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MONTHLY NEWS

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In this Issue

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AI AND THE CHANGING FACE OF JOBS: GOOD NEWS IF WE REACT NOW

"Artificial Intelligence is a tool, not a threat" (Rodney Brooks, Roboticist)

There has been fear that the rise of Artificial Intelligence (AI) and robots will considerably reduce the work force. New research concludes that there will be winners and losers as AI becomes entrenched in economies, but there will be far more winners. The World Economic Forum (WEF) predicts that actually **58 million new jobs will be created** – 75 million jobs lost but 133 million created (see the table below for more).

The trick facing business is how to get onto the winning side, as those businesses that will be most affected by AI, and those who quickly get it right, will have a substantial profit enhancer because AI will, in the medium term, drive down business costs.

Adapt and Thrive! What you need to do

- The first issue is to acquire more resources in terms of technology (AI will need far greater processing power, new AI machinery), up-skilling your labour force and employing new staff (see table below).
- Secondly, consider approaching other players in your industry to put together a plan that will bring in a future stream of skilled employees. This task is too big for one business to undertake.

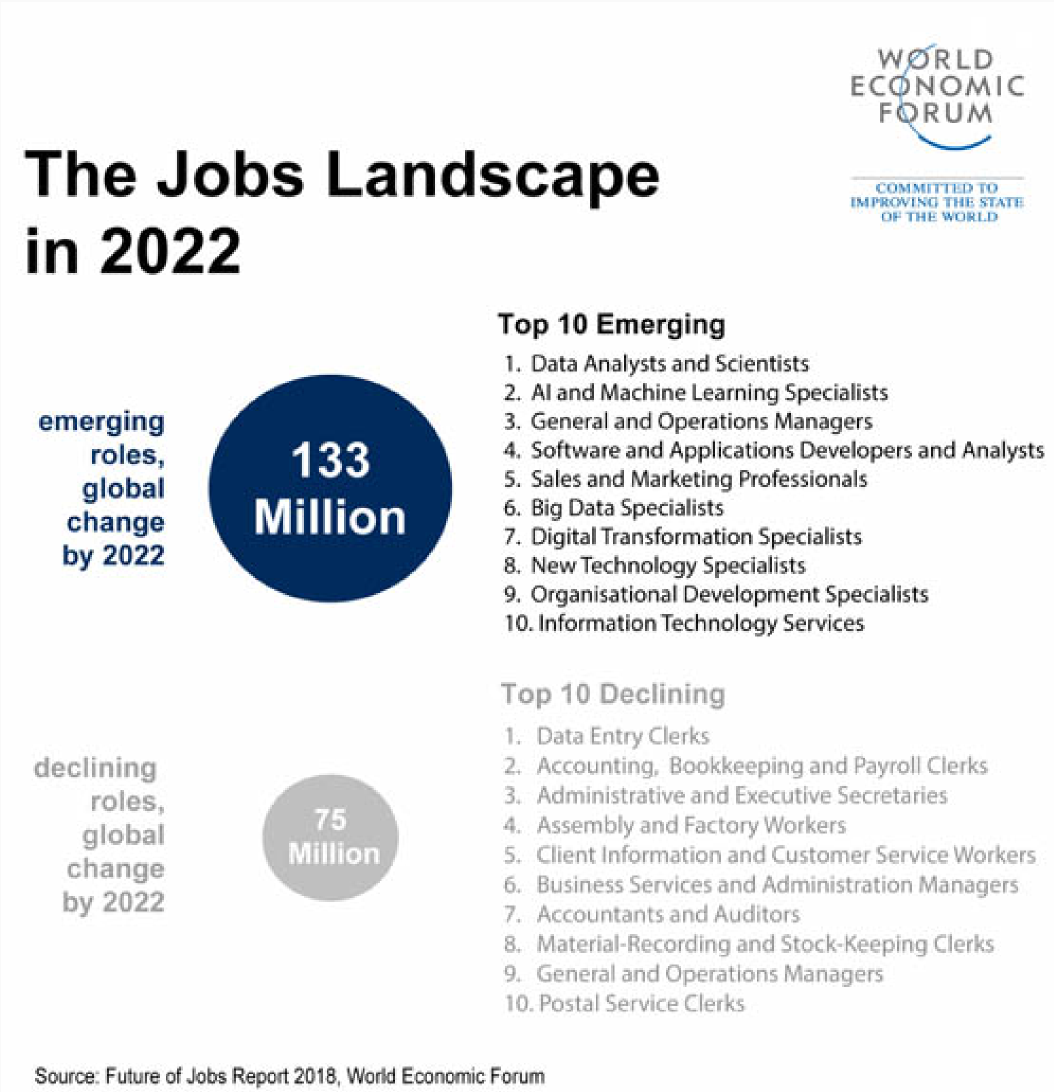
- You will also need to instil into your staff that they will need to continually improve their skills.

What type of employee will you require?

Recruiters in the developed world are now focusing on people with problem solving skills – on an ongoing basis AI will throw up technical and competitive challenges. Staff need to be able to quickly solve these problems.

As technical people will become more of a value driver in business, having “soft” skills, like good communications and being effective in teams, will also be sought after.

Below is a table from the Word Economic Forum showing jobs that will be needed in 2022, and those that will face being replaced.



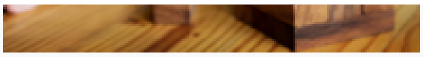
A new era is starting and the news is fairly positive – AI should create more jobs, reduce business costs, and greatly enhance productivity. **Don’t be caught on the wrong side of this revolution!**

DIRECTORS: THE POTENTIAL LIABILITIES YOU FACE WHEN ISSUING SHARES

In the life cycle of your company there will be times when you need to recapitalise the business.

When would you need to issue shares?

A basic requirement of the Companies Act (the Act) is that the company remain a “going concern” (have enough funding



to remain in business for the next 12 months). To satisfy this requirement, directors must regularly perform liquidity and solvency tests (liquidity tests if there will be sufficient cash to meet all obligations whilst solvency tests if assets in the business exceed liabilities). If these tests indicate funding will be needed, one avenue open to the company is to issue more shares.

Alternatively a company may issue new shares when it plans a major expansion.

What is required of directors?

In terms of the Act, directors are responsible for issuing shares and must issue them for an "adequate consideration" which is to be calculated by the directors prior to the issuing of the shares.

This section of the Act requires that directors apply their minds to determining what an "adequate consideration" is. In this process, directors need to keep the best interests of the company in mind, cannot have a conflict of interest and must show the necessary "care, skill and diligence" when performing this task.

This can be a demanding process as for example, the market may dictate that shares be issued below market value or an "inadequate consideration". In this scenario, the company might for example have issued shares in the recent past and shareholders may only be prepared to take up new shares at a discount. Directors need to be able to justify the course of action they take i.e. that the value/consideration is actually adequate in the particular circumstances.

If you as a director fail in this task…

Directors can be held personally liable if they do not issue shares for an "adequate consideration" and may have to compensate stakeholders for any damages suffered in this process.

Thus while the Companies Act grants widespread powers, it also makes directors personally liable for losses sustained as a result of their actions. **It is critical that you document your decisions so that you can withstand any scrutiny of them.**

POPIA IS NOW IMMINENT: DON'T UNDERESTIMATE THE WORK INVOLVED

With the release of final Regulations for the Protection of Personal Information Act ("POPIA", often referred to as "POPI"), the Act's commencement has become imminent.

Once this happens, business will have a twelve month grace period to prepare, but don't leave it to the last minute.

Be warned there is a mountain of work ahead! Fines of up to R10 million can be levied for failure to comply with POPIA.

Watch this space! We'll update you once POPIA's commencement date is gazetted.

DOES "THE COMPANY" STILL HAVE A ROLE TO PLAY?

Concepts the West has taken for granted are now being openly questioned, such as, is liberalism bad, is capitalism flawed, and does the company deliver what it set out to do?

These are valid questions and we should re-evaluate these concepts, particularly the role of the company.

What the company does

Over the past few centuries, Western ideas have globally been the most successful and have resulted in Western dominance. One of the key facets of this success has been the company.

It has proved a unique way of achieving great prosperity as:

- Limited liability has seen companies prepared to take risks which has been the key driver in innovation (without innovation economies will stagnate).
- Companies are organisationally efficient and have fostered good leaders, built up working skills and implemented good practices.
- Through the market, companies are the most efficient allocators of resources and can raise large amounts of capital to achieve their objectives
- Companies have thrived in the competitive environment of a market economy.

Examples abound such as Bill Gates setting up Microsoft to be highly effective in using existing technology to improve company operations.

So what's the problem?

The first is a fall off in competition which leads to poor decision making and can stifle innovation. Facebook, for example, in a little over fifteen years has become monolithic and has now been shown to sell people's private information.

Secondly, companies have become focussed on making money to the detriment of what they actually do – e.g. delivering a banking service. In the long term this leads to lower performance.

Thirdly, companies need to be continually vigilant in maintaining strong governance and ethical values. The current malaise in South Africa has seen many once-respected large businesses being ruined by assisting with state capture or allowing corrupt executives to enrich themselves at great cost to the company.

In a nutshell, we need to fix the company and make markets competitive again.

Time for renewal and experimentation

Today's questions have happened in the past. At the turn of the twentieth century, many of the large conglomerates were broken into smaller more manageable pieces to bring competition back into these industries. This was highly successful.

In South Africa, the Competition Commission has been effective in curbing anti-competitive behaviour.

The King Commission has led to improved governance practices and has laid down a strong template for companies to follow.

Many new businesses have experimented with new approaches in organisational structure – at Spotify, for example, managers serve and report to their teams.

Companies have led the way in business for a long time and already we are seeing new shoots appearing as part of their renewal. This along with experimentation will almost certainly unleash a new wave of growth.

Catch that wave of growth! Look at your business and see how it can be made more effective.

BUDGET 2019: YOUR TIPS FOR TITO

On 20th February the Minister of Finance, Tito Mboweni, will

make his budget speech.

Traditionally, the Minister asks the public what they would like to see in the budget and this year Treasury has specifically asked South Africans to send tweets to @TreasuryRSA with the hashtag #TipsForMinFin and #RSABudget2019, or to use the **Budget Tips** form on the www.treasury.gov.za website.

Also keep an eye on the Minister's own **Twitter feed** – for last year's MTBPS (Medium Term Budget Policy Statement) he asked for contributions under a "Tips for Tito on Twitter" label; perhaps he'll do the same for the Budget Speech.

YOUR TAX DEADLINES FOR FEBRUARY 2019

The second provisional tax payment for the 2018/2019 tax year is due by 28 February.

- **If your taxable income is below R1 million** your estimate of taxable income must equal your basic amount (your latest taxable income assessment plus 8%) and also be within 90% of your 2018/2019 taxable income. If your estimate is less than these parameters you must provide reasons to the Commissioner.
- **When your taxable income is greater than R1 million**, your estimate of taxable income must be within 80% of the actual taxable income for the year.

  Note: capital gains must be included in your estimates of taxable income or the basic amount.

Give careful thought to ensuring you remain in these parameters to avoid being levied with severe penalties.