Black Economic Empowerment Best Practice

By

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1 Introducing empowerment

Introduction

Empowerment in South Africa is an evolving process. The rules are being written by and through our actions, making it difficult to define “best practice”. There are no right or wrong approaches; the best approach is often dependent on the context of the company. Empowerment is also badly labelled and poorly understood. It is complex and its success is dependent on many interdependent factors. To add to this, organisations are often confused as to what they are trying to achieve.

With this disclaimer on the table, this document will attempt to demystify Broad-Based Black Economic Empowerment (BB-BEE) and explore best practice approaches to measuring and improving a company’s empowerment credentials. It will try to help the reader understand and implement transformation in a sustainable manner in the organisation.

Empowerment defined

If we painted everyone purple in this country, we would still have the need for economic empowerment, as South Africa still has a huge gap between those who “have” and those who “have not” (called the GINI co-efficient). In our country, we have amongst the worst such gap in the world. In a normal free-market economy, the rich get richer and the poor get poorer, so some form of market intervention is needed to stabilise our economy. BB-BEE is this intervention and it is our best bet for the future stability of our country.
Empowerment has been defined by the government as “an integrated and coherent socioeconomic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people who manage, own and control the country’s economy, as well as significant decreases in income inequalities”. ¹

This definition holds a redistributive component, as well as a growth component, both of which are inextricably linked. The point many people miss is that empowerment must grow a business. There is a simple rationale for this: about 30% of our economically-active population is unemployed (depending on which definition of unemployment we use).

This unemployment can only be addressed in a growth environment, because growth requires more capacity in the form of ‘hands and feet’ to deliver goods and services to the client. If a company is growing and increasing its capacity, it is easier to hire accordingly (ensuring that the capacity is representative). The strategy document released by the Department of Trade and Industry (dti) reinforces this issue: “An effective and successful process of BEE and accelerated economic growth are mutually reinforcing objectives. The absence of shared economic growth will continue to generate a lower rate of growth as it will continue to restrict levels of demand in the economy.” (2003, 131) Consequently, empowerment is not about a redistribution of the existing “pie” (as this does not stabilise the economy), but rather about increasing the “pie” through demand-led growth.

Think about it! 

Transformation is more sustainable in a growth environment as it does not require you to move over and make space for someone else; rather, the growth requires extra capacity, which will be
A Common View

This is not simply my view: here is a quote from our president in the State of the Nation address (2003) that re-enforces this message:

“The government will lay greatest stress on black economic empowerment that is associated with growth, development and enterprise development and not merely redistribution of existing wealth.”

Simply put, we are trying to build a sustainable country in which all our children can have access to resources and infrastructure to help them become the best that they can be, in other words, a “bigger pie” for all. After all – is that not why we all strive for?

Transformation and time

Given this view of empowerment, many executives remark that this sounds like business as usual, because changing a business to bring it into alignment with its environment is just part of being in business. The fundamental issue in terms of empowerment is the time in which we are trying to achieve this in. We are attempting to compress natural processes into an inordinately short time span.

A Zimbabwean possibility?

So is there a Zimbabwean possibility in our future?

That depends on our actions, but in simple terms there is a race on for the future of our country, for the sake of our children. In some ways, it is like the old fable of the tortoise and the hare. South Africa doesn’t have the luxury of “hare-like” growth, as we have many significant restraints (for example, the skills shortage in our country). Consequently, the growth will not progress like the hare.

However, we also do not have the luxury of consistent slow growth (like the tortoise); because of the time constraint we have in terms of
people’s patience. We are in the middle of a tension that can threaten to tear our country apart, as the “have-nots” are getting increasingly impatient with the lack of progress.

Since 1994, we have not improved the lot of the poor significantly. The Transformation Report of 2004 shows more people were in poverty (in real terms) in 2004, than the number in 1994! So the tortoise is also not an option! Clearly, we need “all hands on deck” to create growth (and hence jobs), at a rate that is somewhere between the tortoise and the hare.

Who qualifies for BEE?

The beneficiaries of BEE are “black people”. “Black people”, according to the BEE bill, are “Africans, Coloureds and Indians” who are South African citizens, or became South African citizens prior to the enactment of the constitution (Constitution Act of 1993).

So, in simple terms, that means all Non-White South Africans.

Transformation and growth?

Most people see the process of empowering an enterprise as coming at a cost and impeding the performance of the business. This view can be summed up in the diagram below: as the transformation gear turns, performance moves in the opposite direction while the costs of doing business move up:
In this view, transformation tends to decrease performance, leading to slower or negative growth, making transformation more difficult to sustain. If transformation is viewed as just another cost of doing business in South Africa, it will happen as slowly as possible (just another hoop to for business to jump through).

If it is a cost, it slows down the growth. If it slows down the growth, the organisation cannot hire more people, and we have just “thrown the baby out with the bathwater”.

However, it does not have to be only a ticket to the game: it can be a ticket to an emerging growth market. Even if it is a ticket to the game, the price cannot be so high that companies cannot afford to play the game anymore!

*The big question is:*

**HOW CAN TRANSFORMATION BE USED TO ENABLE PERFORMANCE IN A BUSINESS?**

Broad-Based empowerment in South Africa has gone through many stages of development over the past decade, and is still in a relatively high rate of flux. The consequence of this is that executives are inundated with a barrage of differing information from different sources, and many have formed opinions on empowerment that reflect the nature of empowerment from a year or two ago. The nature of empowerment has undergone such change that it is necessary to sort these perceptions into some sort of timeline to get a better sense of empowerment, as it should be understood at this moment in time.
Empowerment in South Africa 2003 to 2006:

The current BEE Act, the first Codes, and the BEE strategy document (all released in 2003), are the cornerstones of the government’s strategy to give feet to broad-based empowerment by 2015. This legislation has direct bearing on the current BEE requirements for all businesses, and as a consequence, needs to be studied in some detail. Essentially the government has created a well-expressed structure, to react to evolving issues in transformation. This is depicted in figure 1.2 below:

Figure 1-2: The BEE Act
The BEE act empowers the Minister of Trade and Industry to gazette sectoral Charters, which are developed by the private sector, on an industry by industry basis. This allows each industry to explore in what way that industry can contribute to transformation, given the constraints and contexts of that industry. This not only allows some space for the private sector to drive the process, but the act also empowers the minister to issue Codes of Good Practice, that will form the basis of criteria for the granting of licenses and other authorizations. These Codes are intended to be able to react to the changing needs of the transformation process, and also be able to vary the pressure on the private sector, depending on the progress and needs at that moment in time. In basic terms, this means that the private sector has not only been given the space and the measuring framework to effect transformation, but the legal means to increase the pressure, if the private sector is not delivering.

(For more information, see a copy of the BEE bill in the “Integrator Toolkit”, under the “Legislation” folder.)

The First Code of Good practice (supported by a descriptive strategy document)

This Code has been offered to the public for review, and was offered in its finalised form in December 2006. It serves two purposes:

1. The Code should be used to guide the thinking in the processes of empowerment, including the development of sectoral transformation charters, the establishment of Rating agencies, and serves to guide all organs of state in awarding licenses, tenders and other authorisations.

2. It serves to define the balanced scorecard dimensions and weightings a company should use, in the development of an empowerment scorecard.
An Empowerment Chronology (Cont.)

This Code would apply directly to companies where the industry is not currently (precisely) defined by a charter in its finalised and recognised form. This is true of everyone, with the exception of Mines and Petrochemical companies, as of January 2007. Because sector charters need to fit within the playing field defined by the Codes of Good Practice, the Codes need to be finalised. Companies that are under an industry charter must bear in mind that the charter should have taken the Code definitions into account during its evolution, and should reflect much of the requirements of the Codes.

Empowerment in South Africa 2007: What it means today

The Code describe seven key dimensions of transformation, as depicted in fig. 1.3 below:

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Company ownership
Management & control
Employment equity
Skills development
Preferential procurement
Enterprise development
Socio-economic development
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Figure 1-3: The Key Transformation Dimensions

The bottom of the pyramid has the broadest base impact on the environment of business, laying the foundation for effective interventions into the supply chain (called indirect empowerment). This leads to initiatives that impact employees, and lastly ownership initiatives that in many cases impact only on a few (this may change
under employee share options).

The seven key transformation dimensions, described in Fig 1.3 above, can be explained as follows:

**Equity ownership:**
Direct empowerment focuses on the percentage share of economic benefits.

**Management Control:**
The right, or the ability, to direct or otherwise control the majority of the votes attached to the shareholder’s issued shares.

The right or ability, to appoint or remove directors holding a majority of voting rights at meetings of the board of directors of that shareholder, measured as a percentage of black persons in executive management.

**Skills development:**
Focuses on the development of the employees of an enterprise, and is measured as the Rand spent as a percentage of payroll on Skills development.

**Employment equity:**
Bringing about an equitable representation of black persons in all occupations and at all levels of the organisation, over a period of time, and is measured through a weighted employment equity analysis.

**Preferential procurement:**
Procurement from black-owned and -empowered enterprises, as a proportion of total procurement.

**Enterprise development:**
Enterprise development is the development of the capacity of black companies and is measured as a percentage of after-tax profit, invested annually into enterprises that are BEE compliant.
An Empowerment Chronology (Cont.)

Socio-economic development:
This dimension has the flexibility to take into account the specifics of most industries, but is normally interpreted as Corporate Social Investment. It is generally measured as a percentage of after-tax profit spent annually on non-employees in various initiatives that promote access to the economy, for example: housing; health; and bursaries.

The transformation triangle (depicted on page 9) is a view of the relationships between the transformation dimensions, and is weighted out of 100%, with targets for each area. For example: Skills Development is weighted at 15%, and has a target of 3% of payroll. Any organisation that did Skills Development to this required level would get the full 15%. The total percentage score across all pillars of empowerment is what is known as the company’s broad-based empowerment score, and it is this score that clients will require in future. A company’s broad-based empowerment score is grouped into levels, as detailed below:

<table>
<thead>
<tr>
<th>Contribution Level</th>
<th>% Points on Generic Scorecard</th>
<th>Procurement Recognition R 1-00 spent =</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1 Contributor</td>
<td>greater than 100 points</td>
<td>R1-35</td>
</tr>
<tr>
<td>Level 2 Contributor</td>
<td>from 85 to 100 points</td>
<td>R1-25</td>
</tr>
<tr>
<td>Level 3 Contributor</td>
<td>from 75 to 85 points</td>
<td>R1-10</td>
</tr>
<tr>
<td>Level 4 Contributor</td>
<td>from 65 to 75 points</td>
<td>R1-00</td>
</tr>
<tr>
<td>Level 5 Contributor</td>
<td>from 55 to 65 points</td>
<td>80 c</td>
</tr>
<tr>
<td>Level 6 Contributor</td>
<td>from 45 to 55 points</td>
<td>60 c</td>
</tr>
<tr>
<td>Level 7 Contributor</td>
<td>from 40 to 45 points</td>
<td>50 c</td>
</tr>
<tr>
<td>Level 8 Contributor</td>
<td>from 30 to 40 points</td>
<td>10 c</td>
</tr>
</tbody>
</table>
If the detail of these definitions is somewhat confusing at present, it will be clarified in a later chapter. Each dimension will be explained fully as we develop a businesses’ full BEE scorecard.

Empowerment in South Africa in 2007: What it means today for small business

Companies that have a turnover of less than R 30 million per annum, but greater than R 5 million per annum, are able to select four of the six aspects of empowerment, with each area being weighted by 25%. The definitions and targets in these areas are different.

Businesses with less than R 5 million turnover per annum are considered fully empowered (irrespective of ownership), and do not need to complete an empowerment scorecard. They are called Exempted Micro Enterprises (EME’s) and only need a letter from their auditor confirming their turnover and EME status.
2 Empowerment process – the steps to follow

**BEE Process**

You need to review your company strategy so that it uses empowerment to grow the business. The following process should be considered to bring transformation into your strategy:

**Best Practice**

Transformation activities need to be wholeheartedly incorporated into the normal implementation cycles of the business by your employees, who need an understanding of BEE and support its implementation in 30-day action cycles as described in the diagram below:
Step 1: Current state
You would need to develop a current state (year to date) scorecard using the Integrator current state inputs tabs and the help function if needed (see CD 1 provided). The Integrator scorecard tool helps you to measure your empowerment position against the governments Codes of good practice on empowerment. The electronic tool takes various inputs that influence your current BEE position and translate them through a calculation process using the measures described, into a scoring against the national targets for that measure. For example socio economic enterprise development is measured as a Rand contributions divided against a target of 3% of net profit after tax. You should take the time at this point to build a rough view of your current state using the software provided, in order to establish your strong and weak points.

Step 2: BEE plan
The BEE plan and its supporting actions are at the heart of what needs to be implemented in the business. This implementation should be managed through a formally appointed transformation team which in most cases is just the exco, and reported on over the same period as the other management issues in the business. The next section describes best practice in building a BEE strategy, which should involve at the outset a brainstorming with the BEE team on sustainable strategic responses to the best practice options described below.

Step 3: Future state scorecard
The outcomes of the strategy process develops a future state scorecard would should also be captured using the future state inputs tabs in Integrator, and the help function if needed.

To convert your current state into a future state add-up the effect of each of the approved actions on the scorecard in future state. Use those aggregates to establish whether the activities listed are enough to ensure you are on track
to reach the target you set yourself. By doing this you are not blindly working towards some target in the distance but formulating actions to ensure you can reach the targets you have set yourself.

**Step 4: Involving your employees**

The need to involve your employees is obvious as they are the hands and feet to your strategy as they are responsible for the implementation. They are probably horribly misinformed on BEE and hence it is important that you have a clear program to help inform them or they will block the implementation process.

**Step 5: reviewing the process**

It is important to work into your monthly management reviews a discussion on empowerment to see how well the implementation of the ideas is progressing and take the corrective action if the required progress is not identified.

**Step 6: Building communication collateral**

The marketplace is interested in your empowerment position as for your customers it directly effects their empowerment position through preferential procurement. Hence it is important to build a qualitative description of your BEE strategy to support your current state and future state BEE scorecard.

A template is included in Integrator under the templates tab for this purpose.
3 Building a BEE Strategy

A BEE Plan:

Before you look at the dimensions of transformation it is worthwhile asking your organisation:

Given the nature of your business (its people, products, partners, philosophy etc), “what can you do that will enable transformation, taking your uniqueness into account?” For example, a business school could significantly enable black entrepreneurs by offering them free courses. An advertising company could help AIDS homes by developing adverts for them – giving from who you are.

List the possible ideas that flow from this question.

3 Strategy Best Practice: Social Investment

Best practice in social investment rests on the following dimensions:

3.1 Involving the full organisation

Good quality social investment is not about writing a cheque, it’s about ensuring that the stakeholders in the environment of the business are developed using all the resources of the organisation. This helps the people in your organisation understand better the environment in which you operate as well as your emergent customer base. Social investment can be a powerful force to get your employees together and give of themselves. They will get to know each other and understand the emerging environment of business better.

3.2 Courting your future clients

It is good practice to invest in social initiatives that build your future clientele, such as initiatives that expose your brand to the marketplace.
These will grow and enable your target market.

Investing, in this instance, means selling through your social investment initiatives within reason. An example: a computer hardware retailer used the redundant computer parts donated by clients to build functioning computers. Some were donated to schools (making a social investment) and to some to emerging businesses in Soweto (an enterprise development investment), and supported by the hardware retailer at cost. The net effect was that many of the beneficiaries of the investment became very loyal to the retail brand; some since become significant customers of their benefactor. Other examples are client training, product donations to build brand loyalty etc)

3.3 Collaboration and partnerships (courting your supply chain)

On their own, most medium-sized business are not going to have a large impact. Many initiatives are crying for the resources of your organisation. Put your ear to the ground and find out what's already working well in your business environment. Use organisations that specialise in social investment – don't reinvent the wheel.

Your suppliers and clients are also looking at social investment initiatives. Developing something collaboratively will strengthen your relationships with them, bolstering the entire supply chain.

3.4 Adding strategic value

The purpose of developing a value-based view of your strategy was to ensure alignment to the value drivers of the business. How can you approach social investment so that it drives up the value for the client?
An example: A business school decided one of its key drivers was “the real tools”. It recognised that the reality for its MBA students was not in the classroom. Its social investment required its MBA students to work with unemployed people. They had to start a business with them, train them up and leave a self-standing business in their wake. This initiative was part of the course work. The initiative makes good business sense and is a key differentiating feature for the school. It reframes its strategy and helps the MBA students understand South Africa’s dynamics.

3.5 Give from who you are

Give more than money – use resources, talent, products and processes in your business effectively and encourage involvement of all the resources of your business. The business school in the example described above can also act as a training ground for these newly minted entrepreneurs – giving from who they are.

Some examples:
- An advertising company could help AIDS homes by developing adverts for them;
- A building company could help maintain the homes’ buildings;
- A courier company could offer to courier AIDS home residents’ parcels at no charge.

4 Strategy Best Practice: Enterprise development

A large number (estimated over 70%) of businesses in South Africa do not survive their first five years. The enterprise development dimension of empowerment is intended to encourage existing businesses to mentor and support emerging empowered businesses so that they have a better chance of surviving. An empowered enterprise that qualifies for enterprise development
is a business that has a greater than 50% black ownership and a level 8 broad-based empowerment score (which is greater than 30%). Alternatively the company could have 25% black ownership and a broad-based empowerment score of more than 45% (level 6) and also qualify for enterprise development.

You can take shareholding in the business you are mentoring, so this area can make a lot of business sense. Here are the best practice approaches to enterprise development:

4.1 Supplier development

The idea is to encourage companies to invest in supplier development initiatives. These will ultimately enable your supply chain and, if tackled correctly, can ensure the supply chain communicates correctly to deliver efficiently and cost effectively. And the more you spend with strongly empowered suppliers, the better your preferential procurement score.

4.2 Outsourcing non-core activities

Establish what is core and non-core to your business, and explore what can be outsourced as an enterprise development initiative. One company spun off its consumables division, setting up former employees in a separate business. This led to an overall cost reduction as this aspect of the business was a distraction, but something the business and its clients did want. Owner-driver schemes, security, cleaning and so on are key candidates for enterprise development initiatives.

4.3 Building related value offerings (joint ventures)

Often clients require a portfolio of offerings that your business is unable
to offer in its entirety. Through stronger relationships with companies that have related value offerings, you can bolster your overall value proposition to the client.

4.4 Courting future owners

The interesting aspect to enterprise development is that it can be very useful as a courtship mechanism for future owners. Rather than diving quickly into a change in your ownership, perhaps consider the partners as an enterprise development initiative, see how the relationship develops and, if all is progressing well, move into a merger or acquisition.

5 Strategy Best Practice: Preferential procurement

 Preferential or affirmative procurement is the sourcing of goods and services from a target category of society with a view to equalising market accessibility for them in order to ensure that they will not forever be excluded from playing a meaningful role in the economic mainstream. It is intended to increase the volume of purchases from the targeted category of society, and the development and utilisation of these enterprises. This does not necessarily mean moving your spending from white suppliers to black suppliers, but maintaining a conversation to encourage your suppliers to change in a sustainable and meaningful manner with you.

5.1 Strategic preferential procurement

You have should have used the preferential procurement sheet to develop a current state view of your key suppliers’ empowerment position (80% of your discretionary spending). This view is reported at executive level for strategic analysis. This group should look at the top three to five suppliers and engage them about how earnest they are in
their transformation efforts. Is a conversation between the CEOs of the companies necessary? Are there alternative sources of supply with the same cost and quality? What is outsourced that could be insourced, and what is done in-house that could be outsourced? A preferential procurement policy (a template can be found in the “Fastfind” tab) should be developed, instructing the behaviour of the purchasing department. The intent is to change the purchasing behaviour, not just collect the outcomes of the purchasing behaviour.

5.2 Managing the supplier list
The sheets that summarise the outcomes of your data input are labelled “empowered suppliers and “non-empowered suppliers”. These should be used to build sets that help your buyers understand how they are to make purchasing decisions.

These sets are built as follows:

**Empowered suppliers**
You need to understand the level at which empowered suppliers are empowered. What is the level of black ownership, what is your percentage spending with them and what is their anticipated scorecard for next year? These sets should already be completed but you need to complete the column that shows whether their credentials are audited. You also need to help them prepare for audit if they have not done so, and categorise their relative importance to other suppliers of the same product on the basis of their empowerment credentials.

**Non-empowered suppliers:**
White suppliers who intend to transform should be monitored and held accountable for their targets; white suppliers with no intent may need to be replaced by suppliers who have the necessary credentials. This involves selecting from the drop-down menu on the spreadsheet the options of “support” or “find alternative”.

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6 Strategy Best Practice: Skills development and Employment equity

Attracting, developing and retaining talent

Attracting and retaining talent is a key issue for many organisations. If this is an issue in your business, you need to explore employment equity, skills development and in-service training.

6.1 Attracting talent: In-service training programmes

Courting talent involves building a talent pipeline that often extends far beyond the potential current candidates. The use of social investment as a courtship process has already been explained, but it is worthwhile remembering that if talent is a key factor for your organisation, the company should explore relationships with all the institutions along the talent pipeline.

Strong relationships with schools, universities or any learning environment that could be involved in developing talent, are useful courtship mechanisms. These relationships can produce candidates who could be considered for in-service training programmes, taking a step closer to employment in your business. The list below describes recognised in-service training programmes.
<table>
<thead>
<tr>
<th>Types of in-service programmes</th>
<th>Delivery Mode</th>
<th>Learning Site</th>
<th>Learning Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognised or registered structured experiential learning in the workplace that is required after the achievement of a formal qualification – assessed by a statutory body</td>
<td>Structured learning in the workplace with mentoring or coaching</td>
<td>Workplace</td>
<td>Occupational or professional knowledge and experience formally recognised through registration or licensing</td>
</tr>
<tr>
<td>Occupationally-directed instructional and work-based learning programme that requires a formal contract – formally assessed by an accredited body</td>
<td>Institutional instruction together with structured, supervised experiential workplace learning</td>
<td>Institution and workplace</td>
<td>Theoretical knowledge and workplace learning, resulting in the achievement of a South African Qualifications Authority registered qualification.</td>
</tr>
<tr>
<td>SETA approved learnerships.</td>
<td>External training and structured, supervised workplace learning</td>
<td>Institution and workplace</td>
<td></td>
</tr>
</tbody>
</table>

Best practice around in-service training involves three aspects:

- Hiring the right candidates – be as selective in the recruiting of learners as you would in the hiring of any other staff as if you are hoping they will become staff at the end of the year.

- Mentoring – set up the right management support structure to give the learners the best opportunity to succeed. Your learners are not just cheap labour.
• Training – commit up front to providing the necessary tools to ensure learners are fully equipped. This can range from life skills training to helping them obtain drivers’ licences. Often this requires more work than is anticipated.

6.2 Retaining talent: skills development

Holding onto talent involves a number of factors — giving your staff the tools to do the job, motivating them and holding them accountable to use the tools, creating a climate that is supportive, mentoring, and suitable systems to reward performance are some examples. It is important to recognise that you cannot empower a company; the unit of empowerment has to be the person.

It is worth noting that a significant portion of the 1% skills development levy can be claimed back just by completing and submitting a workplace skills plan. Independent of this, the fabric of good interpersonal relationships are built on people in your business seeing needs in each other and helping each other to meet those needs. The workplace skills plan is just a formal record of the interactions that can be complemented with resources such as personal development plans and other human resources best practice.

Retaining talent: building a healthy climate

White businesses often recruit black staff without any consideration of the environment into which those employees are being recruited. We spend most of our lives at work, and if the climate is subconsciously biased to a particular culture, other cultures are unlikely to feel at home. The way black economic empowerment has traditionally been approached has exacerbated the situation, as many white employees feel it places them under a glass ceiling, and there is often palpable fear among white staff. Black aspirations abound, and the limited pool
of highly qualified black resources creates an imbalanced situation. This polarising tendency can be countered only with open honest conversation, injecting information to counter any ignorant conversations in the business.

6.3 Developing talent: employment equity

This pillar of transformation follows organically from working on your talent pipeline. When coupled with a careful affirmative action policy and the correct attraction and retention mechanisms, a company’s employment equity position will steadily correct itself. A company with more than 50 employees is required to submit an employment equity plan to the Department of Labour. (http://www.labour.gov.za/) This is not difficult if you have projected the impact of the talent and retention factors we have discussed. Module 5 assists in undertaking this submission.

6.4 Disabilities

Note that employees with disabilities can count as much as a whopping 11% on your empowerment scorecard. The response is that companies should surface all people who do qualify as disabled based on the definition in the employment equity act.

People are considered as persons with disabilities who satisfy all the criteria in the definition:

- having a physical or mental impairment; (clinically diagnosable) which is long term or recurring; (greater than 12 months) which substantially limits their prospects of entry into, or advancement in employment.

Once all people in the business that fall into this definition have been identified there is potential to recruit for disabilities through learnerships for certain positions. You can get a tax rebate of R 100 000 per disabled learner to support the business.
7 Strategy Best Practice: BEE Ownership

The issue of BEE ownership in a business is most often equated with empowerment because of the way empowerment was originally approached. Five broad strategies can be used to address the ownership issue in your business:

1. Warehousing of shareholding in benefit schemes.
2. Selling off non-core assets to an empowered company.
3. Bringing in a black economic empowerment group: sell a shareholding to a group of black people or empowered businesses.
4. Including employees in ownership: your best empowerment partner might be your own staff. Developing your employment equity profile is an important precursor, as all your staff should be extended the opportunity of ownership, not just your black staff.
5. Carving out direct shareholdings: find individuals who understand your industry or are in a position to develop the understanding of our business quickly and begin to add value at a senior level through intrinsic involvement in your business.

Any of these options can make sense for your business, depending on its needs and the timeframe you are looking at.

Combinations of these options are also possible in order to harvest the advantages that exist in all four.

Next we look at a summary of best practice in these areas.

7.1 Warehousing shareholdings

Many options exist to acquire black shareholding without direct
involvement through benefit schemes that represent the interests of a broad base of black participants. These benefit schemes acquire holdings (often at discounted rates) with a view to sharing in the dividends of the enterprise for a limited period to allow time for your organic ownership strategy to mature.

7.2 Sale of assets

Statement 010 of the codes of good practice allows for the sale of assets to viable empowered businesses to qualify for ownership.

7.3 A BEE group (or outside BEE partner)

This option is complex and difficult to execute and should be considered only where the partner has a clear strategic contribution to make. Mergers and acquisitions (which can be included into this category) are notorious for their failure rate. If this is an option your business wishes to explore, study (Code Statement 102) in disc 1 carefully.

7.4 Direct shareholding

Here you need to develop key staff to the stage that they are in a position to become significant direct shareholders as individuals. The same principles that applied to selecting an empowerment partner apply to this category, with the obvious exception that you already have gone through the natural processes of developing and testing the arrangement in the course of normal business.

7.5 Employee ownership

Evidence from the US and the UK is that democratic employee-owned firms, with all employees owning 20% to 100% of the company, outperform comparable conventional firms by considerable margins.
Moreover, their shares that are still traded sell for large premiums. On average, they increase their capital, market share and employment each year 3% to 7% faster than their competitors. Because they pay dividends inside the family of the firm, their benefit plans are two to three times better and more diverse — and little money travels out of the company. Employee-owned firms are about 40% more stable than other companies.

In democratic employee-owned firms, all employees vote their common ownership through an employee ownership trust in which employee owners enjoy equal voting rights. This move separates the firm as a command organisation from the democratic or co-operative mode of the trust. Benefit flows match each employee’s contribution, which is best measured by salary.

The democratic or co-operative model sets up a powerful participation forum, opening up another form of communication apart from the limited, mainly hierarchical, possibilities within the firm. It exposes employees to the information rights and practice of ownership. This adds longer-term considerations to short-term wage and share option interests, reducing the former and eliminating the need for the latter.

The obvious question that we as South Africans have to answer is: “What’s wrong with our employees who understand our business and have sweated with us to create it?” They need to be considered as key candidates toward black ownership.
Implementation

The big ideas and the supporting actions that evolve, should be captured on an action list (see template in the FastFind tab in the Integrator software). This list should be short, focused on a few right things implemented well rather than a host of wrong things. This activity needs to be incorporated into the normal implementation cycles of the business with the hands and feet, hearts and minds of your employees needing an understanding of BEE, and supporting the implementation in 30-day action cycles.

This action list acts as the basis for improving your empowerment credentials.

Developing communication collateral

Step 1: Print out your current state scorecard.

Step 2: Print out your future state scorecard.

Step 3: Use the qualitative transformation strategy template (under the “Fastfind” tab) to capture and explain these actions.

The current state and future state should be added to this template, which collectively represents your BEE credentials. These can be passed on to clients instead of completing the questionnaires they want you to fill in.

It would be poor business sense to go to all this trouble and not
use your empowerment initiatives to market and sell. Advise your major customers of your most recent empowerment position and credentials so that they can update their position. Develop an understanding in your sales teams of transformation so that they can talk of your position with their clients. If your industry does not have a charter, use your transformation understanding to play a role in developing a charter for your sector rather than leave it to other people who might not be as informed. Communicate this to your employees and celebrate your contribution to South Africa’s growth.

Preparing for a rating of your scorecard

It might, as your empowerment credentials improve, be worth your while to invest in having a rating agency accredit your position. While this might bring to light inaccuracies in your methodology, you will acquire a certificate of accreditation that independently verifies your empowerment position. This can be used in tender documentation.

Be aware that the scorecard is a snapshot of your business at a single point in time. While you should be able to provide supporting evidence of your empowerment position at any point in time, the rating agencies work only with the evidence accumulated over a full audited financial year.

To ensure that you have all the supporting documents an agency might require, start a BEE file with divisions for all the pillars of transformation. You will be required to provide supporting evidence of all the information described in the rating preparation tab.

Collect your supporting evidence as it occurs, rather than after the fact.
The rating information pack details the type of information you should be collecting. Organise the access to the underlying information in such a way that you can update your position without too much effort. Dividers are provided in the template to help you with this. This rating process occurs in the same way as your financial accounts are audited, so all the logical supporting evidence of a stated position needs to be assembled as described in the verification supporting evidence tab in the Integrator software.
9 Summary

In order to implement a sustainable value adding transformation strategy you should have the following aspects in place:

1. You should develop an “Current state” picture of your business which involves both developing a first draught BEE scorecard and a “value drivers” view of your BEE strategy.

2. You should use this view of your business to build actions that contribute both to the growth of your business and contribute to the transformation of your business.

3. You should engage in communication with your employees to: inform them of what your transformation is about, to establish what actions they can take to contribute to transformation, and most importantly to understand what you can do to help them to be the best they can be (empower them).

4. You should sort the actions, develop a process for the approval of the actions, ensure the actions are integrated into the key performance areas of your employees, and are reviewed in a 30-day cycle.

5. You should support the transformation process with the right change management processes.

6. You should ensure that due attention is given to the cultural dimensions of this change process.
7. You should understand the **BEE legislation, codes of good practice or relevant charter** and be tracking the changes in BEE as they evolve in the environment of business.

8. You should maintain a **dynamic document** recording all your transformation actions, strategy, transformational scorecard, data, etc. with a covering executive summary drawing all the transformation actions together.

9. You should **communicate** your transformation efforts to the marketplace and particularly all the stakeholders in your business (such as your clients).

10. Don’t allow the scorecard and its targets to overshadow your strategy and action items. Your **strategy drives the transformation of your business** and not your scorecard.

My closing advice on transformation would be:

1. Simplify everything – what actions add the most value?
2. Focus on the basics and get your employees understanding right.
3. Do a few right things rather than lots of wrong ones – we need to do it correctly NOW.
4. Craft and conduct a creative ongoing conversation with your people.
5. Tread carefully and honestly – these emotions are close to the surface.

South Africa is at a moment of truth and we need to have every South African engaged and clear on how they are contributing to a transformed stable country which can be a great heritage for our children.