



Reclamation Group



View of main plant, with truck driving onto one of the two weighbridges.

CASE STUDY 4

INTRODUCTION

Reclamation Group (RECLAM) is the largest recycler of ferrous and nonferrous scrap metal in South Africa. The company is privately held and was founded in 1998 with a business plan to purchase and consolidate small, family-owned steel scrap recycling businesses into a larger company. The company’s vision was that waste and scrap steel represented an “aboveground mine,” and that by consolidating a number of smaller, established steel recyclers, improving operations, and raising standards, it could reinvent a formerly “dirty” industry into an important business sector contributing to sustainable development.

Since 2000, having assembled a base infrastructure of steel scrap recycling centers throughout South Africa, the company expanded into other recyclable commodities, including glass, paper, cardboard, rubber, and integrated waste management services to become the one-stop waste management/recycling solution. Brait Capital, a South African private equity fund, invested in RECLAM in 2000.

BACKGROUND

RECLAM’s business is the purchase, processing, and sale of ferrous and nonferrous scrap metal. The company has 60 facilities and 2,300 employees. RECLAM is an industry-leading concern and the largest such operation in Africa. The company was founded and is still largely based in South Africa, though branches have been opened

in Mozambique, Swaziland, Malawi, Kenya, Zambia, and Botswana.

RECLAM's primary business is the recycling of ferrous metal (e.g., steel), though the company also handles smaller quantities of nonferrous metals (e.g., aluminum, copper, brass). The plants receive all manner of metal scrap, from steel fabricator scrap to decrepit vehicles and other metal trash.

The metal recycling business involves the following stages:

- Receipt/collection: Metal scrap is sourced from a variety of suppliers in South Africa and neighboring countries, and the scrap metal is transported to the closest processing facility. RECLAM receives metals directly from manufacturers; collects metals from manufacturers via waste collection contracts using the RECLAM truck fleet; and buys metals from the informal sector (e.g., individual collectors/haulers).
- Separation: Metal is separated from nonmetal waste.
- Weighing/grading: This enables the company to determine load value and payment.
- Processing: This step involves separating all waste, including hazardous wastes disposed of properly); cutting; fragmentizing (cars, trucks); and compressing.
- Final product: Storage and delivery constitute the final stages.

There are three tiers in RECLAM's supply chain of metal scrap:

- Contracts with major metal working companies that deliver scrap with their own trucks

- RECLAM's collection truck fleet, which picks up scrap from larger clients
- The informal or microenterprise sector—individuals or small groups who earn a full-time or part-time livelihood by collecting and hauling metal waste for sale to recyclers such as RECLAM.¹

RECLAM has recently expanded into glass, paper, and cardboard recycling. The company's concept is that on the back of its existing infrastructure, recycling of other waste products should be both an economically and environmentally sound business. RECLAM was also motivated by the opportunity to become a vertically integrated waste management company that can provide comprehensive waste management services to its clients.

ROLE OF THE BRAIT CAPITAL FUND

Brait Capital played a significant role in RECLAM's growth over the last six years, specifically by:

- Investing early in RECLAM, thereby making possible the series of acquisitions that resulted in the company's current dominant position as South Africa's leading recycling enterprise
- Playing a major role in arranging and negotiating the acquisitions
- Providing advice in the strengthening of RECLAM's corporate governance policies and practices

- Recruiting management
- Helping design an incentivization program for officers and major shareholders.

Brait did not, however, have a specific role in the sustainable business aspects discussed in this case study.

THE RECLAM SUSTAINABILITY STORY

This case describes three aspects of RECLAM's business model that have enhanced the company's sustainability and profitability, or triple bottom line:

This sustainable business case study focuses on RECLAM's commitment to:

- Its corporate mission of recycling as an environmentally sustainable and profitable enterprise
- Its "People First" (e.g., employee) program and related health and safety emphasis, which has incentivized the workforce and improved company profitability
- The microenterprise scrap metal collection supply chain, where RECLAM has helped to foster microenterprises for unemployed South Africans via accurate weighbridges and fair pricing for the scrap metal collected and delivered.

While these commitments apply to all RECLAM operations, the case study examples cited herein are drawn

1. By providing a fair value market, RECLAM has indirectly helped to create microenterprises engaged in scrap metal collection and resale to RECLAM.

from RECLAM's scrap metal recycling business.

Recycling as an Environmentally Sustainable Enterprise

RECLAM's vision is that waste metal represents an "aboveground mine," and that the impacts of recycling are far less than those associated with mining and smelting. The company's mission statement is:

RECLAM management espouses a strong and sincere commitment to the people and the environment of South Africa. RECLAM fully recognized the traditional image of steel recycling, and solid waste management in general, as a low-technology, dirty, and marginal business that cut corners to make a profit (e.g., sloppy housekeeping, dust and emission generating, dilapidated trucks and equipment, poor working conditions). RECLAM has worked to alter that perception and change the reality, the goal being to raise the profile of recycling as a technically savvy and sustainable business sector.

The company has instituted a number of programs to achieve this goal:

- There is a continuous exploration of new technologies to increase processing efficiencies, and worker incentive programs to extract more reusable materials.
- The company cleans up the sites it has acquired and properly disposes of accumulated debris and other waste.
- The ground is paved in order to reduce dust generation.
- Environmental management systems have been implemented. (Many of the plants are ISO 14001 certified, and all will be in due course; the main plant is ISO 4 star certified.)
- Hazardous and other wastes from the recycling process and equipment maintenance are collected, stored, and disposed of properly:
 - ▼ Processing vehicles requires the removal of all fluids (e.g., fuel and oils) as well as tires and batteries; RECLAM stores drained fluids and disposes of them via licensed collectors.
 - ▼ RECLAM monitors for radioactivity; it is required to issue a non-radioactive certificate when shipping processed metal internationally.
- All plants have health and safety programs and designated safety health and environment officers throughout each plant during working hours.
- All RECLAM trucks are new or recent models and are rigorously maintained (always washed and clean, truck beds covered during hauling, and very high levels of mechanical maintenance to prevent accidents).
- All on-site equipment is rigorously maintained and kept in top condition (e.g., all track-hoes and other heavy equipment are painted frequently and kept in top working condition, with special attention paid to

“To recover 100 percent of collected wastes while making full use of our resources. To recycle this waste for the benefit of the environment and future generations, leaving no negative impact on our planet.”



Roadside sign outside RECLAM's main plant in Johannesburg.



Worker at RECLAM facility.

hydraulic hoses to prevent leaks and failures.

RECLAM has made great progress in these endeavors, but is not yet finished and is continuing to make incremental improvements.

People First

Another guiding tenet of RECLAM's vision of sustainability is to put "people first," meaning primarily its employees. RECLAM implements this philosophy through its Worker Transformation Program, designed to foster upward

mobility. The program has two main tenets:

- Look within for all position openings
- Make workers agents through mutual benefit sharing.

THE LOOK WITHIN PROGRAM

RECLAM's "Look Within Program" seeks to fill position openings from within the workforce whenever possible.

For example, one of the office maids had a son who was unable to find employment. She made this known to management, and eventually an entry-

level position was found for him. Over several years, the young man worked his way up through the ranks, and he was recently made the manager of a RECLAM plant.

MAKE WORKERS AGENTS PROGRAM

RECLAM has endeavored to have all staff incentivized in some manner beyond basic employment and pay, so that the workers become "agents for the company." At the time of the site visit, RECLAM was in the process of systematically documenting all the incentive programs throughout its 60 plants so as to facilitate dissemination of best practice across all operations. Three examples of RECLAM's implementation of this program are described below.

SOLUTION TO THEFT OF NONFERROUS METALS

At the main plant it was noticed that nonferrous metal recovery was extremely low, and upon investigation it was learned that the workers were stealing nonferrous metal and reselling it to other scrap buyers. To solve this problem, RECLAM devised a two-pronged strategy:

- Several blatantly guilty workers were reported to the police, arraigned, and subsequently terminated.
- The company offered the following arrangement to the other workers: one-third of the nonferrous metal receipts would be given to the workers on a monthly basis, and it would be up to the workers to decide how to divide up the proceeds. RECLAM would receive the other two-thirds of revenues generated. The result was that nonferrous metal recovery went from near 0 to 2,000 tons/month and has continued at this level since.

BRIQUETTE MACHINE PRODUCTION TURNAROUND

RECLAM produces a considerable amount of ground metal from its 34-ton car fragmentizer machines, which reduce cars to ground metal. To prevent excess volatilization during remelting, the ground metal must be reprocessed to convert it into dense metal briquettes with a specific density. This is done via a machine that compresses the ground metal into briquettes.

At the main plant, RECLAM was experiencing very poor productivity at the briquette machine. The machine's factory production specification was 1,600 tons/month, but actual production was 1,200 tons/month. In an effort to achieve the specified productivity from an expensive piece of equipment, RECLAM instituted a productivity-based compensation system in addition to regular wages.

Achievement of the briquette machine's stated productivity of 1,600 tons a month would result in a Rand 500/monthly bonus to the 14 workers operating the machine. For each additional ton of productivity over 1,600 a month, the workers would receive an additional Rand 100/month. The machine is now regularly producing 2,000 tons a month, and the workers are enjoying the extra income.

MICROENTERPRISE—COLLECTION TRUCKS AND DRIVERS

RECLAM has a number of programs for incentivizing the drivers of its various collection truck fleets. The intent of these programs is to get the best productivity out of the assets and the workers by allowing the workers to share in the benefits of the increased productivity.

In the basic scheme, RECLAM buys the truck and pays the insurance. The driver leases the truck from RECLAM and pays for maintenance and fuel. The driver is reimbursed by RECLAM on the basis of tons of material delivered to the plants.

In a typical case under this scheme, one driver's earnings increased from approximately US\$330 per month to US\$2,500 per month. One of the drivers is sending a child to law school. Another now owns two trucks; he drives one himself and has an employee driving the other.

RECLAM also holds a monthly driver/collector competition, with cash prizes for the winning drivers. However, violations of RECLAM's health and safety program result in

disqualification for the competition in any given month.

MICROENTERPRISE—SCRAP METAL COLLECTION SUPPLY CHAIN

RECLAM offers a fair price (calculated daily based on the commodity markets) to all suppliers, large or small. RECLAM also frequently calibrates its weighbridges to keep them accurate and allows the deliverer to be present when the load is inspected and graded.

This fairness and transparency have made RECLAM the buyer of choice for at least a part of the informal sector supply chain (see box). As metal recyclers are competing for product, their reputation for fair dealing with the microenterprise collectors has given RECLAM a competitive advantage.

JOHANNES'S STORY

Johannes had lost his job some 5 years ago in the economic recession and had been unable to find another. Having a family, and with no other prospects for employment, in 1997 Johannes turned to collecting scrap metal for sale to metal recyclers. Johannes has been able to make a living doing this over the last 8 years, and as a result of his success, he has been able to purchase his own small truck to conduct his new business. Johannes has dealt with several other recyclers in Johannesburg, but he says he would "drive an extra 50 km" to sell to RECLAM because he was confident his loads would be accurately weighed, he would get a fair price, and he would be treated with respect. In RECLAM's view, this is yet another example of how its business is built on loyalty, a competitive advantage of its business model.