

This article appeared in Business Day, August 16, 2004

Organisations must focus inside to make BEE work

Tony Manning

Black economic empowerment is on a roll, and for good reasons. But there could be trouble ahead. In the rush to shift assets from white hands to black ones, a critical question is getting short shrift: How to keep the profits growing?

Many of the deals are now being rushed through with much fanfare may ultimately not result in the transfer of shares to black investors. For they depend on a rich flow of dividends, which is not guaranteed.

A handful of black moguls might be wealthy on paper today, but they may be slapping together a house of cards. Their “broad-based” partnerships could be in for serious disappointment.

Analysis by Stern Stewart of the economic value added (EVA) by major BEE transactions in recent years tells a sorry story. Most have been value destroyers rather than value creators. It is hard to see why things will be otherwise in the future.

Contrary to popular belief, companies are fragile things. Most startups fail in the first year; many of the rest in the first five years. Few firms make it past a decade. Hardly any last 50 or 100 years.

What’s more, while they’re around, most companies produce results that range from terrible to mediocre. Their profits swing from year to year, but over time fall short of expectations. Certainly, some perform spectacularly, and some of their owners and managers get fabulously rich, but that’s the exception, not the norm.

Over the past 50 years, 1,877 companies have appeared in the Fortune 500 list; but only 71 have been on the list every year. According to a report in that magazine, after-tax corporate profits grew at an annual rate of just over 8% in the 40 years from 1960 to 2000.

Closer to home, the Financial Mail’s most recent Top Companies survey shows that the average five-year return on equity of SA’s top 200 companies was just 7,58%.

To produce profits in a benign environment is no easy task. Doing it in an age of extreme uncertainty, turbulence and hyper-competition is a challenge to test the skills of the smartest executives. Consistency is almost always an issue.

External factors present a flow of threats and opportunities. But it is what happens inside organisations that mostly determines their fate.

Business is the ultimate contact sport. Very few people are capable of managing large organisations – or even small ones. There should be no illusions about this. To imagine that anyone can manage anything is ridiculous. Yet this is pretty much what we’re being asked to believe right now.

Changing any organisation is seldom easy or quick, and never risk-free. Rushing the process makes things more difficult and dangerous. What’s being attempted in SA is akin to replacing a jetliner’s owners, captain, crew, engines, wings, and on-board service while it’s flying the short hop from Johannesburg to Durban.

Many companies are being transformed too fast and too radically for their own good. Too many jobs are being shuffled. Too many people are being displaced and replaced. Too many of them are being put into roles they do not understand, and for which they are not equipped.

And to make matters worse, firms are trying at the same time to cut costs, improve quality and service, stimulate innovation, streamline logistics systems, develop strategic alliances and adopt new technologies.

SA business is under growing pressure to score BEE points. Huge emphasis is being placed on getting “a ticket to the game”– on ticking boxes to comply with charters. And of course, this is necessary.

But BEE credentials won't give any firm a competitive advantage when everyone has them. While managers are obsessing about empowerment deals and diversity quotas, chances are they will be distracted from the fundamental task of making their firms fit to fight.

No one should assume that changing the composition of a workforce is a sure path to better performance. The mindless refrain that “diversity is a good thing” in organisations is not consistently born out by international research. Sometimes it is beneficial, and sometimes it isn't. Success cannot be taken for granted.

When people from very different backgrounds and with different cultures are thrown together, the result can too easily be a dysfunctional mess. It takes management skill, time and effort to make things work.

Now, as never before, business leaders need to turn inwards and “muscle-build” their organisations so that they are robust and competitive enough to outperform the market and produce a solid and maybe even spectacular flow of profits for a long time. For if these “results machines” don't pump money, the entire transformation exercise will be futile and frustrating, and the consequent backlash could be very threatening to this country.

There's no arguing that a lot of firms are doing very well at the moment. But the same could be said in any single year. What really matters is what happens in the long term.

This should always be of concern. It should worry us even more today, as we charge into a difficult future.

These matters have nothing to do with race, and everything to do with business reality in this new century. Without a sensible balance between talking about BEE deals and dealing with nitty-gritty issues of strategic capability-building, making diversity work and delivering fat profits, SA's potential will remain a dream.

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