



Understanding BBEE **Kim Marr, Social Advantage**

Broad-based black economic empowerment (B-BBEE) is a progression from the old, narrow-based, black economic empowerment in that it looks more broadly than just at ownership and management. B-BBEE basically seeks to undo the economic damage of apartheid. Even though apartheid systematically excluded black people from meaningfully participating in our economy, B-BBEE is not about affirmative action, nor is it about white people giving money to black people – rather, it is a *growth* strategy that targets inequality within the South African economy.

According to the BEE Act, B-BBEE can be defined as “an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the number of black people that manage, own and control the country’s economy, as well as significant decreases in income inequalities”. Black people are defined as South African citizens who are African, Coloured or Indian. A recent ruling has meant that South African Chinese people now also qualify as ‘black’.

The Codes of Good Practice highlight seven areas or elements of focus, namely ownership, management, employment equity, skills development, preferential procurement, enterprise development and socio-economic development (commonly referred to as corporate social investment).

I think the key concept to keep in mind when trying to get your head around the different BEE requirements and developing your company’s BEE strategy is that it is a process. In order to achieve economic interventions, where the impact is long-lasting, it is impossible for businesses to go from being non-compliant to being 100% BEE compliant overnight. A minimum score of just 31 points makes

you BEE compliant, albeit the lowest contributor at level 8, but a starting point none-the-less from which to work up in a conscious and sustainable way.

There are two BEE scorecards. According to the Codes of Good Practice, businesses with an annual turnover of between R5 million and R35 million qualify to have their compliance marked on the QSE (small qualifying enterprises) scorecard and need only focus on 4 of the 7 elements, with each element weighing 25%. Larger businesses, with an annual turn over of more than R35 million, however are to be marked on the generic scorecard where all 7 elements require attention. Businesses with an annual turnover of less than R5million are considered Exempt Micro Enterprises (EMEs) and are exempt from B-BBEE measurement.

Ownership, Code 100, basically measures the entitlement of black people to voting rights, thereby their ability to contribute towards strategic and operational policies, and economic interest which results in their accumulation of wealth. Ownership is often a complicated and very emotional focus area and would certainly require expert input and guidance. On the Generic scorecard, Ownership is worth 20%.

Management, Code 200, looks at black representation at board and executive management levels. This equates to the power to determine policies and the direction of economic activities and resources. On the Generic scorecard, Code 200 is worth 10%.

Employment Equity is about promoting equal employment opportunity. It is important to note that badly implemented employment equity is not only unfair on that employee, creating a scenario where the employee is not provided with sufficient capacity to tackle the job at hand and is therefore destined to fail, but is also likely to lead to negative feelings from fellow employees which inevitably creates a negative and unhealthy work environment. Thus, it is important to tackle this element with proper planning, skills development where necessary and transparency. Employment Equity, also known as Code 300, is worth 15% of the Generic scorecard.

Skills Development, or Code 400, refers to the development of core competencies of your black staff to promote and encourage their interaction in the mainstream of the economy. It makes good business sense to target some of this capacity building to those black employees who you have ear-marked for promotion to management and board levels and eventually partners. Over time as you achieve this, you will also improve the scores on your management and ownership scorecards as a result. Skills development is worth 15% on the Generic scorecard.

Preferential procurement takes the focus away from your business' internal structure and skills and looks at your suppliers. This, Code 500, element aims to widen market access for BEE compliant enterprises, thereby integrating them into the mainstream of the economy. Your business is required to spend a certain %, the amount differs depending on whether you are being marked on the Generic or QSE scorecard, of your overall procurement spend on BEE compliant enterprises. Thus, the BEE Act is not only encouraging your enterprise to be BEE compliant, but also your suppliers. On the Generic scorecard, Code 500 is one of the two highest earning elements of the Codes with 20% available.

Enterprise Development, Code 600, aims at assisting and accelerating the development, sustainability and ultimate financial and operational independence of qualifying BEE enterprises. There is an obvious link here, though it is not mandatory, that the beneficiaries of your enterprise development contributions are or become your suppliers as this will have a positive effect on their capacity and their resultant ability to deliver. Also, this overlap results in the opportunity to achieve bonus points. Beneficiaries of your contributions must fit in to one of the two categories, namely Category A or Category B. Code 600 is worth 15% on the Generic scorecard.

Finally the last element, socio economic development, or Code 700, is about a companies' investment in disadvantaged, black people, organisations or communities that is external to the work of that company. The Codes require a 1% NPAT (net profit after tax) to be spent in a number of development areas,

such as education, health and HIV, skills training and the development of sports and Arts talent. At least 75% of the benefits of your contributions must accrue to natural persons who are black and preferably those in rural communities or part of the government's rural development and urban renewal programmes. Businesses being measured on the Generic scorecard can earn 5% from qualifying SED contributions.

BEE Options for small businesses

As a QSE, when deciding on which of the 7 elements to focus on, company's should consider which 4 elements they are the strongest in. Since each element counts 25%, QSEs can very quickly become compliant.

As a starting point, it is relatively 'easy' to include enterprise development and socio-economic development as in terms of expenditure, it is the kind that not only results in a warm, fuzzy feeling that comes from contributing towards capacity building, community development and transformation, but it is also a holistic approach that has the potential to create healthier and safer communities as well as jobs, thus contributing meaningfully to the economy.

However, it is not about picking someone or some enterprise "off the street" to hand a signed cheque to. In fact, it is not about charity at all, as this approach is likely to have significant pitfalls that not only affect your business image negatively, but also your bottom line.

Consider a scenario where the beneficiary organisation / enterprise has misspent your contribution and this results in a negative impact on the community. Your industry peers and transformation activists will certainly question the motivations of your developmental approach, leaving you to admit that it was merely a 'hand-out to get the BEE points'.

Besides the challenge of finding responsible qualifying BEE partners, the above scenario highlights the importance of expertise around issues such as due diligence, performance-based monitoring, accountability, impact and return on investment. Your BEE contributions need to be conscious interventions that will

create the kind of sustainable economic change that is the driving focus of B-BBEE. My experience in the socio-economic and enterprise development arena shows often people just give their money away without seeking advice, examining the options or consciously thinking about the change their investment could bring about. No wonder despite millions spent on transformation, things rarely seem to improve. Pumping more money into the system is not the solution either, rather it is about focusing on how it is being directed.

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