

## BUSINESS APPROACH TO BLACK ECONOMIC TRANSFORMATION FOR INCLUSIVE GROWTH

### CONTEXT

Despite South Africa's social progress since 1994, sustained poverty, inequality and unemployment have translated into structural, social and fiscal challenges and economic underperformance, which is threatening South Africa's economic and social stability:

- Real economic growth of c.4% p.a. between 1994 and 2007 was not sufficiently inclusive nor labour intensive
- Record unemployment – 36% under the broad definition and 63% youth unemployment, of mainly black citizens. A material part of society is therefore unable to meaningfully participate in both the supply and demand side of the economy
- Over 17 million elderly, young or disabled South Africans, amounting to 1/3 of the population, dependent on social grants

In response, BUSA has developed a business approach to black economic transformation aimed at assessing the current status, determining the desired end-state of a deracialised economy and identifying the step changes required to deliver the desired end-state. Business believes that a meaningful broadening in economic participation and enabling of inclusive growth and employment, needs to be driven through:

- Achieving and maintaining a competitive economy that harnesses the full economic potential of South Africa
- Recognising that economic inclusion is the best mechanism to unlock South Africa's economic potential
- Acknowledging that structural transformation is required for economic diversification and increased competition

To achieve BUSA's desired end-state of *a deracialised vibrant, diverse and globally competitive economy that enables all South Africans, regardless of race, gender or age to have the opportunity to participate in the economy and earn a sustainable livelihood for them and their dependents*, a collaborative approach between social partners is required. National Economic Development and Labour Council ("**Nedlac**") can play an important role as a forum to engage on Economic Transformation<sup>1</sup>, policy, address unintended consequences and optimise collaborative opportunities. However, Nedlac's position should be enhanced

This paper, which represents business' collective view, sets out the key principles to achieving inclusive economic growth through examining current challenges and the process required to reach the desired end-state

### GUIDING PRINCIPLES FOR THE BUSINESS APPROACH

Business' approach has been informed by the following principles:

- The **pace and depth of inclusive Economic Transformation has been insufficient**. Economic Transformation is central to achieving and maintaining a competitive economy and securing inclusive growth and employment
- There is a **need for full and equitable participation by a broad base of black people in the South African economy**, with an emphasis on those that are most disadvantaged (black women, youth, people with disabilities and people from poor households, township economies or rural areas)
- Business' ability to transform rapidly is greatly enhanced with **Government playing a significant role in creating the enabling conditions for growth**

- **Corruption, maladministration and state capture will undermine Economic Transformation** unless decisively addressed
- A **collaborative, partnership approach** to Economic Transformation within business and with Government, organised labour and other social partners, based on trust and mutual commitment to social and economic development through institutions such as Nedlac is needed
- A **proactive, innovative, systemic and scalable approach** is required, which takes into account the **diversity and cyclicity of business sectors, formats, and relative sizes** and is cognisant of the short and medium term trade-offs for longer term Economic Transformation
- A **substance over form approach**, focusing on systemic interventions built upon **social cohesion** is required. **Recalibrating and comprehensively measuring Economic Transformation** is necessary to determine the current status and progress

## CHALLENGES TO INCLUSIVE GROWTH

A realistic assessment of the key challenges facing business, highlights areas where more could be done in order to drive inclusive economic growth:

- Smaller businesses contribute only 65% to employment, compared to a worldwide average of 95%, indicating the potential of sustainable black enterprise development as an enabler of inclusive growth
- The regulatory environment has many best in class laws, but in application fails to create the requisite certainty and conditions for competitiveness, economic inclusion and growth
- Energy and water supply and road, rail, transport and IT infrastructure are inadequate, unreliable and too costly to enable businesses of all sectors, formats, and relative sizes to be more competitive
- A productive and stable labour market is required in order to positively contribute to business confidence
- There is significant leakage from the fiscus due to corruption, mismanagement and insufficient accountability of public funds. Funds allocated to supporting black and small business development is inadequately focused and managed and is often inaccessible and misspent
- Basic education, compounded by poor childhood nutrition, fails to provide an adequate foundation for young people to enter post-school education and training or employment
- There is a significant mismatch between skills being generated by the basic and post-school education system and the current and emerging skills demands required for a growing economy
- The current Social Security system is fragmented, inefficient and inadequate to sustain the large number of marginalised, predominantly black, South Africans, increasing the dependency on those employed and the costs of employment on businesses
- Trade regimes, agreements, support structures and incentives are not optimally designed and implemented to enable South African businesses, of all sizes, to participate fairly and competitively across national borders in order to drive growth opportunities. Through regional integration, SADC countries can reap efficiency gains, take advantage of economies of scale and reverse migration to South Africa.

## ECONOMIC TRANSFORMATION LEGISLATIVE FRAMEWORK

Business fully and unconditionally endorses the transformational intent of Broad-Based Black Economic Empowerment ("**B-BBEE**"), Employment Equity and Skills Development legislation. However, recognises the need to critically assess whether the legislation has successfully realised its transformational intent

- **B-BBEE Act 53 of 2003, B-BBEE Codes 2007, Amended 2012** – aimed at ensuring meaningful participation of black people in the economy and substantially changing the racial composition of ownership and management of the economy. However, no up to date authoritative and comprehensive

national study exists that measures all aspects of transformation in order to monitor the performance over time

- **Employment Equity Act 55 of 1998** – prohibits direct and indirect discrimination in the workplace and is aimed at transforming the structure of the labour force through progressive affirmative action focussed on black people, women and people with disabilities. The legislation has however driven a compliance and transactional approach, rather than substantive transformation. While progress has been made at most occupational levels, there is limited progress at higher management levels
- **Skills Development Act 97 of 1998** – aimed at driving the systematic growth of the skills base of employees, with an emphasis on black people and women, making them more employable. However, the established institutional structures (“**SETAs**”) are fraught with contestation, inefficiency and maladministration, with limited matching to business’ needs.

## CRITICAL ANALYSIS OF THE ELEMENTS OF THE B-BBEE CODES

An assessment of the elements on the B-BBEE Codes has identified that the evaluation mechanisms, of numerical and quantifiable measures, has often resulted in a transactional approach to B-BBEE where compliance and improved levels are targeted, rather than deeper and systemic Economic Transformation. Business’ assessment and proposed approach for each element is as follows:

### Ownership

Ownership has largely failed to deliver meaningful control and value to black people given that shareholdings are generally insufficient to exert direct influence on the strategic direction of investee companies and is limited to a concentrated number of established businesses who have access to capital. Business’ proposed response is to:

- Drive significant growth of black business through providing access to markets, capital and skills to support entrepreneurship in order to create black owned and black-controlled businesses
- Work with government to enhance the success and scale of programmes such as the Black Industrialist Programme
- Interrogate and contribute to solutions on how to structure B-BBEE ownership transactions so as to stimulate value generation in a cost-effective manner
- Place greater emphasis on asset sale transactions as part of establishing new black-controlled businesses
- Recalibrate the ownership element to ensure its applicability across multiple sectors and businesses of varied sizes and structures with a focus on innovative forms of financing (including vendor funding) and an alternative assessment of the financial parameters of net value

### Management Control

The increase in the representation of previously disadvantaged individuals in middle management, professional and technically skilled levels is not reflected at top and senior management levels. In addition, the appointment of black managers has not necessarily resulted in a transfer of management control. Systemic societal and organisational factors are inhibiting participation and progression in the workplace and the value of diversity (improved performance and competitiveness) has not generally been recognised by business. Additionally, there are insufficient professionals graduating and gaining the necessary skills to meet the needs of a growing economy. Business’ proposed response is it to:

- Research and advocate the investment case for diverse leadership and management as part of business competitiveness
- Build transformative capabilities in order to accelerate and enhance diversity and change capabilities through mentorship, fast-track programs, diversity management tools and the support of black employees. A differentiated approach that is applicable to different businesses and industries, is required

- Improve the analysis of employment equity information, including adopting an approach that critically considers and addresses the identified barriers. Business can contribute by supporting the assessment of, and discerning the lessons from, the qualitative information contained in the employment equity reports
- Drive diversity and change capabilities, beyond the current numerical approach
- Work with government to reframe the measurement of management control so that transformative processes are emphasised and recognised

## **Enterprise and Supplier Development**

Enterprise development is one of the key enablers to deracialise and grow the South African economy and employment. There is significant scope to improve the effectiveness of public and private sector support of emerging enterprises. Enterprise and supplier development takes time and resources and can impact short term competitiveness. This necessitates the need for government-led, sectoral programmes and a focussed effort to address the inadequate entrepreneurship pipeline through innovative solutions to build entrepreneurship. Business' proposed response is to:

- Partner with government in identified sectors and regions to provide greater efficiencies, support and coordination of enterprise development initiatives, including the Black Industrialists Programme
- Take a leading role and leverage its understanding of the business environment and what is required to access markets, capital and skills and reduce unnecessary regulatory burdens
- Support sector development strategies including: creating and maintaining a database of suppliers per region; training and skills development interventions; industrial support; job creation projects; clearing regulatory and trade barriers
- Champion local and scalable initiatives (such as business-hubbing, enterprise support, skills development and mentorships), particularly in township economies, outlying areas and growth nodes
- Advocate for greater alignment between the Amended B-BBEE Codes and government's procurement policy
- Decisively deal with fraudulent use or maladministration of enterprise development funding, through the criminal justice system

## **Skills Development**

The basic education system is not adequately producing the skills required to enable youth to access work and post-school education, perpetuating the disadvantage of black people, particularly youth, women and people from poorer households and rural areas. Additionally, there is a material mismatch between the supply and demand of skills, impacting business competitiveness. This issue is further compounded by inadequate mechanisms to measure the return on investment and impact of skills development interventions. In addition to significant maladministration, the current SETA mechanism fails to adequately professionalise and support entrepreneurship. Business' proposed response is to:

- Focus on building solutions to address the impact of the Apartheid legacy on the basic education system aimed at improving the quality of staffing and the school curriculum
- Promote, at business, sector and national levels, a more demand-led approach to skills development. This requires an overhaul of the institutional and regulatory framework, including the SETAs, to make the system more adaptable
- Assist in ensuring that all business funded public systems, structures and programmes should be fit for purpose, free of maladministration and fraud
- Partner with government to optimise the post-school education and training system. Resulting in a collaborative, co-designing social partnership that meets present and future needs, including the co-design of the Tertiary Vocational Education and Training system, SETAs and qualifications authorities
- Focus on enabling emerging enterprises to access post-school education and training systems so as to draw work-ready, skilled youth and enable them to grow and develop
- Proactively investigate how to expand access for youth through enhanced apprenticeships and learnerships and work integrated learning experiences



## Socio-Economic Development (“SED”)

Data on SED investment by the private sector is not readily available. However, despite the significant financial and human resources expended, efforts are fragmented and often duplicative. There is a need to comprehensively evaluate the return of investment and best practices in SED. Corporates tend to focus on larger, well administered and better resourced SED organisations to the detriment of smaller grassroots organisations. The effectiveness of SED spend is often impacted by a lack of public services outside of business’ control. Business’ proposed response is it to:

- Find mechanisms to support basic municipal services as the foundation for value added SED
- Form a body of SED best practice that can be scaled with greater efficiency
- Do more on a sector basis to target and expand specific SED outcomes pertaining to health, education and employment
- Form strategic partnerships and collaboration in order to amplify the impact of SED.

## THE PROCESS TO ACHIEVE THE END-STATE

Business’ approach to Economic Transformation requires a progressive, systemic and sustainable approach through key interventions to deracialise the economy:

- Inculcating a transformative culture within businesses and building social cohesion
- Quality and demand-led education and skills development which requires enhanced support for basic education and a significant review of the current institutional skills structure so that skills development is informed by current and future business needs
- Large scale enterprise development, focussed on expanding opportunities and removing regulatory and other exclusionary practices that are barriers for emerging black enterprises
- Clearing blockages to employment, with systemic interventions promoting sustainable youth employment

The process to arrive at the end-state requires a concerted and collaborative effort from government, business and organised labour which visibly demonstrates the joint commitment by social partners to act in the national interest. A key element of the process includes an approach that:

- Acknowledges the complexity of transformation, critically evaluates the challenges as well as the progress made
- Is adaptable and unblocks systemic and sector related challenges to Inclusive Growth
- Recalibrates the measurement of B-BBEE to focus more effectively on substantive transformation, value and influence
- Requires business to play a far more active role, and co-operates with the State, to create enabling conditions at a sector and sub-sector level, for businesses of all sizes, with a particular emphasis on black business.

## WAY FORWARD

Business’ approach is not meant to be the masterplan, but an important step in consolidating a comprehensive and collective approach by business. In this regard, the following next steps are identified for business:

1. Work within business and with government and organised labour and build strategic partnerships to deliver Economic Transformation, using Nedlac more effectively for robust engagements. A key intervention must include fighting corruption, maladministration and attempts at state capture which undermine Economic Transformation

2. Business needs to enhance its contribution and lend its weight and capabilities to transformative programmes, identify barriers to Economic Transformation and work with institutions such as the B-BBEE commission, SETAs and Employment Equity Commission
3. Explore, with government, mechanisms to comprehensively and consistently measure Economic Transformation
4. Partner with government to introduce into the socio-economic regulatory impact assessments process, specific considerations for the impact on Economic Development and SMEs, employment, investment and skills development and address barriers to doing business
5. Rapidly explore, define and implement 4 key elements that can significantly contribute to transformation and social cohesion:
  - Element 1:** Enable a transformation culture in business, with systemic initiatives and developing a research base that demonstrates the economic value of diversity
  - Element 2:** Enterprise development support, including how to scale and support the Black Industrialist Programme, industry development programmes with sectors and leveraging the SME Fund
  - Element 3:** Skills development for current and future business needs, including leveraging the Ikusasa Student Financial Aid Programme and implementing a widespread mentorship programme; and
  - Element 4:** Employment promotion, particularly of youth, including the YES initiative and other systemic contributors to sustainable employment
6. Develop a statement of intent, whereby businesses of all sizes, formats, types, regardless of the ownership structure and composition, can make a conscious commitment to a deracialised and inclusive South African economy

**Business commits to accelerate its approach to Black Economic Transformation for economic growth, enabled through education and skills development, job creation, particularly among the youth, and enterprise development and SME support. In that context it wishes to cooperate comprehensively with government, labour and other social partners to achieve the accelerated deracialisation of the economy**

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<sup>i</sup> “Economic Transformation” defined as an economy that seeks to broaden and deepen economic benefit and participation for all South Africans.