BIZCOMMUNITY

BBBEE screws tighten on South African businesses

Many South African businesses will face a stiff challenge in meeting their accreditation targets as they prepare for their first audits under the stricter Revised Broad-Based Black Economic Empowerment (BBBEE) Codes that came into effect on 1 May 2015.

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Growing pressure

Many companies are scrambling to address the stricter codes before they undergo their annual BBBEE audits for 2016, as they managed to squeeze an audit in last year under the old codes before the new ones took effect. Now, they face their first audits under the new codes. Many will see their ratings drop significantly unless they take drastic measures to improve their BBBEE credentials.

There's also growing pressure, as large organisations start to tighten the screws on other entities they do business with. When procuring goods, most state-owned entities and large organisations are demanding that companies still achieve good overall ratings levels even under the revised codes.

In addition, when applying for licences and concessions, companies need to show they are aligned with BBBEE imperatives. This poses some serious challenges for companies which did not begin the process of transforming their businesses in line with the new codes when they were first announced in 2013.

Compliance levels

Some businesses may see their BEE certification levels drop two to four levels under the stricter new codes when they conduct their 2016 audits, with many previously compliant companies even becoming non-compliant.

Compliance levels for each pillar of BBBEE are much higher under the revised codes. Organisations with a turnover of more than R50m a year must achieve a score of 40% in each of the following categories that have been deemed priority elements: ownership, skills development, and enterprise and supplier development. A company that fails to meet this threshold in just one of these elements will have its overall empowerment status drop by a level.

Empowering supplier

The revised codes also introduce the idea of an empowering supplier, defined as an entity that meets three of the following criteria if it is large entity (R35m-plus turnover) or one if it is a medium-sized company (R10m to R50m turnover):

- Buys at least 25% of cost of sales excluding labour cost and depreciation from local producers or local suppliers.
- 50% of jobs created are for black people.
- At least 25% transformation of raw material/beneficiation.
- Spends at least 12 days a year of productivity in assisting small black companies to increase their operation or financial capacity.
- At least 85% of labour costs should be paid to South African employees by service industry entities (only applicable to entities in the services industry).

Companies not deemed to be empowering suppliers will find it harder to do business with larger companies and state-owned enterprises because they will not count in their client's preferential procurement calculations.