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## **NO GRUDGES PLEASE: LEVERAGING THE REVISED BBBEE CODES**

The BBBEE codes were revised in October 2014, reducing the number of scoring areas from 7 to 5. The greatest impact of these revisions have been on the three key areas of Ownership, Enterprise & Supplier Development and Skills Development. It is imperative for companies to meet the minimum requirements in these three priority areas or face a reduction in their overall score.

The greatest weighting on the new scorecard has been allocated to Enterprise & Supplier Development (ESD), which contributes a total of 40 points. A minimum of 16 out of 40 points is required to avoid being penalized with a drop of at least two levels. However, developing external businesses is not the core focus of most companies, which disadvantages companies from the onset and places an increased burden on their internal resources as they attempt to comply with the revised codes.

When faced with the encumbrances imposed by the BBBEE legislation, compliance is generally viewed as a “grudge purchase” by many South African corporates. Companies comply by doing the bare minimum so as not to fall foul of legislation. Only a minimal amount of the intended benefits from the implementation of this policy is therefore being filtered down through the South African economy.

Ms Toni Shüping, Group Executive Manager of the Honeyguide Group, has a different perspective on the issue of BBBEE: “Businesses short-change themselves if they look at the BBBEE requirements in isolation and take the negative perspective of seeing them solely as a burden.” In her opinion, ESD for example, should be seen as motivation to implement critical supply chain improvements that are necessary to compete in an increasingly global market anyway, while simultaneously reaping the benefits of fulfilling their BBBEE requirements. “Honeyguide offers a full set of business expertise to support CSR, ED and Supply Chain developmental programs. Companies can focus on their core business while we seamlessly interface with existing departments, working towards their BBBEE targets. From this perspective,” she says, “it is a win-win situation all around. Business is able to safeguard and diversify its supply chain and also gain bonus points for moving SMMEs along the value chain from enterprise development to inclusion in their supply chain. On the flip side, SMMEs receive the developmental support and mentorship to progress to a level of superior competencies, and are presented with the opportunity of gaining access to markets and funding.”

Indeed, while it might not be obvious all the time, the rationale behind the revised BBBEE codes is not to place added strain on business, but rather to stimulate growth in the South African economy. Each of the three priority areas have fundamentally positive underlying objectives. “Ownership” motivates for economic empowerment for those previously excluded or disenfranchised; encourages participation in and contribution to the economy, which makes good economic sense; and brings about economic transformation, as opposed to retaining the existing status quo which will not be sustainable for very much longer.

“Enterprise & Supplier Development” drives growth within small and medium enterprises - broadening the supply base; promotes mentorship and support of these SMMEs until they achieve sustainability; and encourages entrepreneurship, critical to job creation, which is a dire need as

South Africa faces the highest unemployment figures ever.

Thirdly, “Skills Development” encourages personal development and provides the opportunity for individuals to obtain recognized qualifications which contributes to a more educated workforce and ultimately leads to a less conflict-ridden labour market.

The two additional elements on the BEE scorecard: “Management Control” benefits from the strategic approach to ownership encompassing revised employment and labour policies; and “Socio-economic Development” is fulfilled as a spin-off of Enterprise and Supplier Development as well as Corporate Social Investment.

“Instead of viewing BBBEE with apprehension and as separate to the successful running of the business, companies should be looking at more holistic, innovative and creative BEE strategies,” agrees Mrs Niré Torrente, an independent Operational and Labour Law expert, with a background in Industrial Psychology. Mrs Torrente’s philosophy is that “the whole is greater than the sum of its parts.” Approaching business from a holistic perspective and leveraging existing business practises and spend, could give rise to a number of innovative solutions to achieving BBBEE compliance. She believes that business owners are more likely to decide on compliance methods which adversely impact on the operational success of the business when they look at BEE in isolation. Instead, it is preferable to review current successful operations and identify the opportunities for compliance. “When addressing Ownership and Management Control, employment strategies and operational needs could provide scope for BEE development while still protecting operational effectiveness. Opting for contract employees as opposed to salaried employees, while developing appropriate BEE candidates into effective permanent posts, could contribute to scoring in these areas,” she suggests. “Channelling advertising and marketing spend in such a way as to fulfil CSR, Skills and Socio-economic Development programs then becomes an existing business practise, with extended scope to contribute to BEE compliance. However, to be able to devise these creative strategies,” she cautions, “business should not merely focus on ticking off elements on the BBBEE scorecard, but rather concentrate on integrating BEE into dynamic, successful operational practises in the business as a whole.”

From a global perspective, Honeyguide Managing Director, Mr Stephan Lichtenauer, based in Germany, echoes the positive sentiment: “Enterprise and Supplier Development is not a South African concept, but rather a global movement where best practices are critical building blocks to sustainable business success. Also it is proven to stimulate economies, diversify supplier chains and create jobs” he says.

When implemented in-line with its true intentions, BBBEE has far reaching benefits not only for the active parties but also for the well-being of the economy and the country as a whole. The revised BBBEE codes should not be interpreted as a “crisis” for business but rather an opportunity to influence economy in a long term positive way. After all, in Chinese the word for “crisis” is composed of two characters – one meaning “danger” and the other “opportunity”, so it really comes down to perspective. The perceived BBBEE “crisis” can also be viewed from the perspective of great “opportunity.”



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## **About Honeyguide Group**

Honeyguide is a small, privately owned group, founded in Germany in 2004. The company focuses on investing in and collaborating with SMMEs from emerging markets. As a result hereof, Honeyguide now also operates in South Africa and the SADC region, where the company strives to have a positive impact on economic and socio-economic development. Honeyguide's approach is to offer a full set of business expertise to support clients and companies they partner with. The three key areas they focus on are supply chain and enterprise development, the safeguarding of Corporate Social Investment and internal or external incubation services.

Positioning itself as a highly focused, long-term business partner, intent on achieving efficiencies, sustainability and long term profitability, Honeyguide embodies the German "Mittelstand" culture. "Mittelstand" refers to privately owned, highly efficient, small to medium enterprises, operating as dominant global players in valuable niches.

These are the companies credited with being the backbone of the German economy, responsible for economic growth since the beginning of the 20th century, a success story which the company aims to replicate in Southern Africa.

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