

## FINDING STRATEGIC ADVANTAGE IN BLACK ECONOMIC EMPOWERMENT

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Black economic empowerment (BEE) has existed in our economy for more than a decade. Since its inception, we have seen changes in its strategy and a shift in focus from ownership to a more broad-based approach. Due to the slow progress made in this area, government has become increasingly involved, culminating in the release of the final, detailed Codes of Good Practice. These Codes will be in effect for the next 10 years, with provision made for it to be reviewed and extended beyond that point if required. BEE is therefore clearly here to stay for the foreseeable future.

Instead of sticking their heads in the sand, it is time for companies to face reality and take the necessary steps to transform their organisations. Although compliance is 'optional' in that it is not legally binding on private companies in this country and cannot be legally enforced by Government, there are a number of mechanisms through which it can be 'strongly encouraged'. The Codes are binding on all Government bodies and State Owned Enterprises, and for these institutions procuring from black empowered companies is an obligation rather than a choice. With government infrastructure spend over the next 5 years in excess of R350 billion being planned and continued economic growth forecast in the coming years, companies cannot deny the potential impact of adopting a strategic approach to BEE on their bottom lines and shareholder returns. This pressure is imposed through Preferential Procurement and cascades down through the economy as Government's first tier suppliers require their own suppliers to be compliant so that they can achieve or maintain their own BEE status. When companies do not naturally take up the challenge, there appears to be a move to find other levers to achieve similar effect such as the Public Investment Corporation using the press to name and shame companies and industries who are laggards (as recently demonstrated with Barloworld). These companies risk negative exposure and potentially irreparable damage to their corporate brands if they do not achieve a reasonable level of compliance. This fire-fighting should be avoided at all costs and a well planned and executed strategy will prove to be more successful in the longer term.

The good news is that at long last, the government has put a stake in the ground and told companies and government bodies alike what is expected, through the Codes of Good Practice. The generic scorecard described in the Codes has benchmarked the way in which BEE compliance is measured, and although government has left the targeted contribution level unspecified, it is generally accepted that at least a Level 4 status is required. Furthermore this has created a natural competitive environment thus if company X achieves a Level 6 status and its competitor achieves a Level 4 status then company X will need to enhance its score to Level 4 or above to retain a strategic competitive advantage.

As with most regulatory systems, requirements are seldom straightforward and often become complex and difficult to understand as regulatory bodies attempt to create a watertight system which represents a middle ground for differing views and objectives. As a consequence, the Codes are often misinterpreted and therefore misunderstood. This results in suboptimal application with companies placing too much focus on incremental change to simply **comply** with the Codes.

It is this complexity and incorrect application, coupled with a superficial understanding of BEE and its objectives, which have resulted in negative perceptions of BEE throughout the South African economy. For example, poorly structured 'vanilla' ownership deals; which come at significant cost to the selling company; result in encumbered shares in the hands of the BEE participant; and are financed in an unsustainable and value-impairing manner. Additionally, with the perceived costs of BEE already high, companies also balk at further spending in the areas of Skills Development, Enterprise Development and Socio-economic Development.

A **strategic approach to BEE** - aligned to the overall company strategy - is clearly required in order for companies to engage in BEE initiatives as an investment with a positive return. Most elements of the Codes naturally encourage good business practices such as staff incentivisation through broad-based ownership, encouragement of management diversity through the 'Control' element, career path planning through Employment Equity, staff development through Skills Development, corporate new venture creation through Enterprise Development, and good corporate citizenship through Socio-Economic Development. Additionally, optimisation opportunities exist between various elements which can be used to streamline costs and effort. Each of these can be used when defining a strategy to achieve the most efficient and effective end product.

On the ownership side, companies selling 25,1% of their company should want and expect their new black shareholders to provide added value beyond the 'black' status that ownership confers. Specifically your BEE partner should be good business people that can relate to you as shareholders. In the past 12 years we have seen a new generation of black talent emerge that have both academic qualifications and the requisite experience and skills to become operationally involved in their underlying investments. BEE partners should be actively involved in and contribute to the growth of the companies with which they partner.

In a world which is short of 'talent' and with severe skills shortages in South Africa, companies need to understand how to attract individuals, retain them and grow them within the organisation not only for the Employment Equity and Management and Control elements of BEE, but in respect of both black and white employees – is critical to an enterprise's competitive advantage and success in the market. Spend on Skills Development becomes a natural part of this process, and provided the right training is targeted at the right individuals, compliance with these elements should not be considered a net cost to the business and should, in fact, add considerable value to the organisation.

Enterprise Development encourages the creation of and investment in new businesses which could be of significant strategic value and offer good returns to investing companies, particularly in a strongly growing economy. These ventures could be set up to facilitate the growth of the original company through providing support services in activities which are non-

core for that company. The company may review its strategy further down the line and determine that these growing entities may well fit within the new strategic direction and are an engine for growth in the original entity. To optimize this element, companies should use Enterprise Development to create black enterprises within their supply chain, thereby having a positive impact on a company's Preferential Procurement – particularly if the new enterprise is a QSE or EME with more than 50% black or 30% black women ownership.


Even Socio-economic Development can be used to the company's advantage, through, for example, creating an awareness of the company or its industry at community, school and university levels – where future employees or users of the company's products are developed.

The question which remains to be answered is how companies can put a program in place to achieve their targets in the most efficient way. Ultimately, responsibility and leadership should be at the highest level, in order to achieve the right focus, and drive momentum within the organisation. A team of people, each focusing on a specific BEE element, should be identified, and each individual should be measured on their performance in accordance with their responsibilities. In an ideal world, the CEO would be the project 'sponsor' to ensure top level support for BEE. The Transformation Manager would manage the entire program and optimize overall efforts. The HR Manager would undertake responsibility for talent management (Employment Equity and Skills Development) and work together with the Board to create a strong succession plan which meets the requirements of BEE. The Business Development Manager would be responsible for identifying and investigating investment opportunities for Enterprise Development, and would need to work closely with the Procurement Manager to determine the most beneficial opportunities in the company's existing supply chain. The Corporate Social Investment leader should work closely with this team to ensure that spend qualifies as Socio-economic Development and is also aligned with the company's longer term vision. This team should then be responsible for embedding all initiatives into the organisation so that it is not a wart on the side of the beast, but an integral part of the business. Finally, to ensure effective implementation by the organisation, corporate targets should be cascaded down to the line managers responsible for implementation, to ensure that achievement of BEE targets has 'teeth' and is not simply placed last on a long list of things to do. Finally, companies should modify their systems to report on their efforts in respect of BBBEE, as this information is required on an ongoing basis to assess the impact of BEE initiatives, and on an annual basis to provide an audited BEE rating of how the company has performed over the year.

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