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BEE in the Know



Grant Thornton Study: B-BBEE Amended Codes mean higher costs for SA business

BY JENNI LAWRENCE: MANAGING DIRECTOR: VERIFICATION SERVICES, GRANT THORNTON

Grant Thornton's latest International Business Report (IBR) research* shows that the B-BBEE Amended Codes of Good Practice have resulted in increased costs for almost two thirds (65%) of South African businesses.

More than three quarters (76%) of those reporting increased costs have had to employ outside consultants, 44% appointed an in-house B-BBEE team and 41% enlisted specialist service providers to assist with procurement as well as enterprise development requirements.

Our report also shows that 61% of businesses have been motivated by the B-BBEE Amended Codes of Good Practice to work with new, additional or alternative SME businesses to improve their ratings in the category of Enterprise Development.

In addition, more than half (55%) of local companies reported that the B-BBEE Amended Codes of Good Practice have affected their business in terms of tendering or proposing for new business with private or government related entities, while 38% said there was no change.

Very similar results were obtained when companies were asked if the B-BBEE Amended Codes of Good Practice had resulted in their company changing some suppliers to improve their overall BEE score – i.e. to buy from 51% and over black-owned suppliers. 55% said yes, while 39% said no.

So the findings reveal no great surprises. But what do the new codes actually mean, and how should you be positioning your business to keep costs to a minimum while ensuring compliance?

The tougher scorecard will result in many companies dropping three or four levels and in some cases, becoming non-compliant under the amended codes.

This will reduce the points allocated for BEE status when scoring for a tender.

However, smaller companies with a turnover of under R10million, and particularly those with at least 51% black ownership, will now automatically comply with a higher BEE status.



Empowering Suppliers

The introduction of the Empowering Supplier measurement is a significant challenge for larger companies, particularly those in manufacturing that import a large percentage of their components or inputs. For companies unable to meet the Empowering Supplier requirements, BEE certificates will not be counted towards their customers' BEE scores and they will therefore, in essence, be seen to be non-compliant.

What exactly is an Empowering Supplier?

An Empowering Supplier is a B-BBEE-compliant entity, that is a good citizen South African Entity, complying with all the regulatory requirements of the country. These include employment equity reporting, tax compliance, skills development levy compliance and possibly others, still to be confirmed by the dti.

An Empowering Supplier should meet at least three of the following criteria if it is a large enterprise (with a turnover exceeding R50 million), or one of them for Qualifying Small Enterprises (QSEs) (with a turnover between R10 million and R50 million):

- at least 25% of cost of sales, excluding labour cost and depreciation, must be procured from local producers or suppliers in South Africa; for the service industry labour costs are included, but capped to 15%;
- job creation – 50% of jobs created are for black people, provided that the number of black employees since the immediate prior verified B-BBEE measurement is maintained;

- at least 25% transformation of raw material/beneficiation, which includes local manufacturing, production and/or assembly, and/or packaging;
- skills transfer – spend at least 12 days per annum of productivity deployed in assisting black Exempt Micro Enterprise (EME) and QSE beneficiaries to increase their operations or financial capacity; and
- a fifth criterion was gazetted on 6 May 2015, as follows: “Amended Code Series 400, paragraph 3.3 is hereby amended by the additional criteria that reads as follows: at least 85% of labour costs should be paid to South African employees by service industry entities”.

Exempt Micro Enterprises (EMEs) and start-ups are automatically recognised as Empowering Suppliers.

Procurement

It comes as no surprise that 55% of companies have changed some of their suppliers to improve their overall BEE score.


The focus of the procurement scorecard has altered significantly towards purchasing from black-owned suppliers. Under the “old” codes, BEE spend was measured out of 20 points, with three of those coming from spend with companies that were 50% black-owned and two points from at least 30% black-owned suppliers.

Under the amended codes, BEE spend is measured out of 25 points, with nine being allocated towards companies that are at least 51% black-owned and four points for suppliers with at least 30% black women ownership, an increase of emphasis of 27%.

It has become crucial for businesses to get this right, particularly as procurement is now a newly-designated “priority element” which requires a 40% sub-minimum achievement to avoid a level drop.

Changing supplier base is not an overnight process, especially for companies that are part of a larger group. In certain industries, suppliers and components are mandated by multinational parent companies. Imported mandated items add additional complexity to procurement. The old codes allowed for the exclusion of most imports from the procurement target but this has been tightened up in the amended codes. To exclude items that could potentially be manufactured locally, companies are now required to create a localisation plan to show how they will produce these items locally going forward.

Proactive companies are taking a good look at their supplier bases and changing to black-owned suppliers for non-core items to create quick wins. Stationery, security and cleaning companies are currently the big winners here.



Enterprise Development

61% of businesses reported that the B-BBEE Amended Codes of Good Practice motivated them to work with new, additional or alternative SME businesses in order to improve their ratings in the category of Enterprise Development.

Contributions towards Enterprise development, and the new sub-element, Supplier Development, make up 15 out of the 109 points on the new scorecard. These two sub-elements fall under the old Preferential Procurement element, which has been re-named "Enterprise and Supplier Development."

An Enterprise Development or Supplier Development beneficiary is one that has at least 51% black ownership and a turnover of under R50million.

To score points for these elements, businesses are required to make contributions to qualifying beneficiaries in the form of grants, loans, discounts or time, for example, to enable them to become financially and/or operationally sustainable.

The challenge in this area is finding or creating these beneficiary suppliers and growing them, with the potential conflict of not wanting them to grow over the R50million threshold as they will then no longer qualify as beneficiaries.

Increased cost of compliance

The B-BBEE Amended Codes of Good Practice have resulted in increased costs for 65% of local businesses. The cost of compliance has increased over the years and now, more than ever, proper planning is required to ensure you maximise the return on every cent spent on BEE.

The days of handing over responsibility for BEE compliance to an HR intern or procurement officer are over. The BEE agenda has to be driven by those with authority to influence internal policy and spend. The key is to understand the inputs into each element. Many companies are already incurring costs that can be claimed on the BEE scorecard, but are unaware of this and making additional investments.

The increased costs come from two main areas:

- increase of spend targets under skills and procurement; and
- increase of implementation costs in terms of specialists, service and solution providers, as well as internal capacity.

The cost of verification has also increased, mainly due to the increased complexity and additional procedures verification agencies are required to implement under Amended Codes audits. The cost of non-compliance, however, should not be underestimated.

For companies relying on BEE scorecards to tender or apply for dti grants, compliance has always been an imperative. More and more, however, we are seeing these companies pass the buck to their suppliers, who in turn, pass it on to their suppliers. If your customers cannot use your BEE certificate towards their BEE scores, expect a call from them soon - and be prepared to share your plans for keeping them as customers.

Reducing costs

How should your business go about reducing costs and maximising return on investment?

First, understand where you are right now.

Second, understand the inputs and analyse your current spend in all areas to identify those that already qualify for BEE. Third, calculate the gaps towards the target and implement corrective action. Fourth, monitor constantly towards compliance.

These steps, managed internally by a transformation manager and tracking software, or through external consultants, need to be part of your strategy at board level. Only then can you make a cost-effective difference to your business' scorecard.

* The International Business Report (IBR) from Grant Thornton provides tracker insights from around the world on a quarterly basis. These findings are from the IBR's second quarter tracker data for 2016 to end June, revealing findings from business executive interviews held during May and June 2016.

The survey presents perceptions into the views and expectations of over 10 000 C-Suite executives in privately-held and listed businesses, across more than 36 economies (2500 interviews per quarter).

Regional and national perceptions are also researched every quarter for South Africa, from 400 SA privately held business executives annually (100 executive interviews per quarter) regarding crime, service delivery, B-BBEE and political climate.

To discuss your BEE certification requirements, please contact:
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Dispelling myths around B-BBEE

AN INTERVIEW WITH MOKGADI RAMEETSE, ACCREDITATION MANAGER: B-BBEE AT *SANAS



Mokgadi Rameetse, an Accreditation Manager at SANAS, is driven by an unwavering passion for South Africa and by her pursuit for meaningful transformation.

***SANAS - South African National Accreditation System.**

SANAS is the national body responsible for accrediting verification agencies

According to Mokgadi, simply giving away company ownership to “tick a box” without receiving real value is short-sighted. It’s also bad for the economy and black economic empowerment (BEE) in general.

Mokgadi, an accountant who then redirected her passion to become a BEE advocate who is completing her MBA while being a mother of two “highly active” children, Mokgadi has been with SANAS for three years. She literally wakes up every day excited at the “opportunity to make a difference”.

Her overriding drive is dispelling miseducation and misinformation around BEE and showing companies how they can benefit both the country and their own bottom line by implementing transformation policy the way it was intended.

Grant Thornton Verification Services interviewed Mokgadi as part of the firm honouring talented women this Women’s Month. The interview focused on understanding what drives her, and we gathered her insights on how broad-based black economic empowerment is benefiting or hampering business in South Africa.

Here is our interview:

How did you get here?

I have been with SANAS for three years. This is a very dynamic organisation and I enjoy working here. I was appointed as an accreditation manager, but I have been around the BEE space for quite some time.

My involvement in BEE started many years ago with Dr Robin Woolley, from whom I learned a lot about BEE. Almost everything I know about transformation is a credit to him. He’s a white person, but his passion and how he applies BEE policies is fascinating. He is incredibly passionate about helping people and making sure BEE is applied correctly.

When I met him he told me that BEE can benefit everyone. This was profound because at that point I did not understand BEE. You know, I thought “Oh okay, because I am a black person, it means BEE is all about us getting and getting.” But then he put it into perspective that if we can grow the economy, all of us will have a share, but if our economy is not growing we have a problem because then the pie remains small and we all want a share but it is not enough. So if we can all contribute positively, the economy will grow and our kids will have a future.

I started to understand BEE from a broader perspective. I started to understand that if companies start to invest correctly they are investing in their future clients, future employees and future suppliers.

So, it is not just that you are doing it to tick a box, but you are investing in growing your business.

After working with Dr Woolley I worked at a multinational and a big retail company in SA (dealing with development and implementation of BEE) before joining SANAS.



What is your goal while working at SANAS?

My aim at SANAS is to make sure that policy is simplified and that people understand BEE policy and how to apply it. BEE codes of good practice is a wonderful piece of legislation that we have in South Africa. Unfortunately most people misinterpret this policy. Because they misinterpret it, they are fearful of really applying it. This is a problem because BEE legislation can, and should, work for both white and black people.

For instance, maybe a white person will hear about BEE and think it is about taking ownership of the company and just handing it to another person. This person will become fearful and think “I cannot take my legacy and give it to a black person”. But most people have applied BEE incorrectly and this has led to the fear because, to be honest, they have given stakes in their companies to people who are not contributing to their business.

They've done this just so they can say they have black ownership. Then, when you look at the value that person is bringing – it is zero, and that is dangerous because their business and economy suffers.

But, if you have given away a stake, let's say for argument's sake, to you employees, they will start performing better. They know they own a part of the company and they know they need to grow the company to get bigger bonuses and bigger dividends for their families, and their future is certain

Which element of the amended codes do you see as the most beneficial for transformation amongst black women in South Africa?

Enterprise Development and Supply Development is a key driver to transformation. It has 40 points, and it measures how the entity buys goods and services from empowered suppliers, or suppliers who have a strong BEE level, and for me it is the core of the BEE codes. Because, if big businesses can start to buy their goods and services from BEE-empowered suppliers the whole chain of BEE works. The intention is to assist small businesses, particularly black businesses, and accelerate growth and sustainability.

So, if you start to empower the ones that you have in your supply chain, BEE works well. The challenge with misunderstanding BEE legislation is that when people want to comply with Enterprise Development they want to change the suppliers that they have and to go over to black suppliers. No, you need to stick with your suppliers and teach them to be compliant. Because, if you just change them there are risks, quality risks and more, so you need to be sure that you don't just change your business for the sake of BEE.

It needs to make business sense: BEE needs to fit into your business strategy. You need to make sure you empower your current suppliers to have a recognised BEE accreditation because in that way the intended initiative of accelerating growth is fulfilled.

Which do you see as the most abused element of BEE?

Socio-Economic Development. People abuse that. And again, it is because of misunderstanding BEE. People think that Socio-Economic Development is just taking money and buying blankets for old people somewhere in Hamanskraal, for example. If you buy blankets for old-age people, how does that help the mainstream economy? It doesn't help in any way.

But, if you invest in bursaries, for instance, then we are talking, because you are investing in the future of the children who will later contribute to the growth of the economy. People abuse this element of BEE because they do not understand that their actions need to have a material impact on the lives of people.

Do you have any key mentors or people who deeply influenced who you are, what you believe in and what you're committed to in your work and life?

In my answer about how I got here, I spoke about Dr Robin Woolley. He is definitely a major influence in my professional life. On a personal level, I have a friend called Shoki Motau who works for a risk assessment firm. She is a single mother of three – she has mentored me to be strong and to realise that “life does not revolve around you, so get over it and get on with it”. I met her as she was going through a divorce and she was so strong that I followed her approach.

What is your favourite part of your role at SANAS?

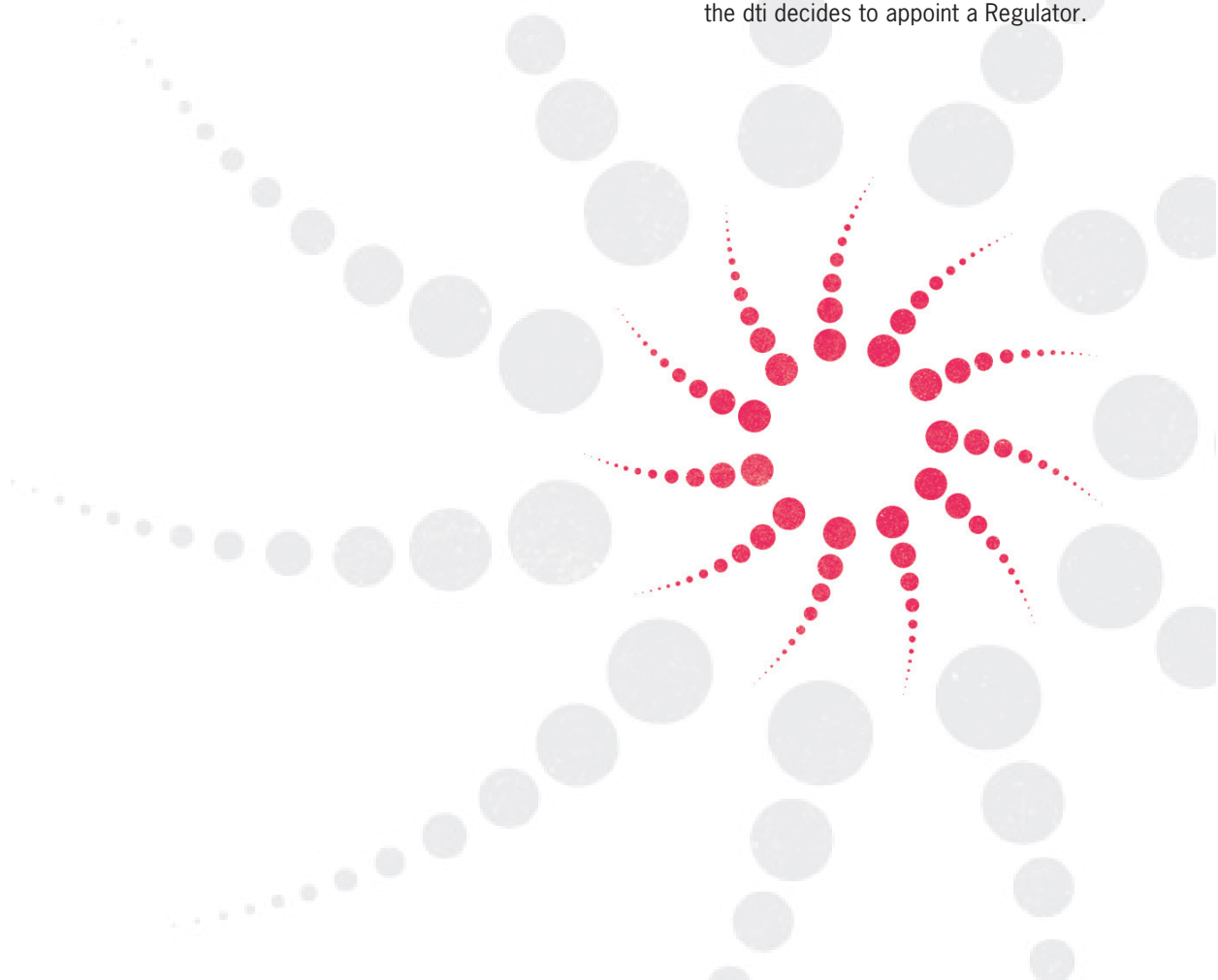
The platform to reach out and empower people with information on how they can benefit from government's policies. Also, the exposure to deal with and know about, different businesses. I deal with many businesses in this job. Because of where I am, being as close as I am to the Department of Trade and Industry, I also get to understand the intention behind government's policies. I love my work.

What advice would you give to women at the beginning of their career path?

Find yourself. I am an accountant by trade but I was getting bored with numbers. Then, when I met Dr Robin Woolley, I discovered my purpose and passion in life. I love working with people, so I started nurturing the HR and BEE side of things. Dr Woolley showed me what hard work is so I realised that if I want to get somewhere I need to focus. So the next step after finding yourself would be focus: focus is key to what you want to achieve. Passion and focus. If you are still young you can change your career.

Now that IRBA will no longer be involved in BEE verification, what do you believe this means for the future of verification?

It will mean consistency in the application of policies. B-BBEE Approved registered auditors (BARs) were using the Standard for B-BBEE Assurance Engagements (SASAE), and the SANAS verification agency is using the Verification Manual in their function. We can now measure transformation in the country using a single standard. I think it will help the BEE commissioner as well to measure transformation in the country correctly. So, I think it is a good thing that we are going to have one verification body, until the dti decides to appoint a Regulator.



Women's Month focus: New JSE requirements for women on boards

BY JENNI LAWRENCE: MANAGING DIRECTOR: VERIFICATION SERVICES, GRANT THORNTON

The broad based black economic empowerment act was revised in June 2016, and it now requires public companies listed on the JSE to submit a compliance report annually to the BEE Commission.

The report, as defined in "Form B-BBEE 1" will be reviewed by the commission and feedback will be provided to the dti and other various bodies that have been set up to measure BEE and its effectiveness.

From January 2017, all listed entities will need to have a formalised policy on the promotion of gender diversity at board level, as well as having to disclose how they are performing against this policy. This comes at a time when we see decreased gender diversity at board level in the private sector.

The latest Grant Thornton report into women in business shows that women hold only 23% of senior positions in SA, down from 27% last year. More worrying, the survey reveals that 39% of local businesses do not have any women at all in leadership positions.

The report, Women in business: Turning promise into practice is based on the annual Grant Thornton International Business Report (IBR) which surveys 5,520 businesses in 36 economies, with research conducted from July to December 2015 (Q3 and Q4 2015). In South Africa, 200 business executives were surveyed for the 2016 report.

The measurement of black women at board level has changed slightly under the amended codes, in that the old measurement of "adjusted recognition for gender" has been removed and specific targets have been created for representation of women.

"Black" under the codes of good practice includes black, coloured and Indian South Africans.

Board participation is split into board members and executive directors, effectively allowing for double counting of those that are active in the company on a daily basis.

The target for black women board members is 25%, as is the target for representation of black women executive directors.

A key difference to consider is that in the old codes, executive directors could potentially be counted again under the category called senior top management, however, in the amended codes, there is no similar recognition.

SA women in top and senior management

Percentage of women in senior management positions



Source: Grant Thornton IBR 2016 - Women in Business

For example, if a company had a board comprising four members:

- One white male non-executive director;
- Two white male executive directors; and
- One black female executive director, the score would be impacted as follows:

Management control old codes

Sub-Element	Indicator	Weighting Points	Compliance Target	Actual	Score
Board Participation	Exercisable voting rights of black Board Members who are black adjusted using the adjusted recognition for gender	3	50.00%	37.50%	2.25
	Black Executive Directors adjusted using the adjusted recognition for gender	2	50.00%	47.22%	1.89
Top Management	Black Senior Top Management adjusted using the adjusted recognition for gender	3	40.00%	42.22%	3.00
	Black other Top Management adjusted using the adjusted recognition for gender	2	40.00%	0.00%	0.00
Bonus Points	Black independent non executive board members	1	40.00%	0.00%	0.00
Total					7.14

Management control amended codes

Sub-Element	Indicator	Weighting Points	Compliance Target	Actual	Score
Board Participation	Exercisable voting rights of black board members as a percentage of all board members	2	50.00%	25.00%	1.00
	Exercisable voting rights of black female board members as a percentage of all board members	1	25.00%	25.00%	1.00
	Black persons who are executive directors as a percentage of all executive directors	2	50.00%	33.33%	1.33
	Black female executive directors as a percentage of all executive directors	1	25.00%	33.33%	1.00
Other Executive Management	Black Other Executive Management as a percentage of all Other Executive Management (not on board)	2	60.00%	0.00%	0.00
	Black female Other Executive Management as a percentage of all Other Executive Management (not on board)	1	30.00%	0.00%	0.00
Total					4.33

We can see from this example that the changes in the amended codes actually result in a lower score for a company that has better gender diversity.

To discuss your BEE certification requirements according to the new JSE gender policy, please contact: bee@za.gt.com

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