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## **BUSINESS UNITY SOUTH AFRICA (BUSA) TRANSFORMATION STUDY**

### **A Snapshot of the Demographic Profile and Pace of Transformation of JSE Listed Companies**

#### **SUMMARY**

Seventeen years into South Africa's democracy, designated groups (black people, women and people with disabilities) continue to be under-represented in the country's workforce and company boards, despite the existence of policy tools such as the Employment Equity (EE) Act of 1998, the Black Economic Empowerment (BEE) Act of 2003 and the BEE Codes of Good Practice of 2007 "The Codes").

This study is the second of its kind commissioned by Business Unity South Africa (BUSA). It analyses the state of transformation of boards of companies listed on the main board of the JSE Securities Exchange ("the JSE"). The sample for the study comprised the board positions of 2 835 executive, non-executive and independent non-executive directors of 289 companies listed on the main board of the JSE as at 23 March 2011. The first study was conducted in October 2009.

The objectives of this study were to, inter alia:

1. Determine the demographic composition (in terms of race, age and gender) of the boards of companies listed on the main board of the JSE.
2. Determine the demographic composition of important board positions and top executive leadership (TEL) positions.
3. Present demographic statistics according to the reporting requirements of the BEE Codes of Good Practice.
4. Compare the demographic composition of companies listed on the main board of the JSE's with that of the top 40 companies on the JSE, ranked by market capitalization.
5. Determine hypothetical shortfalls of black and black women directors when measured against the targets in the Codes.
6. To identify positions that may become vacant in the near future based on the possible retirement of current directors.



7. To compare the findings of this study with those of the 2009 study to obtain some indication about the pace of transformation.
8. To make recommendations based on the findings.

## **2. FINDINGS**

According to the 10th Commission for Employment Equity (CEE) Report 2009 – 2010: “A broad objective of the (Employment Equity) Act is to have an equitable representation of designated groups (black people, women and people with disabilities) in relation to the Economically Active Population (EAP) in the workforce.

### **On the JSE, white males (6.7% of the EAP) account for:**

- 52% of all board positions
- 71.6 of executive directors
- 42% of non-executive directors
- 43.5% of independent non-executive directors
- 51.4% of chairpersons
- 76.2% of CEOs
- 75.7% of CFOs

The BEE Codes of 2007 set interim targets of 50% for black board members and executive directors to be achieved by 2017. Black women should comprise 50% of these targets.

### **Measured against the targets in the BEE Codes, this report found that:**

- The percentage of black people was 25.3% compared with a target of 50%. There was a shortfall of 533 black board members of whom 419 should be black females.
- The percentage of black executive directors was 9.5% compared with a target of 50%. There was a shortfall of 322 black executive directors of whom 203 should be black females.
- The percentage of black non-executive executive directors was 27.6% compared with a target of 50%. There was a shortfall of 145 black non-executive directors of whom 141 should be black females.
- The percentage of black independent non-executive executive directors was 38.1% compared with target of 40%. There was a surplus of 14 black independent non-executive directors and a shortfall of 25 black female independent non-executive directors.
- The percentage of black chairpersons was 22% compared with a target of 50%. There was a shortfall 39 black and 59 black female chairpersons.

- The percentage of black CEOs was 6.9% compared with a target of 50%. There was a shortfall of 109 CEOs of whom 67 should be black females.
- The percentage of black CFOs was 7.9% compared with a target of 50%. There was a shortfall of 99 CFOs of whom 55 should be black females.

**Measured against the objectives of gender equity, this report found that:**

- There is a disturbingly low level of representation of all women on the boards of JSE companies, especially in the role of chairpersons and executive directors, including CEOs and CFOs.
- There were 397 female directors. The percentage of female directors was 14%. The percentage of black female directors was 10.2%.
- There were 67 female executive directors. The percentage of female executive directors was 7.4%. The percentage of black female executive directors was 2.4%.
- There were 129 female non-executive directors. The percentage of female non-executive directors was 12.9%. The percentage of black female non-executive directors was 10.2%.
- There were 207 independent non-executive directors. The percentage of female independent non-executive directors was 21.1%. The percentage of black female non-executive directors was 17.4%.
- There were eight female CEOs. The percentage of female CEOs was 2.8%. The percentage of black female CEOs was 1.2%

**3. ANALYSIS OF FINDINGS**

- Although their performance is still a long way short of achieving the interim targets contained in the BEE Codes, it appears that JSE companies have taken the path of least resistance, appointing black people to non-executive positions. The report shows that retirement could make a contribution towards reducing shortfalls in non-executive positions.
- There is still a very low representation of black people in executive positions – executive directors, CEOs and CFOs. Retirements will not create sufficient vacancies to close the identified shortfalls. The percentages of black executive directors, CEOs and CFOs are under 10% compared with a target of 50%. It is unlikely that the problem is only related to a lack of skills within the black community because the shortfall of executive directors is only 322. On the supply side, there are more than 5500 black chartered accountants in the country.
- There is also a disturbingly low representation of black women on the boards of JSE companies, especially in the roles of chairpersons and executive directors, including

CEOs and CFOs. Black women comprise 40.5% of the EAP. Yet, the percentages of black female chairpersons, executive directors, CEOs and CFOs are less than 4%. The percentage of black women on all boards is 10.2% compared with a target of 25% in the BEE Codes. Finally, even though black females outnumbered white females (5.5% of the EAP) at the level of all board positions, the latter outnumbered the former by almost 2:1 in executive positions, including CEOs and CFOs.

- The two samples – the whole JSE and the top 40 JSE companies - had a similar performance at the level of the representation of black people and black women in all board positions. The top 40 JSE companies had a much higher percentage of black executive directors (15.5%) than the whole JSE (9.5%). Finally, the top 40 JSE companies had a higher percentage of foreign directors (23.1%) than the whole JSE (13.9%). Since black directors are at about 30% in both samples, it is clear that the foreign directors have replaced white directors in the JSE top 40.
- Although the two samples (2009 and 2011) are very similar, they are not identical. The analysis shows that there has been an increase in black (6.7%) and black female (14.6%) representation on the boards of all JSE companies between 2009 and 2011 and a decrease in the number of white and foreign directors (4.9%). This is what one would expect when there is transformation on the boards of JSE companies. However on the top 40 JSE companies there was an opposite trend. There was a decline in the number of black (10.1%) and white (2.4%) directors on the boards of top 40 JSE companies. On the face of it, this implies that transformation regressed among the top 40 JSE companies and improved for the whole JSE.

#### **4. RECOMMENDATIONS**

##### **Government**

- The Department of Trade & Industry (DTI) must develop the capacity to monitor the implementation of transformation at all levels, including boards of directors, on an ongoing basis. It must create a structure and reporting mechanism - similar to that of the Commission for Employment Equity (CEE) – that produces an annual state of transformation report.

##### **Companies**

- The increased demands on board members (due to the requirements of the new Companies Act) have created an opportunity to increase the sizes of decision-making structures (including the boards and executive committees) to create space for the appointment of designated groups, in particular black people, women and people with

disabilities. Companies should consider increasing the number of board members, executive directors and people on EXCOs to create space for black people and women. The EXCO should be one of the feeders that develop future board members. An enlarged EXCO could include deputies for critical positions such as CEO and CFO who would be groomed to assume increased responsibilities.

- Companies should consider the following measures to facilitate and accelerate the process of board transformation:
  - Developing board succession plans
  - Implementing recommended maximum term limits for board members – a maximum of three terms of three years as per the King 3 report.
  - Stipulating a retirement age for board members
  - Introducing limits on the number of boards a director can sit on
- Boards should ensure that they appoint people with a diversity of skills that goes beyond traditional talent pools (e.g. other than finance and law) and from a diverse group of stakeholders (e.g. from trade unions and the youth).
- Directors who are three or five years away from retirement age must be required by company policy to start identifying potential successors and mentorship opportunities.
- Beyond retirement we suggest that retired board members become mentors to new board members, but not stay on the boards.

## **BUSA**

- BUSA should develop programmes to support the process of board and executive transformations – for example: supporting further research to monitor transformation on an ongoing basis; developing a database of potential board candidates; and developing training programmes for future directors.