

Top 100 companies concerned about regulatory uncertainty

Research has indicated that the challenges South Africa faces as a country are top of mind for senior executives.



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This is according to Deloitte's research piece titled 'Dissecting Disclosures' which analyses the Johannesburg Stock Exchange's (JSE) top 100 companies. The research uses disclosures in annual reports and integrated reports to understand the profile, concerns and strategic focus areas of these listed companies.

Regulatory uncertainty is a significant concern in several industries, including the resources sector, financial services (banking and insurance), healthcare, industrial goods and services, and food and beverages.

"Resources, financial services and healthcare companies face significant threats arising from changing legislation and political policy, and all identify these as significant threats in their top risks. The uncertainty around these changes make South Africa less competitive in a world in which many developed economies are focused on reducing red tape to improve their own competitiveness," said John Kruger, senior audit manager at Deloitte.

Labour stability

South Africa's social and labour stability issues were identified by several companies who highlighted social unrest and labour unrest as key risks. In addition, several companies identified concerns around the security of the supply of electricity and water - again highlighting the structural challenges that the South African government has and the resultant burden on doing business.

Annual reports of the JSE top 100 are 61% longer than their UK counterparts on the FTSE 100. This we attribute to South Africa's take-up of integrated reporting, ahead of the UK and the fact that several companies combine their integrated reporting with their full annual financial statements. UK regulators published a report entitled 'Cutting Clutter' in an effort to provide corporates with guidance on how they can reduce the length of their reports.

Major focus

In the World Economic Forum's competitiveness survey, South Africa was ranked 120th out of 144 countries for the perception of the burden of legislation, one being the most competitive in this measure. What is clear is that it is a major focus of listed corporates on the JSE. Globally, governments are focusing on reducing red tape to remain globally competitive. South Africa's government has committed to reducing red tape for business, but it is difficult to see the effect when so many corporates on the JSE have indicated legislative and regulatory change as a major risk.

Outgoing governor of the South African Reserve Bank, Gill Marcus, noted last year that South Africa's growth could be strengthened if South Africa became more closely entwined with Africa's growth trajectory. This can only be achieved with increased exposure to the rest of our continent and it comforting to see the focus in strategy, but disappointing to see the actual exposure.

"With South Africa's economic growth forecast at 2% for 2014, according to the World Bank, the move into Africa in pursuit of higher growth, while challenged at home by regulation and various external risks appears to be a theme in the JSE," concluded Kruger.

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