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CERILOG 271 C.C. (CK 2002/040946/23)
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BLACK ECONOMIC EMPOWERMENT (BEE) STRATEGY
SWAGEFAST (PTY) LTD.

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1. Executive Summary

“Our country requires an economy that can meet the needs of all our economic citizens – our people and their enterprises – in a sustainable manner. This will only be possible if our economy builds on the full potential of all persons and communities across the length and breadth of this country. Government’s objective is to achieve this Vision of an adaptive economy characterized by growth, employment and equity by 2014.”¹

This statement made by the author of the recently released Guidelines on Black Economic Empowerment (BEE), indicates the unquestionable intention of the government to grow and strengthen the economy through the broadest participation of all its citizens. In addition, the government has also acknowledged the invaluable contributions of specific sectors of the economy in this growth and development. Small, Medium and Micro Enterprises (SMME) are finding it both as a great opportunity for the growth of the black owned SMME and major challenge for the white owned companies. It is evident that in all sectors, small to medium sized white-owned companies are faced with the reality that many major parastatals and corporations are imposing the immediate requirement of ownership by black persons in every enterprise.

This being a morally necessary goal, it is the view of this company that a legitimate growth process needs to take place to ensure that the inclusion of black partners into a company is not merely “window dressing” and has no real impact on the growth of the individual. As such, Swagefast (Pty) Ltd. has chosen to develop a strategy with clear timeframes and achievable outcomes that the company can accommodate within its current processes.

This strategy attempts to define in more detail and with essential timeframes; the scope within which companies like Swagefast (Pty) Ltd. may become compliant with the BEE requirements and also grow the business.

Reference is also made to the latest definitions and priorities surrounding BEE and related areas. These definitions provide companies with the invaluable tools to justify actions; plan and implement trends and new ideas and initiate opportunities in the sector. It is intended that a comprehensive and well-structured strategy towards BEE compliance will ensure that all major purchasers in the South African economy are provided with the most detailed information with regard to Swagefast’s long-term view on BEE.

2. Introduction

▪ ***Why Black Economic Empowerment (BEE)***

It is too often stated “there are no black incumbents available to take up posts we want to fill”. This statement is common throughout the South African business community in respect of BEE. Due to a lack of education and appropriate facilities in the previous “township” schools, a minimal number of black students are choosing careers in Engineering and the Science fields.

Due to the many challenges in the countries security and labour conditions, foreign investment has been limited. Growth and opportunities for employment have steadily declined and posed a threat to the success of interventions addressing national challenges. Government has thus begun refocusing its poverty alleviation and unemployment programmes towards the manufacturing sectors of the economy.

¹ South Africa’s Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment: para. 1.1
Pg. 4

Though opportunities do exist, planning, structure and resources are also necessary for any company to be able to take up such a challenge. South Africa has opened up to many new technologies, retail outlets and imported cheaper goods. This has led to many imbalances, even at the small, medium and micro enterprise (SMME) levels. Black Economic Empowerment (BEE), as described in the recently released guidelines from the Department of Trade and Industry, is intended to facilitate a focused and structured approach to redressing the imbalances in participation of the various race and gender groups in the economy. Major focus will be placed on women and persons with disabilities in order to also create a progressive and supportive environment within the business community.

The policy objectives of the successful implementation of the BEE strategy are to bring about significant increases in the number of black people that manage, own and control South Africa's economy, as well as significant decreases in income inequalities.

▪ ***Current Processes***

At present, the Department of Trade and Industry has released guidelines that will assist companies in the preparation of efficient and effective strategies towards BEE compliance. The approach is broad based in that it offers companies the options and scope to transform in a structured and well-planned manner through a systems approach. Three key issues drive BEE viz. :

- Preferential Procurement and Supplier Development
- Human Resource Development and Skills Development
- Ownership, Shareholding and Management

These issues can be addressed in one wide process or gradually used to change the way business is conducted.

Government requires that industry use this opportunity to attempt to put in place systems and approaches that will assist them in determining the limitations of this strategy. The eventual legal requirement should ideally be well accepted and proven to be workable in the broader economic environment. All sectors are required to provide input in this regard. It is therefore the thrust of this document that Swagefast (Pty) Ltd. look at the developmental approach of complying to legislative requirements in phases.

3. Methodology

▪ ***Data Capture***

Data was drawn from the Broad Based BEE Strategy Guidelines released in March 2003, Research Study on BEE by Cazenove and a statement released by the Group Chief Executive Officer of Transnet South Africa. These documents have provided the definitions included in this document, some contextual input with regards statistics and trends and approaches of other major stakeholders in the SA economy.

▪ ***Definitions***

Some definitions drawn from the various sources mentioned above are provided here for continuity and better understanding.

Black Economic Empowerment (BEE)

Defined by the Department of Trade and Industry 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 numbers of black people that manage, own and control the country’s economy, as well as significant decreases in income inequalities.”²

Types of BEE entities:

- a. A “black enterprise” is one that is 50.1% owned by black persons and where there is substantial management control. Ownership refers to economic interest while management refers to the membership of any board or similar governing body of the enterprise.
- b. A “black empowered enterprise” is one that is at least 25.1% owned by black persons and where there is substantial management control. Ownership refers to economic interests. Management refers to executive directors. This is whether the black enterprise has control or not.
- c. A “black woman-owned enterprise” is one with at least 25.1% representation of black women within the black equity and management portion.
- d. A “community or broad-based enterprise” has an empowerment shareholder who represents a broad base of members such as a local community or where the benefits support a target group, for example black women, people living with disabilities, the youth and workers. Shares are held via direct equity, non-profit organizations and trusts.
- e. A “co-operative or collective enterprise” is an autonomous association of persons who voluntarily join together to meet their economic, social and cultural needs and aspirations through the formation of a jointly owned enterprise and democratically controlled enterprise.

Black person in South Africa

“Black” is a generic term, which means indigenous Africans, Coloureds and Indians.³

Employment Equity

Employment Equity must be understood in the framework it was intended. It was intended to protect all previously disadvantaged persons including white women. In the plans of companies, the intended approach is to prioritise employment equity as was originally defined and BEE in this context to both meet targets and create a supportive and equitable work environment.

Corporate Social Responsibility

This is an area that is usually defined by the management of a company. In the context of BEE and the changing environment and markets in SA, it is defined as the company’s contribution to development in the broader community. Priorities, sectors and projects should be defined in line with goals required to be achieved in the broader strategy defined here.

4. Environmental Analysis

▪ Policy Considerations

Government has stated in the guidelines released that the following policy considerations will be used against which BEE implementation will be assessed:

² South Africa’s Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment: para. 3.2.2, Pg. 12

³ South Africa’s Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment: para. 3.1.1, Pg. 12

- A substantial increase in the number of black people who have ownership and control of existing and new enterprises.
- A substantial increase in the number of black people who have ownership and control of existing and new enterprises in the priority sectors of the economy that government has identified in its microeconomic reform strategy⁴
- A significant increase in the number of new black enterprises, black-empowered enterprises and black-engendered enterprises
- A significant increase in the number of black people in executive and senior management of enterprises
- An increasing proportion of the ownership and management of economic activities vested in community and broad-based enterprises (such as trade unions, employee trusts and other collective enterprises) and co-operatives
- Increased ownership of land and other productive assets, improved access to infrastructure, increased acquisition of skills and increased participation in productive economic activities in under-developed areas including the 13 nodal areas identified in the Urban Renewal Programme and the Integrated Sustainable Rural Development Programme.
- Accelerated and shared economic growth
- Increase income levels of black persons and a reduction of income inequalities between and within race groups.

This strategy is intended to translate these policy considerations into real solutions and programmes within the company to meet objectives defined later in this document.

▪ **Legislative Framework**

At present, the government intends to introduce into Parliament a Broad-Based BEE Bill to establish an enabling framework for the promotion of BEE in South Africa. This legislation will empower the Minister of Trade and Industry to:

- Issue guidelines and codes of good practice on BEE and,
- Establish a BEE Advisory Committee to advise the President on the implementation of BEE and related matters.

Government has in the past however established the foundation to launch this drive around BEE. Some key legislation that impacts directly on the successful implementation and focus of BEE are:

	ACT OR INITIATIVE TAKEN
August 1998	Employment Equity Act 1998
1998	Skills Development Act 1998
May 1999	Commission for Employment Equity started
2000	Preferential Procurement Policy Framework Act
August 2000	Ministry of Public Enterprises: An accelerated agenda towards the restructuring of State Owned Enterprises (SOE's)
November 2000	Charter for the South African Petroleum and Liquid Fuels Industry
2001	Black Economic Empowerment Commission Report
July 2002	Mining Charter Leaked
October 2002	Draft Mining Charter published

Source: Cazenove: October 2002

⁴ These sectors include agriculture and agro-processing, mining, minerals and metal beneficiation, clothing and textiles, automobiles and components, aerospace, information and communication technology, chemicals, cultural industries, including media, film, music and crafts as well as high value-added services.

A vital point to note from the guidelines released in March 2003, is that government intends to roll out charters for all sectors as opposed to legislate in this area. These negotiated charters for each sector provide a unique opportunity for industry to transform within the challenges imposed by foreign principals.

▪ ***Balanced Scorecard***

“Government will use a ‘balanced scorecard’ to measure progress made in achieving BEE by enterprises and sectors. The use of a common scorecard by different stakeholders provides a basic framework against which to benchmark the BEE process in different enterprises and sectors.”⁵

As mentioned earlier in this document, the core elements of measurement in the balanced scorecard are:

- Preferential Procurement and Enterprise Development (Supplier Development)
- Human Resource Development and Employment Equity
- Ownership and Control of Enterprises and Assets

This scorecard is also intended to provide a common basis for the streamlining of strategies of government departments, state-owned enterprises and other public agencies.

For industry though, it is seen as a Code of Good Practice. The broad nature of the scorecard is intended to allow for flexibility by enterprises and sectors to ensure that strategies employed strengthen and grow businesses and not jeopardise their profitability and success. This has also provided a common definition and focus of BEE to enable companies to begin looking at initiatives that can lead to compliance.

Government intends to use the scorecard criteria whenever it:

- Grants a license to engage in a specific regulated economic activity, for example, in gambling or mining
- Grants a concession to a private enterprise to operate an asset or enterprise on behalf of the state
- Sells an asset or a state-owned enterprise
- Enters into a public-private partnership
- Engages in any economic activity

▪ ***Political Objective***

“This ‘generation of empowerment deals’ had many difficulties but should not be dismissed as having no impact. They provided empowerment with a high profile and brought forth a new generation of business leaders. However, there was limited success in bringing about a substantial increase in the number of black people owning, controlling and managing significant and important parts of the economy (such as manufacturing). This has to be taken into account in the more focussed strategy and the provision of more innovative funding mechanisms.

⁵ South Africa’s Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment: para. 3.5.3.1 Pg. 14

Government's strategy for broad-based black economic empowerment looks beyond the redress of past imbalances to situating BEE as a powerful tool to broaden the country's economic base and accelerate growth, job creation and poverty eradication."⁶

This is a clear indication of where government would like to see BEE impact on the economy. The priority of ownership and shareholding certainly exists and is emphasised for certain local sectors, however, the more significant emphasis is placed on a planned and structured transformation mechanism that will gradually and legitimately draw black people into decision making positions within companies, as suppliers to major manufacturers and companies and as owners of significant contributors to the country's GDP.

5. Strategy

▪ *Vision*

Swagefast (Pty) Ltd. will successfully provide a wide range of products and services focused on engineering, through the active and legitimate implementation of a strategy of profitable growth through BEE partnerships; focus on employment equity and skills development and key investments in socio-economic and environmental development initiatives at community level by 2006.

▪ *Objectives*

1. To develop a comprehensive strategy to address BEE in Swagefast (Pty) Ltd. by November 2003.
2. To ensure that all Employment Equity targets are aligned with BEE priority appointments and implemented effectively and efficiently in the prescribed timeframes.
3. To ensure that a corporate social responsibility policy is developed by December 2003, outlining clearly the priority sectors and community development opportunities that will be focused on.
4. To develop a Preferential Procurement system that addresses transformation of existing suppliers, development of small suppliers and monitoring of BEE status of all suppliers.

▪ *Approach and Strategies*

The proposed approach towards the development and eventual implementation of a BEE strategy is underpinned by the following:

- Internal transformation i.e. employment equity and affirmative action, preferential procurement and supplier development,
- New business opportunities to accommodate BEE partners and grow the business
- Redefine commercial processes to accommodate BEE partners
- Investment in social value-adding projects e.g. HIV and AIDS programmes, environmental projects etc.

Against this background, the strategies described herein have been developed in the broad categories defined by the BEE guidelines i.e. Preferential Procurement and Enterprise Development, Human Resources Development and Employment Equity and Ownership and Management.

	Year 1 – 3	Year 4 – 5
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⁶ South Africa's Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment: para. 2.6.4 Pg. 11

Management	<ul style="list-style-type: none"> Identify key posts in operational management for black persons. Develop succession plans for key posts in operational management Develop appropriate skills development plans for black personnel to ensure efficient input to the business growth Make necessary financial arrangements for possible packages etc. 	<ul style="list-style-type: none"> Through proper performance appraisals identify suitable candidates to participate at an international level Develop succession plans for these positions Develop appropriate skills development plans for these posts Link these posts to the broader growth and development in Africa in line with company expansion plans
Ownership	<ul style="list-style-type: none"> Look at existing shareholding and ownership structures and identify suitable areas for black empowerment candidates/companies Ensure that all BEE partners being used currently through other initiatives like joint ventures, etc. are effectively monitored and supported towards ultimately becoming such a shareholder. 	<ul style="list-style-type: none"> Begin initial discussions with key partners identified Identify suitable association agreements Begin looking at expanding relations into Africa

	Year 1 – 3	Year 4 – 5
Enterprise Development	<ul style="list-style-type: none"> Develop an assessment tool to evaluate the suitability of BEE suppliers competing for opportunities in the company Utilizing this, develop a suitable supplier development programme, in partnership and alliance with key stakeholders like Ntsika Enterprise Promotion Agency and Local Business Service Centres in order to save resources and manage the process efficiently through existing infrastructure. Identify and monitor most effective and suitable BEE suppliers that can be groomed and mentored towards a long-term relationship with the company Ensure that the supplier development programme developed addresses all aspects of importance to ensure that the identified suppliers are ready to become legitimate and value-adding shareholders and owners of the company 	<ul style="list-style-type: none"> Develop a proposal for BEE shareholders Assess the implications of new investment and shareholders and develop a suitable mechanism to bridge any gap that may be prevalent or accommodate limitations in knowledge and know-how Suitable programmes and initiatives should be developed to address gaps in knowledge and know-how Other investment areas and expansion opportunities should be constantly identified and evaluated to ensure continuity and constant growth in the business
Human Resource Development and Skills Development	<ul style="list-style-type: none"> Revisit Employment Equity Targets to accommodate the BEE component as a percentage. Develop a suitable and affordable Internship Programme to provide the opportunity for students to get exposure to the workplace and thereby better knowledge of the expectations and challenges of this environment Develop a management development programme in partnership with key tertiary institutions to equip black entrepreneurs and managers associated with the company to acquire relevant skills and knowledge. 	<ul style="list-style-type: none"> If all targets are fully achieved, begin looking at the developmental objectives of the company and its people Look at the suitability of the existing personnel to accommodate the changing company in line with the growth of the country and the continent Ensure that accurate and up-to-date skills enhancement programmes exist to accommodate the technological advancements and international growth trends. Provide ongoing exposure to BEE candidates to quality systems, productivity and international best practice in the core business of the company.

Please note that the timeframes used here are a guideline to be used when developing the detailed implementation plan.

6. Conclusion

This strategy has been developed with recommended solutions to the short -term objectives as well as long-term actions that could be taken if the approach is accepted. In line with the broad based nature of the BEE strategy of the government, the approach is inclusive and complimentary to existing business processes within the company.