

EMPOWERDEX



Economic Empowerment Rating Agency

Ownership cannot be the only aspect of transformation.

1. Introduction

As soon as you mention black economic empowerment (BEE), people invariably focus on only two elements, being ownership and management control. The policy actually has seven elements that should be considered. The emphasis on Broad-based BEE has indeed been to increase the number of black people who manage, own and control the country's economy with the intention to reduce income inequalities and to contribute to economic transformation. This is valuable but it does not exclusively meet the holistic objectives of Broad-based BEE.

South Africa desires an economy that can meet the needs of all our citizens in a sustainable manner. This is only possible if our economy, businesses and government build on the full potential of all persons and communities across the country.

The Broad-based BEE ownership measurement is known to have the potential to overshadow the need for transformation. While billions are being invested in the pursuit of transformation at the level of ownership, other aspects of empowerment (with greater potential to redress the imbalances of the past) can be neglected.

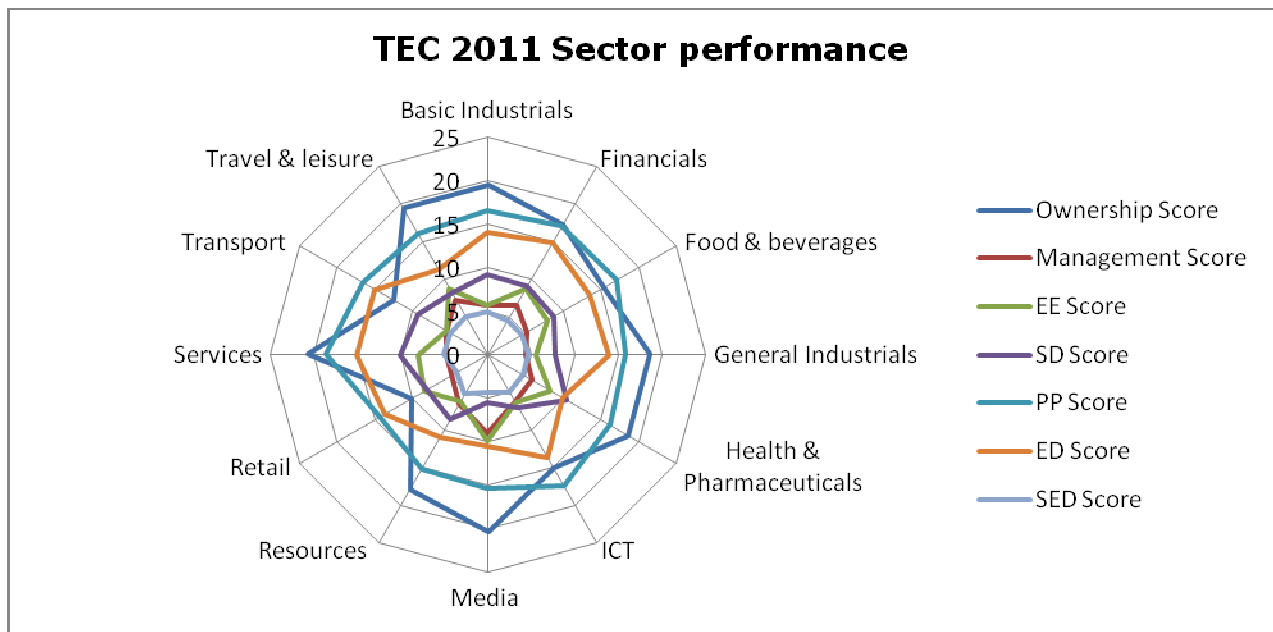
This is evidenced in large BEE deals where black people are focused on gaining ownership of company shares. This ownership may take different forms, including employee share-ownership programs. However, South Africa needs a broader focus to include other areas that deliver on transformation. The other elements of BEE, namely employment equity, skills development and enterprise development should be given more priority.

Given the concern that BEE at the level of ownership presently benefits a small group of elite business people, this paper seeks to look at the trends and improvements that BEE has made in other areas.

1.1 Top Empowerment Companies (TEC) Survey results for 2011.

Empowerdex recently compiled the data for its annual TEC Survey, which has been published in the Financial Mail every year since 2004. The TEC is aimed at providing the public with a snapshot of the empowerment status of JSE-listed companies in order to raise awareness of Broad-Based Black Economic Empowerment (B-BBEE) and stimulate the use of B-BBEE as a competitive advantage. Since South Africa’s transition to democracy, companies must be commended for their BEE efforts and this is noticeable from TEC’s survey. Figure 1 below shows the performance of different sectors when it comes to the expenditure on the seven elements of BEE¹.

Figure 1: TEC sector performance comparison



Source: Empowerdex 2011

If you look at the relative performance of the various sectors you can identify which elements are still lagging behind in respect of transformation. Figure 1 shows that Services and Media are contributing more in terms of direct empowerment; services contributed an average score of 20.69 points and media 9.09 points in respect of ownership.

¹ Total average scores

By enhancing the skills, knowledge and abilities of individuals, Human Resource Development (HRD) serves to improve the productivity of people in their areas of work. The HRD component comprises two elements, namely employment equity and skills development. The HRD focus is the internal transformation that will accelerate the development of black employees.

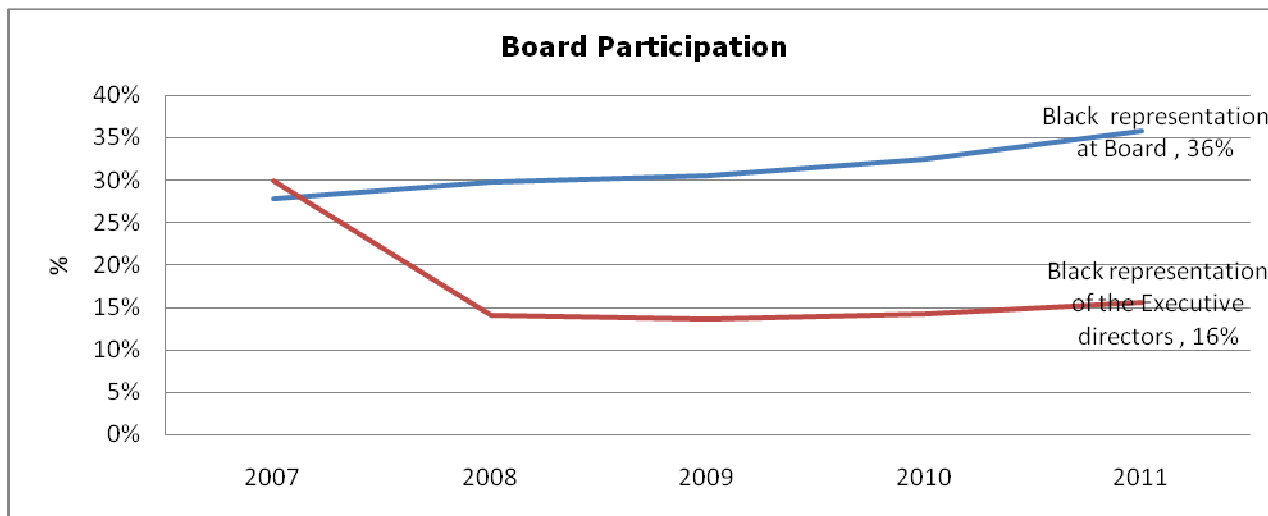
The media is seen as the leading contributor for employment equity at 9.89 points, with Health & Pharmaceuticals reaching an average score of 10.53 points in respect of skills development. Preferential procurement and enterprise development are components of indirect empowerment which enables and encourages enterprises to facilitate BBBEE in entities and within the communities in which they interact. The services sector, which includes companies such as the Kelly and Bidvest groups, lead the charts with an average 18.65 points for the preferential procurement element. This is one of the effective ways of creating market access for black entrepreneurs.

Entrepreneurs are further supported through enterprise development which assists with the creation and enhancement of the entrepreneur's operational and financial capacity. Black communities also gain from BBBEE through social development, which focuses on education, health and other relevant social development areas.

Management & Control

Management promotes proper representation of black people on company boards in both executive and non-executive capacities. Figure 2 (below) measures the representation of black people at board level as well as black representation in executive directorship (adjusted for gender) since 2007 up until 2011. Given the fact that South Africa moved from Narrow-Based Empowerment to Broad-Based Black Economic Empowerment (BBBEE) in 2007, this had an impact on the progress of BEE which can be seen in the graph below.

Figure 2: Board Participation



Source: Empowerdex 2011.

During the transitional period, black representation in executive directorship decreased from 30% in 2007 to 14% in 2008. This can be attributed to uncertainties brought about by the process of change.

Black representation of executive directors started increasing in 2009. This trend is positive but it is noted that the increase is relatively insignificant. After the improved Broad-Based Black Economic Empowerment (BBBEE) measures, black executive directors are still lagging behind and black executives appear to be taking on more non executive directorship positions.

As much as non executive director roles are important in companies, they cannot be compared to those of executive directors. From 2008 to 2011 the black representation within executive directors grew by only 2%. The black representation at board level increased to 36% in 2011 from 30% in 2008. While it has been growing, it is noted that there was sluggish growth in 2008 and 2009 but this may be attributed to the recession period in South Africa.

1.2.1 Breakdown of Black directorship

Below are some of the basic statistics which shows the progress of BEE in terms of bringing in more black directors that manage, own and control businesses in South Africa:

Table 1: JSE Black Directorship Analysis (2008-2010)

JSE Black Directorship Analysis (2008-2010)	2008	2010	% Change 2008-2010
Total Number of JSE listed Black Directorships	714	951	33%
Black Male Directorships	510	652	28%
Black Female Directorships	205	299	46%
Total number of Black Directors on the JSE	487	770	58%
Black Male Directors	348	526	51%
Black Female Directors	139	244	76%

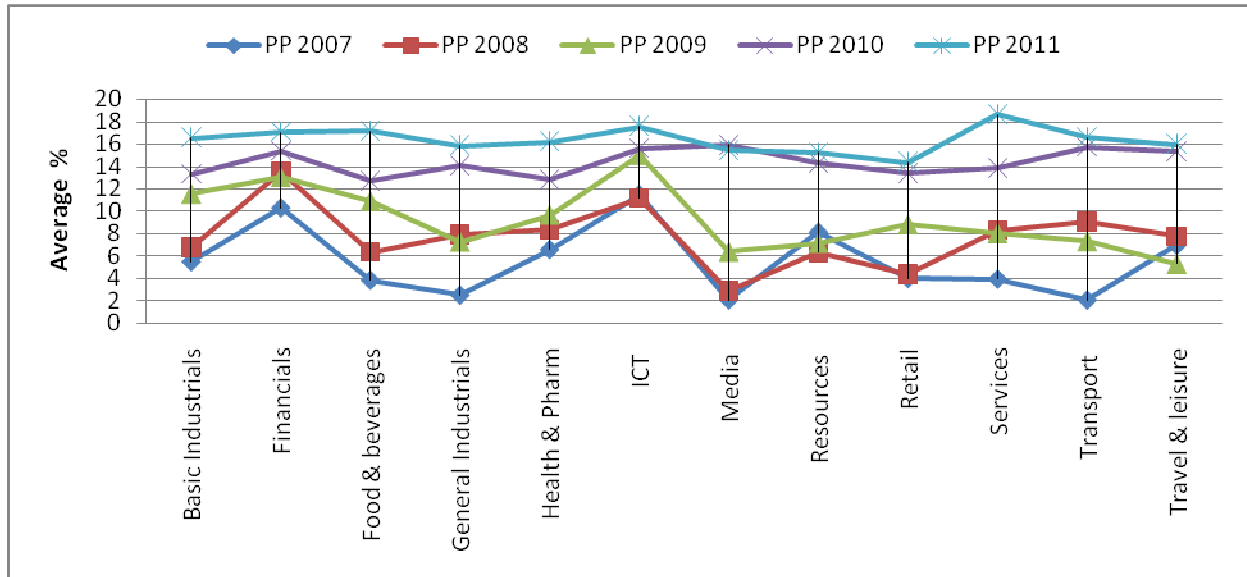
Source: Empowerdex 2010

The table above shows that the number of Black directorships increased from 714 to 951 between 2008 and 2010. This 33% increase can be partly attributed to the inclusion of companies listed under the Alt-X section of the JSE. Out of 951 directorships, only 299 accounted for females, but there was a promising 46% increase between 2008 and 2010. The number of black male directors increased from 348 in 2008 to 526 in 2010. The challenge in the journey to empower black individuals would be to ensure that changes taking place at boardroom level flow downwards, ensuring that a larger portion of economic benefits flow towards black people.

1.2 Exceptional performance by Preferential Procurement

In most companies, payments to suppliers make up a large portion of expenditure. Preferential procurement is with no doubt the driving force behind BBBEE and in fact has the same weighting as ownership (20 points in the case of the Generic scorecard and 25 points on the QSE (Qualifying Small Enterprise) scorecard). This should compel procurement managers and business owners to constantly evaluate their procurement spend.

Figure 3: Preferential Procurement average scores from 2007 to 2011.



Source: Empowerdex 2011

As has been noted before, the services sector with an overall average score of 18.65 points outperformed all sectors in the preferential procurement measurement element in 2011. It is noticeable in this graph though that all sectors seem to be following an increasing trend with an exception of media. Companies are investing heavily in this area in order to gain access in those markets where BEE compliance is required.

It is well-known that government is the largest customer and will purchase from the most empowered companies. Consequently all businesses competing for government business will be forced to become more empowered. Companies will be forced to maximize the percentage of their procurement spend directed towards black empowered companies. Companies will as a result put pressure on their own suppliers to become empowered since this will improve their own empowerment rating.

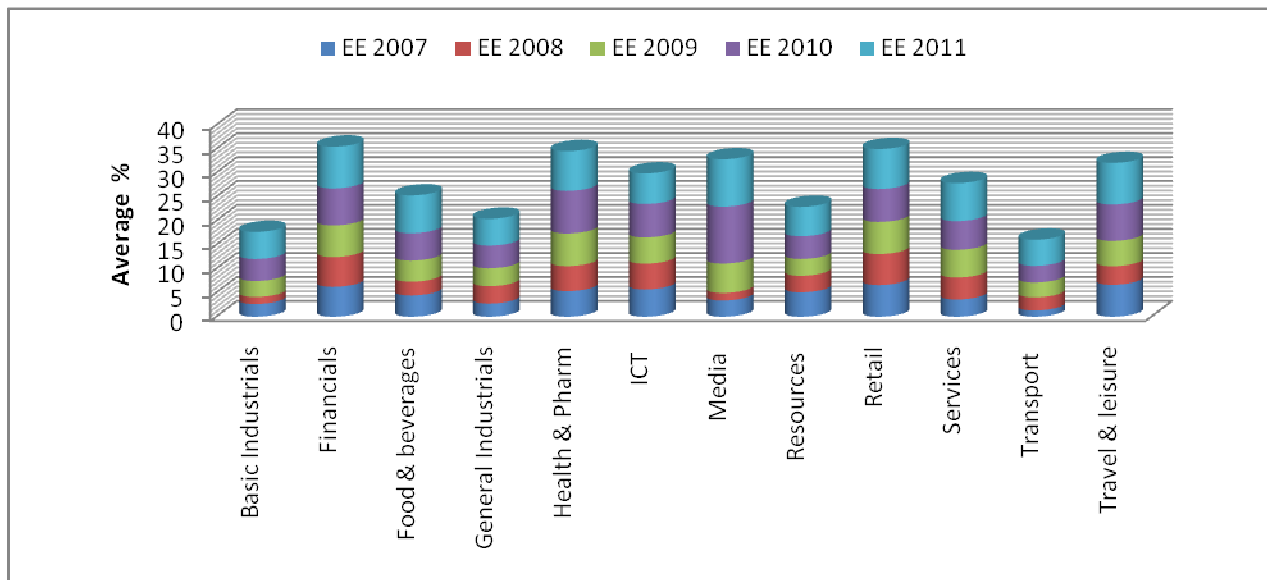
This element has factual potential to create economic growth and jobs by building sustainable businesses and linking them into supply chains. This will have an impact on the people that the codes are intended to assist (the previously disadvantaged).

1.3 Employment Equity performance scores from 2007 to 2011

The current progress of companies with respect to employment equity is not promising, as companies struggle to score the requisite number of points for good overall BBBEE ratings. The representation of black people at the board and executive management level within

companies has been progressing at a low but steady pace. However, at lower management levels the performance is uninspiring. Companies are shedding jobs faster than they are creating them. Many of the job losses affect black people, who have historically not had strong academic qualifications. This ultimately affects the levels of available talent that can be promoted to junior management.

Figure 4: Employment equity growth for 2007 and 2011



Source: Empowerdex 2011

It is apparent from the graph (above) that only a few sectors managed to increase on their employment equity from 2007 to 2011. The financial sector increased from 7.72 to 8.72 points in 2010 and 2011 respectively. The media sector decreased from 11.88 to 9.89 points over the same period. Retail increased from 6.62 points to 8.33 points from 2007 to 2011. Recruiting a sufficient number of successfully trained people to fill the growing number of middle and senior management positions is becoming increasingly difficult due to talented people of all population groups making a decision to seek employment opportunities elsewhere in the world.

1.4 Performance analysis of other BEE elements

Table 5: Attributions by SD, ED and SED

Sector	SD 2007	SD 2008	SD 2009	SD 2010	SD 2011	ED 2007	ED 2008	ED 2009	ED 2010	ED 2011	SED 2007	SED 2008	SED 2009	SED 2010	SED 2011
Resources	7.98	6.27	3.51	7.95	8.55	8.71	4.24	2.61	7.26	10.86	4.46	2.41	3.01	4.83	5.21
Financials	6.9	7.1	6.66	7.2	9.12	11.4	11.23	9.56	14.1	14.91	4.46	3.68	3.43	4.25	4.51
ICT	5.42	8.01	5.57	6.24	6.95	10.19	12.62	9.83	12.05	13.63	3.52	3.57	3.77	4.25	4.96
Retail	5.42	8.38	7.27	7.79	8.03	8.43	9.87	10.22	12.93	13.61	4.5	4.57	4.9	5	4.15
Health & Pharm	4.98	8.16	7.49	10.22	10.53	12.93	12.12	8.06	9.19	9.9	3.36	2.94	3.92	4.43	4.63
Travel & leisure	4.56	4.02	6.01	7.6	8.18	9.72	3.82	3.76	13.59	11.25	4.29	3.5	2.86	5	5
Services	3.03	4.16	4.69	7.61	10.08	5.34	7.17	7.53	11.9	15	2.48	2.79	3.78	3.71	5
Food & beverages	2.79	3.34	4.03	5.24	8.82	4.69	6.76	10.59	13.47	13.58	3.96	2.99	3.68	3.69	4.49
Basic Industrials	2.36	4.92	5.02	7.2	9.2	5.24	7.01	10.91	10.67	14.04	3.17	2.86	2.08	3.72	4.91
General Industrials	2.24	2.26	2.48	7.36	7.82	4.74	3.19	8.02	13.41	13.89	2.82	2.84	2.47	4.33	4.62
Media	1.25	1.28	4.79	6.11	5.53	5	4.86	9.82	12.15	10.03	2.56	2.08	3.25	5	4.32
Transport	1.14	6.45	2.69	7.63	9.26	4.29	10.5	9	15	15	1.71	3.13	2.13	4.49	5

Source: Empowerdex 2011

The table above represents the performance of SD (Skills development), ED (Enterprise Development) and SED (Socio Economic Development) in different sectors. The table above shows that when it comes to skills development, the services sector is doing remarkably well. This is attributed to companies making sure that people who work for them are properly skilled and qualified, especially when communicating or providing services to customers or clients e.g. Kelly Group.

It is encouraging to know that the resources sector contributed an average score of 5.21 points when the target score for the socio-economic development element is only 5. This shows that companies within the resources sector “give back” to society, within which they operate and benefit from, while building brand loyalty e.g. Optimum Coal Holdings.

Enterprise Development (ED) is one of the seven elements contained within the BEE scorecard. It counts 15 points towards the scorecard and has a strong link with procurement. The financial sector is doing incredibly well with an increase from 14.1 points in 2010 to 14.91 in 2011. Enterprise Development Contributions consists of monetary and non-monetary contributions initiated in support of a beneficiary entity by a measured entity with the specific objective of assisting or accelerating the development, sustainability and ultimate financial independence of the beneficiary.

Conclusion

There is a tendency in companies to select easily achievable elements or those that will benefit them more when compared to others. This is clearly hindering the progress of other elements and transformation at large. Each element has a weighting indicating its relative importance to the overall cause of transformation, so in order to facilitate the economic empowerment of all black people, including women workers, youth, people with disabilities and people living in rural areas, all these elements must be supported accordingly and effectively. It's also important to give credit to those companies that are making progress in various areas.

References

www.empowerdex.co.za (Empowerdex Trailblazers 2010 and Top Empowerment Companies survey TEC for 2007 to 2011).