BEE revised codes - empowering supplier as a mechanism to human capital development

By Trevor Tshabangu

8 Nov 2013

The BBBEE Revised Codes of Good Practice (RCoGP) are out and have been perceived, to some extent by some, as a mechanism to job creation and retention of employees. This idea borders on Vision 2030 of the National Development Plan (NDP) and other policy instruments that the government has introduced over the years.

The RCoGP were released on 11 October 2013 and are implementable at any point when a business so wishes, although there is a twelve-month transitional period up to 11 October 2014. However, based on the new thresholds for Qualifying Small Enterprises (QSEs), these businesses can take advantage and be verified at any time even before the twelve-month transitional period as they now qualify as exempt from BEE verification. All they need is an affidavit from an independent source to confirm their size and black ownership if any.

In the CoGP gazetted in 2007 and also in the draft codes in October 2012, the Department of Trade and Industry (DTI) emphasised the importance of a Value Adding Supplier (VAS). A value adding supplier is one whose net profit before tax (NPBT) combined with total labour cost is equal to or more than 25% of annual turnover which meant that if a business did not meet the criteria, they would be regarded, to some extent as one that does not add value to the South African economy. The VAS has now been replaced by a new term "empowering supplier" which has four mechanisms.

Target of 25%

An empowering supplier is, according to DTI, "a B-BBEE compliant entity which as a good citizen South African entity, complies with all regulatory requirements of the country". Large businesses should meet three out of four mechanisms and QSEs are required to comply with only one. The empowering supplier mechanism focuses on the development of local production, job creation, localisation of business activities and skills transfer to small black businesses whose annual turnover is under R50-million.

In the first sub-mechanism, a target of 25% has been set to encourage businesses to purchase locally. The localisation mechanism is aimed at value adding processes like packaging and assembling in the case of imported goods. This, in turn is expected to create jobs. With job creation, an empowering suppler is expected to have 50% of all new jobs in the business to be reserved for black people on annual basis without any jobs being lost in the interim period. In the skills transfer mechanism, large businesses are expected to spend twelve days per annum assisting small businesses with skills and expertise that they may require. In the DTI lens, every business should be an empowering supplier and hence the choice of three out of four mechanisms.

In the Preferential Procurement element, a sub-element of Enterprise and Supplier Development (ESD), the empowering supplier mechanism applies to all sub-categories of the scorecard except for Exempted Micro Enterprises (EMEs.) This compels businesses to not only assist their small black-owned suppliers in terms of skills but to also retain their employees to meet the 50% target on black employees employed in the new period. The retention of employees in the measured entity and its value chain is critical.

Bonus points

The supplier development and enterprise development sub-elements of the ESD scorecard reward bonus points for businesses that have assisted more than 51% black-owned QSEs and EMEs in creating and maintaining jobs over the financial year period. This initiative encourages big businesses to have an interest in small business human capital by making sure that small businesses grow and retain their workforce.

The Management Control scorecard, which is a combination of the current board, executives and all other employees, is also a key element in the empowering supplier mechanism as it borders around the increase in employment which is pegged at 50% black. If a business chooses this sub-mechanism in the empowering supplier list, they must do a couple of things right.

First, the business must make sure that they maintain the number of black employees in the business on an annual basis. If they decide to increase the number of employees, 50% of these employees must be black. It is important to note that the empowering supplier sub-mechanism only applies to additional employees and not existing employees.

An example; if a business has 100 employees, 50 black and 50 white. If the business employs an additional 10 people in the next financial period, five of these employees must be black otherwise the entity would not qualify in this sub-mechanism.

In conclusion, the Revised Codes of Good Practice in the empowering supplier mechanism seem to be geared towards a job creation philosophy by encouraging businesses to increase employment levels year on year through the empowering supplier mechanism. A further observation of this strategy is that DTI is trying to encourage businesses to not only retain their employees, but those of their suppliers and enterprise development candidates.

ABOUT TREVOR TSHABANGU

Trevor Tshabangu is a director at Transcend Corporate Advisors. He is specialist in implementing sustainable empowerment strategies, as well as undertaking corporate BEE due diligence investigations.

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