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by Pumulani Ncube

an out-of-the-box look at the BEE codes

The BEE Codes were promulgated into law after the opening of parliament last month. Will the promulgation change the way that corporate South Africa has been doing BEE since the first codes were introduced? Or will there be a stampede to do BEE deals since the reason given for the slow pace was that the codes had not yet been finalised?

There are some innovative ways that corporate South Africa could go about putting together BEE deals that are out of the traditional realm of doing BEE. I'd like to explore some of those.

Ownership

The ownership portion makes up only 20% of the total scorecard and yet it has caused all the trouble for a number of reasons, the most prominent being that it benefits the usual suspects. Jala Capital believes that in order to get round the "usual suspect" tag a BEE deal should incorporate people with relevant skills for that particular industry.

For example, if we were to invest in the motor industry we would seek to co-invest with a seasoned partner with extensive experience in that industry. We would deploy him into the target company (should this be a requirement) to firstly influence the fortunes of the company with Jala Capital acting as the anchor partner (providing strategic advice), and secondly to look after our investment.

This model allows us to share the pie with new entrants, invest in different sectors without the "usual suspect" tag or stretching our resources, and at the same time give black professionals much needed experience in running corporate South Africa.

Management control

Directorship is one of those jobs that has a vague job description, if any at all. I have yet to see a company advertising for people to apply as directors. What often happens is that the board sits and nominates people on "merit". All things being equal this is often someone who is a reflection of yourself and consequently the board chooses from the same pool of people that is already established in directorship.

If business acumen, experience of running an enterprise and having burnt one's fingers forms part of the kudos of being a director I would think there are lots of black professionals over 40 that have these qualities. Why aren't they being made directors or at least being groomed for these positions?

Jala Capital is privileged to have an institutional backer and the perceived stability of the company has led to lots of talented black people submitting their CVs to us, thereby positioning themselves to be our partners in future transactions. This added value in the form of the ability to source skills is what BEE partners should bring to the party in BEE transactions.

Employment equity

The current cheque book recruitment of black staff is nothing more than market forces at play. Whilst there has been an increase in the number of black skills coming to the market, the growth of the economy has far outstripped the growth of these skills.

In my days in the banking industry we advocated that banks (or any other sector for that matter) should have a core course for a graduate training programme. In its simplest form all the banks would agree to take say 100 graduates on an annual basis and take them through every aspect of banking, both practical and theoretical. After 3 years you would have a potential pool of 400 skilled personnel to choose from. Guaranteed the good ones will be drawn to other corporates, but the fact is that the pool of people with banking experience will have increased.

If all the financial services companies did the same, staff turnover ratios would decrease after a few years as market forces would again regulate the market. Most corporates have huge budgets to recruit black staff but they are better advised to give their own internal staff more attention. Happy employees are the best advert for your company.

Skills development

What is the matter with black people - why are they forever in training? 2006 saw the matriculation of the "born-frees" and the codes have set targets of how much should be spent on skills development as a percentage of the total employment costs paid by the company. The born-frees will be close to 30 at the 10th anniversary of the codes. Wouldn't it be a sad sight to have these born-frees still needing basic skills training? Wouldn't that be an indictment to our education system?

Whilst I fully subscribe to the fact that there are lots of people in the system that will need to be trained for a long time to come, maybe we need to invest in the skills of the people that still continue to be ploughed into the unemployed stable. It is said the greatest pleasure for parents is to see their children do better than themselves. It's time corporates looked amongst their staff for needy parents to ensure that the children of staff have a better life than their parents.

Enterprise development

Depending on which percentage one uses, a retailer with a turnover of R30-billion would need to fork out approximately R110-million towards enterprise development. That's a lot of money in an economy where prospective entrepreneurs complain about the lack of funding.

Retailers are currently being closely scrutinised by the government for their slow pace regarding transformation. The government (with the exception of the PIC) and other stakeholders cannot exert pressure because there are hardly any tenders to be submitted. Besides, the consumer's decision process has little to do with the codes. Part of the value add of any BEE partner is to identify areas where black suppliers can be grown, not only to exclusively supply the donating enterprise, but to supply other retailers thus limiting the risk for the new enterprise.

Further, instead of going at it alone the R110-million should be leveraged with bank funding. As this money is deemed irrecoverable it can be used as the equity portion to reduce the risk for the banks. To further enhance the fundability of the project the retailer can give the new company an evergreen supply contract for the new entrant (provided they meet all the requirements).

Preferential procurement

Following up on the above scenario where the retailer sets up a BEE supplier in terms of enterprise development, that supplier would help the retailer achieve points in terms of the preferential procurement leg of the scorecard. This is quite important in view of the fact that supply chain management is key in the retail game.

Retail is about the right product at the right price at the right place, regardless of BEE. Because of our "inefficiencies" in our cost of product, the mass retailers have tended to import their products from overseas hence they will battle with meeting the targets for preferential procurement. Setting up suppliers wherever possible will go a long way towards achieving their targets.

Corporate social responsibility

Corporate social responsibility should go beyond just being a public relations exercise. It's a nice gesture to donate to needy communities but most corporates never follow-up on their donations. Does the institution receiving the donation have the capacity to deliver on the donation? What is the sustainability of the entity receiving the donation?

Going forward as part of their social responsibility, corporates should set up entities that are there for the purpose of social profits i.e. all the profits derived by the entity are utilised by the community to further social causes and uplift the communities around them. Such a model for social profits has been successfully implemented by one of the global players in the dairy industry.

In any broad-based BEE consortium there should be a plethora of ideas to take us away from the usual transactions that give BEE a bad name. Let's keep the ideas flowing! ceo