

Is BEE a South African growth catalyst? (*Or could it be...*)

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Executive summary

This study asks the question, “Is BEE a South African growth catalyst?” It addresses the question with reference to the theoretical literature on economic and organizational structures. This literature argues that structures reflect values and influence patterns of behavior, empowerment and opportunities for economic growth. The paper shows that South Africa’s economic structures have had negative influences on both racial access and economic opportunity, creativity and responsiveness. The proposition is that transformation and growth require change in economic structures; the same BEE-induced changes will work for both goals. However, some observe that BEE is not effecting change. This raises a counter proposition that BEE will not catalyze growth.

The two propositions are examined in a study of BEE responses in twenty-five JSE listed firms. The firm responses are analyzed on the basis of public documents like Annual Reports. This approach has its limits but does yield interesting observations. The basic finding is that while firms are actively responding to BEE requirements they are also doing so within a static structural context, where firms keep looking to established networks for solutions. This limits the number of beneficiaries of BEE. It also exacerbates constraints on the number of people in these groups—especially manifesting in added pressure on skilled groups. A number of firms are also not developing vertical connections that might open opportunities for entrepreneurs. Firms that are developing vertical connections are creating capacities to bridge the network divides that exist. The payoff seems very high in these initiatives, evident in trained and screened talent, new jobs and new enterprises.

These findings lead the paper into a discussion of what could be done to improve BEE—such that it does become a policy that catalyzes growth. Specific ideas include:

- Government should increase the number of points it rewards firms for doing BEE deals with new entrants. These are riskier to engage with than established partners, so firms should have an incentive to take the risk.
- Instead of focusing employment equity issues at the top management levels, where limited numbers of PDIs with elite qualifications limit the pool of talent, government should (i) focus on building the pools of elites (training PDI CAs for instance) and (ii) focus on creating jobs at the bottom end and ensuring that these individuals are moving up the organizations.
- Government should focus its BEE policy on the middle and bottom of the economy. It should include new elements to the Code of Good Conduct that reward firms for employing (especially from unemployed groups) and for training unemployed people.
- An open architecture approach to BEE would be highly beneficial. This would emphasize the emerging values behind BEE and provide an indicative Code of Good Conduct with options adding up to 150 (including the employment creation and training elements). Firms would be allowed to choose which elements they intend to score their points in (still being assessed out of 100) and Charters would be encouraged (with industry targets, measurement and reporting).
- BEE beneficiaries claiming to be broad based, especially those managing funds, should be called upon to report.
- Government should lead the way in some demonstration projects aimed at establishing vertical connections in key sectors, for some types of suppliers and entry level employees. These projects would focus on stimulating cross-network search and screening activities.
- Finally, government should define what it is trying to achieve through the BEE policy. It should stipulate what success will look like and it should set terms for business about when success will be declared and the policy reach its conclusion (for business as a whole and as individual entities).