr>
<tr>
<td>slow to move</td>
<td>‘new to TOTAL is taking risk and accepting failure’</td>
</tr>
<tr>
<td>‘there is now a new way of doing things’</td>
<td>‘there is still an element of fear’</td>
</tr>
<tr>
<td>‘the attitude towards the failure differs from department to department. In most cases people are not reprimanded, instead they get transferred or promoted’</td>
<td>‘in the past the MD will call a soap box (staff meeting and discuss the company strategy. The sudden cancellation of these forums has left a gap that turns to create a minefield of gossips’</td>
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</tr>
</tbody>
</table>

Table 5: Interview Coding
3.3 Bibliography


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CHAPTER 4

South African Case Study: TOTAL South Africa

Introduction

In May 2003 little did, Dr Jerry Gule a Harvard Ed.D graduate, know about the length of time he was going to spend in this new environment where he has just been appointed to undertake a major challenge. Now 5 years later, sitting in a restaurant in Cape Town, away from the hustling and bustling life of Johannesburg when a ex-colleague poses an unexpected question ‘So why have you stayed there for long…I mean with the shortage of such rare diamonds like you, those that the job market would snatch up before you blink?’.

TSA is one of the key-role players in the oil and gas industry, and has been operating in South Africa since 1954. It is 50, 1% owned by the TOTAL Group which is a French multi-national
energy company. As a majority shareholder, the TOTAL Group appoints the CEO for TSA and has the majority on the TSA board of directors. Other shareholders are the black empowerment partner TOSACO owning 25% and Remgro owning 24.9% of TOTAL South Africa. The company employs 850 people countrywide including its Subsidiaries of Botswana, Lesotho and Swaziland. This number excludes the staff working in the retail network or service stations.

Jerry, who is the General Manager Human Resources and Transformation at TSA, ponders to himself and thinks back to his first day in what was then a new portfolio at TSA...little did he know about the environment, that he was going to be spending more than 70 hours of his time per week in. But because he was appointed to accelerate the pace of transformation in the organisation it seemed exciting at the time. The main driver for this transformation was the South African Petroleum and Liquid Fuels Charter signed in November 2000 and the recognition by the company that it was very conservative and needed to move away from this white dominated culture to be able to be attractive in the marketplace. TOTAL South Africa made commitments on the 13 pillars of empowerment as outlined in the Charter and the 7 elements of the Broad-based Black Economic Empowerment (BBBEE) Act of 2003. One of these pillars is that of creating a supportive organizational culture. The charter refers to the creation of a supportive and enabling environment for business success.

‘The success of this programme depends on the disposition of those who have responsibility for managing the process. Member companies and Government therefore undertake to appoint to such positions managers who will understand the spirit and background under which these policies were conceived in order to create a supportive and enabling environment for business success...Companies subscribe to incorporating and driving a process of transformation and a change of culture in their statements of business principles.’ (South African Petroleum and Liquid Fuels Charter, 2000, p15).

The context, in which oil companies operated prior to 2006, before the wild swings in exchange rates and crude prices, was that they were pocketing high returns due to each having captured a significant share of the market regardless of the management practices and behaviours that were in place. The recent economy swings and the signing of the Petroleum and Liquid Fuels
Charter(LFC) in 2000, it meant that oil companies needed to adapt new practices to ensure that they continue to grow market share by obtaining licenses from the state key to which is the compliance with the LFC amongst others. The Department of Minerals and Energy closely monitors the implementation thereof; the country has been changing drastically that organizations do not want to be seen as resistant to change as this would jeopardise their standing with customers, suppliers and employees and would thus boost its brand and market perception and penetration.

This commitment was echoed by Zodwa Manase, the chairperson of the board of directors at TOTAL South Africa, ‘At TOTAL South Africa, we actively promote sustainable transformation within our business and understand its importance to our future success. We will continue to embrace a culture of change and ensure underlying interventions of the Industry Charter become realities that are fully entrenched in our business model’ (TOTAL Transformation Report, p 42)

Jerry, after much careful thought he recalls with excitement and reaches for his notebook and says to his friend ‘Before I answer your question let me tell you of my first observations… I remember I had put together a presentation for the HR team when I requested them to confirm if my opinions were correct’. He gets up and shuffles through his documents and then goes back to his seat without the document he was looking for. He utters ‘I think one of my key observations when I joined was that people in this organisation seemed to be governed by fear to talk therefore some of the initiatives we then implemented addressed that; - though not in full. I think there are still pockets of fear in some parts of the organisation’. He then recalls the initiatives that have since been put in place to address some of the key issues that were agreed upon at that meeting. His list includes the following;

- Review of recruitment policies and procedures which led to a redesign of policies to ensure attraction of talent in the market place. This was to ensure that the previously disadvantaged individuals were given a priority to ensure a representative workforce and supportive culture.
- The establishment of the Strategic Resourcing Committee to ratify appointment decisions of middle to senior management positions in the company.
- Diversity Training to sensitize employees about the different cultures, the value of embracing diversity and how to embrace it in the workplace.
- The establishment of team contracts for each team to agree on values to be supported and lived by each work team, based on the overall values of the organisation.
- The New Economy Leadership (NEL) programme which started off with a survey on whether the company leadership had evolved to new economy leadership style. The core dimensions of the NEL;
  - Strategy Execution
  - Structures
  - Talent Creation
  - Business Disciplines
  - Stakeholder Value
  - Reward and Recognition, and
  - Change Leadership.
- The TOTAL Attitude which is about driving four key behaviours throughout the TOTAL Group which are: BOLDNESS, LISTENING, MUTUAL SUPPORT and CROSS-FUNCTIONALITY. TSA welcomed this initiative as it will foster its own values of PRIDE, DIVERSITY, PROFESSIONALISM and TRANSPARENCY.

- The TSA Code of Conduct attached as Appendix 2 reads the following quote

  "Mediocre companies rarely display the relentless culture of disciplined people who engage in disciplined thought and who take disciplined action that we find in truly great companies.

  A culture of discipline is not a principle of business;

  it is a principle of greatness." Jim Collins(TSA Ethical Code, accessed in 2008,p2)

Jerry Gule’s friend gets sceptical and interrupts him as he excitedly brags about the work that he has driven in the company – “My friend, let us be realistic here...what you do does not count until the impact affects the bottom line and I must be honest with you, I do not see how it affects the bottom line. Isn’t that what your shareholders are worried about?’” Jerry smiles cynically and
carries on explaining to his friend, ‘You see, may be you should come back to TOTAL South Africa, we need more people like you concerned about the bottom line. Remember how oil companies operate…if you have a sizeable market share the money rolls in so if you look at performance as financial aspect, then these initiatives would not have such a huge impact and that is the attitude of oil companies. However, if you look at performance from a sustainability point of view particularly of retention of intellectual capital, you want to reduce staff turnover which is currently high. You can almost imagine that the cost associated with that, the costs are high. The cost of losing knowledge that you could be doing more with can be high. Also, from a brand positioning point of view, interacting with stakeholders - particularly suppliers, will make it hard for you to do business. Actually you will have to pay a premium to engage and retain them over time; this might affects your line indirectly. People hate having to deal with a new face all the time’.

He gets interrupted by an email that he receives on his blackberry and he calls it a night as he remembers that he needed to call his wife before he goes to bed. Jerry gets to his hotel room and speaks to his wife. After the phone call he remembers the email notification he received from one his managers in the HR team. He logs onto his notebook and downloads his emails…a presentation is attached with a note reading as follows:

‘Dear Jerry...

We have received the results from the long awaited staff survey. Find attached the report and let us know if we should add this item on the next Executive Meeting agenda which is next week Monday.

Enjoy.’

He opens the word document and starts going through the executive summary and his facial expression changes as he thinks to himself that next week may be the perfect time to table this report as the company is faced with a critical decision that it keeps laying off. He then
interrogates the detailed report the level at which he will pitch his presentation. The consultant who prepared the report had categorized the information.

**A great place to work**
The majority of the participants expressed the feeling of a ‘laid back’ type of culture being predominant in the organisation and felt that the environment enables them to enjoy being at work. There was a sense from three of the participants that this element has a potential to stifle change in the organisation as it tends to be very slow in responding to market changes. The feeling between these employees was that the organisation has not realised its full performance potential as it is not highly performance driven. There are other positive aspects which employees regard as special and unique at TSA is that the culture is supportive, there are training programs in place and employees are exposed to unlimited opportunities as they can obtain vast experience from the different fields within the organisation.

‘At one stage TOTAL South Africa was dominated by white Afrikaans males and now there is also an element of the French culture since every CEO is sent from the Group in France is sent to this office’  
**Employee**

‘ The feeling of the TOTAL Family particularly amongst the people who’ve been here long’  
**Employee**

‘What makes TOTAL special is the endless opportunities’  
**Employee**

‘ I would say the company has this thing about creating a great place to work but I think they’ve only achieved 80% of that, there is this 20% that is missing and its about work ethic’  
**Employee**

‘Firstly for me the company has made an effort to provide a conducive place for learning and although this may also be to the detriment of the organisation as they would invest in an individual and be poached by another organisation. What also became very clear although people
who have been hear do not find it any strange…this place is very relaxed and it then is up to one’s personal values whether they drive themselves towards specific goals or they take it easy’

**Employee**

‘The BEE structure has made a difference and the company goes an extra mile’ **Employee**

‘The environment is very relaxed which is good but could also be detrimental to the organisation if it is overly lax’ **Employee**

**The level of involvement**

‘Very poor level of involvement particularly between senior management and staff members in this organisation. I think there are not enough forums for people to interact and this affects trust levels because of lack of communication’ **Employee**

‘ I believe people still fear speaking out…we have not dealt with this issue fully however we have provided platforms for engagement such as the Transformation Committee’ **GM HR and Transformation**

‘ TOTAL is still very hierarchical, there decisions are always driven from top to the bottom and one of the reasons is that our management structure has not drastically changed in 10 years’

**Employee**

“I have spent time in various departments within the organisations because management believed in my ability so I have had various opportunities” **Employee**

‘I am enjoying TOTAL because of the opportunities that exist’ **Employee**

‘I think one thing that comes out clear for me is the investment in people. You can identify a place you want to go in next within the company and the company will make it possible for you
though it is largely dependent on your personal values. If you are driven by opportunity and ambition TOTAL is the place to be’ Employee

‘There are silos and people are just comfortable in operating in their own little spaces and this dampens the performance of the operation. You will find that a lot of new people do not stay long and as a result we lose skills in the process. Management is not in touch with what happens at lower levels of the organisation.’ Employee

TOTAL takes employee development seriously therefore opportunities for growth are more as compared to where I come from’ Employee

“Way of doing things”

‘It’s still very patriarchic, if there’s a decision taken by the organisation it never goes back to the people as a result there is a lot of corridor talk’. Employee

‘Consequence management is not proper nor are there high levels of transparency in the organisation. You always hear things from the grapevine and you later find out that it is actually true. The grapevine is a big thing within TOTAL South Africa’. Employee

‘The management style varies from department to department. Some departments are quite progressive where leadership is more open and receptive to suggestions and engagement from staff however other areas in the organisation follow very much a top-down approach. I know that management generally wants to move away from the top-down approach’ Employee

‘Leadership is not inclusive and does not seem to ‘walk the talk’. We have very few isolated case of exemplary consequence management’ Employee

‘We have a strong ethical code which we are serious about enforcing though I think there are certain things we need to do better such as making managers accountable and responsible particularly around performance. One of the initiatives that we put in place last year was Team
contracts for each time to develop and agree on their own set of behaviours they want to drive obviously guided by the organisational values. It, sort of, fell through the cracks towards the end of last year when we did not follow through with the monitoring. We are planning to revive that next year’ GM HR and Transformation

Attitude towards risk and failure

‘We’ve been allowed to share ideas and we had a structured idea programme but you only see a few people being rewarded for their ideas and we don’t know what happened to the rest of the ideas that did not get a prize. Information just does not filter down to the people and this affects people’s levels of motivation thereby indirectly affecting the performance of the organisation’ Employee, 2008

‘There is often too much change in the organisation and sometimes they change something that was being done correctly… I mean when there’s nothing wrong with a process why fix it?’ Employee

‘The attitude towards risk in the organisation varies’ Employee

‘Risk is a new concept to TOTAL South Africa…people are not used to venturing out’ Employee

‘People have the freedom to be creative. TOTAL South Africa has a good product in the market because of that and our market share has not gone down. We are also starting to look at the competition…we never used to do that and I believe we could have done better in term of market share if we did more above the line advertising which we did not do for a long while whilst competition invested heavily on it.’ Employee

Long term vision
‘There is a 10 year strategic plan but it is not necessarily a living and breathing thing. I know that TOTAL South Africa wants to survive in the market place but I am not too certain about my contribution and I don’t know if those ‘stated goals’ are being actively pursued’ Employee

‘At the moment, we don’t really know where the company is going yet and that does not necessarily positively affect the performance of the organisation. I know that the CEO has identified some key issues that he wishes to tackle but we don’t know in which direction he wants to take the company. Also, I think a contributing factor is that it takes sometime for people coming from outside the country to get used to the South African environment. So, maybe he is still doing his analysis and sizing of the task he is faced with’ Employee

‘There are strategies in the company but they are not well communicated and simplified for everyone in the organisation to understand them. A new expatriate CEO comes in every four years and after the four years things come to a stop waiting for the next CEO so we are used to these four year cycles. I don’t know how that has affected financial performance of the company but I know that from a ‘morale’ point of view it affects the organisation which would indirectly affect performance.’ Employee

Jerry sits back and recalls a momentous time in both his career life and his personal life where he had major internal conflict between his personal values and another colleague’s values where the company’s values had come in extremely handy and crucial. He says had sleepless nights because he was worried about the fact that his reputation could be on the line and he would not have been able to live with himself had he decided to go along with the colleague. He murmurs to himself ‘I could have left then but I decided to stick by the values of this organisation because I believe in it…so the struggle goes on as there is still a lot more to do here’. He then flips through the last few pages of the report where they have highlighted what employees think could help the organisation more forward.
Critical factors to enhance an organizational culture that enhances organizational performance

He hits the reply button on the email from the HR Manager and he responds by writing the following
‘Thank you
Yes...this item should go into the next Executive meeting agenda and make sure the consultants are available to deal with any technical issues raised. I am almost certain that this report will be influential in the important decision the board is about to make. Also you must start preparing sessions with the departments to communicate feedback from this survey to all their staff after the Executive meeting. We still have a lot more work to do.

Yours in Transformation,
Jerry

He switches his notebook off and catches a few hours of sleep before he catches the 6 am flight back to Johannesburg after a long two days at a Transformation Conference in Cape Town. On boarding his flight, he starts preparing his thoughts for the executive meeting on this survey and he starts wondering about the potential influence on the critical decision the organisation is about to make which will affect the morale of the people in the organisation.

Conclusion

Based on this feedback, he starts jotting down the elements that seem to enhance performance in the organisation and those that detract from it. He starts thinking about what the company should start doing more of and less of. Going back to his initiatives that he wants to drive strongly in the coming financial year he thinks about what measures he should put in place to ensure that change has a visible impact on the performance of the organisation and he starts highlighting the quotations from the staff.

‘You need strong visionary leadership to create a significant change in this organisation and that we have not seen yet’ Employee
‘You need **renewal** and the strength does not only lie with the CEO but the next level of executive management. You also need an **external perspective**…more fresh and unbiased’.

**Employee**

‘We need our **leadership** to *walk the talk*. What do they say? Be the change you want to see?’

**Employee**

‘Focus more on individual/personal change and make people happy’ **Employee**

‘Synergy between all departments…**one vision one goal**’ **Employee**

There is only one thing that Jerry is very clear about is that he is going to make a point of going into that executive meeting.

**Questions for discussion**

1. Discuss the drivers for organisational culture change at TSA.

2. Discuss the link between organisational culture and organisational performance as viewed and experienced by TSA.

3. Discuss the elements of the organisational culture that enhance organisational performance at TSA?

4. Discuss the elements of the organisational culture that detract from organisational performance at TSA?
5. How would you ensure that these initiatives are successfully implemented?

6. As the General Manager: HR and Transformation, prepare a presentation for the next executive meeting which is a debrief report on the feedback from the survey with one or two recommendations going forward.
CHAPTER 5
Instructor guide

5.1 Case Summary
This case study describes the link between organizational culture and organizational performance at TOTAL South Africa (TSA). Most specifically it describes the perception of the people on the culture at the Head Office. Quotations from interviewees are used throughout the case to illustrate the main learning points. The teaching objective is to emphasize the critical factors identified to create an organizational culture that enhances performance and the role of communication is explored in detail.

5.2 Background
TSA is a key-role player in the oil and gas industry in Southern Africa, and has been operating in South Africa since 1954. It is 50, 1% owned by the TOTAL Group which is a French multinational energy company. As a majority shareholder, the TOTAL Group appoints the CEO for TSA and has the majority on the TSA board of directors. Other shareholders are the black empowerment partner TOSACO owning 25% and Remgro owning 24, 9% of TOTAL South Africa. The company employs 850 people countrywide including its Subsidiaries of Botswana, Lesotho and Swaziland. This number excludes the staff working in the retail network or service stations.

In 2003 TSA appointed a General Manager Transformation which was a then a new portfolio to drive transformation within the organisation which was, at the time, not moving at a desired rate for the board of directors. Since the Liquid Fuels Charter signed in 2000 and the Broad-based Black Economic Empowerment (BBBEE) Act promulgated in 2003 TSA has committed itself to redressing the imbalances of the past. One of the key components of TSA’s commitment is that of creating a supporting organisational culture, TSA is implementing initiatives to ensure that it delivers successfully.
5.3 Learning Objectives

The key learning objectives of the TSA case are for students to;

- To gain an understanding on the link between organizational culture and organizational performance in a South African context (specifically in the oil and gas industry).
- To gain an insight on the imperatives for organizational culture change in South Africa.
- To develop a better understanding of the organizational culture aspects that enhance or detract from organisational performance.
- To identify critical factors to drive organizational culture changes in an organisation.

5.4 Target Audience

The target audience for this case study is MBA and other management students that are interested to gain a deeper insight into;

- Learning about the softer side of business management specifically organisational culture.
- Understanding the relationship between organisational culture and organizational performance.
- Critical factors to drive organisational culture change.

5.5 Teaching Approach

This case study is relevant but not limited to the following subjects;

- Management of Organisations and Human Resources – this is an example of the role of organisational culture on the performance of the organisation similar to the case on South West Airlines but in a South African context.

- Change Management – this case study highlights some of the key aspects to large-scale organisational change management that seeks to change specific behaviours within an organisation.
As a recommendation the case study can be given to students three hours to a day prior to
discussion including the exhibits. The students must read and analyse the case to identify key
themes individually. A discussion in class can then be facilitated to answer the following
questions;

1. **Discuss the drivers for organisational culture change at TSA.**

   In line with Schein’s assertion that in-order for any transformation change to happen in
organisational culture there must be a level of discomfort with the status quo, or a sense
of failure or a crisis to motivate people to make changes (Schein, 2004), there are a
number of factors driving organisational culture change at TSA.

   - Firstly the imperative for organisational culture change at TSA was the change in
     the political landscape in country which promulgated various acts and frameworks
     for redressing the inequalities of the past. Key to these in the oil and gas industry
     is the Liquid Fuels Charter which is an agreement between government and the oil
     and gas industry in South Africa. (South African Liquid and Petroleum Fuels
     Charter, 2000) Also key is the Broad-based Black Economic Empowerment Act
     promulgated in 2003.

   - Changes in the economic landscape post 2006 which are characterized by high
     crude oil prices and the weakened exchange rate (Gule, 2008). This would
     obviously drive down the generally substantial profits usually made by oil
     companies.

   - Lastly the indirect costs associated with high staff turnover, losing intellectual
     capital and recruitment to fill vacancies (Gule, 2008).

2. **Discuss the link between organisational culture and organisational performance
   as viewed and experienced by TSA.**

   - There is a link between organisational culture and organisational performance at
     TSA though this seems to be more indirect than direct to the bottom line since the
     nature of the oil and gas industry where most of the key players including TSA
had secured a stable market share therefore remains profitable regardless of the endorsed organisational cultures. However recently further factors including the regulatory and economic environment have an impact on the bottom line therefore organisational culture has become important particularly for further growth. (Gule, 2008). Supporting this assertion is Schein (2004) when he contends that ‘every group or organisation must develop a shared concept of its ultimate survival problem,…, this shared definition revolves around the issue of economic survival and growth, which, in turn involves the maintenance of good relationship with major stakeholders of the organisation’. (Schein, 2004, p89).

- Denison and Mishra affirm this assertion that one of the cultural traits to influence organisational performance is the **mission** the organization pursued by combining economic and non-economic objectives providing meaning to employees (Denison and Mishra, 1995). In support of this, staff make an observation that information in the organisation does not filter down to the people such as important decisions on the direction the company is taking and this de-motivates people resulting in an indirect impact on organisational performance as people may not be as productive as they should be. (Employee, 2008)
- Also another significant indirect impact on organisational performance is that the company has lost intellectual capital that could have been used to progress the organisation further but lost the opportunity to do so (Gule, 2008).

### 3. Discuss the elements of the organisational culture that enhance organisational performance at TSA?

- The key element that seems to enhance organisational performance at TSA is the level of involvement specifically where growth and employee development are concerned. There seems to be a strong sense of growth opportunities being provided in the organisation and evidence of development initiatives such as the NEL programme that employees welcome in the organisation. This would have a positive effect on levels of staff satisfaction thereby retention of skills in the organisation thereby positively impacting on performance of the organisation as the organisation will also be more attractive to potential employees.
Also people feel a sense of belonging probably that explains why some people have stayed much longer in the organisation. This sends a strong message of commitment in the organisation which may contribute to employee’s staying longer in the organisation.

There is a presence of a strong ethical code which seeks to drive behaviour and good values such as transparency, professionalism, pride and diversity in the organisation. This would unite the organisation and there seems to be leadership in place to drive these behaviours.

There is a degree of freedom for creativity which is supported by processes in place though there maybe challenges in the implementation of the system or process such as lack of visibility. The environment is said to be a relaxed environment which allows people time and space to be creative. This may also have a negative impact if it is excessive as people may not focus on the task at hand and be allowed to wander away from the fundamental business.

4. Discuss the elements of the organisational culture that detract from organisational performance at TSA?

One of the key negative elements is inconsistencies in the way of doing things where practices differ from department to department such as the level of openness by management. Also leadership is not being seen to walk the talk in the organisation therefore employees may not be highly motivated and inspired to do their work due to these inconsistencies and lack of motivation.

The second most important issue is lack of proper communication which seemingly does not filter down to the lowest levels in the organisation. It is said not to be simplistic enough for people to understand so management maybe trying to communicate something important and it may either not reach the lower levels or that it is misinterpreted at lower levels. Another important point is that management may not be communicating enough with the employees hence the
presence of corporate evils such as the ‘grapevine’ spoken in the corridors about important business issues and decisions.

- The last key element that may be negatively impacting the organisation is lack of visible consequence management where people learn from other’s mistakes. This may negatively affect organisational performance because people may be repeating the same costly mistakes because they did not learn from other people’s failures.

5. **How would you ensure that these initiatives are successfully implemented?**

This is not an exhaustive list

- Firstly, as contended by Schein (2004), leadership is key in creating a positive culture to enhance performance. Kotter and Heskett (1992) agree with this as they assert that based on studies they conducted the single most important factor that distinguishes major culture changes that succeed from those that fail is competent leadership at the top. Having the right leadership to drive the culture change is key that ‘walks the talk’ therefore it would be driven from the top.

  - Secondly the scale of the culture change needs to be big organisation-wide.

  - Lastly constant consistent and simple communication would be a very integral part of change management.

6. **As the General Manager: HR and Transformation, prepare a presentation for the next executive meeting which is a debrief report on the feedback from the survey with one or two recommendations going forward.**

  - **Key recommendations**

    - If the critical decision to be made by EXCO will affect morale – hold it back for a few months and resolve key staff morale issues.
    - Urgent Leadership Challenge – Executive to be urgently trained to become Key Change Agents.
    - Immediate Communication and Communication Plan integrating all the initiatives through a central Project Management Office.
CHAPTER 6

Conclusion

This case provides one unique example of organisational culture and its link to organisational performance in the oil and gas industry in South Africa. The case discusses a situation at a given point in time in one organisation and it represents perceptions and experiences of different employees at TSA. This case is an interesting one on the complexity surrounding organisational culture particularly in the South African environment where transformation is driven by national and political imperatives. It is meant to provide management students with an opportunity to learn and share views on implementing effective organisational culture changes that successfully enhance organisational performance as it gives examples of initiatives undertaken by the organisation.
## Appendix 1 Denison Model Dimension and Traits

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<thead>
<tr>
<th>Involvement</th>
<th>Empowerment</th>
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<tbody>
<tr>
<td></td>
<td>1. Decisions are usually made at the level where the best information is available</td>
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<td></td>
<td>2. Information is widely shared so that everyone can get information he or she needs when it’s needed</td>
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<table>
<thead>
<tr>
<th>Team orientation</th>
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<tbody>
<tr>
<td>3. Everyone believes that he or she can have a positive impact</td>
<td></td>
</tr>
<tr>
<td>4. Working for this organisation is like being part of a team</td>
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<tr>
<td>5. This organisation relies on horizontal control and coordination to get the work done rather than hierarchy</td>
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<tr>
<td>6. Teams are the primary building blocks of this organisation</td>
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<table>
<thead>
<tr>
<th>Capability development</th>
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<tbody>
<tr>
<td>7. This organisation is constantly improving compared with its competitors in many areas</td>
<td></td>
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<tr>
<td>8. The organisation continues to invest in the skills of employees</td>
<td></td>
</tr>
<tr>
<td>9. The capability of people in this organisation is viewed as an important source of competitive advantage</td>
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<table>
<thead>
<tr>
<th>Consistency</th>
<th>Core values</th>
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<tr>
<td></td>
<td>10. The leaders and managers follow the guidelines that they set for the rest of the organisation</td>
</tr>
<tr>
<td></td>
<td>11. There is a clear and consistent set of values in this organisation that governs the way we do business</td>
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<tr>
<td></td>
<td>12. This organisation has an ethical code that guides our behaviour and tells us right from wrong</td>
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<table>
<thead>
<tr>
<th>Agreement</th>
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<tr>
<td>13. When disagreements occur we work hard to achieve solutions that benefit both parties in this disagreement</td>
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<tr>
<td>14.</td>
<td>It is easy to reach consensus, even on difficult issues</td>
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<tr>
<td>15.</td>
<td>We often have trouble reaching agreement on key issues</td>
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<td></td>
<td><strong>Coordination and in</strong></td>
</tr>
<tr>
<td>16.</td>
<td>People from different organizational units still share a common perspective</td>
</tr>
<tr>
<td>17.</td>
<td>It is easy to coordinate projects across functional units in this organisation</td>
</tr>
<tr>
<td>18.</td>
<td>There is good alignment of goals across levels of this organisation</td>
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<tr>
<td></td>
<td><strong>Adaptability</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Creating change</strong></td>
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<tr>
<td>19.</td>
<td>This organisation is very responsive and changes easily</td>
</tr>
<tr>
<td>20.</td>
<td>This organisation responds well to competitors and other changes in the business environment</td>
</tr>
<tr>
<td>21.</td>
<td>This organisation continually adopts new and improved ways to do work</td>
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<tr>
<td></td>
<td><strong>Customer focus</strong></td>
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<tr>
<td>22.</td>
<td>Customer comments and recommendations often lead to changes in this organisation</td>
</tr>
<tr>
<td>23.</td>
<td>Customer input directly influences our decisions</td>
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<td></td>
<td><strong>Organisational learning</strong></td>
</tr>
<tr>
<td>24.</td>
<td>The interests of the final customer get ignored in our decisions</td>
</tr>
<tr>
<td>25.</td>
<td>We view failure as an opportunity for learning and improvement</td>
</tr>
<tr>
<td>26.</td>
<td>This organisation encourages and rewards those who take risks</td>
</tr>
<tr>
<td>27.</td>
<td>We make certain that we coordinate our actions and efforts between different units in this organisation</td>
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<td></td>
<td><strong>Mission</strong></td>
</tr>
<tr>
<td>28.</td>
<td>This organisation has long-term purpose and direction.</td>
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<tr>
<td>29.</td>
<td>The organisation has a clear mission that gives meaning and direction to our work</td>
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<tr>
<td>30.</td>
<td>This organisation has a clear strategy for the future.</td>
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<tr>
<td><strong>Goals and Objectives</strong></td>
<td>31. There is a widespread agreement about goals of this organisation</td>
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<tr>
<td></td>
<td>32. Leaders of this organisation set goals that are ambitious but realistic</td>
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<tr>
<td></td>
<td>33. The leadership has clearly stated objectives we are trying to meet</td>
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<tr>
<td><strong>Vision</strong></td>
<td>34. We have a shared vision of what this organisation will be like in the future</td>
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<td></td>
<td>35. Leaders of the organisation have a long-term orientation</td>
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<td></td>
<td>36. Our vision creates excitement and motivation for our employees</td>
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</table>
“Mediocre companies rarely display the relentless culture of disciplined people who engage in disciplined thought and who take disciplined action that we find in truly great companies. A culture of discipline is not a principle of business; it is a principle of greatness.”

Jim Collins
Mediocre companies rarely display the relentless culture of disciplined people who engage in disciplined thought and who take disciplined action that we find in truly great companies. A culture of discipline is not a principle of business; it is a principle of greatness.

Jim Collins

Promote good consequences over bad ones

Choose right over wrong

Do our duty

Be impartial and objective

Develop a virtuous character
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Leadership pledge

Message from the TOTAL Group Ethics Committee

The TOTAL Group seeks always to base its activities on a set of values and principles that asserts its commitment to responsible conduct in all its business areas. These areas, spread all over the world, are diverse in context and constraints, often requiring country-specific guidance and procedures.

The TOTAL South Africa Code of Ethics is an appropriate response to this need, offering detailed responsible conduct guidelines adapted to South African operations.

Therefore, the TOTAL South Africa Code of Ethics assists the TOTAL Group in embedding the principles contained within the TOTAL Group Code of Conduct into its South African business practices.

I am therefore pleased to support and congratulate TOTAL South Africa for such an initiative as it may directly benefit customers, employees and other stakeholders, as well as contribute to the good reputation of both TOTAL South Africa and the TOTAL Group.

Richard Lanaud
Chairman
TOTAL Group, Ethics Committee
To all stakeholders:

TOTAL South Africa is a subsidiary of a world-class oil, gas and chemicals company, the TOTAL Group. Given our global presence and the diversity of all our employees, it is important that each of us identifies with shared values that help guide our behaviour.

At TOTAL South Africa, we are driven by our core values of Professionalism, Transparency, Pride and Diversity. These core values are derived from our local organisational culture and the Group Ethics Charter. It reflects and supports our commitment to the TOTAL Group Code of Conduct. The TOTAL South Africa Code of Ethics is therefore a locally relevant expression of TOTAL’s global commitment, as expressed in the Group Code of Conduct, to responsible business conduct.

The TOTAL South Africa Code of Ethics is intended to provide clear guidelines for all stakeholders – both inside and outside the organisation. The TOTAL South Africa Code of Ethics lays down the boundaries of responsible conduct, so that all stakeholders – employees, customers, dealers, industry partners and vendors – know what to expect of TOTAL South Africa, and vice versa.

By adhering to these core values and the prescriptions in the TOTAL South Africa Code of Ethics, we are committed to achieving our goals of sustained and sustainable growth for the company and our stakeholders. To date our success has been largely due to how our diverse staff have adhered to our values.

We should therefore observe both the spirit and letter of the law while building, enhancing and protecting an ethical organisational culture in TOTAL South Africa as well as among those associated with us.

In all our business activities and transactions we should conduct ourselves to the highest standards of responsibility by living our core values of Professionalism, Transparency, Pride and Diversity.

I encourage you to play an important part in contributing to our success by adhering to the TOTAL South Africa Code of Ethics. When you observe an incident of unethical or unsafe conduct, report it either confidentially to an appropriate person in TOTAL South Africa, or anonymously to the TOTAL South Africa Ethics Line on 0800 122 122.

I personally commit myself to lead by example, and ask all our stakeholders to do the same.

Philip Jordan
Chief Executive Officer
TOTAL South Africa (Pty) Ltd

Report unethical conduct
Ethics Line: 0800 122 122

TOTAL South Africa Code of Ethics page 5
TOTAL is committed to growing its business based on shared values and common principles that clearly assert its ethical standards and accountability for all its businesses.

In particular, TOTAL is accountable to:

- Its shareholders, with the objective of striving to ensure a good return on their investment and providing them complete and transparent information on a regular basis;
- Its customers, with the commitment to supplying quality products and services in strict compliance with accepted safety and environmental standards;
- Its employees, with attention to their professional development and the promotion of health and safety in the workplace;
- Its suppliers and partners, in accordance with clear contract terms and conditions. The Group expects them to comply with the principles and behaviours described in its Code of Conduct; and
- Civil society. TOTAL contributes to the social and economic development of the countries in which it operates, in compliance with local legislation and regulation. It is committed to protecting the environment and respecting local cultures.

More generally, TOTAL stands for:

- The principles of the 1948 Universal Declaration of Human Rights;
- The principles of the International Labour Organization;
- The OECD guidelines for Multinational Enterprises; and

TOTAL respects the principles of free competition and rejects any form of corruption. It does not intervene in the political processes of the countries in which it operates. It is actively involved in environmental stewardship as part of its clear-cut commitment to sustainable development.

TOTAL expects the Group's employees to make a positive contribution to the Group's ethics policy, which they carry out in the course of their daily routine. It therefore requires the Group's employees to adhere to the core values and principles expressed in the Code of Conduct. In particular, this involves:

- To strictly abide by all applicable legislation and regulation;
- To apply diligently the health, safety and environment rules;
- To build clear and honest relationships with customers, suppliers and associates;
- To ensure confidentiality of business information;
- To act with loyalty and integrity towards the Group by avoiding conflicts of interest and insider trading;
- To refrain from intervening in the political arena of the countries in which they have no civil rights; and
- To contribute to a positive working team environment.

Thierry Desmarest
Chairman and Chief Executive Officer
Our vision, mission and values

TOTAL is committed to growing its business based on shared values and common principles that clearly assert its ethical standards and accountability for all its businesses.

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- To refrain from intervening in the political arena of the countries in which they have no civil rights; and
- To contribute to a positive working team environment.

Thierry Desmarest
Chairman and Chief Executive Officer

Report unethical conduct
Ethics Line: 0800 122 122
Structure of the TOTAL South Africa Code of Ethics

Our core values
- Ethics: is about living core values - being ethical means living according to the requirements of core values.
- Professionalism: asks, “How can I do my job in a way that contributes to TOTAL South Africa’s reputation as a world-class organization?”
- Transparency: asks, “Should I reveal this information?”
- Pride: asks, “Is this decision justifiable?”
- Diversity: asks, “Is this decision justifiable?”

Our core values are supported by principles that are not intended to provide a complete or exhaustive list of do’s and don’ts. We simply list the most important ones as illustrations.

Scope of application

The TOTAL South Africa Code of Ethics applies to all our stakeholders – employees, customers, dealers, industry partners and vendors – in TOTAL South Africa’s operations in South Africa, Namibia, Botswana, Lesotho and Swaziland.
Our core values

Professionalism • Transparency • Pride • Diversity

**Ethics** is about living **core values** - being ethical means living according to the requirements of core values.

Core values are **standards** for responsible conduct.

TOTAL South Africa’s core values - **Professionalism, Transparency, Pride and Diversity** - lay a firm foundation in guiding our conduct.

Our core values guide us to do what is good, right and fair by showing:

- Others what they should expect of us; and
- What we should expect of others - fellow stakeholders.

Our core values are supported by principles that are not intended to provide a complete or exhaustive list of **do's and don'ts**. We simply list the most important ones as illustrations, showing how our core values are put into action in our workplace.

Should a particular situation not be explicitly or directly addressed in the **TOTAL South Africa Code of Ethics**, stakeholders should always refer to and consider the TOTAL South Africa core values to guide their deliberations, decisions and actions. **See Section I, below, for guidance on how to reason ethically by starting with these core values.**

It is the responsibility of every stakeholder to understand how to apply these values to issues and decisions in the workplace. Should you be uncertain about what to do in any situation, ask for guidance or assistance **(see Section G, below).**

Where appropriate, the **TOTAL South Africa Code of Ethics** will direct you to TOTAL South Africa's policies, procedures or other standards.
**F1. Professionalism**

**Principles**

We believe in excellence and innovation. We achieve this through conduct characterised by ownership, accountability and integrity.

A commitment to Professionalism requires being able to perform to the highest levels of service, safety and excellence by:

- Complying with all health, safety and security standards;
- Promoting legitimate business interests in a diligent manner;
- Maintaining confidentiality of information;
- Protecting intellectual property;
- Keeping proper records;
- Using resources effectively; and
- Refraining from any form of harassment and intimidation.

**F1.1 Principle - Complying with all health, safety and security standards**

To ensure healthy, safe and secure working environments, stakeholders must:

- Observe all applicable international and national laws and regulations external to TOTAL South Africa, as they relate to safety and health;
- Follow all internal TOTAL South Africa safety, health and security policies and procedures;
- Take all reasonable measures to avoid putting others’ lives and health at risk by preventing workplace accidents and injuries;
- Give customers and colleagues adequate health and safety information;
- Ensure that visitors to TOTAL South Africa’s buildings and plants are authorised to do so;
- Ensure that visitors to TOTAL South Africa’s facilities follow the appropriate procedures to prevent unauthorised access to materials, information or persons;
- Avoid introducing to the workplace alcohol, drugs, firearms or other items that could adversely affect health, safety and security;
- Take adequate measures to ensure protection of the integrity of vehicles, equipment and processes used to produce, supply and support TOTAL South Africa’s products;
- Take adequate measures to protect the integrity of computer and information systems, including password protection, and to minimise exposure to computer viruses or other threats to information systems; and
- Prefer vendors and partners whose work practices adhere to local and international health, safety and security standards.
viruses or other threats to information systems; and
- Prefer vendors and partners whose work practices adhere to local and international health, safety and security standards.

F1.2 Principle - Promoting legitimate business interests in a diligent manner

To promote legitimate business interests in a diligent manner, stakeholders must:

- Obey applicable laws and regulations;
- Adhere to the letter and spirit of tax laws;
- Maintain TOTAL South Africa’s economic health;
- Contribute to TOTAL South Africa providing a fair and competitive return on investment;
- Offer products and services whose quality meets and exceeds customer requirements;
- Provide timely service and remedies for customer complaints;
- Provide investors with relevant, accurate and timely information;
- Refrain from obstructing legal rights of shareowners; and
- Adhere to independent and current auditing and financial reporting standards.

F1.3 Principle - Maintaining confidentiality of information

To maintain confidentiality of information, stakeholders must:

- Refrain from disclosing any confidential information belonging to the company;
- Refrain from disclosing any sensitive customer information without proper prior authorisation from the customer;
- Avoid discussing proprietary or confidential information in any contact with competitors;
- Maintain confidentiality of information received, e.g. from vendors;
- Refrain from disclosing employee information that TOTAL South Africa is legally required to record, unless obliged to do so for legal reasons; and
- Refrain from disclosing any information relating to personnel, such as employee salaries, medical status or personal circumstances, unless there is proper authorisation from the employee or other legitimate parties.
F1.4 Principle - Protecting intellectual property

To protect intellectual property - namely patents, trade secrets, trademarks and copyright - stakeholders must:

- Ensure that TOTAL South Africa's intellectual property, and that of other employees and vendors, is disclosed to parties, internal and external to the organisation, on a professional and work-related need-to-know basis only;
- Refrain from exploiting intellectual property over which one cannot rightfully claim ownership, during or after employment, or during or after the fulfilment of contractual relationships; and
- Refrain from exploiting intellectual property over which you can rightfully claim ownership if such an action competes with TOTAL South Africa's interests (see Section F2.4, below, on avoiding both actual and perceived conflicts of interest).

F1.5 Principle - Keeping proper records

To keep proper records, employees, dealers and vendors must:

- Ensure the accuracy of all records, reports, invoices and other documents submitted to or on the behalf of TOTAL South Africa;
- Maintain accurate records in line with TOTAL South Africa's record-keeping procedures and requirements; and
- Ensure the accuracy and timeliness of statements prepared or submitted, such as financial statements.

F1.6 Principle - Using resources effectively

To use TOTAL South Africa's resources effectively, employees, dealers and vendors must:

- Safeguard the company’s resources and ensure their prudent and effective use;
- Contribute to creating work conditions conducive to high productivity;
- Complete tasks and projects efficiently and effectively;
- Ensure the effective and efficient use of “company time” to deliver on agreed objectives;
- Apply knowledge and skills in the best interest of the company;
- Consult and cooperate with the TOTAL South Africa's Legal Division in all matters requiring legal opinion; and
- Conduct business or perform tasks using good judgment and due care, refraining from negligent or reckless conduct.

Refer to Working Hours and Flexitime Policy
Refer to Leave Policy
F1.7 Principle - Refraining from any form of harassment and intimidation

To provide an environment free of any form of harassment and intimidation, employees, dealers and vendors must:

- Remain courteous and respectful in all dealings; and

- Refrain from any form of conduct that may be perceived to intimidate or harass, based on race, religion, gender, political conviction, sexual orientation or disabilities.

F2. Transparency

Principles

We believe in being honest, open, constructive and clear in our working relationships. We do this by encouraging constant, effective and relevant communication.

A commitment to Transparency means being truthful and building trust and a good reputation in all our relationships and actions by:

- Being honest;
- Being clear in all communications and actions;
- Reporting unethical and dangerous conduct;
- Avoiding both actual and perceived conflicts of interest;
  - General;
  - Outside activities, employment, and directorships;
  - Relationships with customers and vendors;
  - Accepting gifts and entertainment;
  - Giving gifts and entertainment;
  - Receipt of commission; and
- Combating criminal activities.
F2.1 Principle - Being honest

To ensure honesty, stakeholders must:

• Commit to a standard of honesty going beyond the avoidance of falsehood - not telling a lie is not sufficient;
• Proactively tell the truth - and tell it in such a manner that it does not create false impressions, mislead or deceive;
• Take every reasonable step to deliver on promises and live up to stakeholders' rightful expectations;
• When necessary, assist peers and colleagues in ensuring that they are able to deliver on their promises, since a breach of trust anywhere in TOTAL South Africa harms the company's reputation for trustworthiness, and thus harms us all;
• Communicate in an open and transparent manner, subject to legal and competitive constraints;
• Always use their position and company resources for company purposes and not for personal gain; and
• Pay vendors and partners on time and in accordance with agreed terms.

F2.2 Principle - Being clear in all communications and actions

To maintain clear communications, all stakeholders must:

• Provide honest and constructive feedback in given timeframes;
• Ask for clarification rather than base decisions on untested assumptions;
• Share relevant business information in order to make informed decisions;
• Avoid making any false or misleading statements to others who may rely on the accuracy and truthfulness of the information being provided;
• Avoid untruths, untruthful omissions, deception, concealment and overstatement in their communications;
• Avoid any form of intentional misrepresentation, fraud, corruption or illegal practices or actions;
• Avoid deceptive and misleading statements and omissions in customer-related activities, such as marketing, sales and research; and
• Effectively communicate both the letter and intent (spirit) of business policies, procedures and directives.

F2.3 Principle - Reporting unethical and dangerous conduct

All stakeholders must:

• Confidently report unethical and dangerous conduct to a manager or the TOTAL South Africa Ethics Officer; or
• Anonymously report unethical and dangerous conduct using the TOTAL South Africa Ethics Line by dialling 0800 122 122 (see Section G, below, for details).

Refer to Whistle-Blowing Policy
F2.4 Principle - Avoiding both actual and perceived conflicts of interest

F2.4.1 General

To avoid actual and perceived conflicts of interest, TOTAL South Africa stakeholders must:

• Refrain from any attempt to influence persons in public office in order to obtain an improper gain or advantage;
• Refrain from offering any TOTAL South Africa staff member any item of value, including money, in return for a certain action or inaction by that staff member;
• Refrain from soliciting or accepting any item of value, including money, in return for a certain action or inaction, or for anything that could reasonably be perceived to create such an obligation;
• Disclose any personal interest they, or a member of their immediate family, have in relation to TOTAL South Africa's business (such conflict of interest could include directorships, significant shareholdings, or employment of family members);
• Act in TOTAL South Africa's best interest without any improper motives when entering into contracts or accepting business on behalf of the organisation;
• Refuse and report any offers of bribes or other potential corruption emanating from any source (see Section G, below);
• Refrain from engaging in other income producing activities without the prior written approval of the relevant manager. Such consent may be withheld if, in the opinion of management, such activities or services could in any way whatsoever adversely affect services the employee is expected to perform for TOTAL South Africa; and
• Desist from tendering for TOTAL South Africa business if you are a TOTAL South Africa employee.

Refer to Conflicts of Interest Policy

F2.4.2 Outside activities, employment, and directorships

To avoid conflicts of interest related to outside activities, employment, and directorships, employees must:

• Ensure compliance with all provisions of the TOTAL South Africa Code of Ethics when invited to hold outside directorships;
• Obtain approval from a General Manager when invited to become an outside director, with final approval resting with the CEO;
• Refrain from using their position for personal gain or to advance the interests of family members, friends or others;
• Refrain from taking full-time or part-time outside employment without the prior written approval of the functional head; and
• Refrain from acquiring a business interest or participating in any activity outside TOTAL South Africa that:
  - Creates, or appears to create, an excessive demand on their time, attention or energy, thus depriving TOTAL South Africa of their best efforts in executing daily tasks; or
- Would interfere, or appear to interfere, with the independent exercise of judgment in TOTAL South Africa's best interest.

**F2.4.3 Relationships with customers and vendors**

To avoid conflicts of interest related to relationships with customers and vendors, employees must:

- Refrain from compromising their independence when engaging with customers and vendors; and
- Refrain from investing or acquiring a direct or indirect financial interest in a customer or vendor organisation, if such an investment or acquisition influences, or creates the impression of influencing, their ability to pursue TOTAL South Africa’s best interest.

**F2.4.4 Accepting gifts and entertainment**

To avoid conflicts of interest related to receiving gifts and entertainment, employees must:

- Declare all gifts with a value exceeding R500 - excluding promotional material - accepted from others to the TOTAL South Africa Ethics Officer;
- Disclose any subsequent gift from the same party within any one year, regardless of value;
- Refrain from accepting business entertainment other than invitations to occasional lunches, cocktail parties or dinners; and
- Refrain from accepting personal hospitalities other than occasional tickets to local sporting or other events.

**F2.4.5 Giving gifts and entertainment**

To avoid conflicts of interest related to giving gifts and entertainment, employees must:

- Declare all gifts with a value exceeding R500 - excluding promotional material - given to others to the TOTAL South Africa Ethics Officer;
- Disclose any subsequent gift given to the same party within any one year, regardless of value;
- Refrain from offering or providing business entertainment other than invitations to occasional lunches, cocktail parties or dinners; and
- Refrain from offering or providing personal hospitalities other than occasional tickets to local sporting or other events.
F2.4.6 Receipt of commission
To avoid conflicts of interest related to the receipt of commission, employees must:

• Waive and report any offers of commission or monetary remuneration related to the sale of any TOTAL South Africa product or service.

F2.5 Principle - Combating criminal activities
To combat criminal activities, stakeholders must:

• Refrain from and report observed fraud (wilful misrepresentation yielding undue gain);
• Refrain from and report observed corruption, including bribery (see Section G, below); and
• Refrain from insider trading, such as dealing in TOTAL Group shares during closed periods.

F3. Pride

Principles
Our people, our company, our priority. We grow our company by developing, recognising and trusting our people.

To grow our company with Pride means building the company by developing, recognising and trusting our people, and respecting the environment by:

• Protecting the natural environment in which we operate;
• Protecting TOTAL South Africa’s reputation;
• Working according to the highest standards of service and productivity;
• Working in unity as a team; and
• Protecting TOTAL South Africa’s physical assets.

F3.1 Principle - Protecting the natural environment in which we operate
To protect the natural environment in which TOTAL South Africa operates, stakeholders must:

• Promote sustainable development;
• Engage in environmentally focussed corporate social investments;
• Adhere to all environmental laws;
• Adhere to TOTAL South Africa’s environmental policies, regulations and procedures;
Perform their work so as to yield only the highest quality transactions;
Perform their work in a manner that will reduce risk;
Ensure that they only make promises they can reasonably expect to fulfil to internal or external stakeholders; and
Continuously seek better and more efficient ways of performing work.

To work in unity as a team, employees, dealers and vendors must:

- Promote inter-departmental, inter-divisional and interpersonal cooperation for the good of TOTAL South Africa and all its stakeholders, internal and external;
- Avoid debilitating workplace politics and hidden agendas; and
- Proactively share successful means of enhancing any and all aspects of efficiency or service quality with management and other employees in order to multiply the benefits derived from their use.

F3.2 Principle - Protecting TOTAL South Africa's reputation

To protect TOTAL South Africa's reputation, employees, dealers and vendors must:

- Promote and uphold TOTAL South Africa's values with every business dealing; and
- Act as ambassadors of TOTAL South Africa at every appropriate opportunity.

F3.3 Principle - Working according to the highest standards of service and productivity

To work according to the highest standards of service and productivity, employees, dealers and vendors must:

- Conduct their business according to the highest standards of accuracy and completeness;

F3.4 Principle - Working in unity as a team

F3.5 Principle - Protecting TOTAL South Africa's physical assets

To work in unity as a team, employees, dealers and vendors must:

- Treat the environment as a sustainable resource for present and future generations by:
  - Limiting to an acceptable minimum non-renewable energy consumption and the carbon footprint of TOTAL South Africa's businesses; and
  - Limiting to an acceptable minimum air, soil, noise or any other form of pollution emanating from TOTAL South Africa's activities.

To protect TOTAL South Africa's reputation, employees, dealers and vendors must:

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- Proactively share successful means of enhancing any and all aspects of efficiency or service quality with management and other employees in order to multiply the benefits derived from their use.

A commitment to Diversity means recognizing the inherent worth of every human being by:

- Treating people fairly;
- Providing a work environment free of discrimination;
- Providing opportunities for personal growth and professional development;
- Valuing the different cultures and beliefs of all TOTAL South Africa’s stakeholders; and
- Respecting the communities in which we are located.

F4.1 Principle - Treating people fairly

To create and sustain a fair work environment, all stakeholders must:

- Respect the basic human and constitutional rights of stakeholders;
- Engage in free and fair competition;
- Adhere to competition laws;
- Support and protect human rights within the company’s sphere of influence;
- Give reasonable notice of operational changes likely to have a major effect on employees’ livelihood;
- Refrain from retaliating against, or tolerating victimisation of persons who report unethical or dangerous conduct;
- Respond to stakeholders’ suggestions, requests and complaints;
- Require of stakeholders to refrain from acts prohibited by the TOTAL South Africa Code of Ethics;
- Acknowledge rights to free association, collective bargaining and arbitration; and
- Comply with relevant competition laws and regulations.

F4.2 Principle - Providing a work environment free of unjust discrimination
To provide a work environment free of unjust discrimination, all stakeholders must:

- Refrain from practices of unjustified discrimination based on race, religion, gender, political conviction, sexual orientation or disabilities; and
- Report practices of unjustified discrimination to the relevant authorities.

F4.3 Principle - Providing opportunities for personal growth and professional development

To create and sustain an environment providing personal growth and professional development, all employees must:

- Assume personal accountability for their own training and development;
- Continuously seek opportunities to enhance their knowledge, thus improving personal skills;
- Explore and be receptive to innovation in order continuously to improve the quality and efficiency of their work; and
- Actively participate in the performance review process to better understand what they can do to be more effective, efficient and valuable employees.

F4.4 Principle - Valuing the different cultures and beliefs of all TOTAL South Africa's stakeholders

To demonstrate that diversity is valued, all stakeholders must:

- Respect the traditions and cultures of all people;
- Promote equal employment opportunities;
- Respect the right to freedom of social, religious and political association;
- Respect the rights of differently-abled people;
- Support employee involvement in civic affairs;
- Support and protect democratic institutions; and
- Show preference for vendors and partners practising the above.

F4.5 Principle - Respecting the communities in which we are located

To respect the communities in which TOTAL South Africa is located, employees, dealers and vendors must:

- Cooperate with public authorities to address threats to public health and safety from the company's products and services;
- Engage in community focussed corporate social investments;
- Recognise the government's obligations and jurisdiction concerning society at large;
- Communicate and consult with communities affected by environmental, health and safety impacts of TOTAL South Africa's operations;
- Be sensitive to the needs of local communities and consider their well-being in all policies and actions; and
- Aim to contribute to the economic well-being and social development of the communities in which TOTAL South Africa conducts business.
Using the TOTAL South Africa Code of Ethics

There will be times when stakeholders are uncertain whether a decision they make is consistent with both the letter and spirit of the TOTAL South Africa Code of Ethics.

There will be other times when stakeholders suspect or believe they have observed unethical conduct.

TOTAL South Africa provides safe and effective mechanisms for employees to address both kinds of situations.
G1. Seeking guidance confidentially

**Speak to your line manager**

If you have any queries or concerns, remember that your line manager knows your work situation well and might be able to address your concerns successfully and confidentially.

**Speak to another TOTAL South Africa manager**

If you do not feel comfortable contacting your line manager, there are others in management you might feel comfortable approaching. Every TOTAL South Africa manager must maintain the highest ethical standards, and must accept confidential guidance of employees in the application of the TOTAL South Africa Code of Ethics as part of his or her responsibility.

**Speak to the TOTAL South Africa Ethics Officer**

You are encouraged confidentially to seek ethics advice from the custodian of the TOTAL South Africa Code of Ethics by telephoning +27 (0)11 778 2007.

G2. Reporting a concern confidentially

**Speak to your line manager**

If you suspect or believe you have observed unethical or illegal conduct, your line manager should be notified promptly and confidentially.

**Speak to another TOTAL South Africa manager**

If you do not feel comfortable bringing the allegation of unethical or illegal conduct to your line manager’s attention, there are others in management you could approach confidentially. Every TOTAL South Africa manager is available to receive such allegations or suspicions and to ensure that they are appropriately acted upon.

**Speak to the TOTAL South Africa Ethics Officer**

You are encouraged to report unethical conduct confidentially to the custodian of the TOTAL South Africa Code of Ethics, the Ethics Officer, by telephoning +27 (0)11 778 2007.

Confidentiality means that the manager or Ethics Officer will know your identity but will not make it known to any other parties unless, in the interest of TOTAL South Africa, they are obliged to do so.

Refer to Whistle-Blowing Policy
G3. Reporting a concern anonymously

The TOTAL South Africa Ethics Line assures anonymity. It is independently operated and is available 24 hours per day, 7 days per week.

Report unethical conduct
Ethics Line: 0800 122 122

Anonymity means that you do not have to give your name. Nobody will know your identity.

G4. Responsibility to report

It is TOTAL South Africa’s responsibility to ensure that there are safe and effectively managed procedures for employees and contractors to report unethical or illegal conduct.

In turn, it is the responsibility of all TOTAL South Africa’s stakeholders to report observed unethical or illegal conduct, or to seek guidance when they are uncertain about what to do, or whether something is unethical or illegal. Stakeholders may contact either the TOTAL South Africa Ethics Officer or the TOTAL Group Ethics Committee Chairman in Paris by emailing ETHICS/PAR/HD/Corp.

Responsibility to report is especially important if our efforts to combat criminal activity are to be successful (see Section F2.5, above, on combating criminal activities).

Employees who fail to honour these obligations may be subjected to disciplinary action, up to and including possible termination of employment and legal action.

Dealers and vendors who fail to honour these obligations may face various penalties, including termination of service and legal action.

G5. Annual dedication

Employees will be required to dedicate themselves annually to the content and stipulations of the TOTAL South Africa Code of Ethics, by signing a Statement of Personal Accountability and lodging it with the Ethics Officer when requested.

For further information on the Statement of Personal Accountability, please telephone the TOTAL South Africa Ethics Officer on +27 (0)11 778 2007.
G6. Custodianship

Every TOTAL South Africa stakeholder owns the TOTAL South Africa Code of Ethics. However, the TOTAL South Africa Ethics Officer is the formal custodian of the TOTAL South Africa Code of Ethics.

The Ethics Officer convenes meetings of the Ethics Committee twice annually, with a view to preparing reports for the Board. The Ethics Committee will be responsible for the management and improvement of the TOTAL South Africa Code of Ethics.

If you have any queries or suggestions regarding the content of the TOTAL South Africa Code of Ethics, please feel free to telephone the TOTAL South Africa Ethics Officer on +27 (0)11 778 2007.

G7. Applicability and enforcement

Breaches of the TOTAL South Africa Code of Ethics will be evaluated by the Ethics Committee, convened by the Ethics Officer, and administered according to TOTAL South Africa’s disciplinary procedures.

The fact that particular conduct may not be addressed in the TOTAL South Africa Code of Ethics does not mean that it is ethical. Those engaging in such conduct may still be liable for disciplinary action.

Remember, when in doubt, always revert to the TOTAL South Africa values - Professionalism, Transparency, Pride and Diversity. The PLUS model in Section I, below, will assist you to determine whether a considered course of action is professional, transparent, grows the company with pride or respects diversity.

In the event of continued uncertainty, seeking advice and guidance through the provided channels is required (see Section G1, above).

G8. Certification

The TOTAL South Africa Code of Ethics was approved by the Board of TOTAL South Africa (Pty) Limited and by the TOTAL Group Ethics Committee in September 2006, and certified in November 2006 by the Ethics Institute of South Africa (EthicSA) as conforming to the highest best-practice standards.

Ethics Institute of South Africa
Certified Code of Ethics

If you have any queries, please telephone EthicSA on +27 (0)12 342 2799.
Frequently asked questions
H1. Who are our stakeholders?
Our stakeholders are our employees, customers, dealers, industry partners and vendors.

H2. What are core values?
Core values are basic standards that guide behaviour regarding what is good, right and fair. Core values are universal – they guide everybody, irrespective of social standing, gender or race.

Our core values of Professionalism, Transparency, Pride and Diversity are very important to TOTAL South Africa and its employees because they guide all our actions.

H3. What are TOTAL South Africa’s core values?
TOTAL South Africa’s core values are Professionalism, Transparency, Pride and Diversity.

H4. What does it mean to conduct business responsibly in TOTAL South Africa?
Responsible business conduct in TOTAL South Africa means acting professionally, being transparent, conducting oneself with pride and respecting diversity.

H5. What does it mean to be professional?
To be professional means performing to the highest standard, offering the best possible service, exercising safety and ensuring excellence in all we do.

H6. What does it mean to be transparent?
To be transparent means being truthful, and building trust as well as a good reputation in all our relationships and actions.

H7. What does it mean to grow our company with pride?
To grow our company with pride means building the company by developing, recognising and trusting our people, as well as respecting the environment.

H8. What does it mean to value diversity?
To respect diversity means recognising the inherent worth of every human being and the value they bring to our business and interactions.

H9. What is a conflict of interest?
A conflict of interest occurs when you engage in an activity causing your own personal interests and values to clash with TOTAL South Africa’s best interest and values.

H10. What may cause conflicts of interest?
Conflicts of interest may be caused by:

- Inappropriate outside activities, employment, and directorships;
- Relationships with customers and vendors;
- Accepting gifts and entertainment;
- Giving gifts and entertainment;
- Political contributions; and
- Receipt of commission on business deals.

Please note: If you are considering engaging in activities that may constitute a conflict of interest, please contact the TOTAL South Africa Ethics Officer on +27 (0)11 778 2007 for guidance.
H11. What is ethics?
Ethics is about living and growing our values.

An ethical person does not just talk about values like Professionalism, Transparency, Pride and Diversity, but acts professionally, is transparent, maintains pride in the company and respects diversity at all times.

H12. What is compliance?
Compliance is following specific rules – called laws, regulations, procedures and policies – that apply to us. All good rules are do's and don'ts rooted in core values, such as Professionalism, Transparency, Pride and Diversity.

H13. What are laws?
Laws are the rules (do's and don'ts) of the countries in which we operate, guiding us in responsibly conducting our business. If we break these laws we may be punished.

H14. What are regulations?
Regulations are rules (do's and don'ts) for large organisations like TOTAL South Africa, guiding us to conduct our business responsibly all over the world. These rules often support the laws of the countries in which we operate.

H15. What are procedures and policies?
Procedures and policies are rules (do's and don'ts) for our various departments, divisions and business partners, guiding us to conduct our business responsibly. These rules are often supported by laws and regulations.

H16. What should I do in the absence of legal, regulatory and policy guidelines?
When you encounter such a situation, you may confidentially phone the TOTAL South Africa Ethics Officer for advice. Remember, when you are in doubt, always revert to the TOTAL South Africa values. You may ask yourself:

- Am I acting professionally?
- Am I being transparent?
- Am I growing the company with pride?
- Am I respecting diversity?

H17. What should I do when I think TOTAL South Africa’s values clash with laws or regulations?
When you encounter such a situation, you may confidentially phone the TOTAL South Africa Ethics Officer for advice. TOTAL South Africa is committed to responsible business conduct, therefore the highest ethical standards - our values - should guide our actions.

PLEASE NOTE: If you are considering engaging in activities that may constitute a conflict of interest, please contact the TOTAL South Africa Ethics Officer on +27 (0)11 778 2007 for guidance.
Making ethical choices

Whenever you make a decision, ask yourself the following four questions. If you can answer “yes” to all four, the choice you are considering is probably ethical (good, right and fair). If not, there may be an ethical problem with your choice, making it best to seek guidance.

Question 1: “P” = Policy and procedures
Is the behaviour I am considering permitted by the conduct provisions in the TOTAL South Africa Code of Ethics as well as other policies and procedures applicable to the situation?

Question 2: “L” = Laws and regulations
Is it permitted by national laws and regulations?

Question 3: “U” = Universal TOTAL South Africa values
Do the TOTAL South Africa core values of Professionalism, Transparency, Pride and Diversity permit me to do it?

Question 4: “S” = Self
Do my own personal values - my own sense of what is right, good and fair - permit me to do it?
Making an ethical decision using “PLUS”®

Whenever you make a decision, ask yourself the following four questions. If you can answer “yes” to all four, the choice you are considering is probably ethical (good, right and fair). If not, there may be an ethical problem with your choice, making it best to seek guidance.

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“P” = Policy and procedures

Is the behaviour I am considering permitted by the conduct provisions in the TOTAL South Africa Code of Ethics as well as other policies and procedures applicable to the situation?

Question 2:
“L” = Laws and regulations

Is it permitted by national laws and regulations?

Question 3:
“U” = Universal TOTAL South Africa values

Do the TOTAL South Africa core values of Professionalism, Transparency, Pride and Diversity permit me to do it?

Question 4:
“S” = Self

Do my own personal values - my own sense of what is right, good and fair - permit me to do it?
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HIGHLIGHTS of the South African Liquid Fuels SUMMIT
Held at Caesars Gauteng 2 November 2000
EMPOWERING
Historically Disadvantaged
South Africans in the Petroleum
and Liquid Fuels Industry

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CHARTER Fourteen
Dear Fellow South Africans,

The future wellbeing of all South Africans depends on proactive steps being taken to ensure the economic empowerment of those who have been historically disadvantaged. I believe that all thinking South Africans accept the truth of this statement.

In terms of the White Paper on Energy Policy a key government policy objective in respect of the liquid fuels industry is:

- "The sustainable presence, ownership or control by historically disadvantaged South Africans of approximately a quarter of all facets of the liquid fuels industry, or plans to achieve this".

The Charter entered into by the Government and the companies and industry associations that constitute the South African liquid fuels industry represents a signal that here we have in South Africa an industry that intends to focus its efforts on ensuring that this policy objective is achieved.

I quote from the Charter:

- "The signatories have developed the Charter to provide a framework for progressing the empowerment of historically disadvantaged South Africans in the liquid fuels industry.
- The success of this program depends on the disposition of those who have responsibility for managing the process.
- Member companies and Government therefore undertake to appoint to such positions managers who will understand the spirit and background under which these policies were conceived in order to create a supportive and enabling environment for business success."

The last paragraph quoted is the key to success not only in respect of our mutual aims in the liquid fuels industry, but in South Africa as a whole. We need to have in the key positions people who believe in the democratic South Africa and wish to make it a success, and not those who feel more committed to our past.

I believe that the Charter, the process behind it and the commitment that it represents will be an example to other industries. It is essential that the liquid fuels industry should not be alone in its efforts to bring about meaningful and sustainable empowerment, or these efforts will wither in a sea of economic desolation brought about by the inaction or obstructive efforts of others.

We in the liquid fuels industry are going to work hard to ensure that we attain our goal.

In this booklet we have recorded the highlights of the South African Liquid Fuels Summit which was held at Caesars Gauteng on Thursday the 2nd of November 2000. In addition, a report of the proceedings of the Summit is available upon request from the Chief Director: Hydrocarbons at the Department of Minerals and Energy.

Yours sincerely

Phumzile Mlambo-Ngcuka
Minister of Minerals and Energy
MESSAGE

of support from the President of South Africa, the Honourable Mr Thabo Mbeki

SUMMIT ON THE LIQUID FUELS SECTOR - 2nd NOVEMBER 2000

I am sorry that I cannot be with you at this important Summit in the agenda of the petroleum sector in South Africa. I have been briefed by Minister Phumzile Mlambo-Ngcuka on the progress achieved and the work that lies ahead. The petroleum sector plays an important part in the economy of this country and the daily lives of our people.

I wish to recognise the important role the Black companies, who are pioneers in this sector, played during difficult times. We hope the barriers will continue to come down. I also recognise the international companies for the investments and service they provide to this economy.

I congratulate you all for having covered a lot of ground since the release of the Government’s policy on Energy.

I am happy that you will be able to take advantage of the globalisation process by taking your experiences from elsewhere in other parts of the world and adapt them to meet local socio-economic challenges, and in the process draw in the emerging companies into this global industry. This kind of collaboration augurs well for the African Renaissance. Through such initiatives we have to ensure sustainable development and protection of the environment.

I am encouraged that the international partners have made real progress up to identifying partners. There is more work to be done, but if you continue in this manner, taking a balanced and consultative approach, which takes into account interests of shareholders, employees, and broader developmental issues, we will have a win-win scenario.

The issues of ownership and control are central in these discussions of Black Economic Empowerment; I am encouraged that in this regard you will address issues of finance in a manner that will lead to sustainable empowerment. As Government we remain committed to recognising this progress through appropriate regulation and other support as we move forward.

An important contribution of this industry will be to share and transfer benefits of this industry with all our people in the urban and rural areas, men and women, and to bring us closer to universal access to energy.

Good Luck

T. Mbeki
President
Republic of South Africa
Ms Susan Shabangu,
Deputy Minister of Minerals and Energy,

Petroleum Industry Empowerment Summit
Johannesburg
2 November 2000

Ladies and Gentlemen

We are assembled here today to discuss the future of the South African liquid fuels industry and especially the way it is owned and controlled and, more importantly, how changes in this regard may be effected.

While I am sure that there is no uncertainty about the importance of the industry, it may be useful to start off with a brief overview of the industry, its contribution to the energy-economy, and its place in the economy of our country.

In 1998 imported crude oil supplied 25.3% of total primary energy supply while petroleum products accounted for 34% of total final energy demand in the country. The petroleum sector in many ways oils the wheels of our economy. Our transport sector - road, rail and air - is almost exclusively based on liquid fuels.

A well-developed and sound petroleum sector is therefore of prime importance to our economy. It is therefore to be expected that the liquid fuels industry represents one of the largest investment sectors in the economy with the net present value of assets in the petroleum sector estimated at some R35-billion.

Crude oil is South Africa’s single largest import item. The value of crude oil imports in 1999 was R12,8-billion. For the period January to May 2000 the figure was already R8,1-billion and it can be expected that this will probably more than double for the full year. We are of course painfully aware what the increased crude oil costs have meant to the price of all refined petroleum products.

With four crude oil refineries and two synthetic fuel plants, producing liquid fuels from coal and natural gas respectively, South Africa has a refining capacity of more than 660 000 barrels a day. There are currently 11 wholesale marketing companies with a turnover of more than R40-billion per year.

The industry as a whole is a major employer and it provides employment to more than 100 000 persons. There are approximately 4900 service stations in the retail sector of the industry, providing employment to an estimated 45 000 pump attendants.

As a result of the historical development of the industry and economic considerations the industry operates within a unique regulatory framework. The major feature of this regulatory dispensation is price control in respect of certain products, while it also deals with the import and export of crude oil and petroleum products as well as specific market interventions. This regulatory regime has served the industry and the economy well and has assisted in the establishment and maintenance of a well-managed and efficient industry.

Our challenge for the South African liquid fuels industry however remains an efficient and internationally competitive industry, ensuring the stable and continued availability of quality petroleum products throughout the country at reasonable and fair prices. There must also be an equitable balance between the interests of the industry and that of consumers.

Also, as a result of the political history of our country with its harsh economic legacies its ownership structure of the industry is such that, with one notable exception, it is in the hands of multinational or international oil companies.

To be more specific, very little of the industry is in the hands of historically disadvantaged South Africans.
A recent survey commissioned by the Department of Minerals and Energy indicated the following regarding the participation in the industry by historically disadvantaged South Africans:

- At present Black companies own approximately 5.2% of the assets in the industry while only 3.2% of the annual operating profits accrue to these companies;

- The acquisition of a 20% share in Petronas SA by World Wide Africa Investments represents the most significant economic empowerment development in the industry. As a consequence of this acquisition, it is expected that approximately 9% of the market will be controlled by companies in the hands of historically disadvantaged South Africans; and

- Historically disadvantaged South Africans make up 33% of staff at director and management level, while at non-management level the proportion is some 66%.

This brings me to the well-known and often quoted policy milestone and objective stated in the White Paper on Energy Policy, namely:

- “The sustainable presence, ownership or control by historically disadvantaged South Africans of approximately a quarter of all facets of the liquid fuels industry, or plans to achieve this”.

It is clear that we are far from achieving this goal and this Summit is all about achieving this milestone. I trust that the deliberations, the commitments made, and the agreements achieved today will go a long way in realizing this milestone. This industry has the chance to become a leader in empowerment and can establish itself as a role model for other industries and sectors in our economy.

Ladies and gentlemen, this is an historical opportunity which we cannot let slip through our fingers - indeed, we cannot afford to fail.

I trust that your deliberations will be productive and fruitful and that the outcomes of this meeting will go a long way towards meeting Government’s objectives for this important and indeed crucial industry.

I thank you.
Ladies and Gentlemen

Welcome to the Petroleum Industry Empowerment Summit.

Today we will focus broadly on the different aspects of the petroleum sector. It is an opportunity for us to reflect on the health of the sector and its contribution to the nation’s Integrated Energy Plan (IEP).

In our White Paper on Energy Policy published in 1998 the major challenges in respect of this sector were identified as:

- Remaining internationally competitive
- Having a stable and continued supply of quality products nationwide
- Safety and environment
- Encouraging investments, including investments in petrochemicals
- Extending ownership to historically disadvantaged South Africans (HDSA)
- Maintaining an efficient network of pipeline and storage infrastructure

These are the challenges that we hope you will touch on during the discussions today, because all of them together give all of the players the enabling environment we need. The high performance of BP, Exel, Africa Oil, Shell, Engen, Topco, Caltex, Total or Sasol in South Africa is all dependant on an enabling environment that Government, private sector and labour must contribute towards.

We as Government attach great importance to the fact that we have significant capacity to manufacture essential refined products with imports only occurring to meet our minor shortages. We also value the important contribution of our synfuels industry especially in respect of foreign exchange savings in these times of high world oil prices. Retailers - the service station dealers - are an important part of this sector whose challenges need our attention. We also seek your contribution to the petrol price debate. I urge you to discuss these issues in your small groups later today.

As we face our challenges to diversify our energy sources in South Africa we must also focus on energy efficiency and on the complementary use of different energy sources, especially in rural areas. The role of liquid fuels alongside renewable sources of energy is of great interest to us.

Today we, in particular, take stock of one of our milestones in the White Paper, viz the sustainable presence, ownership and control by HDSA in all facets of this industry, which must be valued at 25%. Thank you for participating in this process and for assisting us take steps towards a more inclusive energy sector, thus facilitating and sharing the advantages of globalisation and thereby giving our democracy meaning.

It is not often that people like you and me get an opportunity to make history. If we can accomplish here today what I believe is possible (namely to design an agenda for a forward-looking liquid fuels industry), we will have made history. This is the first Summit of this kind in the petroleum industry, and when we look back in future years it will stand out like the important milestone that it is.

The great triumph of democracy which was marked by our first general election in 1994 was, as I am sure we all knew at the time, only the political foundation of a new South Africa. If the new South Africa is to walk on two legs then we all know the economic foundation is the other critical leg. And for this to happen we have to change the way we do things.

WHY ARE WE HERE TODAY?

The uneven distribution of wealth in South Africa is unacceptable. That this distribution has a very high correlation with race and gender is also unacceptable and is a recipe for ongoing problems in South Africa. We have to do something about it. In my view, we do not really have a choice but to take a step such as the one today is about.
This Summit is taking place some six years after the first democratic election. It is my intention that it should provide clearer steerage to a process of empowerment which began in some places in this industry even before 1994. The Exels, Tepcos and Zenexs provided a start.

We must praise this industry for some of the initiatives it took to facilitate Black participation for both professionals and entrepreneurs when things were much harder and racism much harsher. These initiatives were not perfect, but they opened the way. They gave us the courage and resolve to take the steps we are taking today. Those first new entrants to the industry had to open the way for many more who are in it today.

GOVERNMENT’S STANCE

What has been Government’s stance on achieving the milestone on empowerment since the White Paper was issued? During the first year after the release of the White Paper on Energy Policy, Government essentially took the view that the ball was in the oil industry’s court and that Government should stand back, facilitate where necessary, and allow the industry to apply its imagination and to begin to come up with imaginative solutions.

Although Government, in private meetings, urged the industry to act, the industry may have assumed that empowerment was not a priority for Government. If so, this was an incorrect assumption. The White Paper is abundantly clear on this issue.

A few companies got on to a slow start. For our part, we made some changes to the regulatory dispensation in consultation with the industry. For example, new service station sites were earmarked for Black oil companies and permission to import was also extended to them. This could be seen more as levelling the playing fields with the multinational oil companies.

When we reviewed progress in 1999, we were convinced the process was moving too slowly, and we decided to push. The Black companies were urging us to proceed and some of the big players were also anxious about certain regulatory matters. As the Deputy Minister has mentioned, we deemed that the time was right for Government to become more active in this process.

So this year I announced in my budget speech that I would set up the Task Team that is reporting here today. This Task Team included representatives of the established oil industry, the new entrants and Government. One of the tangible outcomes from the Task Team process has been a Charter for the South African petroleum and liquid fuels industry on Empowering Historically Disadvantaged South Africans in the Petroleum and Liquid Fuels Industry.

One of the less tangible but nevertheless important outcomes has been the spirit of understanding that has emerged among all participants. I commend you for that. We are starting to work together like real South Africans!

This Task Team has set in motion a process which will significantly transform the landscape. While the Charter is a broad commitment on the part of all parties, the document itself and the process have set the basis for the specific commitments that have been made at company level. I shall come to these in a moment. This Charter is a voluntary document which will be signed by Government and those oil companies which feel that they can commit to it as a guideline for their conduct in the years ahead.

In parallel with the Task Team process I engaged, individually, with each of the major oil companies as well as with the empowerment companies. In this process of engagement I have set out for them some guidelines to assist them in understanding what Government is expecting. There is, to some extent, an overlap between the Charter and the guidelines the Government has produced. This is not an accident. It is as it should be, and I believe augurs well for the future. There are, however, areas which I hope the guidelines bring more clarity to than was possible in the Charter.

Allow me to touch on a few of these guidelines.

OWNERSHIP AND CONTROL

The 25% ownership and control referred to in the White Paper means equity ownership in the entity that holds the South African operating assets of the oil company. Ownership in a special project or joint venture that is confined to a certain segment of the value chain will therefore not fulfil the ownership requirements of the White Paper.

The sale and transfer of the 25% equity stake should be completed within a period of ten years, by which time the 25% shareholding must vest with the HDSAs. The 1999 audited financial statements will be used to guide Government’s view on the size of the asset base of each company.

In addition, sustainable presence requires that skills development, employment equity, procurement and the financing mechanisms (all of which can undermine sustainability) should be carefully considered by the partnerships thus formed.
FINANCING MECHANISM

The companies participating in this liquid fuels empowerment initiative are encouraged to facilitate the financing of the empowerment deals. The focus should be on finding sources of finance, finance structures and mechanisms which will ensure the sustainable presence of the HDSA groups.

In the event that the Black company opts to later sell a stake in an oil company acquired through this process, it is Government’s desire that such shares be ring-fenced and warehoused through a facility provided by, for example, the Industrial Development Corporation or another similar institution.

HDSA SHAREHOLDERS

Industry is encouraged to ensure that the HDSA shareholders be as broad-based as possible, to include a representative spread of large, small and stakeholder investors. Those HDSSAs that obtain their shares through this initiative should remain long-term investors in the industry. It is therefore important for the majority of shares obtained in this manner to be in the hands of direct investors who, by definition, have “an interest in gaining control of or meaningful say in the management of the enterprise” thus acquired.

Stakeholder investors (e.g. retail dealers, company employees) also form an important component of the HDSA shareholder base due to their inherent involvement in the industry. We see employee shares schemes as an important component and targeted investor group with a defined and tangible interest in the sector.

EMPLOYMENT EQUITY & SKILLS DEVELOPMENT

This broadening of participation in the sector must also target and benefit employees and professionals in a very direct manner. The conditions and requirements of the Employment Equity Act and the Skills Development Act will be considered as the base. A number of players in the industry have already identified their own employment equity targets. These targets and the progress made towards meeting the targets will form part of the annual industry review that is undertaken by the Department.

This, in my view, must also be aimed at enhancing productivity and harnessing the best intellectual capital from the targeted group. Not entitlement, honours will have to be earned of course. In the core areas of the companies, the size of budget controlled and responsibility will help us see how much progress has been achieved.

PROCUREMENT

At least one quarter of oil companies’ procurement expenditure must be earmarked for HDSA suppliers. This makes broader BEE and SME development possible. The Department will endeavour to ensure that Government’s procurement of liquid fuels and related products and services is given a more systematic approach.

Further the government will work with the industry to develop a viable supplier support programme, which will draw from other government institutions (e.g. Ntsika TAC, CSIR and SABS-SME Support and Khula). These aspects must not compromise quality and standards, on-time deliveries and appropriate quantities. It is a big and exciting challenge, but a worthwhile exercise.

MONITORING AND MEASUREMENT

In January of each year the Department intends to publish a report on the status or progress of each company on each of the components in the guidelines and those that are indicated in the Liquid Fuels Industry Charter. The Government will also report on its side of the bargain and commitments we will be making from time to time.

As a result of my discussions with the oil companies, each of them have shared with me their confidential plans and what they intend to do. I am not going to break any confidences here but I would like to share with you an overall picture of the commitments given. All of the companies have to present their plans on each of the guidelines. I also met with some, though not all, of the partners to gauge their views and their concerns.

COMPANY COMMITMENTS

All six major oil companies have shared their plans with me. Most of them have initiated negotiations with potential empowerment partners. More than half of the companies have indicated that they have offered equity stakes of about 25% to the groups that they are currently negotiating with.
It is public information that Engen has in fact already signed a deal with its partner, Worldwide Africa Investments, thus making it a 20% shareholder in the company. I want to thank Engen and Petronas for having led in taking the bold step when they sold equity to Worldwide. Their initiative paved the way. I would also like to say a word of appreciation on the Vukani Petroleum and Energy Institute, another important initiative of Engen.

We also have one company whose indicated target for HDSA equity participation is 30%. This, in our view, confirms industry’s commitment to meaningful results from this process. I thank all the companies for the many hours of work and debates with their Head Offices, and the robust and active role of Black companies who have engaged in the process.

The issue of operational access and control has largely been addressed in the form of joint venture partnerships (JVs) between the majors and the empowerment groups. The JVs are largely concentrated in the wholesale and retail part of the value chain. Most of the JVs represent Black ownership of more than 50%.

More than half of the companies indicate that they already have a 25% representation of HDSA dealers in their retail networks. One company intends to lift the HDSA-dealerships to 38% of their retail outlets by 2004, and another intends to reach 40% by the end of 2001. All of this is work in progress, good for building deeper relations.

It was indicated in the guidelines that Government expects the oil majors to assist their new partners mobilise the finances needed to effect the deals or at least agree on a structure that will enable the Black Economic Empowerment (BEE) group to eventually pay off the liability assumed due to the deal. Indeed most companies have indicated their willingness to assist in the structuring and mobilizing finances.

They have also called on Government to assist. The Industrial Development Corporation (IDC) is already involved with supporting franchised schemes involving a few of the oil companies and dealers. We are now exploring other schemes, for example the Department of Trade and Industry (DTI) schemes. We have also approached International Finance Corporation (IFC), and they are here today; they are also in a position to look at applicants when they are presented with applications.

It was agreed in the bilateral discussions that at least 25% of each company’s total procurement or outsourcing should be sourced from BEE groups.

GOVERNMENT’S RESPONSE TO COMPANY COMMITMENTS

We have had some pleasant surprises. There have also been some disappointments. We await more substantial submissions where we still have gaps, and that has been communicated to the companies concerned.

Is there more to do? Certainly there is. Moving from the indicative offers to real negotiations and deal-making. Over the coming few months, as the oil companies take the Charter on board and refine their ideas, we will see a clearer path forward. When the negotiations are done, signed and sealed, we will then proceed with implementation.

I can imagine some of you being concerned that it is very well for oil companies to give promises, but will they keep them? And is Government just going to rely on the oil industry promises? What will Government do to take this process to its logical conclusion? Government has introduced annual progress reports (in January of each year) to track the progress in empowerment. I will be watching those carefully and, if and when it should become necessary, I will deploy incentives and sanctions.

Following this Summit we will ensure we have clarified all of the questions we may still have on the offers that are on the table. We will, on our side, start the preparations for extending the wholesale margins to qualifying companies. We certainly will look at more such instruments and we would like to start hearing your suggestions on the matter at this afternoon’s workshops.

With regard to the regulatory dispensation, the White Paper makes it clear that we are going to maintain a regulatory environment particularly in respect of preservation of employment opportunities on the forecourts and small business. There are, of course, the other milestones set out in the White Paper which must also be considered. These deal with:

• The marketing of the production from the synfuels industry. This seems to be resolving itself.

• The promulgation of necessary legislation. For example, we are currently drafting a Pipelines Bill to govern the petroleum pipelines industry.

• The retail sector and how it will be governed in future.

Today we begin to take those discussions further with you.
The Petroleum Products Act gives us some powers, which will be our starting point. A copy of the Act will be circulated for your convenience. The previous Government used it very vigorously and to great effect. Although it was perhaps drafted with the very opposite of empowerment in mind, it can nevertheless perhaps be used for the task at hand. Because it is my wish to make real progress in this matter both for BEE and for the advantage of the majors, I will use the carrot-and-stick approach within the parameters of the Petroleum Products Act.

THE WAY FORWARD

Let me now turn to the way forward. Following this Summit I expect the following activities to take place:

- The Task Team has a number of actions to follow up and complete.
- My discussions with some of the individual oil companies will need to be rounded off.
- The implementation of the Charter will need to be monitored and refinements made if necessary in the light of practical experience.
- The Department will publish an annual progress report.
- The private sector will get down to or carry on with the hard business of negotiating deals.

We must also take account of new developments, such as the oil price. Some analysts tell me that the world has moved into a new dimension or what they call the “high oil price scenario”. Time will tell if they are correct or not. Nevertheless, this is an important issue for an oil-importing country like South Africa.

Government is very concerned about the impact that the high oil price is having on the poor. This is felt mainly through the paraffin and the LPG prices. Certainly the basic price of paraffin is currently higher than that of petrol in many places in the world. Government does not tax paraffin in the same way that it taxes petrol. Also Government does not regulate the prices of paraffin or LPG. We are busy re-looking at these things to try and do something for the poor who depend on paraffin in their daily lives.

Overall the key to successful governance in this sector is timing; having the appropriate regulatory dispensation for the time, making the changes at the right time. This is something that almost everybody has an opinion about. Unfortunately for me, you all tend to hold quite different opinions! So Government is left to make the judgement calls. This is not easy. It is certainly not easy to please all the people all the time. Nevertheless, Government has the advantage of vast amounts of information from across a wide front with which to inform itself, and it will do its best to make the best decisions for South Africa.

I would like to thank the members of the Task Team for all their work, and to thank the different principals in the South African Petroleum Industry Association (SAPIA) and African Minerals and Energy Forum (AMEF) for the support and hard work. In particular, I would like to thank Maurice Radebe from AMEF and the chairperson of SAPIA, Errol Marshall, for the valuable contribution and attention they gave to this initiative. I also thank Errol Marshall for the work he has put into ensuring that Shell will change into an empowerment-compliant company, together with the majority of the oil companies.

Thanks also to the Director of SAPIA, Colin McClleland, for his help. Thanks to the Department of Minerals and Energy (DME), the Central Energy Fund (CEF) and the National Electricity Regulator (NER) for assisting us with the coordination of today’s activities. Finally, a special word of thanks to Busi Mabuza and Mputumi Damane who were deployed to assist our short-staffed DME personnel in order to ensure we could cope with the process which has given us this product.

Thank you.
I am proud to state that AMEF:

- Initiated the process of transforming the oil industry in 1997.
- Influenced the drafting of the Energy White Paper.
- Ensured that the milestone, the 25% Black Economic Empowerment throughout the value chain of the oil industry, was included in the White Paper in 1998.
- Have been lobbying and negotiating with SAPIA for the last two years, though very little progress has been made.

We are grateful to the Minister of Minerals and Energy for initiating the Task Team earlier this year and we support that initiative.

The work of the Task Team covered the following topics: employment equity, capacity building, procurement, ownership, financing and regulatory framework.

AMEF has actively participated in all of the Task Team workshops.

The outcome of the Task Team is two-fold:

Firstly, the Charter which is the product of multi-lateral talks;
Secondly, the concrete plans to deliver the 25% target were discussed by the Minister and CEOs of oil companies on bilateral bases.

- AMEF welcomes the Charter because it reflects the principles and values that will govern the transformation process.
- AMEF is prepared to be a signatory of the Charter and we congratulate the Minister for facilitating the achievement of this Charter.
- AMEF is disappointed that the concrete plans have not been delivered to date. Examples of Shell/BP, for the empowerment of the Afrikaner, creating Trek Petroleum has not been demonstrated by either of those companies in trying to create Black empowerment.
- AMEF is concerned that the time frame indicated in the media of 10 years is too long and it will lead to complacency and promote a treadmill attitude by multinationals.
- AMEF believes that this Summit will map a way forward which will lead to the achievement of the 25% target in 5 years. The process must lead to action and not become a talk shop.

On this note I would like to thank all those who contributed toward the formation of the Summit. More especially we thank the Minister, her Deputy Minister, the Director General and their teams.

Thank you.
It is indeed a great honour for me to address this Summit today on behalf of the South African Petroleum Industry Association and its members.

The Summit is a landmark event in a process that started in April 1994 when our first democratic elections were held, and which took shape with the publication in December 1998 of the Government’s White Paper on Energy Policy.

The Summit also takes place at a time when the oil industry is facing major global challenges. The decline in world oil prices from 1996 till 1999, followed by the increases over the last eighteen months have tested the resilience of the industry to its extremes. The companies making up the industry have responded by mega-mergers in the search for the scale needed to meet the challenge of volatility.

The Economist magazine has recently highlighted the need for size in this game, and pointed out that this is very much in the interests of consumers. World oil prices are quoted in US $, meaning that in countries such as South Africa and "Euroland" the strong dollar adds to the local price pressures.

Returning to the White Paper, this document sets out Government’s objectives and priorities for energy policy. These objectives included:

- Increasing access to affordable energy services for disadvantaged households, small businesses and farms and community services.
- Improving energy governance.
- Stimulating economic development.
- Managing energy-related environmental and health impacts.
- Securing supply through diversity.

In the section of the White Paper dealing with the liquid fuels industry (LFI) Government made it clear that it was its goal that the industry should ultimately be less regulated. This would happen when certain “milestones” had been met.

One of these milestones is:

- “The sustainable presence, ownership or control by historically disadvantaged South Africans of approximately a quarter of all facets of the liquid fuels industry, or plans to achieve this.”

This is why we are here today.

SAPIA and its members recognise the crucial importance of Black Economic Empowerment (BEE) to the future well-being of all South Africans. If South Africa is to have a future as a functional society there has to be meaningful BEE across all parts of the economy.

Today is about the action that the LFI is going to take to make the milestone referred to above a reality.

BEE is to me a wider topic than ownership in the industry. It is also about capacity building, employment equity and empowering people at grassroots level by providing education and thus helping them to help themselves. Ultimately we need to emerge from this transformation into a normal society which will serve as a foundation for social stability and economic growth. These aspirations are reflected in what we are trying to do.
The SAPIA member companies have, through their social responsibility programmes, also been extensively involved in assisting disadvantaged communities. Their efforts have focused on education, job creation and small business development.

A LOT HAS ALREADY BEEN DONE

Turning to the main issue of today, a lot has already been done, some even before the White Paper was published. Allow me the opportunity to list some of what has been done:

- All new Ratplan quotas since 1998 have been ceded to the HDSA companies.
- Supply and distribution services have been made available to the HDSA companies.
- Refinery processing agreements have been entered into.
- Import regulations changed to empower the HDSA companies.
- A 20% stake in a member company, Engen, has been sold to an HDSA group.
- Two members, Sasol and Engen, have minority stakes in HDSA companies which they are helping to grow.
- Various actions have been taken to assist an independent HDSA company in terms of making it possible for it to meet its obligations under the Supply Agreements.

The above constitutes an achievement of about a third of the 25% target as we sit here.

We recognize the urgency of the issue and I am confident that deals will be done in the near and medium-term future that will result in the 25% being reached well inside the 10-year target set by the Minister.

I should mention that in the past year Sasol and Tepco have joined SAPIA. Tepco's membership has had the enormous advantage and challenge that important debates on BEE issues can now take place within SAPIA, where members have a duty to listen carefully to each other rather than at a distance. This follows discussions held with the Minister last year in which she called for a more representative association. SAPIA and AMEF have also been exploring the practicalities of unifying into one industry association.

We would also welcome applications for membership from other companies involved in the marketing and/or refining of petroleum products in South Africa.

THE CHARTER

Turning to the Charter, I want to thank all of those who have worked long and hard over the past year in the process which has brought us to where we are today.

The Charter has the full support of SAPIA and all of its members. We intend to make its objectives turn into reality. If I may touch on some of the substantive headings in the Charter and make some remarks:

PREAMBLE/INTERPRETATION

I merely want to confirm that SAPIA and its members accept the challenge of achieving the common goal of a sustainable 25% ownership by HDSA groups in the liquid fuels industry.

SUPPORTIVE CULTURE

This, as I alluded to earlier is already being turned into a reality in numerous ways, such as the provision of services to HDSA companies.

CAPACITY BUILDING

In many ways, such as the training and development of staff, the recent announcement of the Vukani initiative and community programmes, this is already a key issue.
EMPLOYMENT EQUITY

This has long been an area where the liquid fuels industry has striven to make progress. The Breakwater Monitor shows the oil industry to be a leader in this area.

PRIVATE SECTOR PROCUREMENT

This section makes it clear that it is also the intent to empower Black businesses that supply goods and services to the liquid fuels industry.

ACCESS AND OWNERSHIP OF JOINT FACILITIES

REFINING CAPACITY

RETAILING/WHOLESALING

TERMS OF CREDIT TO HDSA COMPANIES

Some actions have already been taken in respect of all of these headings.

FINANCING

This is an area where bold and imaginative solutions will be required of the participants. Rigorous application of the regulatory rules in respect of margins and profitability will be a cornerstone to success of the BEE project. These rules can be used to inspire the process.

CONCLUSION

The Sowetan heads its business section with the slogan: “Real power is economic”.

SAPIA and its members empathise with this and intend to help ensure that the majority of the people of South Africa become empowered in our industry. We know that the road ahead will not be easy. The SAPIA members can take some of the necessary actions collectively. Some can only be done individually in partnership with individual BEE investors. These relate to the key matters of ownership of assets.

It is my firm belief that those members that take the bold actions will reap the rewards of their boldness. These will come in the form of a healthy South Africa and a growing economy, as also from the synergies that a fully representative industry and company will bring.

In closing I want, on behalf of SAPIA and its members, to thank our Minister for the resolve and courage she has shown in putting this important matter firmly on the agenda and ensuring that plans to attain the mutual objectives have been put together. We also thank her for the understanding that she has shown of the need to ensure that the industry remains healthy.

We in the petroleum industry have a Minister who is creating a meaningful partnership between Government and business. It is by such efforts that South Africa will reach its potential.

Thank you.
Charter
For the South African Petroleum and Liquid Fuels Industry on Empowering Historically Disadvantaged South Africans in the Petroleum and Liquid Fuels Industry

Preamble

Mindful of:

• the imperatives of redressing historical, social and economic inequalities as stated by the Constitution of the Republic of South Africa, inter alia Section 9 on Equality (and unfair discrimination) in the Bill of Rights, and section 217.2 on procurement where the “organs of state” may implement a “procurement policy providing for categories of preference in the allocation of contracts and the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination”;
• the policy objective stated in the Energy Policy White Paper to achieve “sustainable presence, ownership or control by historically disadvantaged South Africans of a quarter of all facets of the liquid fuels industry, or plans to achieve this”;
• the Black Economic Empowerment Commission’s definition of empowerment as “an integrated strategy aimed at substantially increasing black participation at all levels of the population”;

And noting:

• the enactment of the Preferential Procurement Framework Act (No 5 of 2000)
• the Employment Equity Act (No 55 of 1998)
• the Competition Act (No 89 of 1998) (Also ref. to the Amendment Act No 35 of 1999 and subsequent amendments)
• the Skills development Act (No 97 of 1998)

the signatories have developed this Charter to provide a framework for progressing the empowerment of historically disadvantaged South Africans in the liquid fuels industry.

Scope of Application

This Charter applies to the privately owned parts of the industry and to all parts of the value chain, inter alia:

• Exploration and production of oil
• Liquid fuels pipelines, single buoy moorings (SBMs), depots and storage tanks
• Oil refining and synthetic fuel manufacturing plants, including lubricants
• Transport, including road haulage and coastal shipping
• Trading, including import and export
• Wholesale and retail assets/infrastructure.

Interpretation

For the purposes of interpreting the White Paper on Energy Policy, the following terms apply:

• The term historically disadvantaged South Africans (HDSA) refers to all persons and groups who have been discriminated against on the basis of race, gender and/or disability.

• HDSA companies are those companies that are owned or controlled by historically disadvantaged South Africans which operate on a basis to meet all aspects of this Charter. These companies, which operate within and supply the industry, submit affidavits to Government reconfirming their ownership status in December of each year. Government publishes this list annually.

• Ownership refers to equity participation and the ability to exercise rights and obligations that accrue under such ownership.

• Control of a business entity can be achieved in a number of ways: (a) a majority shareholding position i.e. 50% + 1 share; (b) an effective controlling shareholding; (c) a majority of a board of directors; and/or (d) a shareholders agreement.
• Sustainability refers to:
  – medium to long-term viability and adaptability through a presence across all facets of the liquid fuels value chain;
  – ventures with prospects of long-term profitability; and
  – requisite levels of skills and access to technology.

• A quarter of all facets of the liquid fuels industry, or plans to achieve this
  The 25% ownership and control of all facets of the industry that the parties to this Charter are seeking to bring about over a ten-year period means HDSAs owning in total, by the end of that period, not less than 25% of the aggregate value of the equity of the various entities that hold the operating assets of the South African oil industry. The parties to the Charter agree that the measurement of the extent of the achievement of this target of 25% of the aggregate value of the equity will be based on the asset values per the audited accounts of the entities concerned.

Supportive Culture

The success of this programme depends on the disposition of those who have responsibility for managing the process.

Member companies and Government therefore undertake to appoint to such positions managers who will understand the spirit and background under which these policies were conceived in order to create a supportive and enabling environment for business success. It is noted that the process that gave rise to this Charter has increased the understanding and cooperation between established industry players and HDSA companies.

Companies undertake to foster a supportive culture with regard to all aspects of this Charter when dealing with HDSAs. Companies subscribe to incorporating and driving a process of transformation and a change of culture in their statements of business principles.

Capacity Building

The South African labour market does not produce enough of the skills required by the petroleum industry, especially the HDSA oil companies. Organized industry and government work together in addressing this skills gap:

• In its bilateral relations with relevant countries, Government endeavours to secure training opportunities for HDSA companies’ staff, as well as exchange opportunities with oil companies operating outside of South Africa.
• Industry undertakes to build the skills of its employees and report on progress annually in an agreed format.
• The industry, through the standing consultative arrangements, interfaces with statutory bodies such as SETA (Sectoral Education and Training Authority) in the development of skills development strategies.

Employment Equity

Companies publish their employment equity targets and achievements and subscribe to the following:

• South African subsidiaries of multinational companies and South African companies focus their overseas placement and/or training programmes on historically disadvantaged South Africans;
• Identifying a talent pool and fast-tracking it;
• Ensuring inclusiveness of gender;
• Implementing mentorship programmes; and
• Setting and publishing “stretch” (i.e. demanding) targets and their achievement.

It is noted that the Capacity Building efforts referred to above will assist in this process.

Private Sector Procurement

Participants in the industry subscribe to and adopt supportive procurement policies to facilitate and leverage the growth of HDSA companies. Such policies include criteria that favour HDSA companies, all else being equal.
• Scope: the scope of procurement shall include supplies (e.g. crude), products and all other goods and services.
• HDSA companies are accorded preferred supplier status as far as possible.
• List of suppliers: it is envisaged that information on all HDSA companies wishing to participate in the industry will be collected and published. All participants in the industry will assist in compiling such a list that will inter alia be published by Government on the Internet and updated regularly.
• All participants shall continue to deploy every effort to ensure that vessels used in the transportation of supplies or products shall meet all prescribed health, safety and environmental standards.

Public Sector Procurement

Government will engage with State Tender authorities to draw their attention to the White Paper milestones with respect to economic empowerment of historically disadvantaged South Africans, with the aim of giving effect to supportive procurement policies within this sector.

Access and Ownership of Joint Facilities

Access to large infrastructure for the movement and storage of crude oil and petroleum products, such as SBMs, pipelines and depots and storage tanks, is acknowledged as a critical weakness in the supply chain of emerging companies. In this regard owners of such facilities provide third parties with non-discriminatory access to uncommitted capacity. HDSA companies are to be given fair opportunity to acquire ownership in such facilities.

Refining Capacity

Access to refining capacity also represents a key weakness in HDSA companies' supply chain. Oil refiners and synthetic fuel manufacturers seriously consider:
• selling shares in their facilities to HDSA companies;
• making capacity available to HDSA companies (e.g. through toll refining agreements); and
• including HDSA companies as joint venture partners in any expansions or upgrades.

Retailing/Wholesaling

The parties agree to create fair opportunity for entry to the retail network and commercial sectors by HDSA companies.

State Assets

Government undertakes to deal with State assets in a manner that promotes the objectives of the White Paper on Energy Policy and this Charter.

Upstream

The activity of oil and gas exploration and production is acknowledged as a high-risk activity that provides limited opportunities for new entrants. Government continues to make licences subject to the following conditions:
• All licences for exploration and production in the country's offshore area reserve not less than 9% for buy-in.
• All licensees contribute funds toward the “Upstream Training Trust” to fund skills development at various levels. As discoveries are made, further skills development strategies are devised to empower historically disadvantaged South Africans in this sector.
Financing

Finance is a serious constraint for HDSA companies.

- Government assists industry in explaining the milestones in the White Paper on Energy Policy as well as explaining the needs and characteristics of the industry to financing institutions, both private and public.
- Companies investigate and implement internal and external financing mechanisms for giving HDSA companies access to equity ownership within the South African context.
- Companies to consider engaging HDSA companies in viable strategic partnerships.

Terms of Credit to HDSA Companies

Industry participants acknowledge that terms of credit are important to HDSA companies and agree to take this into account in bilateral activities.

Regulatory Framework and Industry Agreements

Government’s regulatory framework and industry agreements strive to facilitate the objectives of this Charter.

Synfuels Supply

Parties to the Synfuels Supply agreements will strive to accommodate HDSA companies, which lack the facilities to comply fully with such agreements in the fairest way possible.

Consultation, Monitoring, Evaluation and Reporting

It is recognized that the achievement of the objectives set out herein entails an ongoing process. The Department of Minerals and Energy (DME) conducts an annual survey of the industry to evaluate progress in achieving the objectives of the White Paper. Companies submit such data as is required at the end of each year, including employment equity data, procurement targets, etc. The aggregated information is published and forms the basis of the annual forum.

Oil companies have taken major initiatives in this regard and have participated in a first survey earlier this year.

Parties hereto participate in an annual forum for the following purposes:

- Monitoring progress in the implementation of plans;
- Developing new strategies as needs are identified;
- Ongoing government/industry interaction in respect of these objectives;
- Developing strategies for intervention where hurdles are encountered;
- Exchanging experiences, problems and creative solutions;
- Arriving at joint decisions;
- Reviewing this Charter if required; and
- Giving notice of withdrawal.
Charter
For the South African Petroleum and Liquid Fuels Industry on Empowering Historically Disadvantaged South Africans in the Petroleum and Liquid Fuels Industry
Signed November 2000

Chairman

CEO Shell (SA) Ltd.

Secretary General AMEI

CEO EXEL

CEO BP South Africa

CEO TOTAL South Africa

CEO Africoil

Managing Director Cabela

CEO AMU

General Manager Sales

Chairman AMEI

Director

CEO (SA) MA

Eighteen
LIST OF COMPANIES THAT HAVE PARTICIPATED IN THE BEE PROCESS

- South African Petroleum Industry Association (SAPIA)
- BP Southern Africa (Pty) Limited
- Caltex Oil (SA) (Pty) Limited
- Engen Petroleum Limited
- Sasol Limited
- Shell South Africa (Pty) Limited
- Tepco Petroleum Company (Pty) Limited
- Total South Africa (Pty) Limited

- African Minerals and Energy Forum (AMEF)
  - Afric Oil (Pty) Limited
  - Exel Petroleum (Pty) Limited

- Worldwide African Investment Holdings (Pty) Limited

- Department of Minerals and Energy
- Ministry of Minerals and Energy
- Central Energy Fund

- African Minerals Petroleum
- African Minerals and Energy Corporation
- Calulo Investment Holdings (Pty) Limited
- Mandlakazi