

THE BROADER



Is BBBEE the Holy Grail of business that will redress the inequalities of apartheid in the South African marketplace? Kerry Dimmer explores the details most companies might overlook

THE BETTER



Black Economic Empowerment (BEE) was conceived in 1994 to facilitate the distribution of wealth to the previously disadvantaged by introducing black equity ownership and black management representation in business. It was a move that disconcerted some of the 10% white minority who controlled the big corporations at the time.

Amidst a flood of criticism, highly qualified and skilled labour began to leave the country. Those who opposed the move to BEE decried the legislation as benefitting the previously disadvantaged by penalising the previously advantaged. Worse still, they said, the only people of colour getting rich were those that were well-connected. In its narrowness, BEE was perceived as a form of affirmative action and not as the tool for economic growth it was meant to be.

Repackaged as Broad-Based Black Economic Empowerment (BBBEE) in order to address these shortfalls, the Department of Trade and Industry (DTI) introduced a generic, coded scorecard that presents seven pillars with a relative weighting for a total of 100% compliance.

Instead of empowerment/ownership/management satisfying just 30% of the BEE quotient, the inclusion of employment equity, skills development, preferential procurement, enterprise and socioeconomic development now provides an exact calculation and report of a company's total BEE contribution.

The updated BBBEE process essentially comprises three categories:

- Exempted microenterprises (EMEs) are businesses with a turnover of less than five million rand and therefore given automatic BBBEE compliance status
- Qualifying small enterprises (QSE) are those concerns with a turnover of five to 25 million rand that are required to comply with four of the seven scorecard pillars
- Businesses with a turnover of more than R25 million need to satisfy all seven directives of the generic scorecard and, if applicable, complete an industry-specific version, such as those developed for industries with their own peculiarities such as agriculture, construction, ICT, financial services, legal, mining, petroleum, tourism and others.

In essence, the scorecard and its rating system are pretty simple and by the end of the transitional period (August 2008) the DTI hopes the majority of businesses will have begun to implement the BEE protocols or have appointed a verification agency to establish the level of compliance. The role of a verification agency is to determine to what extent a company meets the DTI's BBBEE requirements and it will neither consult nor assist in the implementation of BEE processes.

One such verification agency, Empowerdex, has been in operation since 2001. Its CEO, Vuyo Jack, explains: 'We were involved with the DTI in the drafting and legislative processes of the codes of good practice. Empowerdex actually came up with the BEE rating system that the DTI uses, while developing processes that would aid in the economic development of Africa as a whole.'

Jack says that verification is a detailed and lengthy process, encompassing the whole scorecard. 'There are so many elements and indicators that we need to look at. It's not just about shareholding. We need to see who the black shareholders are and if they meet the requirements of being black and whether they are actually SA citizens. We look at the financing of the negotiations being made, at profits, even the amount

of equity built into a deal, so it is a very comprehensive and complex process.'

Beating the system is not as easy as the previous BEE package. Jack reminds us that 'people always want to do the minimum to get the maximum points'. He says that this may not necessarily be a bad thing when it comes to BBBEE because as long as black people are integrated into the mainstream of the economy, the objectives of empowerment are being met.

'Some Empowerdex clients do it for the compliance vote or to be perceived as good corporate citizens but then find out that it actually has a negative effect on the bottom line of their business. This is not true, however, of the majority of companies.'

Although gazetted, there is no legal obligation for any business to comply with BBBEE. But avoiding BEE compliance might retard a company's growth. Such businesses will find it increasingly difficult to deal with government organisations and NGOs, and even some of the private companies within its usual supply chain. Nomonde Mesatywa, acting chief director for BEE at the DTI confirms this: 'Business has to fully embrace the principles of BEE and be committed to ensuring they do it right. Only once BEE becomes a business imperative will the trickle effect produce the desired results which will ultimately benefit all.'

There is also no reason that the scorecard, with its codes of good practice, should be viewed with scepticism as in the past, says Mesatywa. She also acknowledges that it may take time before tangible equitable economic benefits and opportunities are realised by both the country and individual business.

'Despite the current transitional period, we have begun to feel corporate SA's embrace of BBBEE. The DTI has provided the framework and businesses are

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beginning to develop strategies and policies that will ultimately result in maximum transformation at all levels of the economy in a meaningful manner. The DTI wants to see a conducive and enabling legislative environment for the proper implementation of BBBEE.'

Economist with Thebe Securities, Elize Kruger, agrees that it is very difficult to quantify the actual economic impact of BEE but says that it has definitely made a positive difference. 'BEE has brought about empowerment and wealth and can probably explain a major part of the growth in the black middle class which in turn has been a major driver behind the growth in consumer spending over the past five years.' According to Kruger, BBBEE transactions conducted using credit have had a positive influence on corporate credit in recent years but that this trend has slowed new BEE transactions as a result of higher interest rates.

She's right about the slowdown. Grant Thornton International's annual *International Business Report* reveals a sharp decline in sentiment towards BBBEE. In 2007, 70% of private businesses it surveyed felt that BEE was an important issue in terms of winning new business, but in 2008 only 59% felt this was the case.

There are, of course, other ways of measuring success. Mesatywa comments that the DTI has seen a noticeable improvement in the different categories of black people that are beginning to be drawn into the mainstream economy, such as women, the youth, the disabled and even rural communities.

'We are also experiencing real and significant empowerment in key priority sectors giving cognisance to government's broader economic policies, like its industrial policy. The issue of enterprise development is also critical to ensure that small business receives access to markets and has opportunities that will ensure their growth and sustainability. This is the true blessing of BBBEE because it will translate into increased job creation and thereby assist in the eradication of poverty.'

Sasol has embraced the BBBEE concept to the tune of a mind-blowing R28 billion. Its Inzalo Communications and Event Management transaction is the largest to date, offering millions of South Africans the opportunity to own a sliver of this blue chip company. Sasol CEO Pat Davies, says that while equity deals make the headlines, Sasol gives equal weight to all the other pillars of sustainable BBBEE. 'We believe this integrated approach will directly advance broad-based transformation and will ensure that Sasol's contribution to SA's empowerment is tangible and meaningful.'

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Vodacom has had a frustrating time attempting to disclose the details of its R7.5 billion BBBEE deal, what with the recent shareholder action around the Telkom/MTN/Vodafone negotiations. The Group's chief communications officer, Dot Field, says the Vodacom transaction is also unique and far-reaching in that it includes all South African Vodacom employees, black South Africans and business partners via a public offer. Included in this mix are two broad-based black strategic partners – Royal Bafokeng Holdings and Thebe Investment Corporation.

'We aim to play a role meeting the country's socio-economic objectives in ways that are sustainable, credible and of benefit to all our stakeholders and the country as a whole,' says Field.

Despite some plodding acceptance of the concept, companies who eventually open up to BBBEE will experience the flexibility that is inherent in the whole system. Ultimately, the success of BBBEE rests on the ability of an organisation to train or source the next generation of entrepreneurs, but that's only going to be possible if the schooling system is able to provide basic numeracy and literacy skills. And that, of course, is a whole other story. **JSE**