

# Black Economic Transformation in the RETAIL MOTOR INDUSTRY ORGANISATION

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## 1. BACKGROUND & INTRODUCTION: RMI

The Organisation, as we know it today, was restructured and named the Retail Motor Industry Organisation (RMI) in November 1999 from the then Motor Industries' Federation (MIF) and South African Motor Industry Employers' Association whose history goes back through many decades from its inception in 1908.

Today, the RMI is a well-known name in the motor industry. The RMI represents 7 500 member businesses. Its highly-skilled staff operate out of six regional offices. The RMI plays an important role in the motor industry as it enables motor traders to deliver top-class service to motoring customers in South Africa.

The RMI brand carries weight in industry as well as Government circles. This is due to the fact that the RMI's endorsement of events provides credibility to both local and international exhibitions, conferences and other events.

## 2. RMI VISION AND OBJECTIVES

### **2.1 RMI Vision**

The RMI is a proactive, relevant, retail and associated motor industry organisation; recognised both as the lead voice serving the daily needs of its members and for its key role in enabling motor traders to deliver excellent service to motoring customers in South Africa.

## 2.2 RMI Objectives

- To promote, protect and encourage the interests of members and the motoring public by setting and maintaining proper standards of service and ethical trading conditions in the industry.
- To facilitate the settlement of disputes between members and their employees, and members and the motoring public through the process of mediation.
- To regulate relations between members and their employees and/or trade unions and to protect and further the interests of members in that regard.
- To promote, support, or oppose when necessary, any proposal, legislation or other measures affecting the interests of its members.
- To affiliate with and participate in the affairs of other bodies sharing common interests with RMI members.
- To provide upliftment programmes to improve the knowledge and professionalism of members.

## 3. RMI'S BUSINESS APPROACH TO TRANSFORMATION

A business approach to black economic transformation for sustainable and inclusive growth is contained in this Position Paper ("Position Paper"), with the following key themes emerging:

The RMI plays a critical role in engaging with Government and other stakeholders, and lobbying Government on behalf of its members on all matters relating to transformation. The RMI recognises that the ultimate goal of black economic transformation is a deracialised economy that seeks to broaden and deepen economic benefit and participation. Economic transformation is required to achieve and maintain a competitive and sustainable economy, and secure inclusive growth and empowerment. The RMI is fully committed to accelerate this process working with its associations, Government and key social partners including organised labour.

Economic transformation within the RMI is to be achieved through sustainable interventions such as quality education and skills development for black people, employment creation (particularly amongst black youth) as well as enterprise development and the creation of ownership opportunities for black people within the value chain of the RMI.

Accelerated transformation will require the RMI to engage with Government, businesses and other key stakeholders, such as organised labour, to collaborate and work together in partnership at the following levels:

- Provide overall direction with regard to RMI's policy on transformation and how associations can work together on various programmes.

- To measure, monitor and evaluate all initiatives to be able to provide feedback on status and progress.

This Position Paper identifies the guiding principles for the RMI on black economic transformation, business response and the desired end-state of a deracialised economy. The gap between the desired end-state and the current status is interrogated with the intention of identifying key shifts required by businesses associated to RMI to meaningfully participate and enable inclusive growth and employment. Achieving and maintaining a competitive economy as well as ensuring the members remain sustainable, is the key driver of this approach.

In South Africa's Economic Transformation Strategy of the BEE Commission, it states:

***“Economic growth, development and BEE are complementary and related processes. Government’s approach is that BEE must be an inclusive process and not an exclusive process. No economy can grow by excluding any part of its people and an economy that is not growing cannot integrate all of its citizens in a meaningful way. As such this strategy stresses a BEE process that is associated with growth, development and enterprise development, and not merely the redistribution of existing wealth.”***

In this regard, the following aspects provide an important context and constitute prerequisites and enablers for inclusive growth that will encourage and enable businesses to invest, bearing in mind that the RMI is made up mostly of small businesses:

- In South Africa smaller businesses contribute only 65% to employment, relative to a worldwide average of 95%. There is great potential to add many small and growing enterprise businesses controlled by black people through inclusive growth.
- The regulatory environment has, in many cases, best-of-class laws when seen in isolation. In application, however, laws are too often onerous and unpredictable creating a barrier to starting, growing and doing business. They fail to create the requisite certainty and conditions for competitiveness, economic inclusion and growth.
- Current infrastructure challenges in the country are not conducive to economic inclusion and growth. In the Western Cape, for example, challenges with Metro Rail and the shortages of water are all contributing to a slow-down in development.
- Inadequate investment in infrastructure creates bottlenecks and slows development, with the resultant muted growth and lethargic employment figures. This is exacerbated where infrastructure services are uncompetitive and costly. If comprehensively and effectively addressed, this would enable businesses of all sizes, formats and sectors to be more competitive.
- Regulatory burdens, particularly in relation to the smaller businesses, make it difficult for businesses to focus their attention on growth.

- Basic education fails to provide an adequate foundation for young people to enter post-school education and training or employment. Poor child nutrition, particularly amongst the poorest in the population, exacerbates the impact of inadequate basic education.
- There is a skills deficit and significant skills mismatch between those skills being generated by the basic and post-school education system and the current and emerging skills demands required for businesses within the RMI. Comprehensively building a more effective and efficient skills system is an essential foundation for inclusive growth.
- Career guidance and outreach initiatives are imperative to attract young black people to careers in the motor industry.

Some of the critical cross-cutting enablers that will positively impact inclusive growth include: youth employment creation, enterprise development and support, promotion of localisation, demand-led skills growth as well as reliable, safe and affordable public transport.

This Position Paper seeks to define, for business, the elements and processes that will radically transform the economy. This is grounded in building the conditions required for inclusive growth, on the platform of social cohesion for meaningful transformation.

#### **4. RMI INTENTION**

For the last 11 years the RMI has regarded and approached B-BBEE as a business imperative and encouraged its members to not only become aware of the requirements of B-BBEE, but also to comply. The RMI's nine associations have diverse business challenges and very different legislative environments.

Eighty percent of its members are small, family businesses, however, the current economic environment as well as the bureaucratic regulatory requirements for small businesses has made it difficult for these businesses to be sustainable.

There are approximately 329 000 employees registered at the Motor Industry Bargaining Council (MIBCO). The RMI employs the majority of this workforce, hence the need for the RMI to ensure that the motor industry is transformed by:

- Equipping members with the tools to understand and recognise that transformation is a business imperative and there is considerable pressure on the motor industry to transform.
- Improving the demographic profile of the membership to reflect economic transformation.

While RMI members may recognise the importance of black economic transformation as a Government imperative, they also need to consider transformation as a key driver to sustain their businesses. Equally, the RMI recognises that the pace of transformation within the RMI can be improved and this calls for greater collaboration between the RMI associations, training institutions and Government.

The key economic indicators in South Africa, including the new car sales statistics, are not favourable to growth. This created the need to engage with Government to identify projects that can stimulate growth in this sector. Broad-Based Black Economic Empowerment (B-BBEE) has the

potential to redress the inequality, boost economic growth and create a better life for all if the necessary support can be sourced from all stakeholders.

When the South African Government gazetted the B-BBEE Codes of Good Practice at the beginning of 2007, the RMI assisted members to comply.

This Position Paper will provide simple explanations to help RMI make empowerment an integral part of its operations and growth strategy.

## **5. CURRENT SITUATION**

- The industry is made up of all business types (Qualifying Small Enterprises (QSE), Exempt Micro Enterprises (EME) and Generic Enterprises (GENs)).
- The Department of Trade and Industry (DTI) informed the Transformation Director that the RMI has done little to assist members with transformation.
- We have a Transformation Committee with a Terms of Reference .
- The Transformation Committee has approved a detailed transformation plan.
- The RMI's Director of Transformation informed DTI about the challenges faced by RMI's associations and the lack of support by the DTI for small businesses willing to transform. Work has now commenced to change this.
- We have done the following training thus far for 2017/2018, in six provinces:
  - Productivity SA - an arm of DTI – linking Productivity to B-BBEE Scorecard
  - SARS Employee Incentives on ETI and learnerships
  - B-BBEE Scorecard by BBBEE Dynamix – Training on the new Scorecard
  - Gender sensitisation
  - Employment equity
  - Gender equality from the Commission of Gender Equality
  - National Empowerment Fund (NEF)/DTI intervention on business funding
- Communication and awareness
  - Weekly transformation communications
  - Member surveys, the outcomes of which will provide a profile of the B-BBEE status of our membership (EME, QSE, GENs), B-BBEE levels, ownership (gender and race) and to upload members' scorecards or affidavits in the case of EMEs.
  - Regular interaction with Government is critical.
  - Established a relationship with the NEF to understand the application process for funding opportunities for black entrepreneurs.
  - Engaged the Department of Small Business Development (SBD) to create an Incubation Programme – SBD seeks to engage RMI on a Pilot Project involving our members in replacement of the Black Business Supplier Development Programme which has now ceased.
  - Engaged the DTI on available Black Industrialist Programmes.
  - Identified the Willing Buyer/Willing Seller concept which will become a DTI/RMI project. The DTI will bring all the relevant stakeholders to negotiate tailor-made deals between existing white-owned businesses and potential buyers. This project reflects the true spirit of transformation.
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## **6. SWOT ANALYSIS**

<b>Strengths</b>	<b>Opportunities</b>
<ul style="list-style-type: none"> <li>- Dedicated RMI transformation resource</li> <li>- The RMI leadership is committed to transformation</li> <li>- A Transformation Committee, representative of all the RMI associations, with a Terms of Reference exists</li> </ul>	<ul style="list-style-type: none"> <li>- RMI to assist its members with funding opportunities for new and existing businesses.</li> <li>- Implementing transformation deals between willing buyers and willing sellers within the industry.</li> <li>- Designing a mentorship programme for NAAASP members to enable them to enter the formal market.</li> </ul>
<b>Weaknesses</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>- Family-owned businesses are not able to comply with all aspects of the Code</li> <li>- Challenges with Employee Assistance Programme (EAP) formulation in the Code make it impossible for businesses to comply (low margin, high turnover)</li> <li>- Small family-owned businesses do not have the capacity and resources to comply with the new B-BBEE Code</li> <li>- Expertise must be developed to advise members on all elements of the Scorecard</li> <li>- The exorbitant costs of verification agencies are unaffordable for members</li> </ul>	<ul style="list-style-type: none"> <li>- The DTI may yet again change the goal post with the Codes</li> <li>- Legislative requirements that are too onerous may stunt economic growth</li> <li>- Members may feel alienated by constant communication on B-BBEE</li> <li>- Business closures as a result of inability to comply</li> <li>- Government perceives the retail sector of the motor industry to be linked to the OEMs</li> <li>- Verification manual not yet published.</li> <li>- Interpretation by South African National Accreditation System (SANAS) is inconsistent</li> </ul>

## **7. WHAT DO WE WANT TO ACHIEVE**

Our goal is to improve the trading conditions of our members by empowering them to ensure compliance to the B-BBEE environment while encouraging and promoting positive transformation.

We also want to protect our members' interests, and promote and empower them in a constructive manner.

We hope to empower our members and assist them in eliminating discrimination in the work place and give them the tools to facilitate gender equality as well as disability management.

We need to support our industry in the following ways:

- Develop a toolkit for businesses to gauge themselves against the Scorecard
- Roadshows with DTI and funding agencies to educate businesses on funding opportunities
- Skills development and training initiatives for informal businesses to progress to the formal sector
- Access to procurement opportunities for black businesses
- Funding opportunities for tools and equipment for black informal as well as small businesses
- Training on gender discrimination and promoting disability Initiatives

## **8. TRUE EMPOWERMENT**

Empowerment is not about giving away or receiving free shares in a business just to meet legislative requirements. It is a tool for growth and sustainability that every RMI business owner should learn how to use.

B-BBEE is the cornerstone of the South African Government’s efforts to educate and train large sectors of the previously disadvantaged population in order to accelerate the participation of black people in the economy.

When implemented correctly B-BBEE supports job creation, global competitiveness and economic growth. It also has the potential to reduce the burden on entrepreneurs and help to create a more skilled workforce.

B-BBEE is not intended to be a knee-jerk reaction that might put members’ businesses at risk. Instead, it is a process that works within the context of sound business practices.

## **9. THE RMI BUSINESS ADVANTAGE**

Most RMI businesses need access to capital and markets in order to operate successfully, and a carefully planned B-BBEE strategy can help to provide these in the following ways:

1. Providing access to finance for B-BBEE compliant companies is a priority for banks and other financial institutions. Assuming there is a strong business case to support the application, a B-BBEE-compliant company is therefore likely to find it easier to access financial and related resources such as training and mentoring.
2. Businesses that are B-BBEE compliant have a competitive edge when tendering for new work. B-BBEE compliance is the one factor that could determine which business wins the work.
3. As the benefits of B-BBEE filter through, more black people will be brought into the mainstream economy. It is predicted that in the next few years, the vast majority of people who fall within the top three income categories (Living Standards Measures (LSM) 7-10) will be black. Complying with B-BBEE legislation is the first step towards tapping into this market.

## **10. EXEMPTED RMI BUSINESSES**

Only one category of business falls outside the ambit of B-BBEE regulation, and that is any enterprise with an annual revenue of less than R5 million. Known as Exempted Micro Enterprises (EMEs). These businesses automatically qualify as level B-BBEE contributors.

Ultimately, however, B-BBEE affects everyone and every part of a business, and here is why:

*“The B-BBEE Codes of Good Practice are legally binding on all state and state-owned entities, which have years to reach the stated targets. This means that all government entities are obliged to use the Codes to measure B-BBEE compliance when choosing suppliers, granting licenses or making concessions. In other words, they will require all suppliers to be B-BBEE-compliant and the cascading effects thereof will make it hard for any non-compliant company to grow and maintain their level of business success in the motor industry of South Africa.”* (B-BBEE explained by Standard Bank.)

In terms of the Codes, preferential procurement counts as much as ownership does, which means that publicly-owned companies will also be looking to use suppliers who themselves have high B-BBEE ratings.

## **11. COMMON MISTAKES**

**Definition of Black:** At times there is confusion about who qualifies as Black, Indian or Coloured in terms of the Codes and the B-BBEE Amendment Act. Black refers to Africans, Coloureds, and Indians who are citizens of the Republic of South Africa by birth or descent or who became citizens of the Republic of South Africa by naturalisation (a) before 27 April 1994: or (b) on or after 27 April 1994 and who would have been entitled to acquire citizenship by naturalisation prior to that date but were precluded from doing so by Apartheid policies:

Note the clauses (a) and (b).

In 2008 the Pretoria High Court decided that Chinese are included in the definition of Coloured.

However, based on clauses (a) and (b) a Chinese person is only defined as Black if he/she was born in South Africa or became a South African citizen by naturalisation prior to 27 April 1994.

It stands to reason then that a Chinese national or Black person from another country who arrived in South Africa in, for example, 2001 is not Black as per the definition.

If any of your black employees or black shareholders do not meet the definition of Black, it could adversely affect your rating.

There is an exception to this rule in that if a person can prove that he or she would have qualified for, and then been granted, citizenship before 27 April 1994, had they been a white immigrant, then they can be classified as a beneficiary of B-BBEE. However, this may be difficult to prove.

**Ownership = empowerment:** B-BBEE goes much further than mere equity and management. While black-owned and -managed companies have a head start, they have to perform in other areas as well (such as procurement and socio-economic development, among others) before they are acceptably empowered. Effective transformation requires a level-headed attitude – rushing into an empowerment partnership can be disastrous if you do not give it the same careful consideration that you would any other strategic decision.

**Not making it part of your strategy:** Most companies see transformation as a standalone plan and do not incorporate it fully into the main focus of their business strategy. Anticipating and preparing for change is the most important recipe for success and transformation should be an integral part of your annual business plan and long-term business strategy. Small changes now could build up



into an impressive profile five years down the line. The challenge is to improve on your B-BBEE activities and score every year.

**Misinformation:** The industry often receives conflicting messages and ideas from uninformed, unreliable sources (such as, “you must be 51% black ownership to be considered a B-BBEE company”). This leads to companies making uninformed decisions that could be detrimental to their transformation plans.

## **12. TRANSFORMATION**

Transformation is more sustainable in a growth environment as it allows businesses to implement changes by growing capacity instead of trying to create new positions which are not needed. Here businesses need to ask the following:

- What does transformation mean for the company?
- What is the value of the company’s planned B-BBEE activities – not just in terms of scorecard points, but also in terms of long-term results and the impact these will have on your business and the industry?
- How does the current B-BBEE framework fit in with the company’s business strategy?

## **13. FRONTING**

The RMI strongly discourages fronting.

This practice leads to a misrepresentation of the industry’s B-BBEE status. Companies involved in fronting claim to have empowered others but in fact have only token or superficial involvement by black people in order to secure work. Any business arrangement that involves only token or superficial involvement by black people or black companies is seen as window dressing, benefit diversion and opportunistic.