

Sunday Times TOP100 COMPANIES

THE DIRECTORS EVENT

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SANDTON CONVENTION CENTRE

FULL REPORT

Addressing SA's many challenges

Protecting South Africa's economy, navigating the risks of geopolitical uncertainty and South Africa's challenges around youth education and employment were the main themes discussed at the third annual Sunday Times Top 100 Companies Directors Event held last week in Sandton. The event was brought to you by MMI Holdings, in association with the IoDSA, Hogan Lovells, Johnnie Walker, USB Executive Development, Aluwani Capital Partners and Times Media Events.

The event commenced with a welcome from the MC and Head: Group Communication and CSI, Dan Moyane, who pointed out that this time one year ago, the world was a different place – before Brexit and before Donald Trump become the US president, and before political uncertainty in South Africa became the new norm.

He was followed by Ron Derby, editor of the Sunday Times Business Times. "We're in recessionary times, both in terms of the economy and in our government," he said. He added that South Africa, over the past decade, has seen a collapse in government, and the future of the country must be renegotiated.

Nicolaas Kruger, Group CEO of MMI Holdings Limited discussed the tough environment facing South Africans, saying that the country's problems need to be acknowledged before solutions can be found. He said South Africans have more in common than not, and that we should face our challenges together.

Recapping last year's Director's Event, Jeremy Maggs, eNCA news anchor and contributor for Financial Mail, recalled the four key themes that were covered in 2016: South Africa's lag in global competitiveness; the need to build an enabling environment for small businesses and entrepreneurs; the healthcare sector facing a crisis; and the declining standards of education. Fast forward 12 months later and South Africa faces the negative impacts of political instability and its first economic downgrades. As a result, there has been little to no improvement, and in many areas a backward slide in terms of each of the four themes highlighted at last year's event.

South Africa's constitution is what has made democracy a success, said Bonang Mohale, Chairman of Shell SA and the Deputy Chairman of Business Leadership South Africa (BLSA), at what has been dubbed South Africa's biggest board meeting. The constitution has been the line that separates the country's best from its worst, good from evil, right from wrong and freedom of speech from hate speech. However, both the constitution and South Africa's democratic values are at risk and under attack, he said, adding the country has lost credibility in the eyes of the world.

The country's tipping point, he said, is corruption and will be what determines whether it operates according to state capture, or as a democracy which serves all its citizens. Our state entities, he added, have to work well, or we will lose everything.

It is the responsibility of businesses in South Africa to protect its reputation and to fight against what he termed "state capture becoming corporate capture", where common thieves masquerade as business people, destroying rather than creating value.

BLSA has developed the 'State of Integrity Six Pack', a series of six guidelines which could reverse the vicious cycle towards the downward trajectory that South Africa finds itself on.

The first of the six points is to launch a judicial enquiry into state capture. Next, Mohale said the nuclear programme must be shelved; the public sector must be professionalised and depoliticised; best practice procedures must be adapted by the state; and state entities including the judiciary, police, NPA and Hawks must have new leadership and become independent of political influence. Finally, the funding of political parties must be transparent. Business is the answer to South Africa's problems and not the enemy as it is currently being portrayed, Mohale concluded.

Mcebisi Jonas, the former Deputy Minister of Finance delivered the event's keynote address during which he presented a SWOT analysis of South Africa. The South African economy is in a period of low growth and has entered a recession, he pointed out, even though mining and agriculture have shown growth. In the case of mining, this growth is a result of global economic growth while agriculture's recovery is a result of the end of the drought rather than an economic recovery.

The trade sector has contracted by 5.9 percent and people are spending less on goods and services such as food, clothing, restaurants and hotels.

There is less money in circulation, said Jonas and the low growth is not cyclical, but structural, with the economy growing by just one percent since 1990, whilst the whole of emerging Asia has grown by seven percent over the same period. Despite having the necessary infrastructure, he said South Africa's poor growth was the result of an over-dependence on unreliable sources of foreign investment, resulting in a greater susceptibility to global market shocks.

From a structural point of view, said Jonas, South Africa does not invest in sufficient fixed capital – which forms just 18 percent of the GDP, in comparison to China's 37 percent of GDP. Foreign investors are choosing to invest in other developing markets rather than South Africa as a result of policy uncertainty which is damaging the mining industry and causing widespread social and political instability.

Simple asset redistribution will only increase unemployment and inequality, he argued, in much the same way as BEE policies have made only a handful of black business people wealthy. "We need to have a different conversation about how to create real economic participation for all," he said, adding this would mean more incubation programmes for black entrepreneurs, and the creation of jobs for the low income, low skilled section of the population.

Government's abilities to affect change are constrained by the deep levels of state capture and corruption within the system, he said, adding that corruption in state owned enterprises had significantly raised the cost of utilities. "The money we use to sustain our inefficiencies could be better used elsewhere," he said.

A priority was to ensure that South Africa rid itself of corruption, starting with better management of the fiscus, insisted Jonas. "It makes no sense to focus less on growing the economy and more on public spending," he added. Jonas also said South Africa's recent downgrade to junk status posed a major challenge and needed to be reversed.

Growing populism happens when low levels of trust exist, he said, adding that the country needed to resist the populist rhetoric of calls to destroy 'white monopoly capital'. This, he said, divides South Africans and puts business into the role of the enemy. Populism, said Jonas, denies risks and takes the focus off the issues which need to be addressed, appealing to desperate politicians.

He said South Africa could find itself on a path to economic destruction, similar to what has occurred in Venezuela and Zimbabwe.

On the upside, he said the South African constitution was a strength and is what differentiates the country from others like Zimbabwe, and safeguards it from absolute collapse. Other factors in its favour include an extensive infrastructure and a sophisticated business sector.

Jonas said a diversified economy is the answer to many of South Africa's problems, together with expanded trade into the rest of Africa.

Protecting SA's economy

Protecting South Africa's economy and finding short-term solutions for long-term goals was the topic of the first panel discussion. Panellists included Mohale Ralebitso, founder and CEO of Itataise Investments; Mpho Sedibe, Managing Director of MOPSY Strategic Advisors; Dr Iraj Abedian, Chairman and Chief Executive of Pan African Investment and Research; Lungisa Fuzile, the former Director General of the Department of National Treasury; and Sibusiso Mabuza, Chief Executive Officer of Aluwani Capital Partners.

A functioning government depends on existing businesses to be able to make money legitimately, said Fuzile. The priority, he said, should be about expanding existing businesses and supporting the establishment of new businesses. High unemployment levels, he continued, reflect the fact that there are just not enough jobs around. Those impacted most detrimentally by a lack of jobs are the youth. A growing economy would ensure job creation.

One of the biggest impediments to solving the unemployment crisis, said Abedian, is a lack of economic literacy, adding that people need to be economically literate in order to understand what the engines of job creation are. He said the conversation needed to move beyond slogans such as "white monopoly capital" and "radical economic transformation" in order to deal with the real issues.

Black economic empowerment (BEE) has not been done properly, said Sedibe, with the result that the value chain has not been enhanced, and BEE has not created jobs. "While people are not as economically literate as we would like, they're also not idiots. They're experiencing high levels of frustration and this is creating social instability," she said.

BEE is not the problem, insisted Fuzile, but it is how we are going about it and the fact that we have allowed some people to take advantage of it. BEE should not only be benefiting a select few, he cautioned.

We need a Truth and Reconciliation Committee to establish how South Africa got to this point, suggested Ralebitso. No sooner had we ushered apartheid out than we got locked into a new – equally damaging status quo and we've continued to make the same mistakes for the past 20 years. "Many of the issues we face haven't changed. We should not have needed BEE to protect the economy."

Going forward, he said, we need to protect and grow our economy. We need co-operation, and open and honest dialogue. Criminality needs to be recognised for what it is. South Africa needs to get its investment grade rating back, while policy uncertainty and barriers to growth need to be removed.

The public and private sector need to work together to ensure sustainable growth takes place, said Mabuza. We waited too long to turn the situation around and business leaders were only taking a stand now that it was hurting their pockets.

Members of the audience made a number of observations: South Africa was producing people who were not interested in the greater good, but only in self-enrichment and how do we ensure accountability going forward from elected leadership.

In their concluding statements, Mabuza said business had a crucial role to play in terms of ensuring that meaningful transformation took place. Ralebitso said business needed to be held more accountable, and Abedian pointed out that businesses needed to be future fit if they hoped to be sustainable and competitive.

Geopolitical uncertainty

The second panel discussion focused on navigating the risks around geopolitical uncertainty. Panellists included Dr Johan van Zyl, co-founder of African Rainbow Capital; Dr Kingsley Makhubela, CEO of Brand South Africa; Innocent Dutiro, CEO: Africa & Asia of MMI Holdings Limited; and Karima Brown, Independent Political Analyst.

Dutiro pointed out that living in a global economy it's important that we understand our value. Globalisation, he added, has introduced certain complexities and technology has made it harder to hide. Given this new connected world, protectionism does not work. High unemployment was coupled with a skills shortage because graduates don't have appropriate skills to meet the needs of businesses.

The main driver of geopolitical risk is inequality, said Brown, adding that business and industry was partly responsible: in their quest to keep costs down they were deliberately not employing older people with skills because they were more expensive than younger employees. "This is a spectacular fail on the part of business leadership," she said.

Profit equates to risk, said Van Zyl. "What we forget today is that money goes to where there are profits to be made."

Discussing South Africa as an investment destination, Kingsley said Brand South Africa focused on selling the country. "Governments come and go," he pointed out.

The prevailing narrative around radical economic transformation was essentially aimed at ensuring institutional compliance with the wishes of President Zuma and his friends, said Brown. She cautioned that while nobody should be comfortable with the idea of state capture, any change needed to be done within the boundaries of legality.

South Africa's economy is a dichotomy: 20% of it is first world while the bottom 10% is as bad as the Republic of Congo. In the past 24 years South Africa has not addressed the issue of education sufficiently, said Dutiro. "Until we do that, anything else we do will be based on shaky foundations," he said, adding that we need a better allocation of resources. We need to better understand our strengths and then build on them."

One of the problems facing South Africa is the trade challenge: our largest trading partners are located in other continents.

A member of the audience pointed out that it was the responsibility of employers to upskill employees and make them more marketable.

South Africa needs to think more broadly about the skills required for the Fourth Industrial Revolution, said Makhubela, and how the country could compete with the rest of the world. Furthermore, he said we need to figure out how to leapfrog developed countries in terms of disruptive technologies.

We need to choose our battles given our available resources, said Van Zyl. “We have a competitive advantage in Africa, now we just need to compete better on the continent.” Taking the geopolitical risks and uncertainty in the rest of the world into account – US uncertainty around Trump; Brexit; a nervous Europe; and disarray in emerging markets – South Africa is not that badly off, he maintained. In the broader context South Africa is not alone and we have something positive to sell.

The best way to mitigate risk right now is to decide on the tough conversations that are required between all parties, said Brown. We need to go back to the table and rebuild trust in order to find a compromise that everybody can agree on.

There are ways to navigate risks and uncertainty, agreed the panel. Van Zyl said instead of focusing on the negatives, the country has great people, a free and powerful press, and strong financial services intuitions in its favour. We need to fix our economy or the money will disappear, he warned. Ultimately, it’s about dealing with an imperfect situation to the best of our collective ability.

Youth education and employment – Bridging the gap in digital times

The final panel discussion focused on youth education and employment and how to bridge the gap in digital times. The panel consisted of Barrie Bramley, partner at Calidascope; Debbie Goodman-Bhyat, CEO at Jack Hammer Executive Headhunters; Maryana Iskander, CEO at Harambee Youth Employment Accelerator; Sizwe Nxasana, chairman at NSFAS and Sifiso Learning Group; Hlomela Bucwa, youth activist and former SRC president at Nelson Mandela Metropolitan University; and Gwebinkundla Qonde, director general at the Department of Higher Education.

The panel agreed that the country’s education system did not adequately prepare school leavers or graduates for the world of work.

In a slow economy, said Nxasana, even those with skills are not guaranteed of a job. He agreed the education system was lacking and said it needed to be revised to address the skills shortages. A different attitude towards risk taking, entrepreneurship and a mindset that created jobs rather than looked for jobs needs to be created, he said.

Both government and business had failed to address the crisis in education adequately, said Bucwa. “Institutions of higher education may have opened their doors further but there are still barriers to success: if students don’t have adequate support at university they’re not going to succeed. They need to be able to afford books, for instance,” she said.

The curriculum needs to be redesigned to address the skills shortage, agreed Qonde. He said the Department of Higher Education was cognisant of the need to maximise quality teaching and learning. “We need to innovate to ensure that the skills coming out of the system are usable and productive.”

Most people find jobs through their networks, pointed out Iskander. Job seekers without networks often find it hard to find employment. “Sometimes, all they need is information,” she pointed out.

Referring to a survey conducted in association with the University of Johannesburg, she said it costs the average young person R938 a month to look for a job – primarily for transport and data costs. Adding to the challenge for many job seekers is the fact that many employers don’t think matric or a degree is a good predictor of performance so put additional barriers in place like numeracy tests – even for jobs that don’t require numeracy skills.

The Fourth Industrial Revolution would shrink the job pool even further, said Goodman-Bhyat. “Business leaders are trying to ensure their survival and will be replacing every kind of repetitive job with technology. This will impact on internships and learnerships. Educational institutions are moving far too slowly in terms of adapting the skills they teach and cultivating creativity and entrepreneurialism.”

Youth who don't study beyond matric are ill-equipped for the job market, said Nxasana, adding that they should be leaving school better prepared for the fourth industrial revolution. The academic component of education need to be overhauled to include higher order thinking skills and technical education needs to be strengthened, he said.

Qonde agreed that community training colleges need to be teaching marketable skills rather than only basic reading and writing skills. "We need less of the rhetoric and work on what works," he said.

A member of the audience suggested that teachers should be incentivised to be more competitive and effective. Qonde agreed that teachers should be held accountable for the work they do.

Partnerships are the only way to achieve large scale solutions, pointed out Iskander, adding that for many young people it is only by working that they can acquire further education. The youth need to prepare themselves for a lack of employment structure as they will increasingly be their own employers."

Gender inequality continues to be an issue. While more than half of university graduates are women, revealed Nxasana, the corporate environment continues to be male dominated.

A member of the audience pointed out the dire shortage of artisans and said the quality of artisan skills coming out of colleges was inadequate. In response, his company was training its own artisans.

Partner comments

The Institute of Directors in Southern Africa (IoDSA) supported the Directors Event as part of its mandate to enhance director competence, professionalise the practice of directorship, and make available standards and guidelines for governance. "Dialogue of this nature is important among business leaders and decision makers and should be done more regularly in the boardrooms of South Africa," said IoDSA CEO, Angela Cherrington. "We hope that some tangible initiatives will emanate from these discussions to ensure that the dialogue turns into action."

"The protection of South Africa's economy, geopolitics and youth education, are exactly the types of conversations needed to better equip us as directors to redefine and realign our own company strategies to focus on improving South Africa's future," said Brigitte Schwartz, marketing director at USB Executive Development (USB-ED).

"The well-attended Directors Event 2017 again provided a platform for open and frank discussions on critical aspects affecting the South African economy," said Partner and head of mining at Hogan Lovells, Warren Beech. "The opening sessions succinctly identified the enormous challenges facing all South Africans generally, and the specific threats to the South African business sector. That said, South Africans are resilient and provided that the business sector stands up, South Africa will be able to address the various challenges, and get through this turbulent and extremely unsettling period".

There is much work to be done if South Africa is to alleviate the current pressure on both its citizens and its economy. Governments focus needs to change and attention must be given to creating security and sustainability in terms of policies, as well as a major effort to eliminate corruption and state capture.