"Analysis of economic transformation intervention in South Africa - the CA charter"

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Analysis of economic transformation intervention in South Africa - the CA charter

Abstract

The purpose of this paper is to conduct an analysis of the chartered accountancy profession sector charter with other sector charters. This is to ascertain if the chartered accountancy profession sector charter is a workable strategy to address economic transformation within the accountancy profession in South Africa. Desktop research method was used for this paper. Content analysis was used to analyze the chartered accountancy profession’s charters with the aim to ascertain if it is a workable strategy when compared with other sector charters to address the limitation of growth of black people in the chartered accountancy profession.

The analysis of the selected sector charters shows that the chartered accountancy sector is committed to economic empowerment in South Africa. This sector has, however, set aggressive targets on employment equity and skills development when compared with the financial and construction sectors. This analysis and comparison is useful in guiding the stakeholders within the accountancy profession in their vision to accelerate the transformation process within the profession. Furthermore, it is hoped that this paper will stimulate substantive discussions around economic transformation strategy designed by government and business to redress economic inequality in South Africa.

Keywords: broad-based black economic empowerment, charters, chartered accountancy, sectors, South Africa.

JEL Classification: J24, J71.

Introduction

Since the new political order in 1994, South Africa has experienced not only political change, but also transformation within the economic and, consequently, the business arena. Some of these notable changes within the business sector include affirmative action and altered ownership structure of businesses. This forms part of the transformation process considered necessary by the South African government as a measure to ensure that all citizens participate and play a meaningful role in the economy. Black Economic Empowerment (BEE), which is one of the economic transformation programs aimed at rebalancing the economic landscape in South Africa, is viewed by the government as the most important tool to correct the previous government’s economic policies, which led to a low entrepreneurial base among the black community and reduction of their economic assets; and, hence, to a major limitation of their economic development (the DTI, 1995). BEE came into effect when it was enacted by the Act of Parliament in 1996. BEE or Broad-Based Black Economic Empowerment (B-BBEE), as it is technically known, evolved over the years. There is currently the Broad-Based Black Economic Empowerment Amendment Act of 2013. This Act includes policy interventions such as employment preference, skills development, ownership, management, socio-economic development and preferential procurement.

As a consequence of the need for economic transformation, various economic sectors have developed charters to monitor their transformation agenda. The charters are a framework aimed at producing solutions to a multifaceted problem, which is redressing the imbalances of the past (the DTI, 2003). The financial, construction and chartered accountancy profession sectors are some of the leading sectors that have embraced the transformation process by developing their own sector charters.

The purpose on which this paper is based is to conduct a comparison of the chartered accountancy profession sector charter with other sector charters. This is to ascertain if the chartered accountancy profession charter is a workable strategy to address transformation within the accountancy profession.

When all South Africans were given an opportunity to cast a vote in 1994, the political and constitutional transformation goal was realized and the battle for political liberation ended (South African History Online, 2014). Yet, this represented only a part of the overall goal for the fight of a democratic dispensation. The country was, then, faced with a challenge to transform the economy and development skills base in various sectors within the economy. The South African government devised a wide range of economic policies, strategies and program interventions aimed at ensuring meaningful participation of all citizens in the economy. One of the economic strategies that have been identified by the government to be used
as a vehicle to address the economic imbalances is Black Economic Empowerment (BEE). The BEE is an economic strategy aimed at bringing the previously marginalized communities to the mainstream economic activity. The implementation of this economic strategy has resulted in the development and acquisition of businesses by black people.

The BEE implementation process has been, to some extent, controversial. Civil society groups within the white community in South Africa have raised some concerns on the BEE policy. They view BEE as discriminatory in nature and consider it to be apartheid in reverse (Ershammarr, 2010). However, taking into account considerations to the frames provided in the South African constitution, the economic transformation policies are not intended to derogate from the right to equality, but rather as a means to achieve equality and as part of the right to equality. The need for economic empowerment policies emanated from the need to redress the collective racial, gender and class inequalities created by the system of apartheid (Kruger, 2011).

1. Research problem and objective

As a result of a need for economic transformation in South Africa, the implementation of BEE remains a priority. The South African government is committing the private sector to economic transformation. In this pursuit, the private sector together with government has devised a plan of action in the form of charters to attain economic transformation. The charters are viewed as a guiding framework on which transformation is assessed.

The objective of this paper is, therefore, to analyze the chartered accountancy profession charter with an aim to assess if the charter is a workable framework for the profession, when compared with other sector charters, to address the limitation of growth of black people in the chartered accountancy profession.

Although the scope of investigation to cover adequately the subject of this paper can be extended to all types of professions, it has been deemed necessary to limit the scope of comparisons to the financial and construction sectors. The authors are of the view that the financial and construction sectors are the key sectors in terms of their scope of operations within the South African economy.

The question that the authors of this paper sought to answer is: “Compared with the financial and construction sector charters, is the chartered accountancy profession sector charter capable of transforming the accountancy profession in South Africa”. It is hoped that the results of this paper will guide the stakeholders within the accountancy profession in their vision to accelerate the transformation process within the profession.

2. Literature review

Similar policy intervention programs have been successfully applied in other parts of the world that share a similar history as South Africa. This section will start by reviewing global perspectives and conclude by reviewing the South African perspectives on such economic transformation policy intervention programs.


Since the main focus of this study is on South Africa, discussions on global perspectives will only be limited to Malaysia and United States of America. The rationale behind selecting the two countries is that they have successfully applied similar economic transformation initiatives.

In Malaysia, the New Economic Plan was implemented in 1969 with the aim of eliminating poverty and promoting greater economic equality between the different racial groups, in particular, the Bumiputera ethnic group (Heng, 1997). The Malays were empowered through expanded educational opportunities and expansion of the supply of skilled Malay labor. The program further promoted gradual redistribution of asset ownership. To encourage the redistribution of ownership, Malaysian companies were granted government contracts, if they had a substantial number of shares held by the Bumiputera community (Heng, 1997). It is reported that the Malaysian economic empowerment program boosted the economic position of the Bumiputera. In 1970, the Bumiputera’s share of corporate equity ownership was approximately 2% and at the end of the New Economic Plan in 1990 it had risen to 20%.

The United States of America (USA) has also applied the economic empowerment program. In the early 1970s, the USA government made efforts to address the imbalances on the economic front. Employment, educational, housing, and business opportunities were created to empower the previously disempowered black community (Engdahl, 2001). Preferential loan arrangements and special grants were set up by the USA government to facilitate the empowerment of emerging black entrepreneurs. The economic empowerment efforts of the USA government produced material results as the ownership of businesses by Blacks grew by 230% within a period of 20 years (Engdahl, 2001).

2.2. South African perspective on economic transformation.

There has been an increasing...
demand for economic transformation in South Africa. The government, together with business has devised economic policy interventions aimed at rebalancing the economic landscape in the country. The formulation of policies and legislation to achieve BEE has mainly been driven by the Department of Trade and Industry. The early stages of implementation of BEE can be traced to the mid-1990s when ownership and shareholding in certain previously White-owned companies was transferred to Blacks. As it has previously been mentioned, the implementation of BEE attracted some level controversy within the business community and general public. In the early stages of the implementation of BEE, critics believed that BEE had led to the empowerment of the selected few and the scope of the program was very narrow, as the focus was on ownership of businesses. The Black Management Forum (BMF) was one of the organizations that expressed concerns on the way in which BEE unfolded. At its 1997 Stellenbosch conference, the BMF argued that the BEE was a process that was controlled by the private sector with little tangible evidence of Blacks influencing the nature, direction, scope and vision for BEE. The conference viewed the empowerment processes and deals, at that stage, as being dominated by entities, including government structures that did not realize the real ambitions of the previously disadvantaged black majority. The view that was held at the conference was that Black people must be given the opportunity to direct and take charge of a new vision for BEE. There were also issues relating to BEE deals targeting a few elite and politically connected Black people. The BMF was further concerned about the lack of a BEE framework against which the empowerment of Black people could be measured.

In consultation with other stakeholders, the government considered the resolutions of the BMF conference by establishing a BEE Commission. In its report, the BEE commission recommended, amongst others, that a framework for the evaluation of BEE be set up and positive measures be taken to compel the private sector to embed the BEE strategies, including the setting of specific BEE targets through industry charters. The BEE Commission further recommended that a BEE Act be promulgated for the purpose of setting up the support and infrastructure necessary for the implementation of the Commission’s recommendations. The Commission’s report established an important foundation for the BEE strategy which was adopted by government in March 2003. That led to the birth of the Broad-Based Black Economic Empowerment (Broad-Based BEE). The Broad-Based BEE differs from the BEE in that it includes elements of human resource development, employment equity, enterprise development and preferential procurement. It also includes investment, ownership and control of enterprises and economic assets under a singular, holistic legislative framework consisting of Broad-Based BEE Act (Act 53 of 2003) and a balanced scorecard, which currently makes it possible to measure progress on economic empowerment across industries and within industries.

3. Research method

This paper followed a desktop research methodology. Content analysis approach was used to analyze and compare the chartered accountancy profession charters with the aim to ascertain if it is a workable strategy, when compared with other sector charters to address the limitation of growth of Black people in the chartered accountancy profession. Available policy documents were studied and analyzed in order to try to understand the rationale behind the enactment of these policies in South Africa.

4. Results

This section reports of the results of the analysis and comparisons of the charters and codes, the financial sector charter, the construction charter and the chartered accountancy profession charter.

4.1. The charters and codes. When the Broad-Based BEE came into effect in 2003, a number of sectors had already started working on drafting their industry charters. The charters that were drafted at that time contained significant incomparable benchmarks in terms of the content, as well as criteria for measurement. The lack of definite benchmarks resulted in entities in different sectors having differing advantages when competing for business. As a consequence, the DTI developed and gazetted the Black Economic Empowerment (BEE) Codes of Good Practice, in terms of which a number of transformation sector charters were introduced, vetted and analyzed for compliance, as per the stipulations of either Section 9 or 12 of the Broad-Based BEE Act, No. 53 of 2003 (the DTI, 2005). The purpose of the Codes of Good Practice was to provide a standardized framework for both government and industry for the recognition and measurement of Broad-Based BEE.

As previously mentioned, a sector charter can be gazetted in terms of section 9 or 12 of the Broad-Based BEE Act. A sector charter gazetted in terms of section 12 is compiled by representative bodies of a specific sector, and is considered to be a commitment by all stakeholders to promote BEE in
the applicable sector. It has to be approved by government and may be gazetted, but it is not binding upon the organs of state or public entities. This means that its scorecard is not used as the measurement criterion for procurement by organs of state or public entities. A sector charter gazetted in terms of section 9 is also compiled by sector representative bodies. Sector stakeholders are involved in the drafting process. In contrast to the section 12 charters, the approval process for section 9 charters is more thorough. Independent third parties are involved in the process to assess and verify the content of the charter. This is to ensure that it is in line with the provisions of the BEE Act and the Codes of Good Practice, and the draft version of the charter has to be released for public comment. Once approved, the sector code is gazetted as Codes of Good Practice under section 9 of the Broad-Based BEE Act. Where a charter is gazetted in terms of section 9, it means that the document is aligned to, and has the same status as the Codes of Good Practice, hence, reference to it as sector code.

The discussion below analyzes the similarities and differences in the financial, construction, and chartered accountancy profession sector charters. The three sectors were selected for this paper, as the nature of business of operations of these sectors varies in scope and are key sectors within the South African economy. The mapping of the mentioned sector charters will begin with a brief overview of each sector.

4.1.1. Financial sector charter. The financial sector charter was adopted by the sector in October 2003 and was gazetted in February 2007 as a transformation charter in terms of section 12 of the BEE Act. The charter was reviewed by the sector through a consultative process with an aim of aligning it with the Codes of Good Practice. The review process was concluded and the charter was gazetted in terms of section 9 in March 2012.

The financial sector includes institutions conducting business in banking, long and short term insurance, re-insurance, the management of retirement, pension and collective investment schemes and assets, management of formal collective investment schemes, financial services intermediation and brokerage, management of investments on behalf of the public, including, but not limited to, private equity, members of any exchange licensed to trade equities or financial instruments in South Africa and entities listed as part of the financial index of a licensed exchange, and underwriting management agents (the DTI, 2012).

The main objectives of the financial charter are to promote:

♦ the employment, training and promotion of Black people;
♦ improvement of access to financial services by previously disadvantaged communities;
♦ targeted investments in projects that address backlogs and underdevelopment, and support job creation, including low-cost housing, SMEs, and agriculture;
♦ support for education, skills development and various learnership programs; and
♦ the procurement of services and goods from Black businesses.

4.1.2. The construction charter. South Africa has experienced an expansion in the construction industry and all indications are that this momentum will continue for some time, taking into account the need for housing and infrastructure improvements. The construction industry is at its pick in terms of business activity and new players are entering the market. This includes multinationals, which are looking at forming strategic partnerships, with local construction entities, in order to attain the best advantage when procuring for construction work. A factor that is often considered when strategic partnerships are formed is achieving compliance with BEE.

The construction sector charter and its scorecard were published in terms of section 9 of the BEE Act in June 2009 (the DTI, 2009). That implies that it is binding on state entities and departments in evaluating BEE status. The construction sector charter applies to all businesses that are involved in the creation, expansion and maintenance of properties related to residential or non-residential buildings, infrastructure or any other form of construction work in South Africa.

The objectives set in the construction sector charter are to:

♦ achieve a substantial change in the racial and gender composition of ownership, control, and management in the sector;
♦ promote the effective advancement of employment equity in the sector and adherence to principles of non-racialism and non-sexism;
♦ provide to the construction sector the first quantitative method for monitoring and evaluation of the progress of an enterprise towards BBBEEE and thereby contribute to ending the malpractice of fronting;
♦ address skills development in a manner that accelerates the advancement of Black people,
Black women and designated groups with a particular emphasis on learnerships, technical and management training;
- increase the procurement of goods and services from BBBEE enterprises and standardize preferential procurement methodology;
- enhance entrepreneurial development and promote the sustainable growth of micro, medium and small BBBEE enterprises.

4.1.3. The chartered accountancy profession charter. The accountancy profession has suffered some setbacks in attracting talent from the Black people in South Africa. These setbacks are historical and are mainly based on education policies that were applied by the previous regime in South Africa that limited Black people from studying accountancy and related subjects. Statistics indicate that, in March 2007, SAICA had a record of 25 902 registered chartered accountants of which 3.10% were Black (African), 1.78% Coloured, 7.13% Indian, 87.86% White and 0.12% other (SAICA, 2012). In January 2014, the recorded number of registered chartered accountants amounted to 36 286 of which 7.84% are Black, 2.92% Coloured, 10.20% Indian, 78.57% White and 0.47% other (SAICA, 2014). The South African 2013 statistical annual report, the population demographics of black (African) comprised of 79.8 of the total population (Statistics South Africa, 2014). The above statistics indicate that there is still much to be done to grow the number of Black people in the chartered accountancy profession.

The accountancy profession comprises of the South African Institute of Chartered Accountants, public practice sector, auditor general, members, private and public sector organizations and accredited higher education institutions. The chartered accountancy profession has devised a charter to address transformation within the accountancy profession. The charter was gazetted in March 2011, in terms of section 9, making it binding to the state entities and departments. The charter is a directive towards the transformation of the accountancy profession, as it sets out the vision and scope to address the limitations in the growth of Black people in the accountancy profession.

The overall objective of this sector charter is to promote economic growth and transformation to enable meaningful participation of Black people so as to increase equitable income distribution and bring about equal opportunities. In real terms, and given that the profession is that of Chartered Accountancy, this objective should find expression in the achievement of CA membership and sector composition that reflects the demographics of South Africa.

The following are sector scorecards set by sectors under review in this paper.

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<th>Financial sector</th>
<th>Construction sector</th>
<th>Chartered accountancy sector</th>
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<tr>
<td>Ownership</td>
<td>14%</td>
<td>25%</td>
<td>20%</td>
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<tr>
<td>Management and control</td>
<td>8%</td>
<td>10%</td>
<td>10%</td>
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<tr>
<td>Employment equity</td>
<td>15%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Skills development</td>
<td>10%</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Preferential procurement</td>
<td>16%</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Empowerment financing</td>
<td>15%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Enterprise development</td>
<td>5%</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Socio-economic development</td>
<td>3%</td>
<td>-</td>
<td>5%</td>
</tr>
<tr>
<td>Access to financial services</td>
<td>14%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
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Source: Department of Trade and Industry (2014).

4.2. Comparison of the sector charters. The financial sector charter has set a minimum of 25% of Black ownership at holding company level, of which at least 10% must be direct ownership by Black people and the remaining 15% through indirect ownership. Though the Codes of Good Practice make no mention of the indirect ownership, according to the financial sector, indirect ownership occurs when an institution holds a stake on behalf of Black beneficiaries. The view that 15% of ownership should be indirectly held by Blacks implies that institutions which invest on behalf of Black people should fulfil this requirement. The financial sector is hoping that 25% of equity will be in the Black hands by the end of 2014. The construction and chartered accountancy sectors have set their targets of ownership at 25% and 20%, respectively. The construction sector anticipates to
reach 90% of its target by 2014, whereas the chartered accountancy sector has set its sights at achieving 87.50% of this target by 2016.

The three charters put emphasis on the participation of Black management in the leadership structures of sectors. The management and control elements deal with the top management level. The top management is tasked with making the strategic decisions of the entity. The top management is distinct from other layers of management that are dealt with by the employment equity element. The financial sector predicts that its entities will employ a target of a minimum of 25% of executives, as distinct from senior managers, that are discussed as part of employment equity. The sector’s expectation is to reach this target by December 2017. The construction sector has committed itself to achieving 40% Black people at board level of which 20% should be Black women, by December 2014. The construction sector charter further commits the sector to comply with the requirement of a minimum of 25% Black people at executive level in 2014. The chartered accountancy sector has set a target of 50% of Black people in the board and 40% at top management by 2016.

Employment equity is part and parcel of the empowerment initiative that sectors have to comply with in terms of the Employment Equity Act. The Employment Equity Act, No 55 of 1998, came into effect when it was enacted by Parliament in 1998 (Department of Labor, 1998). The purpose of the Act is to achieve equity in the workplace by promoting equal opportunity and fair treatment in employment through elimination of unfair discrimination and implementing affirmative action measures to redress the disadvantages in employment experienced by designated groups, in order to ensure equitable representation in all occupational categories and levels in the workforce (SAICA, 2014). There are no significant differences between the stipulations of the Act and the charters of the sectors under discussion. The sectors are specific about quantities, as well as the time frames related to race and gender. The financial and chartered accountancy sectors also take into account the issues of Black people with disabilities. The sectors have set a target of 3% of Black disabled employees as percentage of all employees using the adjusted recognition for gender. The financial sector has a target of 60% of Black senior management as a percentage of all senior management of which 30% must be Black women. At middle management, the target is 75% of which 37.5% must be Black women and junior management is 80% of which 40% must be Black. The construction sector has a target of 40% at senior management level of which 16% must be Black women. At middle management level, the sector has projected a target of 40% of which 16% is a projection of Black women and at junior management level 65% is the target of which 27% is projected for Black women. The chartered accountancy’s target is targeted at 50% at senior management level. The middle and junior management levels are targeted at 60% and 70%, respectively. The chartered accountancy sector has made no mention of the exact target relating to female representation at all management level.

The skills development in South Africa is governed by the Skills Development Act, No 97 of 1998, which sets out the requirements for entities to comply with. In line with the empowerment policies, all entities are expected to abide by the Skills Development Act. The Skills Development Act requirements of charters are generally less strenuous than those of the Act itself. It should be noted that given the South African history, skills shortage has to be given a very serious consideration. South Africa has a huge skills shortage and the most affected in this area are Black people who were isolated in training programs in the past. The financial and chartered accountancy sector charters commits entities in their sectors to spend 3% on learning programs specified in the learning programs matrix for Black employees as a percentage of the financial institution’s leviable amount. The construction sector has set its target of skills development at 2% of basic payroll per year on training of Black employees. The chartered accountancy sector charter has bursary expenditure of 5% as a component within its skills development element. This is specifically meant to be disbursed to Black employees with a potential and it includes amounts to be spent on the Thuthuka Bursary Fund. As far as learnerships are concerned, the three sectors have set targets of 5% of Black employees as a percentage of total employees.

Preferential procurement is regarded as one of the powerful tools of economic empowerment and in creating business for Black people. The South African government plays a critical role in this regard, as it spends substantial amounts of money in procuring goods and services from various businesses in the private sector. The basic idea with procurement from the point of view of the government is that the state uses its procurement muscle to do business with businesses that are prepared to comply with BEE requirements, as set out in various charters. In a way, this exacts empowerment compliance to entities which seek to do business with the government. A business entity
that procures from a Black owned firm will receive points for this and these points are used to grade the overall BEE points that the firm in question can claim. The sectors under discussion have set a procurement target from empowered companies of 70%.

Empowerment financing is only applicable to the financial sector out of the three sectors selected for this paper. It entails making available in the form of loans, amounts to finance empowerment transactions, as well as investments in targeted investments such as transformational infrastructure, Black SMEs, Black agricultural financing and affordable housing, which have not attracted high levels of investment in the past. Currently the charter has a target of R48 billion on targeted investments and R32 billion on BEE transaction financing.

The element of enterprise development is directed at encouraging entrepreneurship among Black people. The result of all apartheid practices, some more subtle yet devastating, created an economic structure that today is skewed, as it excludes the vast majority of South Africans from participating meaningfully in the economy, hence, a lack of entrepreneurial base within the Black community. The Native Urban Areas Consolidation Act, No 25 of 1945 only allowed small businesses, selling the daily essentials of living, to operate in the urban Black townships. The authorities controlled the allocation of all business permits in the townships (Abeluleki Consulting, 2000). The enterprise development element is aimed at correcting the lack of entrepreneurship among the Black people. The three sectors discussed in this paper have embraced this element in their charters.

Other elements included in the sector charters include socio-economic development and access to financial services. The socio-economic development element seeks to promote initiatives that are aimed at enhancing the ability of Black people who remain non-participants in the economic mainstream to be included as participants in the main stream economy in a sustainable manner. The access to financial services element is peculiar to the financial sector and focuses on improving the access to financial services by poor Black people who currently have little or no access to financial services and products.

Conclusion

This paper reported on research that aimed to determine whether the chartered accountancy profession charter is capable of driving the transformation process, thereby empowering Black people in South Africa. This was done through the comparison of the chartered accountancy profession charter with the charters of financial and construction sectors. The comparison revealed that the accountancy profession has set aggressive targets on employment equity and skills development when compared with the financial and construction sectors. The analysis indicates that the chartered accountancy sector is committed to economic empowerment. The attainment of these targets by the chartered accountancy sector can spell the realization of the transformation of the sector and a successful drive to economic transformation.

References