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by Pumulani Ncube

Lessons from the BEE Future

The year is 2012, two years after South Africa has hosted the world cup (and dare I say made it to the finals of the cup). The BEE codes of good practice would have been in existence for over half a decade and some of the charters would have been in place for almost a decade.

The majority of the leading companies in the various industries would be empowered. So what lessons would have been learned about empowerment in the preceding years? Imagining these lessons from the future can help shape the current debate on BEE resulting in better structuring of BEE deals.

In terms of equity ownership, the petroleum industry and the banking industry would have complied with their respective charters (ignoring the fact some of the BEE transactions in the banking industry fall foul of the codes). Interestingly in both industries none of the players were able to use the power of being the first to market to take market share from the other players, highlighting the fact that BEE companies have greater leverage in influencing the fortunes of smaller companies.

In the fuel industry the leading BEE companies have come up with value add in the form of innovative solutions around fuel storage and managing fuel accounts for their customers. These initiatives really have nothing to do with BEE but more to do with commercial acumen and service delivery. Critically the market will have realised that being black can only give you an advantage up to a certain point beyond which the individual skills set will determine the competitive advantage.

The banking sector has some interesting insights. Despite all the banks being empowered they are still faced with the same business issues, like dealing with the competition commission on the issue of bank charges and issues of banking the "un-banked". Is it unrealistic to ask the BEE shareholders to help in developing strategies around banking the un-banked? Logic being that these shareholders form part of or came from the un-banked sector? If not then why bring them on?

Part and parcel of any BEE transaction would have been to incentivise and retain black personnel within the various banks. But we have yet to see a bank where the black managers are happy with their share allocation. In fact we have seen an exodus of black executives from the banks because they were not being adequately incentivised or as part of the programme were being asked to stay in the banks for the next ten years.

The introduction of foreign banks in the market has been inevitable for a long time. The BEE partners who factored this into account would have put in trigger clauses to ensure that in the event of a change in control they would be able to cash in on at least a portion of their shares. Sadly this wasn't the case in the ABSA/Barclays transaction. As a result of this we have seen the bigger empowerment companies buying out the smaller minorities.

By 2012 at least two other international banks would have bought into the local banks and, having been bought by multinationals, would the parent company have chosen to abide by the codes that exempt multinationals from doing BEE deals and opt for equity equivalents?

From a business perspective we would have seen the banks moving from a position where BEE was viewed as being risky, to a position where it was the growth driver for most of them for a number of years. The banks would have refined their funding models and discovered that there is probably one "fool-proof" way of funding BEE deals.

The tide of BEE companies mushrooming all over the place would have become a trickle or dried up completely. Market forces would have come into play and a number of BEE companies would have folded up or been gobbled up by other well run BEE companies. Funders would have lost significant amounts of money in the process. These factors would have led to a slowdown in the participation of banks in unproven BEE companies. Black employees would be reluctant to jump ship and go into business, which would be sad. Out of this mess a few well capitalised and quality BEE companies would have emerged.

White companies would have realised that although they view empowerment in a negative way they are in fact in charge of the process. Since they choose who they want as an empowerment partner they are in fact the rainmakers for the next generation of business leaders (and dare I say politicians) in South Africa.

It stands to reason that the white proprietors would be wealthier for two reasons. Firstly, in most BEE transactions they retain the majority control and they share in any growth brought about by the BEE partner and secondly, whether the new company succeeds or not, they will have been paid real cash for the stake that they sold.

Ordinarily most of these companies would have struggled to find trade buyers in an environment without BEE. The standard question of what value a BEE partner brings to the table would have become redundant, particularly when the BEE buyers are putting cash on the table. One of the significant revelations would have been that there are companies who will not need BEE for their existence in South Africa.

At the height of empowerment there would have been a whole host of companies focused on providing solutions to the BEE industry (rating agencies, legal firms, Internet portals, tax experts etc). These professionals, who will not suddenly become redundant by the introduction of a universal BEE model, would be busy unwinding badly structured deals and repackaging them. Consulting would have moved to the other points of the scorecard outside of the ownership pillar.

Government would have seen that empowerment does not equate to poverty alleviation and realised that they do need a powerful black middle class to lobby for the aspirations of the black people. By accepting the free market model the government would have realised that you can not then control who does what deals in the market as this is governed by market forces.

The press would have learned to be more mature in the way they report on BEE deals. There would be a better understanding of structuring of BEE transactions in that if a BEE company enters into a R1-billion transaction it does not mean the proprietors are worth R1-billion they now have to service debt of the equivalent amount.

One would ask where do all the above lessons leave the man in the street? My guess is that the "darkies" would have realised that BEE like any other profession is best left to the ones who have the dispensation and the pedigree to effectively compete in the business environment. The successful black companies would then be ideal role models for the black youngsters in the townships. Hopefully they would be inspired by a generation that rose out of the townships straight into mainstream business showing that they too have a chance to "make it big".

Hopefully it would have dawned on the "whiteys" that there is no difference between black and white businesspeople - in both instances their main motive is to make a profit and leave legacies. The white youngsters (especially those with the skills) would realise that there are still businesses that are driven by commercial issues without the need for BEE and that there is a place in the sun for all of us to play in.

Personally the greatest lesson would have been that the successful BEE companies would have left their kids and grandkids with "old money" to enable them to compete on equal footing with all the citizens of this country. ceo