



**ANALYSIS OF THE ECONOMIC CONTRIBUTION OF
THE PRIVATE SECURITY AND THE LEGAL SERVICES
SUBSECTORS**

FINAL DRAFT REPORT

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LIST OF ACRONYMS

ABET	Adult Basic Education and Training
CCTV	Closed Circuit Television
DHET	Department of Higher Education & Training
ESSA	Economic Size and Structural Analysis
GDP	Gross Domestic Product
GVA	Gross Value Added
I-O	Input-Output model
LSSA	Legal Society of South Africa
PSiRA	Private Security Industry Regulatory Authority
SAM	Social Accounting Matrix
SAPS	South African Police Service
SA	South Africa
SARS	South African Revenue Services
SASSETA	Safety and Security Sector Education and Training Authority
SETA	Sector Education and Training Authority
SIC	Standard Industrial Classification
StatsSA	Statistics South Africa
UCS	Underhill Corporate Solutions
UNESCO	United National Educational Scientific and Cultural Organisation

EXECUTIVE SUMMARY

1. Introduction

The research study was conducted to collect and analyse the most recently available data (2013 to 2017) on the economic contribution of the private security and legal services subsectors. In doing so, the study sought to establish the contribution of the private security and legal services subsectors to the economy in terms of Gross Value Addition (GVA) or Gross Domestic Product (GDP) at constant prices, employment including establishing the levels of salaries and wages, total income and profitability of the businesses in the subsectors and also the implications of the economic performance of the subsectors on skills development.

2. Methodology and Approach

The study employed the Economic Size and Structural Analysis (ESSA) model, as provided by the United National Educational Scientific and Cultural Organisation (UNESCO) in 2012. The ESSA was the most suitable model, compared to the Input-Output and Social Accounting Matrix (SAM), in establishing the levels of contribution of private security and legal services subsectors to the overall economy. The ESSA model allows for the measurement of a subsectors' contribution to its sector and the economy at large using the following key variables:

- **Gross value added** – How much value addition in the entire economy can be attributed to the private security and legal services subsectors.
- **Employment** – (i) the proportion of employees who work in the private security and legal services subsectors as compared to the rest of the economy and (ii) the proportion of employee remuneration (wages and salaries) being paid to the private security and legal services employees are compared to the rest of SA.
- **Business activity** – (i) the proportion of total revenue by SA firms which can be attributed to the private security & legal services subsectors, (ii) net profit generated by firms in the subsectors compared to the entire economy and (iii) total income.

Data required for the study was collected from Statistics South Africa (StatsSA) published reports which include the Quarterly Labour Force Survey (2013 – 2017), the Finance, real estate and business services Report (available for 2016), the Annual Financial Statistics Report (2013

– 2017) and the Quarterly Gross Domestic Product Report (2018). Furthermore, data on demographic distribution of employees in the respective subsectors were collected from the published reports by the respective regulators in each of the subsectors, which are Law Society of South Africa (LSSA) and the Private Security Industry Regulatory Authority (PSiRA). Stakeholder in-depth interviews were also conducted with regulators, employer bodies and firms in both subsectors to establish further insights into the subsectors' current status, challenges and future trends in their contributions to the South African economy.

3. Study Findings

- **The percentage contribution to GVA:** Private security percentage contribution to national GVA increased from 1.17% in 2013 to 1.71% in 2017 while legal services contribution increased from 1% in 2013 to 1.22% in 2017. On average (over the five years under review) the private security has been contributing about 1.35% to the GVA whilst the legal services have been contributing an average of 1.03% for the period under review.
- **Contributions to employment:** In the in private security subsector, the employment headcounts as a percentage of national employment figures increased from 1.95% in 2013 to 3.25% in 2017; while employment in legal services grew marginally from 0.45% in 2013 to 0.75% in 2017. Over the period between 2013 and 2017, the private security and the legal services have contributed an average of 2.71% and 0.63% respectively to total employment. Meanwhile, on salaries and wages, private security grew from 1.6% in 2013 to 2.18% in 2017 while legal services grew from 1.48% in 2013 to 1.75% in 2017. Over the period under review, the salaries of private security contributed an average of 1.85% to the total income received by employees whilst legal services contributed an average of 1.57% between 2013 and 2017.

However, despite the notable increases in employment headcounts, stakeholders in the private security and legal services were of the view that increased competition pressure and new technologies were likely to result in either a stagnation in number of employment growth or a decline in the number of employed individuals.

- **Contributions to business activity:** In terms of total income, the private security's percentage contribution increased from 0.48% in 2013 to 0.68% in 2017 whilst that for the legal services rose from 0.41% in 2013 to 0.48% in 2017. On average, businesses in the private security contributed an average of 0.57% whilst legal services contributed 0.43% to the total incomes received by businesses in the sector over the period 2013-2017. On the other hand, in net profit contribution by the private security increased from 0.44% in 2013 to 0.51% in 2017 and that for the legal services decreased from 1.44% in 2013 to 1.22% in 2017. Private security contributed an average of 0.43% of the net profits whilst legal services contributed an average of 1.51% to the net profits of the economy over the period 2013-2017.
- According to stakeholders interviewed this study, the participation of unregistered and 'non-compliant competitors' in private security has created competition challenges which were viewed by stakeholders as countering the growth of the subsector. While registered businesses are compliant with all regulatory requirements (some of which require them to pay a variety of fees), unregistered businesses profit from not complying with most regulations. Some private security stakeholders argued that PSiRA inspections are inadequate in identifying non-complying firms who have expanded to providing security services especially for small and informal firms such as supermarkets.
- The contribution of both private security and legal services appear to be on a steady increase over the years under review (2013-2017), which was in line with the entire finance, real estate and business services sector, where the two subsectors fall under. In terms of employment headcounts, the sharp decrease for the national economy was not reciprocated by the finance, real estate and business services sector, which continued to experience steady growth.
- Basing on employment headcounts, the study found that the private security subsector was larger than the legal services subsector. However, private security firms appeared to be less profitable. A review of the average salaries showed that employees in private security earned around 50% less than those in the legal services subsector.

- Smaller firms in the private security were of the view that some regulation applied on them together with more established firms discourage entrepreneurship and increase the cost of doing business. Compliance with the providence fund, employee insurance, minimum wages and regulatory fees were viewed as a severe burden which threatens survival of small security companies even before they become established.
- While the legal services subsector was seen as an important contributor in improving access to legal counsel, safeguarding the rule of law and encouraging foreign investment, it was found during stakeholder consultations that the practice of poor ethical standards by some attorneys was threatening the legal profession. Funds embezzlements was one of the examples of a challenges that was reported. Stakeholders argued that these challenges had the likelihood of eroding the public trust in South Africa's legal systems.

4. Main Recommendations

The study makes the following recommendations, based on the results of economic contribution, analysis of statistical trends, literature review and key stakeholder interviews:

- Skills development initiatives in both subsectors should focus on new technological methods with which security and legal services are now being provided internationally. With the increase in automated surveillance systems for instance, employment in private security will likely decline if human resources do not get retrained. The same applies to legal services where automated legal counsel provided over the internet may overtake human lawyers. Skills and courses in basic numeracy, report writing, computer literacy, firearm handling and rapid, armed response scenarios are crucial for security services personnel now and in the future.
- The PSiRA should consider expanding inspections to ensure all security companies providing services are licenced. With an increasing crime rates, the resultant increase in demand for private security services (mostly from small and informal firms) is encouraging the rise of unregistered security companies offering services. This is likely crippling registered firms, especially small ones, who are required to pay several mandatory fees and the minimum wage.

- Firms in the private security subsector should engage in programmes which improve their value addition and profitability. Techniques such as benchmarking international best practices are useful in ensuring the discovery of cost-cutting measures or economies of scale that increases profitability and general earnings.
- Regulatory requirements to be implemented in consideration of the size of firms in the subsectors. A balance should be established between maintaining a functioning and professional private security and legal service industry and creating an environment for firms to flourish. For instance, while regulatory fees, Providence Funds and minimum wages are crucial to every South African, enforcing them on small firms which are still struggling to gain momentum might discourage enterprise. However, this recommendation should be closely considered in the context that firms in private security and legal services often deal in third party assets; and security for these has to be prioritised. Regulatory liberalisation should therefore not result in the employment of poorly trained workers, and poor service provision standards.
- A regulatory review to be conducted in legal services to safeguard the profession's reputation. Incidences of lawyers embezzling clients' funds should be investigated by the Legal Practice Council and appropriate actions swiftly taken.
- There is need for urgent investigation on how the two subsectors would be affected by the 4th Industrial Revolution, and the future skills that employees in the target subsectors should be trained in to safeguard their employment.

1. INTRODUCTION AND BACKGROUND

1.1 Introduction

The Safety and Security Sector Education and Training Authority (SASSETA) is one of the 21 Sector Education and Training Authorities established in terms of section 9(1)(a) of the Skills Development Act (Act no. 97 of 1998). SASSETA executes its mandate in accordance with Section 10 of the Skills Development Act in the safety and security sector. This includes the legal services, policing, correctional services, justice, security and investigation activities among other subsectors¹. Both subsectors contribute to the overall macro economy through value addition, employment creation, income generation as well as other services.

The Department of Higher Education and Training (DHET) has set requirements for Sector Education and Training Authorities (SETAs) to promote skills development in their respective sectors. It is therefore crucial to assess the economic contribution of each subsector to the overall economy. A review of global and national studies of the two sectors reveals key trends and dynamics and how they impact the growth of the sectors; which in turn enhances their respective contributions to the economy. However, empirical studies have shown that measuring economic contribution is often highly challenging due to the modelling tools requirements and multiple data points (Watson, Wilson, Thilmany and Winter; 2007:142). The private security and legal services subsectors (Standard Industrial Classification (SIC) codes 88920 and 8810 respectively) which are targeted in this study are housed under the 'Finance, real estate and business services sector (hereinafter referred to as the 'finance, real estate and business services' sector.

1.2 Study background

1.2.1 Overview of the Private Security Subsector in South Africa

The private security subsector is regulated through the 'Private Security Industry Regulation Act (Act 56 of 2001) (The Presidency, 2002). The 2016 research report on SASSETA offers

¹ Refer to the Sic Codes per SETA document available on http://www.agriseta.co.za/downloads/ALL_SIC_CODES_PER_SETA.pdf (pg. 16)

insights into the key role players, change drivers and key statistics in the subsector. According to SASSETA (2016a:7), the subsector includes *“all businesses and individuals involved in the guarding or protecting of fixed property, premises, goods, persons or employees, including monitoring and responding to alarms at premises that are guarded by persons or by electronic means, and spans a wide range of security service business categories.”* Key occupations in the private security subsector include elementary occupations, machine operators and assemblers, clerks, service and sales workers, associate professionals and professionals (SASSETA, 2016a:10).

The Private Security Industry Regulatory Authority (PSiRA) is mandated through the Private Security Industry Regulation Act of 2001 to promote a legitimate private security industry and ensure that all security service providers act in the public interest among other mandates (The Presidency, 2002:8). It releases annual reports capturing information on the key statistics and trends in the private security subsector. The PSiRA notes several services offered by private security companies such as guarding and patrolling, venue control, body guarding and security control rooms as well as less popular ones such as dog training, anti-poaching and alarm installations. Major customers to firms providing services in the subsector can be grouped into owners of large spaces (such as government, airports and universities), public private spaces such as shopping malls, retail and commercial business, corporate, banks and individual homeowners.

1.2.1.1 Growth drivers in the private security subsector

The private security subsector has been realising steady growth which contributes to the nation’s GDP. The growth of this subsector is linked to various factors which include corporate governance, regulatory issues, trends in demand and elasticity of demand amongst other factors. In a paper published by the European Journal on Criminal Policy and Research, De Waard (1999:159) notes that the demand for private security was expected to increase. This is a result of the movement of security services from the proprietary to contract sectors, fear by households and firms of facing litigation as a result of lacking security. It arises from, requirements by insurers for insurable interests to be secured and the desire by people to feel safer. In a related study, Singh and Light (2017) discovered that private security services such

as private policing are affected by the extent of democracy in an economy. Singh and Light found that countries with a tendency towards autocracy tend to heavily restrict the expansion of private policing while democratic countries do the opposite.

In addition, an article² published by the Financial Times in 2017 reports that in Gauteng province, increasing crime rates coupled with decreasing public confidence in the police service has resulted in an increase in demand for private security services (Financial Times, 2017). The Financial Times article is corroborated by a 2016/17 Victims of Crime Survey published by Statistics South Africa (StatsSA, 2017). This reported that up to 20% of households in Gauteng province were subscribed to private security companies due to their lack of confidence in the police in the wake of rising crime rates.

According to the SASSETA private security subsector (SASSETA, 2016a), customers' price sensitivity to security services has directly and indirectly affected the subsector growth. While the largest part of consumer demand for private security comes from large corporates, banks and government departments; small businesses and individual homeowners also use private security. It is the small businesses and homeowners whose demand for the service usually falls especially during economic stagnation periods which affects the revenues of security firms. As less and less of formal private security services are demanded by homeowners and small businesses, unregistered and non-compliant security service providers are encouraged to enter the market. Here, they tend to exploit their employees, provide sub-standard services and install poor quality security systems (SASSETA, 2016a:5).

In addition, the private security subsector report (SASSETA, 2016a:6) attests that high insurance premiums have also triggered growth of the subsector, since customers now tend to prefer securing their properties instead of purchasing expensive insurance cover. Furthermore, the expansion of retail businesses and other South Africa multinational companies has further enhanced not only local demand for security because of the increasing numbers of shopping malls. It has also exported security to neighbouring countries, as local multinational companies continue with their contracts by hiring the same security company outside South African

² 'High South African crime rates and low faith in police boost private security'; <https://www.ft.com/content/ab7600e4-2068-11e7-b7d3-163f5a7f229c>

borders. However, the subsector growth is not expected to be maintained but is rather expected to level off in a few years. This is due to the government (which is a major client for the sectors) proposing to substitute private security for in-house security. If this is implemented, it will undoubtedly lead to significant job losses in the private security subsector (SASSETA, 2016a:6).

1.2.1.2 Importance of private security to the SA economy

Like all other subsectors in the economy, the private security subsector offers direct employment in the economy. It pays salaries and wages which in turn leads to induced consumption and pays taxes to government which increases government revenue. It also in part, contributes to export earnings through providing services to households and firms outside South Africa. Revenues earned by the sector firms increase household wealth and improve living standards. However, not all economic contributions of the subsector are quantifiable. For instance, private security gives households and firms assurance that their properties are secured. In addition, the ability of private security firms to combat local crime and contribute to safer communities may not be quantified, but indeed is one of the most important contributions the subsector can make towards the South African economy (PSiRA, 2017:8). According to the PSiRA (2017:8), up to 69% of households in South Africa generally feel secure and safe within their households due to the existence of private security services. One of the main objectives of this research is to update statistics on the economic contribution of the private security subsector to the economy.

1.2.2 Overview of the Legal Services Subsector in South Africa

The legal services subsector offers a range of services such as legal and paralegal services, and legal aid services and sheriffs to all sectors of the economy spanning across all SIC codes. The legal services subsector offers employment titles such as attorneys, advocates, intellectual property practitioners, legal advisors, paralegals and sheriffs across the country (SASSETA, 2016b:2). According to the 2016 SASSETA legal services subsector report, legal services do not only involve individual practitioners. They also include attorneys' firms, non-governmental and non-profit organisations and other legal service and legal aid providers. While primarily

regulated by the Law Society of SA, the legal services subsector has a number of smaller law societies. These include the KwaZulu-Natal Law Society, the Law Society of the Northern Provinces and the Black Lawyers Association (BLA).

1.2.2.1 Growth drivers in the legal services subsector

Activities within the legal services subsector are affected by the cross-cutting change drivers that influence the entire safety and security sector (SASSETA, 2016b:4). For example, an increase in crime leads to an increase in litigation. This affects the workloads of the justice component of the safety and security sector as well as those of the legal services component. The work of organisations in legal services is interwoven with that of the justice subsector. This makes it inevitable for restructuring of the court system and transformation and professionalisation of the entire criminal justice system to impact on the work of legal service providers. For instance, moves to ensure that all accused persons obtain legal counsel regardless of income or background increases the demand for public defenders. Similarly, as white-collar crime and cybercrime increases, law firms are themselves becoming the targets of fraudulent and corrupt activities by crime syndicates. Such firms require the necessary financial and risk management skills to safeguard their trust and business accounts (Yarrow & Decker, 2012:33).

In the latest legal services subsector research report of 2016 (SASSETA, 2016b), it was noted that growth in the subsector is influenced by a number of demand and supply side issues. On one hand, factors such as growth in population; a shift towards policies intended to promote universal access to legal representation; the increase in crime and prosecutions are examples of demand side factors that push for growth in the subsector. On the other hand, supply side factors such as the advancement in technology and good corporate governance practices have enhanced growth of the subsector. Through the use of computer assisted systems, legal representatives are able to execute their duties more efficiently and thus, enhancing their chances of serving more individuals in a community. In corroboration, the Regulatory Policy Institute (2012:5) notes that the emergence of new working practices and changes in information communication technologies are likely to lead the legal services subsector into a turbulent period in the coming years. This is because the growth or shrinking of the economy

also affects growth in use of legal services. Furthermore, a growth in the number of established firms increases demand for legal services, since firms usually prefer to have access to legal representation (Yarrow & Decker, 2012:4).

The demand for legal services is also influenced by the state of the economy. A growing economy with new and evolving industries inevitably requires a higher volume of legal work, and firms in such circumstances can afford to pay for legal services. The opposite is also true: a stagnant economy is not likely to create a demand for legal services. Another factor is the behaviour of large corporates, as noted by Yarrow and Decker (2012), who argue that the international trend among large firms has seen them moving significant amounts of their legal work away from law firms to in-house legal staff. At the same time there is a proliferation of new non-traditional legal service providers, such as the major accounting companies which now appear to be aggressively pursuing opportunities to conduct business in the legal services sector across the world (International Bar Association, 2016:8; Ferrell, 2000:599).

1.2.2.2 Importance of legal services to the SA economy

Globally, contributions of legal services have also been emphasised in the generation of GDP in economies. According to Yarrow and Decker (2012:5), the legal services subsector in the EU (European Union) contributed an average of 1,1% of total GDP among the five largest EU markets. This figure was comparable to the South African legal services contribution which was estimated to be around 1.8% of the country's GDP in 2010 (SASSETA, 2016b:6). While quoting Beck (2010), the Regulatory Policy Institute (2012:9) narrates how legal services subsectors can contribute to economies through allowing citizens to concentrate more on entrepreneurship and investment especially where property rights are respected. This study aims to update these statistics through reviewing more current information and thus measuring the contribution of legal services to the SA economy.

1.3 Research objective

The research study was conducted to collect and analyse the most recently available data (2013 to 2017) on the economic contribution of the subsectors under review.

1.4 Research questions

Considering the research objective, the study seeks to answer the following questions:

- a) What is the percentage contribution in Gross Value Added (GVA) by the legal services and private security subsectors of South Africa for the period 2013-2017?
- b) What percentage of total employment (including salaries and wages) in South Africa is employed in the legal services and private security subsectors for the period 2013-2017?
- c) How much (total) income and profit is being generated by the legal services and private security subsectors in relation to the overall economy for the period 2013-2017?
- d) What are the implications of the economic performance of these subsectors on skills development in the respective subsectors?

1.5 Scope of the study

The study scope required the researchers to:

- a) Develop a credible and innovative method/model to collect and analyse data pertaining to the private security and legal services subsectors in South Africa,
- b) Prepare a research report with comprehensive and feasible recommendations, and
- c) Prepare a presentation to SASSETA management on the findings and recommendations of the research study.

1.6 Structure of the report

This report is structure as follows: Chapter 1 is made up of the Introduction and background; chapter 2 contains the literature review; chapter 3 contains the methodology and approach while chapter 4 presents results and analysis and chapter 5 offers the conclusions and recommendations.

2. LITERATURE REVIEW

2.1 Introduction

This chapter introduces the study conceptual framework by discussing available theoretical models normally used in measuring economic contribution. The chapter begins by discussing the importance of measuring economic contributions, then presents the prominent methodological approaches and model tools used. The literature review presents a critical analysis perspective to determine the suitability of each available model not only to related studies but to this study in particular; considering the time and budgetary constraints. Lastly, the chapter discusses case studies across the world where the chosen model has been applied, the details of application and results obtained.

As per terms of reference (TOR) for this study, a literature review of existing theoretical and practical models, tools and approaches helps to determine the best instrument for measuring the economic contribution of the private security and legal services subsectors of South Africa. Further, by examining recent trends identified from published records of the two subsectors, the literature review will provide insights into the current statistics and factors driving these sectors growth and overall contribution to the South African economy.

2.2 Measuring the Contribution of Subsectors to the Economy

As noted by Watson *et al.* (2007:140), it is crucial for economies to periodically measure the contribution of (sub)sectors. Policy makers use contribution statistics to determine which sectors are performing better than others for the sake of formulating policy and strategies. For instance, sectors providing employment for more individuals, sectors which generally show fast growth or sectors which are highly profitable will need to be given priority in economic planning and budgeting. On the other hand, by zeroing in on non/underperforming sectors, policy makers will be better equipped to suggest policy interventions to improve their performance (Cloete & Rossouw, 2014:7). In the case of SASSETA, contribution measurement is key in helping the SETA to understand the possible changes in economic fundamentals which have a bearing on skills demand and supply.

In the field of measuring contributions of subsectors, economists argue that there are different approaches which involve application of either qualitative or quantitative tools (Daubarite & Startiene, 2015:130). Quantitative tools such as the I-O model use objective economic figures, whereas qualitative tools utilise generally known subjective economic fundamentals (such as social development) to identify contributions of a subsector. While it is difficult to quantify some elements of economic impact, qualitative elements can be easily identified and are all generally agreed on as measures of subsector economic contribution. By analysing theory and empirical data from 47 publications, Daubarite and Startiene (2015:130) present a list of eight (8) measures that could be used to assess the contribution of a subsector to the economy. These are:

- Fighting overall unemployment
- Part in GDP, value added
- Foreign trade (export)
- Social inclusion
- Social and cultural development
- Increasing quality of life
- Fighting youth unemployment
- Other indicators of socio-economic impact.

Measures such as social inclusion, quality of life and social development are not easily quantifiable but could still be considered to be significant in the economy. However, while the value of each of the above contributors is considered, Daubarite and Startiene (2015:131) argue that these contributors are not equally important. The same authors argue that reducing unemployment, contribution to GDP and generating exports are among the most important measures.

There are several tools or models of measuring the economic contribution of subsectors to the overall economy. Some of these include the (i) Input-Output (I-O) models, (ii) Social Accounting Matrix (SAM) and the (iii) ESSA (Shin *et al.*, 2015). According to Klijs and Maris (2013), these measurement approaches can be broadly grouped into either general or partial equilibrium economic modelling tools. Given that each model possesses its own strengths and

limitations, it is important to assess the applicability of each to the research in question before ascertaining the most applicable approach. In this section, we discuss the arguments and applications of each model in measuring subsector contribution to the economy.

2.2.1 The Input-Output Model

The I-O model introduces the concept of sectoral linkages in measuring total output in the economy. It views the macro economy as an interaction of sectors and subsectors exchanging goods and services such that output in one subsector can become input into another sector. By determining how changes in one subsector impact (whether directly or indirectly) related subsectors in the same economy, it is possible through the I-O model to quantify the multiplier effects arising from that change, hence giving the contribution that subsector makes to the economy.

Due to the complexities of production and demand, several sectors and subsectors of an economy become interconnected such that outputs from one sector can become inputs into another. The notion that economic sectors are interconnected can help explain how shocks in sector, say A, can affect sector B and or C; suggesting that measuring contribution of sector A should consider how it relates to B and or C. Using this argument, Professor Wassily Leontief developed the input-output model in the late 1930s. This details the numeric relationships between each subsector and the rest of the subsectors in the same economy (Miller & Blair, 2009:13).

Using the I-O model, three types of impacts can be estimated namely: direct impact, indirect impact and induced impact (Boshoff & Seymore, 2016; Copenhagen Economics , 2013; Miller & Blair, 2009). Direct impact refers to the buying and selling of goods and services among firms in different subsectors. Indirect impact refers to the value addition by firms in one subsector as a result of inputs obtained from another subsector. Finally, the induced impact measures how much of the salaries and wages from one subsector has been used to purchase goods and services in another subsector.

The input-output model successfully takes into consideration the complexities of economies by integrating not only the direct contribution of a sector but also how activity from one sector can multiply and affect the rest of the economy. With applicability in various economic studies such as the calculation of the national GDP or regional and sector economic planning, the model has been incorporated into national accounting systems of many developed countries (Miller & Blair, 2009).

However, the model itself has its own share of critics. Firstly, assumptions such as constant returns to scale in production, constant production techniques and constant technology erode the value of the model. In the real world, the relations between various economic subsectors are more dynamic, and production techniques change all the time due to technology and other factors. On a more practical note, the enormous data requirements in formulating the table (with expenditures and revenues of each branch of economic activity having to be calculated), collection and quality of data varies between countries.

In addition, the labour and computer intensiveness of producing an I-O table means that tables are often published long after the year in which the data were collected. A couple more years will pass before the next I-O table is produced³. Worse still, where a specific subsector is not included in the I-O table⁴, it becomes extremely challenging to extrapolate its possible impact by either studying related (sub)sectors or activity within the finance, real estate and business services sector.

2.2.2 The Social Accounting Matrix

The Social Accounting Matrix (SAM) is an economy-wide database. It contains information about the flow of resources taking place between the different economic agents within an economy (i.e. business enterprises, households, government, etc.) during a given period – usually one calendar year (Bellù, 2012). The SAM reflects economic relationships between sectors of the economy by identifying monetary transactions (expenditure and receipts)

³ In South Africa, the latest I-O table for the entire economy was published in 2011, and represents the economic outlook pre-2011

⁴ As is the case with the private security and legal services subsectors of South Africa

between them (Rodríguez, 2018). It links traditional macro-economic indicators such as the GDP to indicators of socio-economic concern, for example population group (targeted groups) and income distribution. It is therefore a valuable tool to use in policy monitoring and evaluation (Thorbecke & Babcock, 2000).

The SAM is able to extend the I-O model by tabulating all transactions and transfers between industries. Since its popularisation by Graham Pyatt and Erik Thorbecke in the 1960s, the SAM has been a highly popular model applied by the World Bank and other top institutions on developmental analysis. In addition, it has been highly applauded for its ability to capture a wide variety of economic activity from production, factor accounts and income accounts. With its ability to become disaggregated into specific subsector or activity, the SAM offers a clear opportunity for a study to be carried out on the private security and legal services subsectors.

However, like the I-O model, the data requirements for SAM are extremely high and often require researchers to collect their own primary data to plug any gaps (Cloete & Rossouw, 2014). This is aggravated by the fact that the SAM tables (the latest of which were published in 2011 for SA) do not specify any data on the target sectors (private security and legal services). This means that the researcher must build a sufficient primary database that can be used to link with the master SAM document. In this regard, the SAM becomes unattractive especially in a low-budget and short timeframe research project.

2.2.3 The Economic Size and Structural Analysis

In any economy, known macroeconomic indicators are a function of contributions from several subsectors. Each sector produces goods and services and undertakes value addition, makes profits, employs individuals and pays taxes. Measuring the contributions each sector makes it easier to compare which sector contributes more to employment creation, poverty reduction and GDP growth among others.

In a handbook released by the UNESCO Institute for Statistics (2012), 'economic contribution' or 'economic importance' was defined as the quantification of the economic dimension of individual industries and the gross changes in their economic activity. Accordingly, economic

contribution is measured as a statistic, a descriptive concept where one has to answer a specific question. For example, if total GDP for a certain year is y , what percentage of y is made up of x ; where x is a variable representing a sector's contribution. Alternatively, Watson *et al.* (2007:142) define economic impact and contribution within the framework of regional economic analysis as *"the gross changes in economic activity associated with an industry, event or policy in an existing regional economy, while economic impact is the net changes in new economic activity associated with an industry, event or policy in an existing regional economy"*.

The Economic Size and Structural Analysis (ESSA) model considers how each subsector contributes individually to basic macroeconomic aggregates such as GVA, gross domestic product, employment, fixed capital formation, exports and imports. The model is thus useful in painting a picture of the role that private security and legal service industries play in the economy and of how they fit into the greater economic environment. Watson *et al.* (2007) view the ESSA as a 'contribution analysis' model which maps a specific sector in relation to the overall economy. The UNESCO Institute for Statistics (2012:20) notes that the ESSA can be used in analysing both the short and long-term contributions of a sector. While short-term measurement evaluates structural business measures such as (turnover, sales revenue, number of enterprises, profit), long-term measurement considers how different stakeholders in the sector contribute to the economy.

Table 1 summarises the main variables considered by the ESSA model and how each variable can be measured.

Table 1: Basic model of the measures for economic size and structural analysis

Indicator	Measure	Description
GVA	GVA/GDP of security and legal subsectors	GVA/GDP of security and legal subsectors in absolute terms
	GVA/GDP of security and legal subsectors in relative terms	Share of security and legal subsectors GVA/GDP in GVA/GDP of total economy (%)
	Distribution of GVA/GDP by subsectors	Share of security and legal subsectors in total GVA/GDP of cultural industries in absolute and relative terms

Employment	Contribution of security and legal subsectors employment to total employment	Share of security and legal subsectors employees in total employment (%)
	Distribution of employment in security and legal subsectors	Share of subsectors employment in total employment in cultural industries in absolute and relative terms
	Volume and share of self-employment	Number of self-employment jobs/share of self-employment in total self-employment jobs in economy
Business activity	Stock of businesses	Number of businesses by size in security and legal subsectors
	Distribution of businesses by subsector	Number of businesses by size in security and legal subsectors
	Business-start ups	Number of new businesses in security and legal subsectors per 10,000 persons
	Business mortality	Number of closed businesses in security and legal subsectors per 10,000 people
	Distribution of start-up businesses by subsector	Number of new businesses in security and legal subsectors per 10,000 persons
	Distribution of business mortality	Number of closed businesses in security and legal subsectors per 10,000 persons

Source: UNESCO (UIS) (2012:21)

2.2.4 Comparison of the econometric models and assessment of suitability for this project

Using econometric models such as I-O and SAM models requires data-rich input-output and SAM tables respectively. While the latest tables released by StatsSA are available and were published in 2011, their matrices do not specify data for the subsectors in question (which are the private security and legal services subsectors). The ESSA model allows for analysis of economic contribution using the latest available data from the StatsSA report on the 'real estate, activities auxiliary to financial intermediation and business services sector'. The currently available report is from 2016 and can be complemented by the *Annual Financial Statistics*' publication already released in September 2018.

However, the ESSA does not consider linkages between one subsector and others, but rather measures its direct contribution to key economic fundamentals as compared to other

subsectors or past statistics from the same subsector. This means that the ESSA model does not sufficiently explain how changes in one sector of the economy can affect other sectors. This applies, even though in reality, sector contribution is a function of numerous factors including relationships with other sectors. Table 2 compares the three models using applicability to the current study by examining data requirements.

Table 2: Comparisons among the I-O, SAM and ESSA models

Items in comparison	Input-Output model	SAM	ESSA
Latest available data	2014	2011	2017
Measurement method(s)	Direct, indirect and induced	Direct, indirect and induced	Direct
Measurement approach(es)	Condensed and holistic, all indicators in one	Condensed and holistic, all indicators in one	Disaggregated among different indicators
Target subsector-specific data	Not available	Not available	Available
Need for additional data	Yes	Yes	No

Source: Underhill Corporate Solutions' own internal generation (2019)

As shown on Table 2, the ESSA, I-O and SAM latest available datasets are from 2017, 2014 and 2011 respectively. The available data required for analysis using the ESSA are already disaggregated into subsector specific data, unlike for the other models. Hence, data requirements for the ESSA model have been achieved since data available are specific to the two subsectors under review while data for other models have not been met. The section below summarises the case studies where the ESSA model was applied in the estimation of the economic contribution of subsectors or sectors to the economy.

2.3 Case Studies on the applications of ESSA Model

Having established that the ESSA model is optimal for this assignment, given data availability and suitability, this section summarises selected case studies where the methodology was applied. Empirical literature has shown that the ESSA approach has been applied by countries

in America, Europe, Asia and the Pacific, and Africa. The following case studies detail the application of ESSA by countries from different parts of the world:

2.3.1 Austria

In Austria, a periodic report titled the "*Austrian Creative Economy Report*" is released every two years; with the latest report having been released in 2017 (Austrian Federal Economic Chamber, 2017). In this report, the ESSA approach was used, whereby the private sector, intermediate/non-profit sector and public sector contributions were discussed. The 'Creative Economy Report' places emphasis on the following variables in measuring contributions of the cultural industry. These are (i) employment, (ii) number of enterprises, non-profit organisations, public sector, (iii) GVA, (iv) revenue, (v) revenue per employee/density of creative industries enterprises, (vi) Research and Development, and (vii) employees with university degrees (by sector). Using these variables, the Federal Economic Chamber established that by the end of 2017, more than 10% of the firms in Austria fell under the creative industries sector. Therefore, up to 4% of the employed labour force in Austria were employed in creative industries. Using the ESSA approach, the Austrian Federal Economic Chamber (2017) found that the whole creative sector in Austria was contributing about 3% to the turnover/GVA of the economy by the end of 2017.

2.3.2 United Kingdom

Similarly, to Poland, Germany, Denmark and Finland among other European Union (EU) countries, the United Kingdom (UK) uses the ESSA model (UNESCO, 2012:58). Central to such a measurement technique is how productivity generally results in economic growth in the country. Key variables employed in the UK include: (i) GVA, (ii) employment and structure of employment, (iii) productivity, (iv) number of enterprises, (v) industry sub-market analysis and (vi) distribution of employment in the sector in question.

Higgs, Cunningham and Bakhshi (2008) reported use of the ESSA approach to measure the contribution of the creative industry to the UK economy. These researchers note that by using actual population data, conservative estimation techniques and income estimations, more

accurate outcomes can be deduced. These are easily comparable with other sectors of the economy. Their results showed that in 2008, the creative industry employed about 7% of the UK labour force and who earned 9.6% of the total salaries and wages in the country. Similarly, workers in the creative sector were found to earn 37% higher wages than workers in other sectors. This was true even though the salary growth of 2.5% in the creative sector was below the national average of 3.5% by the end of the year 2008.

2.3.3 Canada

In Canada, multiple models are used in different studies measuring economic contribution, with I-O tables, multiplier and ESSA being commonly used. Variables of interest are generally similar to other countries employing the ESSA approach, with a number of extensions and additions. For instance, not only employment headcounts are considered in Canada but the sector employment growth rates as well. Studies in Canada also use gross and net earnings (before taxes) and government revenues generated by taxing the sector of interest as measures of contribution to the macroeconomy. Lastly, Canadian studies consider the contribution of sectors in terms of the value of private funding received, government spending within sectors and the value of international trade generated (UNESCO, 2012:67). A review of a report measuring the contribution of culture industries shows that using the ESSA approach, it was revealed that the sector contributed 3.8% to the country's nominal GDP while contributing 4% to the country's employment (Statistics Canada, 2007).

2.3.4 Australia

Australia also employs the ESSA approach to measure contributions of economic sectors. The country also emphasises measurement of growth rates in employment and GDP to ascertain the dynamics in sectoral contributions (UNESCO, 2012:76). In addition, the value of international trade generated by the sectors, number of businesses (with size, entry and exit rates), and concentration of firms in sectors are considered. According to the Australian Copyright Council (2017) report, Australia's copyright industries generated 7.4% of the country's GDP by the end of 2016 while employing 8.6% of the labour force and contributing 2.7% to total exports. Hence, the Australian version of contribution measurement using ESSA

considers not only contributions into the domestic sector but also the foreign sector through exports generation.

2.3.5 South Africa

The UNESCO Institute for Statistics (2012:77) asserts that most African studies conducted on measuring economic contribution using the ESSA are regional. Other studies conducted have used a cognitive research method which employed qualitative interviews and focus groups to ascertain the contribution by (sub)sectors, regions or cities.

A South African study commissioned by the Department of Labour (2008) employed the ESSA to measure the contribution of the film industry to the economy. This evaluated key variables such as annual turnover, employment headcounts and part in GDP. Using a regional approach, the study established that the film industry contributed up to 2% to the GDP with Gauteng and Western Cape provinces contributing the highest.

From the review, it is notable that there are limited government commissioned studies measuring economic contributions, while there are more academic studies. These theoretical studies have however focused more on multiplier models (I-O and SAM). They include studies by Cloete and Rossouw (2014) and Boshoff and Seymore (2016).

2.4 Conclusion

The literature review discusses the most common econometric models used in measuring (sub)sector economic contribution, including selected case studies. The main conclusion from the review is that the ESSA model is the most optimal econometric technique for this study, based on the available timeframes, applicability to SA and currently available datasets. Countries in Europe, Asia, America and Africa use the model with slight variations in the variables used. These can be scope (national, regional or local) and whether the ESSA is applied in isolation or in combination with other models. Most of the previous studies consulted in this chapter relate to a review of economic contributions of the creative industries. However, such applications can be easily applied in other (sub)sectors of the economy which generate

turnover, GVA and create employment. Therefore, case studies reviewed show that the ESSA is a generally acceptable and applicable model for measuring economic contribution.

3. METHODOLOGY AND APPROACH

3.1 Introduction

The previous chapter discussed different models used in measuring economic contribution and assessed each for viability of use in this assignment. Since the ESSA model was selected, this chapter presents the steps followed in (i) customising the ESSA model as an econometric model for measuring the economic contribution of both the private security and legal services subsectors, (ii) the data gathering methods and data sources procedures and (iii) estimating the economic contribution of the two subsectors.

The main focus of this study was (i) to collect and analyse the most recently available data (2013 to 2017) on the economic contribution of the subsectors under review and (ii) to produce a comprehensive report which includes an innovative method/model to be used in analysing data pertaining to the private security and legal services subsectors in South Africa.

3.2 Development of the ESSA Model

This research adapts and develops an ESSA model as applied by the UNESCO Institute for Statistics (2012). The UNESCO report details application criteria, and processes followed in analysing economic contribution using ESSA. It is adapted from research which measured contribution of the creative industries across the world as discussed in the case studies (refer to 2.3). Using the ESSA model, it follows that a (sub)sector can contribute to the economy through providing employment, adding value, playing a part in GDP and generating goods and services. Assessments are carried out to establish not only how the subsector contributes to the overall economy but also contribution of a subsector to its own sector; and a comparison of a subsector's contribution to its sector.

In this assignment, the following variables will be measured⁵:

- **Employment** – (i) the proportion of employees who work in the private security and legal services subsectors as compared to the rest of the economy and (ii) the

⁵ Refer to the attached excel spreadsheet which contains an interactive ESSA model that can be easily applied to future assignments

proportion of employee remuneration (wages and salaries) being paid to the private security and legal services employees are compared to the rest of SA.

- **Gross value added** – How much value addition in the entire economy can be attributed to the private security and legal services subsectors.
- **Business activity** – (i) the proportion of total revenue by SA firms which can be attributed to the private security & legal services subsectors, (ii) net profit generated by firms in the subsectors compared to the entire economy and (iii) total income.

3.3 Data sources

Data for this research stems from publicly available reports, unpublished reports (from key informants) and qualitative, primary sources. To achieve the research goal, subsector specific data and aggregated national data are both essential. Table 3 shows the data sources identified for this study and the data collection methods used.

Table 3: Data sources for the study

Report title	Released by	Data collection method	Use
Real estate, activities auxiliary to financial intermediation and finance, real estate and business services industry report	StatsSA	Desktop research	Subsector-specific data on: <ul style="list-style-type: none"> - Employment and remuneration figures - GVA - Business activity
Quarterly employment statistics reports; 2013-2017	StatsSA	Desktop research	Aggregated data on: <ul style="list-style-type: none"> - Employment headcounts - Remuneration to employees
Gross domestic product quarterly report	StatsSA	Desktop research	GVA aggregated data
Annual, quarterly and regional GDP report	StatsSA	Desktop research	Annualised, aggregated figures of: <ul style="list-style-type: none"> - GDP by sector - GDP by province - GDP by sector for each province
Annual Financial Statistics survey report (revised estimates)	StatsSA	Desktop research	Aggregated and subsector specific data on: <ul style="list-style-type: none"> - Turnover

Report title	Released by	Data collection method	Use
			<ul style="list-style-type: none"> - Total income - Net profit

Source: Underhill Corporate Solutions (2019)

As shown in Table 3, secondary research methods (desktop) were used in sourcing data for all variables such as GDP, GVA, turnover and employment. All reports were obtained from StatsSA; the Finance, real estate and business services report to the Annual Financial Statistics. Results from the data sources on Table 3 will be complemented by the results of in-depth interviews with regulators in the respective sectors (the PSiRA and the Law Society of SA).

3.4 Key informant interviews

In addition to the secondary data sources obtained from published statistical releases, key informant interviews were held with key stakeholders in the two subsectors. The main focus of the interviews was to establish a more in-depth position on the performance, contribution and outlook of the private security and legal services subsectors. Aspects such as subsector performance, number of new firms registering, number of closures and the factors driving growth were considered. Employer bodies were also be consulted to provide further insights into the relevance and functioning of the two subsectors. A pre-designed interview guide was be used during face to face interviews with the stakeholders identified in Table 4.

Table 4: Key informants to the study

Subsector	Key informant	Designation
Private security	PSiRA	Regulator
Legal services	LSSA	Regulator
Legal services	Legal Aid South Africa	Employer/employer body
Private security	Bidvest Protea Coin	Employer/employer body
Private security	Empower	Employer/employer body
Private security	Matimba Security	Employer/employer body
Private security	Fidelity	Employer/employer body

Source: Underhill Corporate Solutions (2019)

Table 4 shows that the target respondents for in-depth interviews are the PSiRA and LSSA (as regulators), Bidvest Protea Coin and Fidelity (as employers/employer bodies). There are no notable employer bodies in the legal services subsector.

3.5 Analysis and measurement procedures

Following data sources and collection methods presented on Table 3, the model follows a quantitative measurement approach aimed at establishing the percentage contribution made by each subsector to (i) the finance, real estate and business services sector or industry and (ii) the overall economy. Following data cleaning, a modification and recalculation process was followed where necessary. Since different reports contained distinct data streams, merging was necessary to ensure standardisation and comparability of results. In the calculation of employment headcounts, subsector data was collated from the finance, real estate and business services report and compared to the quarterly labour statistics report. The different employment totals discovered (possibly due to differences in sample sizes and estimation methods) required a recalculation whereby subsector specific headcounts were modified at a constant contribution percentage to match headcounts from the quarterly labour statistics report. In addition, due to the absence of subsector specific data on GVA by firms (the quarterly GDP report by StatsSA only reports GVA of sectors), a proxy, in the form of total revenue was used in modifying GVA for private security and legal services such that their total GVA was determined by the percentage of total revenue generated by each subsector in each of the years 2013 – 2017.

The overall analysis, which was aided by visual charts in absolute figures and percentages, depended on the determination of size of each subsector in relation to the economy and finance, real estate and business services sector. For instance, if the total revenue generated by all firms in SA amounted to R35 million while the entire finance, real estate and business services sector firms generated R7 million and legal services firms generated R1 million. Given this data, the legal services subsector contributes about 2.9% in terms of total revenue to the SA economy while contributing about 14.3% to the finance, real estate and business services sector.

3.6 Ethical considerations

Following an outline by Tripathy (2013), UCS strives to work within the bounds of common ethical considerations involved in studies which use secondary data. This encompasses ensuring no harm to individual subjects and the assumption of informed consent. Firstly, all data used in this study are devoid of any identifying information. The data does not point to any individual companies or any other economic agents; but only aggregated (sub)sectoral data. Secondly, without the possibility of approaching individual companies to request permission to access their performance data, UCS assumed that by submitting their performance data to the public domain, companies have given consent that their data being used for research. Lastly, informed permission to conduct interviews was sought from the key stakeholders, and none was forced to take part in the study.

3.7 Conclusion

This chapter covers the methodology for the study of the economic contribution of the private security and legal services to the economy of South Africa. It describes the approach that was followed in (i) customising ESSA as an econometric model for measuring the economic contribution of both the private security and legal services subsectors, (ii) the data gathering methods and data sources and (iii) the estimation of the economic contribution of the two subsectors. It also details the qualitative method used in collecting further information from key stakeholders in the regulatory and employer representation spaces.

4. RESULTS AND ANALYSIS

4.1 Introduction

In chapter 3, the ESSA model was discussed in terms of all steps taken by researchers to collect and analyse data on the contribution of the subsectors under review. Chapter 3 further provides information on the data sources consulted in coming up with the report as well as estimation techniques employed where gaps in data were found. In this chapter, results from secondary data and stakeholder interviews are presented and analysed. The chapter begins by discussing the overall sector outlook (the finance, real estate and business services sector within which private security and legal services are housed) before discussing economic contributions through each key variable and later presenting qualitative issues related to the topic.

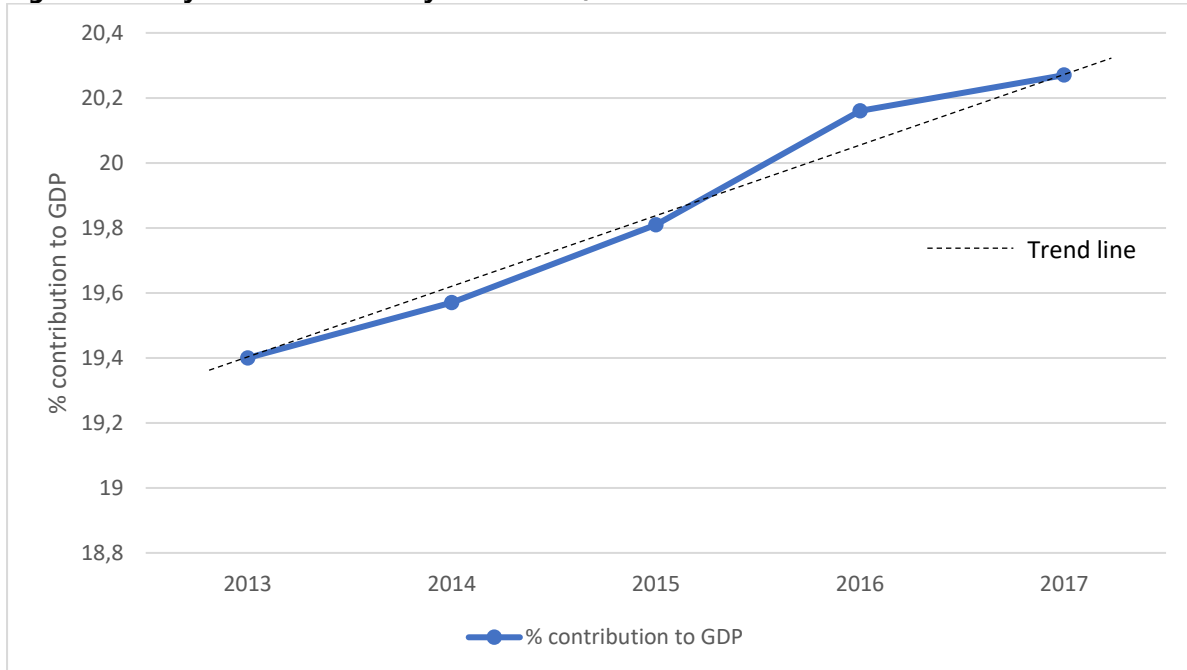
4.2 Sector profile

The private security and legal services subsector fall under the finance, real estate and business services sector. Annual, quarterly and regional statistics on labour and GDP by the StatsSA do not provide disaggregated data beyond sector level, thus the need for estimation where necessary. The finance, real estate and business services sector itself, according to StatsSA reports, houses sixteen (16) other subsectors such as real estate activities, financial intermediation, photographic and advertising activities.

Figure 1 illustrates the trends in percentage GDP contribution of the entire finance, real estate and business services sector as calculated by StatsSA⁶.

⁶ Refer to the spreadsheet on Annual, quarterly and regional GDP available at http://www.statssa.gov.za/?page_id=1854&PPN=P0441

Figure 1: Yearly % contributions by the finance, real estate and business services sector to SA GDP

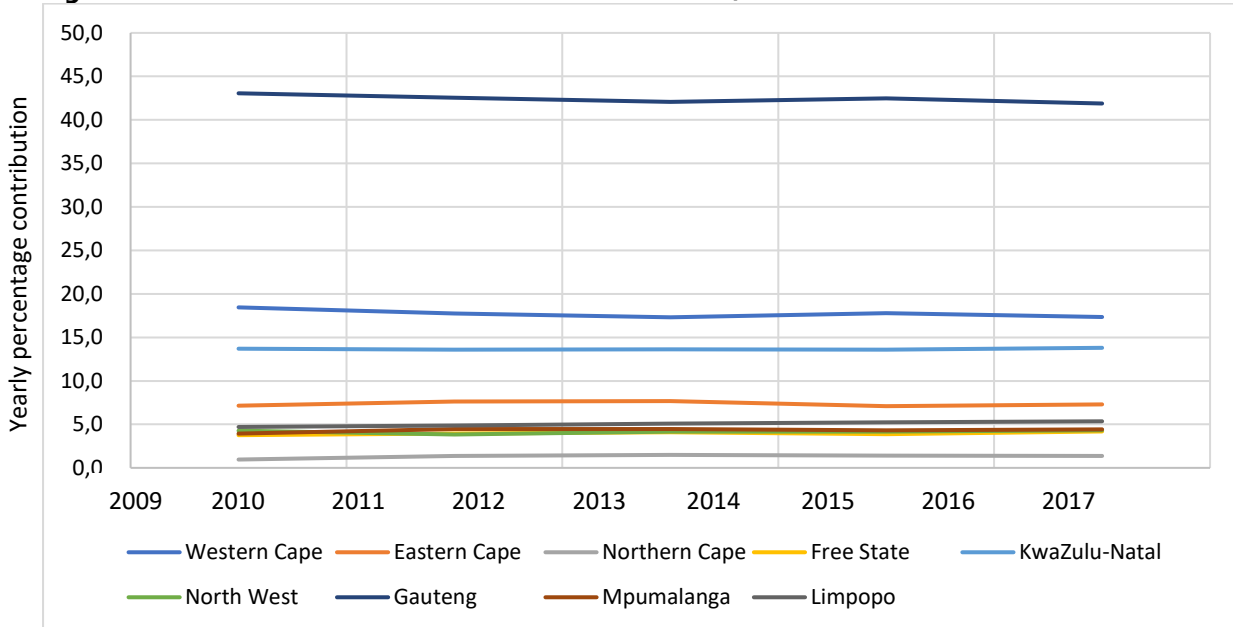


Source: StatsSA (2018)

On Figure 1, the finance, real estate and business services sector contributed up to 20.3% of national GDP in 2013, and 20.1% in 2014 before picking up 20.2% in 2015 and falling again to 20% and 19.8% in 2016 and 2017 respectively. Results show a general decline in percentage contribution with a difference of 0.5% between the target years (2013 – 2017). However, despite the decline, the business sector remained the highest contributing to overall GDP over the review period; seconded by 'General government services' which in turn is followed by the 'Manufacturing' sector.

The GDP level by the finance, real estate and business services sector is a function of contributions from businesses across the nine provinces of South Africa. Therefore, contribution from each province depends on the density of firms and the amount of business generally created in each province. Figure 2 shows a time series representation of percentage contribution from each province into the finance, real estate and business services sector.

Figure 2: Provincial % GDP contributions to the finance, real estate and business services sector



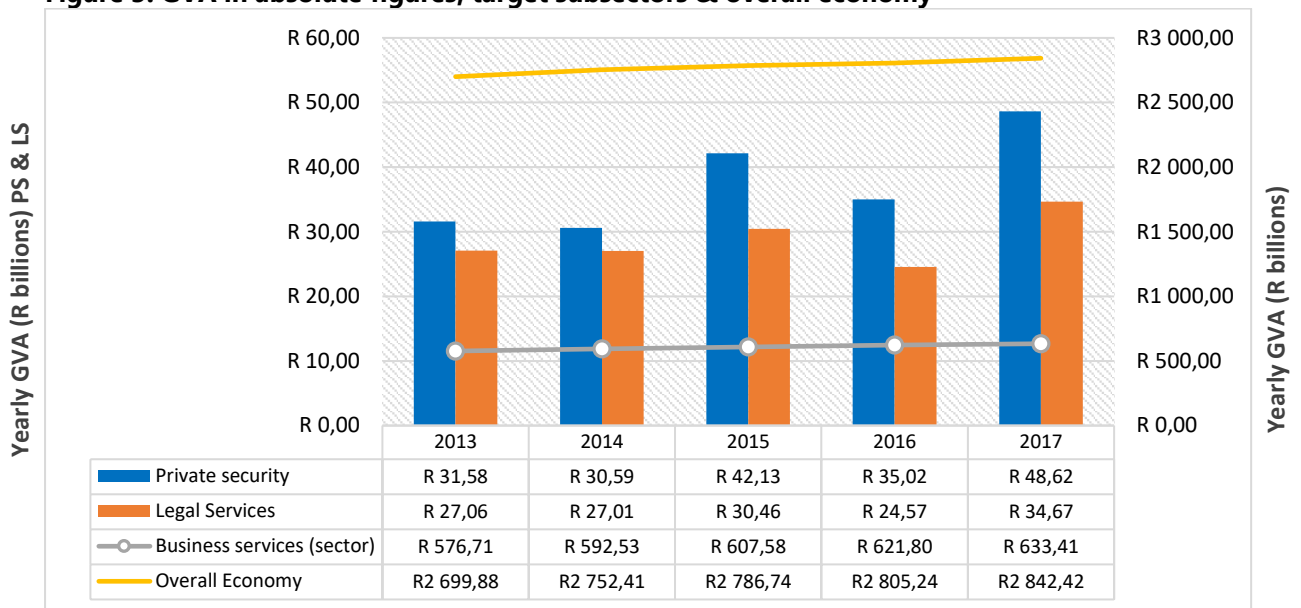
Source: StatsSA (2018)

The time series provincial data shows that contribution from the finance, real estate and business services sector was highest in the Gauteng province throughout the years with a steady trend at just above 41%. Other provinces also show a steady trend with contribution to the Western Cape Province almost stagnant at just below 20% while contribution to KwaZulu-Natal province also relatively stagnant below 15%.

4.3 Contribution to GVA

Using subsector-specific data in the ESSA model, a determination can be made on the approximate contribution of both the private security and legal service subsectors from 2013 to 2017. However, the unavailability of subsector-specific data on GVA required use of reasonable estimates to represent missing figures. In this study, available GVA figures from StatsSA specified national and sectoral totals, without further disaggregation to show subsector figures which were specifically required. To estimate, total revenue earned by firms in each subsector (available in StatsSA’s annual financial statistics) were used to represent the possible proportion of each subsector’s contribution to sector GVA.

Figure 3: GVA in absolute figures; target subsectors & overall economy

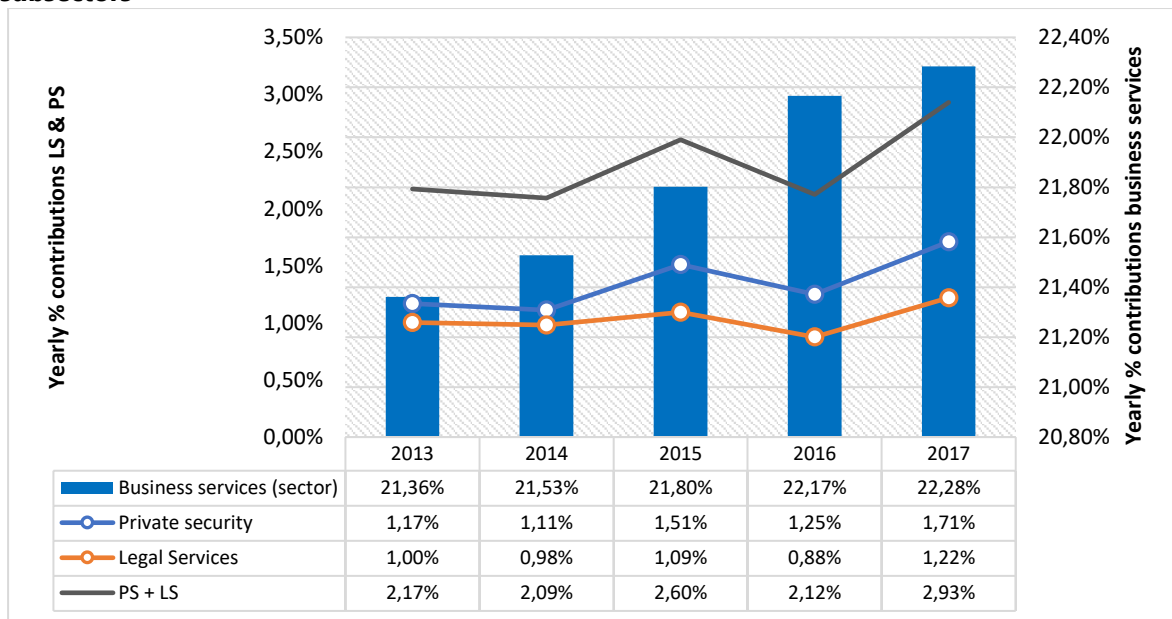


Source: StatsSA (2018)

On Figure 3, the bars (with left side scale) represent yearly GVA of the private security and legal services subsectors while lines (with right side scale) represent yearly GVA of the finance, real estate and business services sector and the national economy. There is a gradual increase in GVA for all subsectors with private security starting from R31.5 billion in 2013 to R48.6 billion in 2017 while the legal services subsector starts from R27.1 billion in 2013 to R34.7 billion in 2017. Similarly, absolute GVA for the business sector saw a steady increase from R576.7 billion in 2013 to R613.4 billion in 2017 while GVA for the national economy also increased from R2,7 trillion in 2013 to R2.8 trillion in 2017.

Trends also show that in terms of value addition, private security has more impact in the economy than the legal services subsector. Throughout the years under review, private security consistently generated higher GVA than legal services with the largest difference notable in 2015. Instead of using absolute GVA figures, percentage contribution can also be used. These contributions relate to the portion of national GVA which can be attributed to service provision in the target subsectors. This information is presented in Figure 4. On the chart, the lines (with vertical scale) show the percentage contribution of private security, legal services and both subsectors combined while the bars (on horizontal scale) show percentage contribution of the entire sector to the overall economy.

Figure 4: % contribution to GVA of the finance, real estate and business services sector and target subsectors

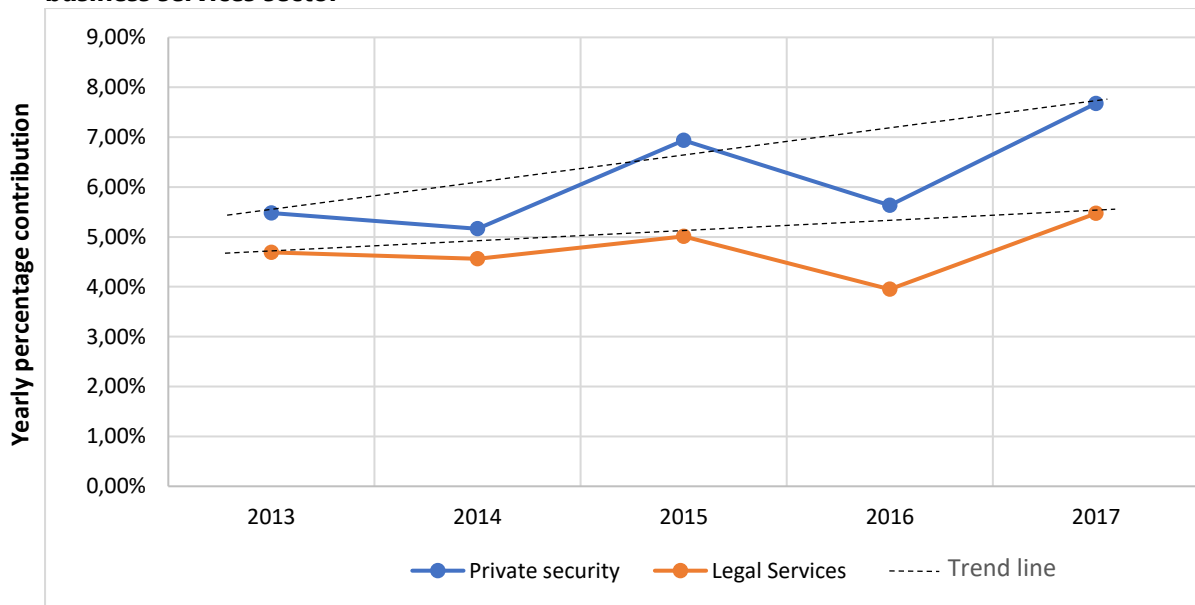


Source: StatsSA (2018)

The private security contribution changes from 1.17% in 2013, 1.11% in 2014, 1.51% in 2015, 1.25% in 2016 and 1.71% in 2017 whilst legal services contribution changes from 1.0% in 2013, 0.98% in 2014, 1.09% in 2015, 0.88% in 2016 and 1.22% in 2017. Both trends show a steady, fluctuating increase in percentage contribution to the GVA of South Africa; with the total contribution of the two subsectors peaking at nearly 3% in 2017. Meanwhile, the overall finance, real estate and business services sector continued to outperform the rest with a steady, uninterrupted increase in percentage contribution over the review period. The sector's contribution starts at 21.4% in 2013 up to 22.2% in 2017.

Furthermore, if absolute figures presented in Figure 3 are considered again, a trend can be established which shows the percentage contribution of private security and legal services to the finance, real estate and business services sector without considering the national economy. This is useful in establishing the size of each subsector in relation to others in the same sector. For instance, on Figure 5, a representation has been made to establish these contributions in terms of GVA over the review period.

Figure 5: Private security & legal services' GVA % contribution to the finance, real estate and business services sector



Source: StatsSA (2018)

For the private security subsector, the trend begins with a contribution of 5.48% in 2013, to 5.16% in 2014, 6.93% in 2015, 5.63% in 2016 and 7.68% in 2017. Meanwhile, legal services begin at 4.69% in 2013, 4.56% in 2014, 5.01% in 2015, 3.95% in 2016 and 5.47% in 2017. None of the two sectors contributed anything up to 10% of the overall sector's GVA. Nevertheless, the subsectors' impact within both their sector and national economy seem to be on a steady increase as shown from the trends in Figure 4 and 5. It remains to be seen where the trend will go in the upcoming years.

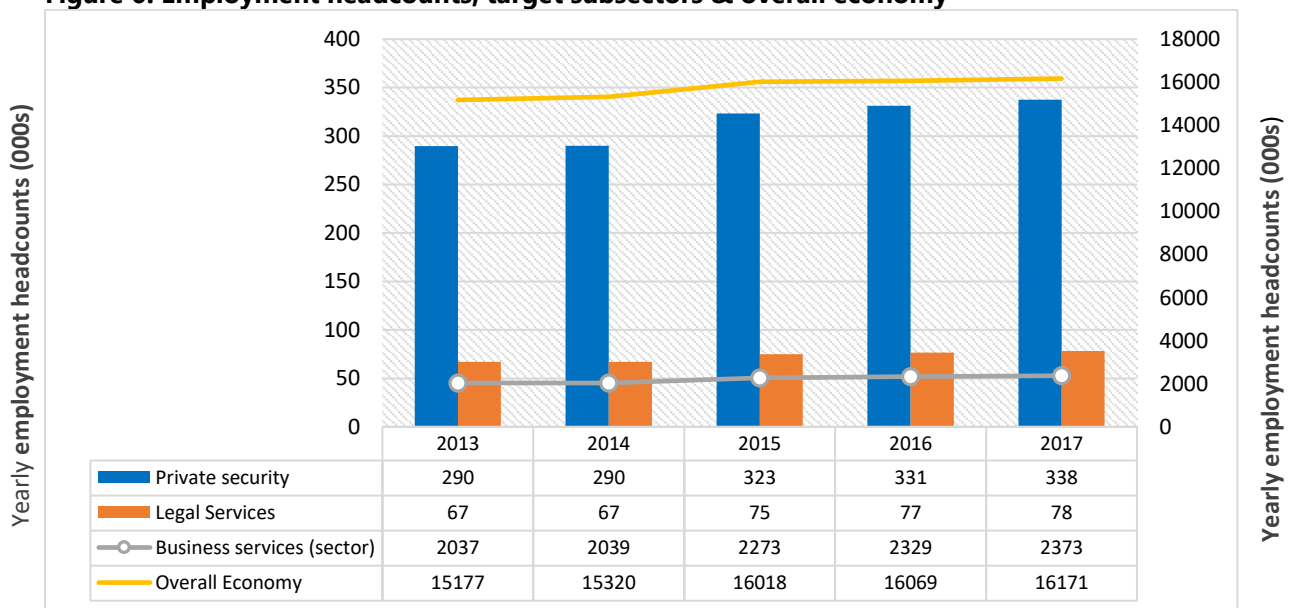
4.4 Contribution to employment

In the literature review chapter, it was established from empirical studies that employment creation is one of the key contributions industry make to the national economy. In the ESSA model, the employment variable is measured using employment headcounts (number of people employed) and salaries and wages paid out. Both measurements offer a distinct picture into subsector performance since the number of people employed is not always directly proportional to total salaries and wages paid out by a subsector.

4.4.1 Employment headcounts

Figure 6 presents the number of people employed in the overall economy, the finance, real estate and business services sector and the targeted subsectors. Headcounts were collected from the quarterly labour force surveys and the 2016 finance, real estate and business services sector report. The left side scale (with bars) presents information for subsectors while sector and national information is presented on the right scale (with lines).

Figure 6: Employment headcounts; target subsectors & overall economy



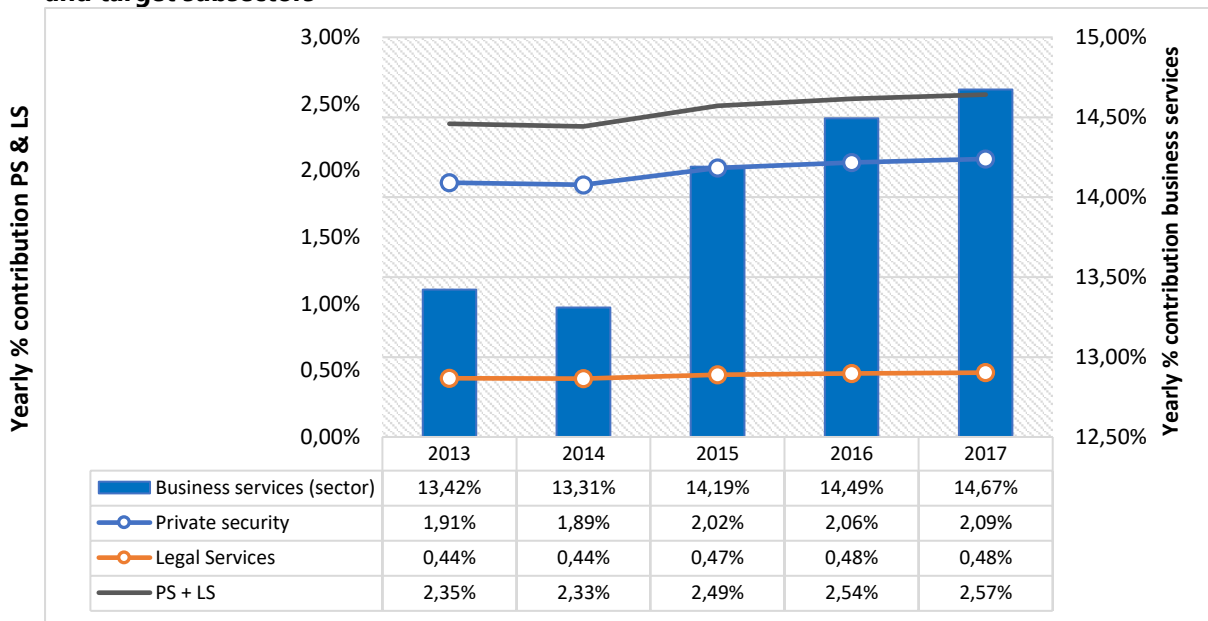
Source: StatsSA (2018)

Results on Figure 6 show that private security employment headcounts changed from 292 988 people in 2013 to 317 415 people in 2017 while legal services changed from 67 792 people in 2013 to 73 453 people in 2017. Private security employment headcounts were constantly above legal services employees throughout the review period, with evidence of a gradual increase in the number of employed in both subsectors. In contrast, the figures of overall employment in the economy has seen a sharp and gradual decline over the review period. From 15 036 000 people in 2013 to 9 600 000 people in 2015 and ending with 9 782 000 in 2017, there is a clear decline in overall employment. This decline however seems not to have negatively affected the finance, real estate and business services sector; as seen by evidence of steady increase in employment headcounts in the target subsectors and a move from

2 060 000 people employed in 2013 to 2 232 000 people employed in the finance, real estate and business services sector in 2017.

To better understand the trade-off between falling overall employment and increase in employment in the finance, real estate and business services sector, Figure 7 presents the percentage contributions of the sector and subsectors.

Figure 7: % contribution to employment of the finance, real estate and business services sector and target subsectors



Source: StatsSA (2018)

The private security contribution starts from 1.95% in 2013 to 1.89% in 2014, 3.23% in 2015, 3.24% in 2016 and 3.25% in 2017 whilst legal services contribution changes from 0.45% in 2013 to 0.44% in 2014 and then levelling off at 0.75% until 2017. At their peak in 2017, the two subsectors were contributing a total of 4% to the employment of the country. Meanwhile, the finance, real estate and business services sector increased sharply from 13.70% in 2013 to 22.82% in 2017. These statistics therefore show that while national employment figures declined, finance, real estate and business services employment remained steady; thus, improving its overall contribution.

Further analysis was conducted to establish the demographics of employees in the Private Security and Legal Services. Table 5 shows the age distribution, gender, race and provincial distribution of employees in these subsectors.

Table 5: Demographics of the Employees in the Private Security and Legal Services

Demographic variable	Private security (%) 2017-2018*	Legal services (%) 2016**
Age		
18-35 years	42%	28%
36-44 years	37%	20%
45-50 years	12%	16%
51-55 years	4%	14%
56-60 years	2%	7%
61 years and above	3%	15%
Gender		
Male	78%	62%
Female	22%	38%
Race ⁷		
African		14%
White		71%
Coloured		4%
Indian		8%
Other		3%
Provincial distribution		
Gauteng	38%	49%
Mpumalanga	7%	3%
Eastern Cape	8%	5%
Western Cape	10%	20%
Limpopo	9%	2%
North West	5%	3%
Free State	3%	3%

⁷ Data on racial distribution was not available in the PSiRA reports

Northern Cape	1%	2%
KwaZulu-Natal	18%	13%

Source: *PSiRA Annual Report 2017/2018; **Law Society of South Africa ,2016 Review

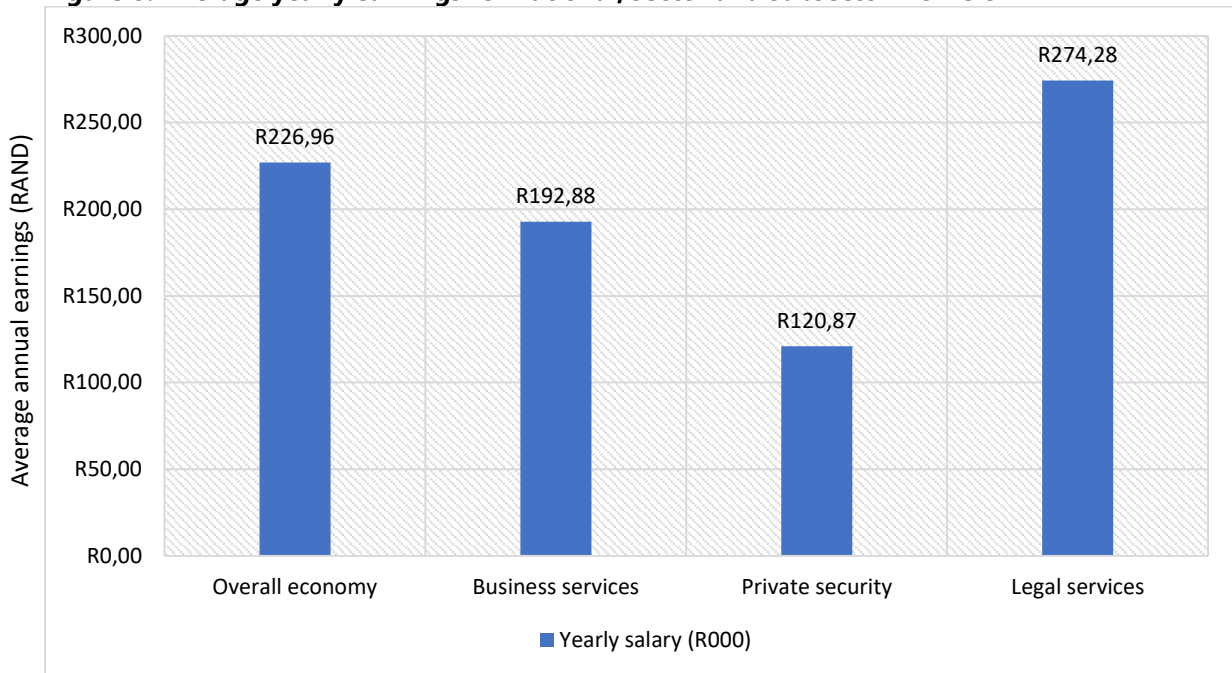
The table shows that the majority of the employees in the subsectors were below the age of 44 years with private security having 79% whilst the legal services have 48%. However, the legal services seem to have significant proportion of employees who were 51 years and above and these constitute about 36% whilst the private security only has about 9% under this age category. This implies that private security is regarded mostly as the entry point to employment whilst with the legal services. The need for experience is highly regarded as accumulation of knowledge and skills required under legal services subsector hence the significant number of employees who were over 50 years in this subsector.

Both subsectors were dominated by males with females only constituting 22% and 38% in the private security and legal services respectively. In terms of race, the study only managed to gather the information from the legal services. The subsector is highly dominated by white who constitute about 71% followed by African with 14%, Indian 8% and Coloured with 4%. Regarding provincial distribution, Gauteng, KwaZulu-Natal and Western Cape were the largest provinces in terms of employment in the private sector with 38%, 18% and 10% respectively whilst Northern Cape is the smallest province. On the other hand, Gauteng has 49% of the legal services attorney followed by Western Cape and KwaZulu Natal with 20% and 13% respectively. Limpopo and Northern Cape were the smallest provinces.

4.4.2 Salaries and wages

By the beginning of the year in 2017, the StatsSA estimated that an average employee in the non-agricultural formal sector earned about R18 913 per month (R226 956 per year). Disaggregating these values on a sector by sector up to subsector level shows that significant differences in average salaries and wages exist. Figure 8 compares the yearly earnings of an average employee in the entire formal sector, the finance, real estate and business services sector, the private security subsector and the legal services subsector.

Figure 8: Average yearly earnings for national, sector and subsector workers

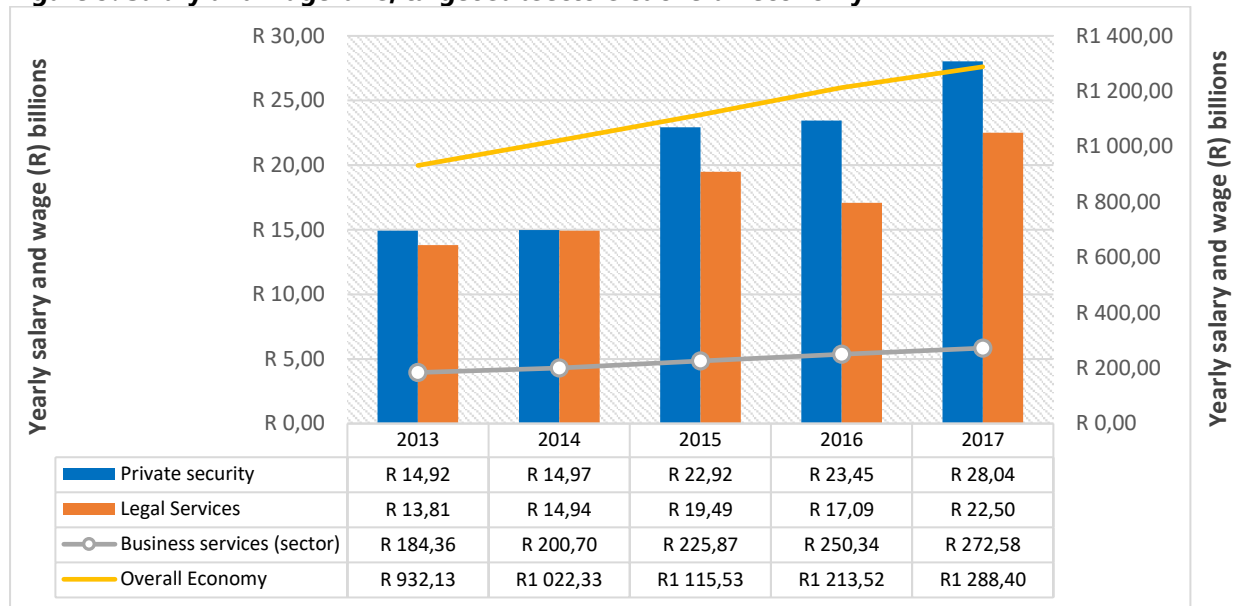


Source: StatsSA (2018)

On the chart, an average employee in the overall economy earns R226 956 while an average employee in the finance, real estate and business services sector earns R192 884; the one in the private security subsector earns R120 869 and the one in the legal services subsector earns R274 276 per year. Employees in the finance, real estate and business services sector earn on average a lower salary or wage than the average employee in the country while employees in the legal services subsector generally earn better than the country's and sector's average. Meanwhile, private security employees appear to earn the lowest when compared to their fellow subsector, the overall sector and the country as a whole.

The annual financial statistics include the cost of salaries and wages as 'employment cost' in the StatsSA reports. Extracting these figures for this study shows the total salary or wage bill for each target subsector, the finance, real estate and business services sector and the overall economy. Figure 9 shows the salary and wage bills for each of the target (sub)sectors over the review period. Two scale systems have been used to adjust for extreme differences in figures; with the left scale representing salary and wage bills for private security and legal services while the right scale represents salary and wage bills for the finance, real estate and business services sector and overall economy.

Figure 9: Salary and wage bills; target subsectors & overall economy

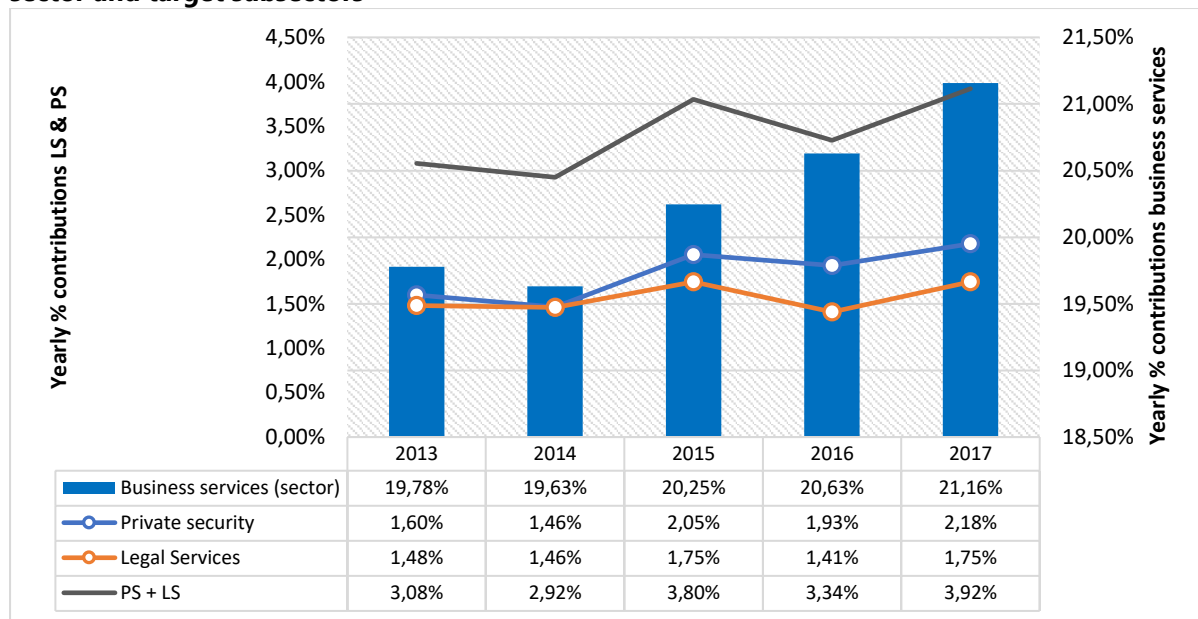


Source: StatsSA (2018)

For private security, the salary and wage bill was R14.9 billion in 2013, R15.0 billion in 2014, R22.9 billion in 2015, R23.4 billion in 2016 and R28, 036 billion in 2017 whilst for legal services, the salary and wage bill was R13.8 billion in 2013, R14.9 billion in 2014, R19.5 billion in 2015, R17.1 million in 2016 and R22.5 billion in 2017. For all the years under review, the salary and wage bills for both subsectors were on an upward trend with the private security subsector persistently above legal services. Meanwhile, both the finance, real estate and business services sector and the overall economy’s salary and wage bills were also on an upward trend between 2013 and 2014 with the overall economy’s upward trend (from R932.2 billion in 2013 to R1.3 trillion in 2017; a 38% increase) versus the finance, real estate and business services sector’s trend (from R184, 358 million in 2013 to R272.6 million in 2017; a 48% increase).

In terms of percentage contributions to the nation’s salary and wage bill, figure 10 is a representation of the subsectors and sector contributions to the overall economy.

Figure 10: % contribution to salary and wage bill of the finance, real estate and business services sector and target subsectors

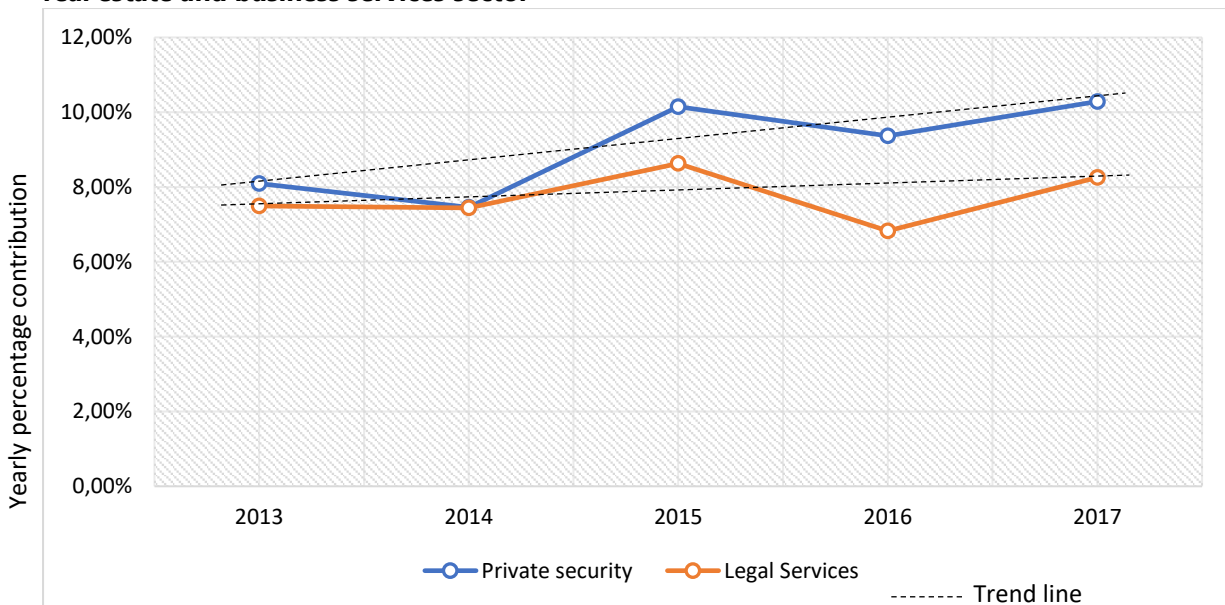


Source: StatsSA (2018)

On the diagram the private security subsector trend begins with a contribution of 1.60% in 2013, to 1.46% in 2014, 2.05% in 2015, 1.93% in 2016 and 2.18% in 2017. Meanwhile, legal services begin at 1.48% in 2013, 1.46% in 2014, 1.75% in 2015, 1.41% in 2016 and back to 1.75% in 2017. Both subsectors' part in the overall salary and wage bill appear to be on a steady increase over the review period, with their combined contribution rising from 3.08% in 2013 to 3.93% by the end of 2017. Similarly, the finance, real estate and business services sector has also seen an upward overall trend in the salary and wage bill from 19.78% in 2013 to 20.25% by 2015 and then to 21.16% by 2017-year end. As discussed from Figure 9, the finance, real estate and business services sector has noticed a proportionally higher increase in the salary and wage bill as compared to the overall economy, which is also in line with the trends in employment headcounts shown in Figure 6.

The discussion on contribution to employment and salaries and wages paid to employees also involves interrogating how each target subsector contributed to the sector over the review period. This is presented in Figure 11, which helps in measuring the size of each subsector in relation to its sector (in this case, using the salary and wage bill).

Figure 11: Private security and legal services' salary and wage bill % contribution to the finance, real estate and business services sector



Source: StatsSA (2018)

For the private security subsector, there was a contribution of 8.09% in 2013, to 7.46% in 2014, 10.15% in 2015, 9.37% in 2016 and 10.29% in 2017. Meanwhile, legal services begin at 7.49% in 2013, 7.44% in 2014, 8.63% in 2015, 6.83% in 2016 and 8.25% in 2017. Private security salary and wage bill surpassed 10% of its sector on two occasions; in 2015 and 2017 while legal services remained below 10% over the review period. For both however, their stake in the finance, real estate and business services sector appear to be on a steady increase.

4.5 Contribution to business activity

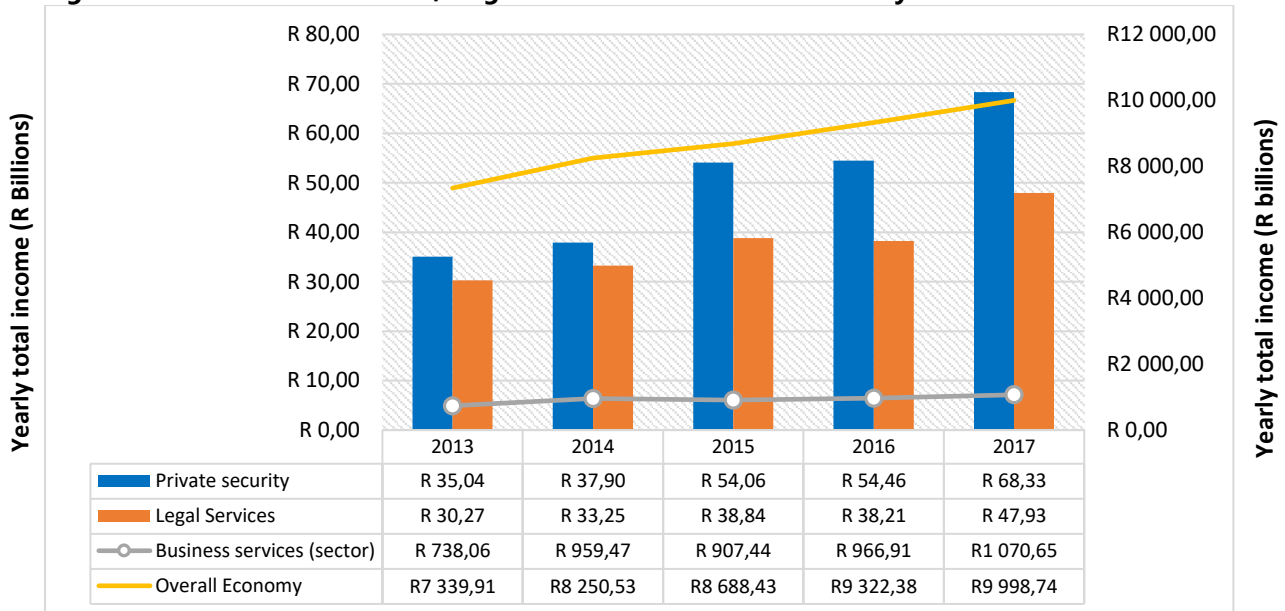
According to the ESSA model, business activity contributions can be measured in terms of number of individual firms, closures/mortality, total income earned, and net profit earned by firms in target subsectors. This study reviewed the income and net profit trends of firms in private security and legal services over the review period.

4.5.1 Total income

Before considering expenses, total income (which is extracted from the 2013-17 annual financial statistics by StatsSA) encompasses income from sales, royalties, dividends and

interest. This measures each firm’s earning capacity before introducing any costs. Figure 12 shows the total income earned by firms in the target subsectors, the finance, real estate and business services sector and overall economy.

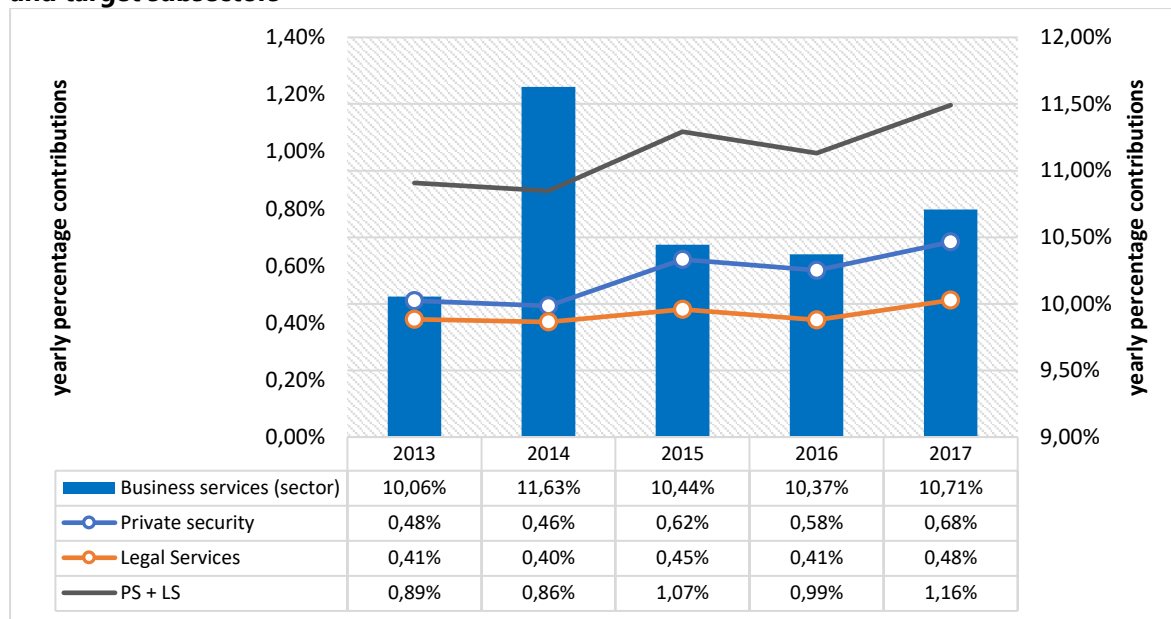
Figure 12: Total income earned; target subsectors & overall economy



Source: StatsSA (2018)

The private security subsector firms earned about R35.1 billion in 2013, R37.9 billion in 2014, R54.1 billion in 2015, R54.5 billion in 2016 and R63.3 billion in 2017 whereas legal services firms earned R30.3 billion in 2013, R33.3 billion in 2014, R38.8 billion in 2015, R38.2 billion in 2016 and R47.9 billion in 2017. The upward trend is also evident both in the sector and the national economy with firms in the finance, real estate and business services sector moving from earning R738.1 billion in 2013 to R1.1 trillion in 2017 while the overall economy changed from R7.3 trillion in 2013 to R9.9 trillion in 2017. Viewing these trends in terms of percentage contribution to the economy further helps to establish the size of each target subsector in relation to the economy. This is shown in Figure 13.

Figure 13: % contribution to total income of the finance, real estate and business services sector and target subsectors

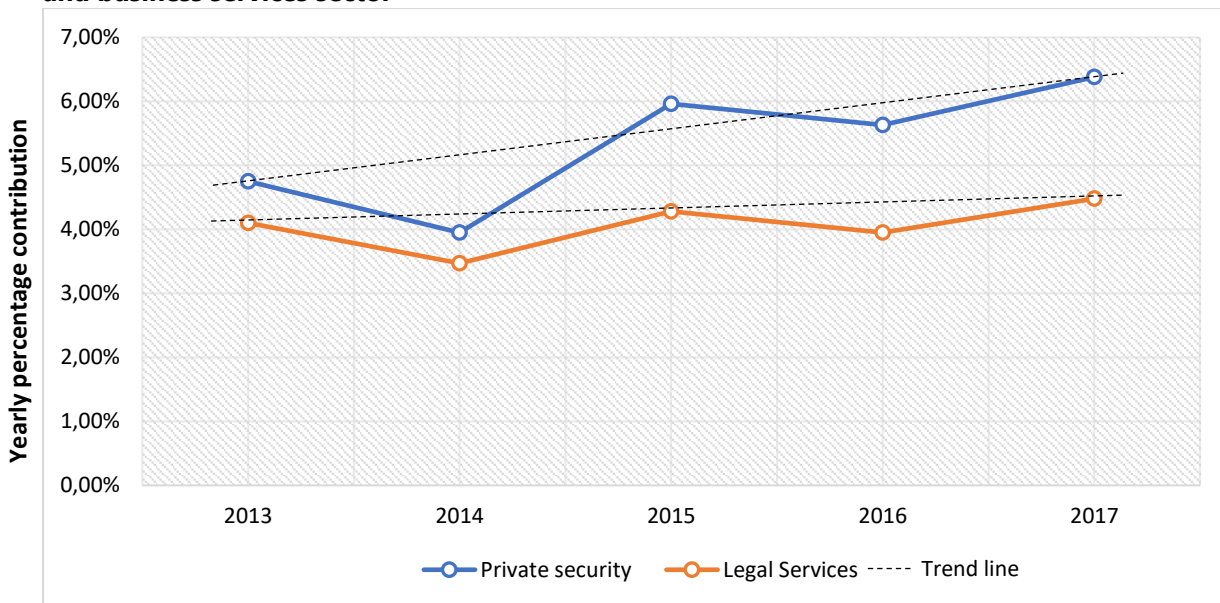


Source: StatsSA (2018)

Figure 13 shows that legal services total income contribution is almost constant, with a low fluctuation from 0.41% in 2013 to 0.45% in 2015 and then to 0.48% in 2017. The trend is similar to private security, where contribution fluctuated from 0.48% in 2013, 0.62% in 2015 and to 0.68% in 2017. Of the total income in South Africa, Figure 13 shows that even combined, private security and legal services firms barely contributed 1% over the review period, with the highest contribution being 1.16% by the end of 2017. On the other hand, the finance, real estate and business services sector contributed a fluctuating percentage to the economy, starting at 10.06% in 2013, rising to 11.63% in 2014 and then falling to 10.71% by 2017.

In terms of percentage contribution of the target subsectors to the finance, real estate and business services sector, Figure 14 graphs the trends in these contributions. Each trend measures the subsector's size, in terms of total income earned, as compared to the sector itself.

Figure 14: Private security & legal services' total income % contribution to the finance, real estate and business services sector



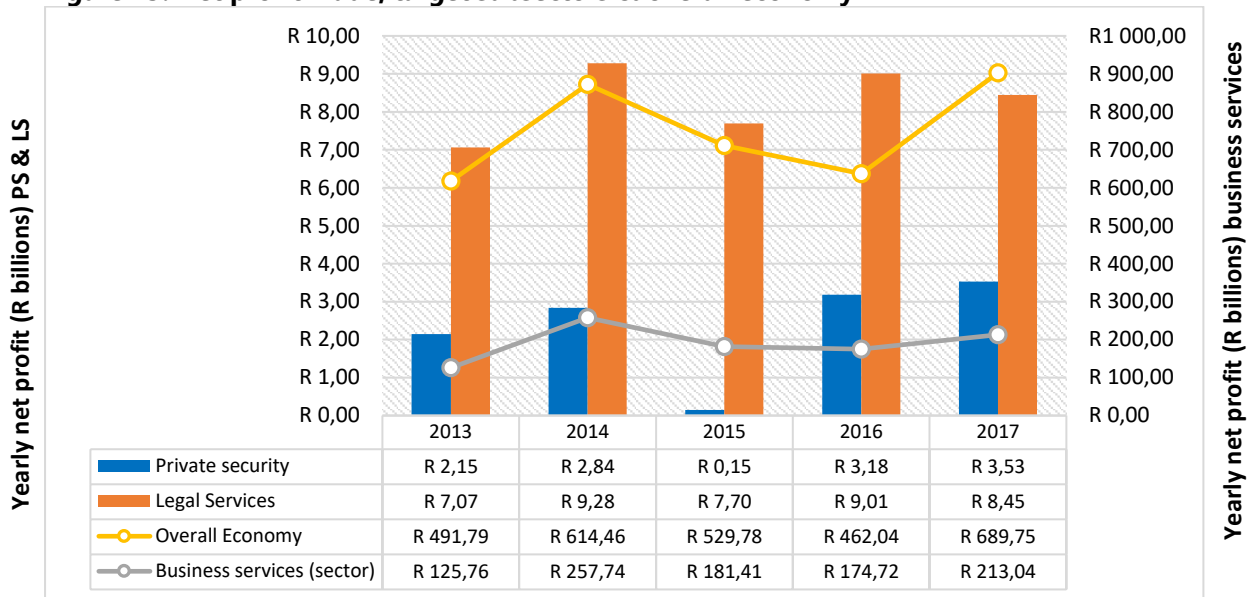
Source: StatsSA (2018)

While the private security firms' total income remains above legal service firms, both contributions were generally fluctuating in an upward trend. Private security contribution dips at 3.95% of the sector in 2014 and tops at 6.38% in 2017. Likewise, the legal services subsector dips in 2014 at 3.47% and tops in 2017 at 4.48%. Their highest combined contribution to finance, real estate and business services sector got to 10.86% in 2017.

4.5.2 Net profit

In contrast to total income, net profit measures the overall profitability of a firm after considering key costs (such as labour and land costs). This means it is possible for firms to make high earnings but still fail to generate profits needed to ensure business expansion. On Figure 15, profits of private security, legal services, finance, real estate and business services sector and the overall economy are presented.

Figure 15: Net profit made; target subsectors & overall economy

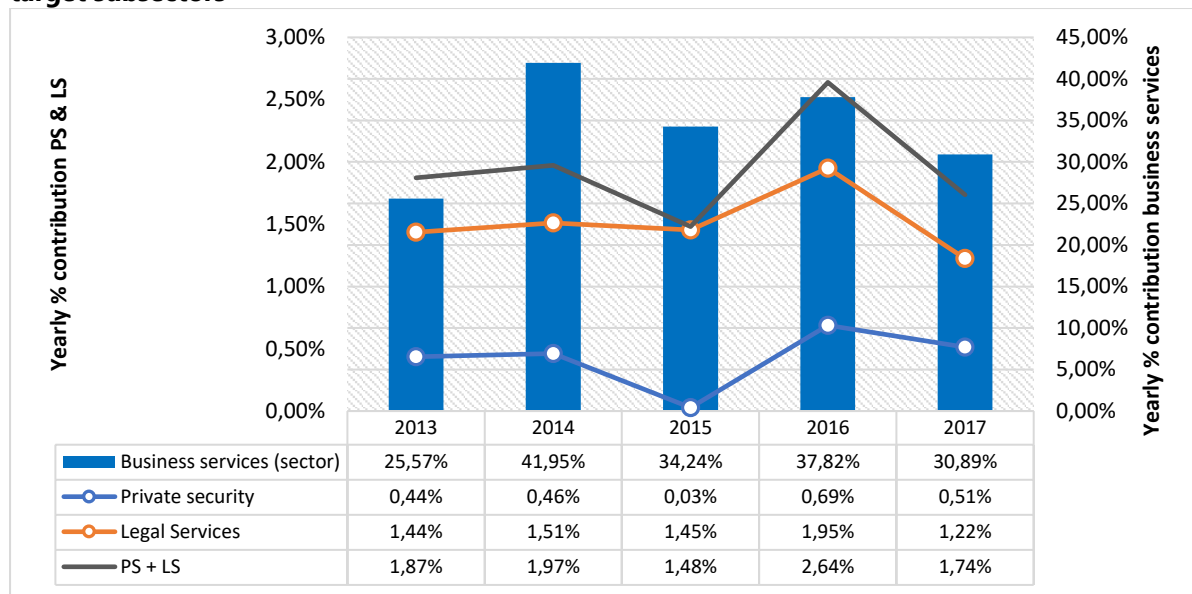


Source: StatsSA (2018)

On the chart, the private security net profit was R2, 148 billion in 2013, R2, 840 billion in 2014, dropped sharply to R147 million in 2015, rose again to R3, 180 billion in 2016 and ended at R3, 531 billion in 2017 whilst for legal services, the net profit was R7, 065 billion in 2013, R9, 277 billion in 2014, R7, 698 billion in 2015, R9, 012 billion in 2016 and R8, 445 billion in 2017. These trends show a direct contradiction to earlier results in this chapter which show the private security subsector earns, employs and pays out salaries and wages at levels higher than legal services throughout the review period. Therefore, results in Figure 15 suggest that firms in private security were generally less profitable than legal services firms despite them employing more staff and earning more total income over the review period. Net profit earned by the firms in the finance, real estate and business services sector and entire economy show high fluctuations; with sector net profit rising from R125 756 in 2013 to R257, 744 billion in 2014 and then falling to R181, 408 billion in 2015; ending up at R213, 043 billion in 2017. Meanwhile, national net profits dipped twice over the period in the years 2013 (R491, 789 billion) and 2016 (R462, 038 billion) before topping at R689, 748 billion in 2017.

The fluctuations also proceed to percentage contributions as well; and show that trends were generally similar between private security and legal services even though legal services in this instance contributes more to the economy (refer to Figure 16).

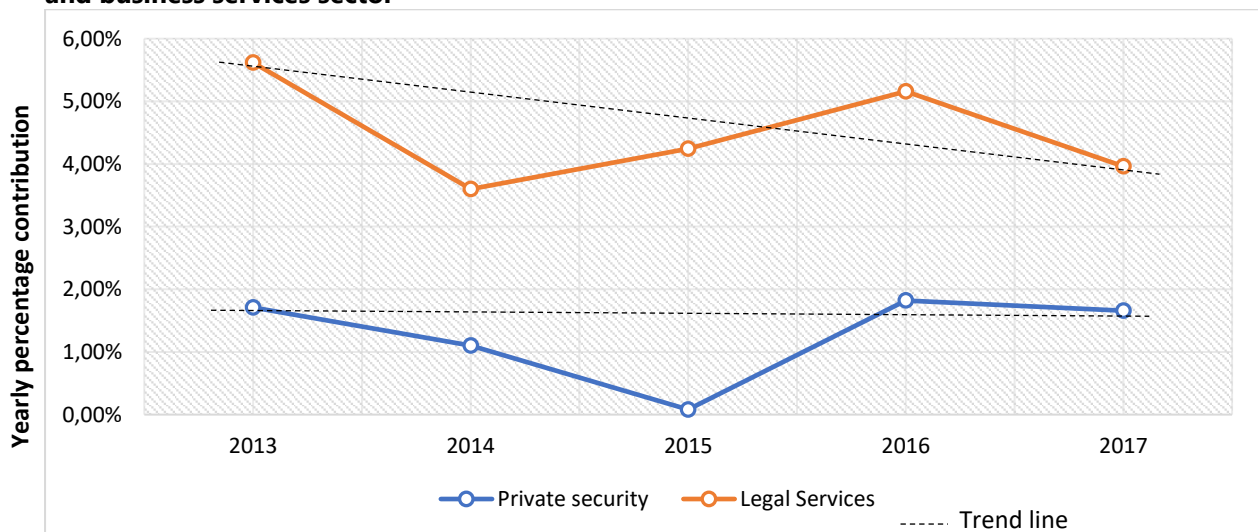
Figure 16: % contribution to net profit of the finance, real estate and business services sector and target subsectors



Source: StatsSA (2018)

Percentage contribution of private security firms begins at 0.44% in 2013, gets to nearly zero (0.03%) by 2015, rises to 0.69% in 2016 before falling to 0.51% in 2017. Similarly, legal services start from 1.44% in 2013, 1.51% in 2014, 1.45% in 2016 1.95% in 2016 and 1.22% in 2017. The two subsectors' combined impact tops in 2016 at 2.64% of the net profit earned by firms in South Africa. Figure 17 further interrogates these contributions by considering how each subsector compares to the sector.

Figure 17: Private security & legal services' net profit % contribution to the finance, real estate and business services sector



Source: StatsSA (2018)

For the private security subsector, the trend begins with a contribution of 1.71% in 2013, to 1.10% in 2014, 0.08% in 2015, 1.82% in 2016 and 1.66% in 2017. Meanwhile, legal services begin at 5.62% in 2013, 3.60% in 2014, 4.24% in 2015, 5.16% in 2016 and 3.96% in 2017. Both trends show a general decline in net profit contribution with legal services persistently above private security over the review period.

4.6 Unquantifiable contributions

Stakeholder consultations established that private security and legal services firms do not only produce quantifiable contributions but also offers a number of unquantifiable contributions. Besides creating employment, adding to GDP and GVA, the subsectors' ability to link with firms in other (sub)sectors ensures a continuation of normal business operations; thus facilitating economic activity. The following were some of the key unquantifiable functions provided by legal services firms:

- i. Social contribution – ensuring citizens' access to justice, defending the rights of citizens, ensuring the rule of law is maintained; and ensuring the administration of justice
- ii. Political contribution – making sure that the laws of the nation are aligned to the constitution/keeping politicians under check
- iii. Economic contribution – ensuring the economy flourishes better for instance through the protection of property rights and worker rights

According to the submissions, the socio-economic and political contributions all interact to create an atmosphere of an investment-friendly nation that attracts capital. Ensuring access to justice to all income groups through services such as *pro bono* safeguards citizens' safety and confidence in their nation whilst maintaining the rule of law safeguards the nation against laws which are unaligned with the constitution of South Africa. Safeguarding property rights is also seen as a crucial economic contribution which emphasises the existence of rule of law, thus assuring any investors as to the safety of their capital. Meanwhile, private security players contribute to the economy through:

- i. Combating crime and maintaining order - liaising with the South African Police Service (SAPS) and other law enforcement agencies
- ii. Safeguarding property in the nation

It was argued by stakeholders that without the existence of private security firms, the crime rate in the nation would likely be much higher, since the SAPS alone cannot possibly respond on time to all criminal emergencies occurring in communities. More indirectly, the employment created by security firms (who often employ a large percentage of individuals with little to no education) removes individuals from the streets who could turn to crime themselves if they are unemployed. Overall, it is clear that private security and legal services players do contribute in a wide variety of ways, some of which are unquantifiable but nevertheless crucial to South Africa.

4.7 Factors and challenges affecting subsector contributions

There are a variety of regulatory, institutional, disclosure, skills and technology factors influencing the private security and legal services today. To begin with, compliance issues were singled as one of the factors leading to the operation of firms on a non-level playing field. For instance, larger security firms appear to be complaining about the tendencies of smaller firms to under-report their human resources, leading to less payment of regulation fees to the PSiRA and the Provident Fund. Further, failure of some firms to comply with the newly declared minimum wages as provided under Sectoral Declaration 6 result in firms having different cost structures albeit competing for the same client.

On a regulatory level, there were further complaints from smaller security companies (which include sole proprietorships) who assert that stiffer regulation measures are crippling companies even before they are able to start-up. It is argued that, for a small company such as a sole proprietorship in its first year to begin worrying about the Provident Fund, high licencing fees, South African Revenue Services (SARS) payments, minimum wage and insurance becomes a huge burden. This is likely to keep such firms either in their infancy or cause them to crash down even before generating any momentum.

In addition, skills challenges appear to be prominent in both subsectors. In legal services, several attorneys produced by universities often struggle to obtain placements for completion of their Articles. This means several trained personnel end up joined the profession without completing their Articles while the rest opt to open their own individual practices. Such practices (often sole-proprietorships involving one attorney, a receptionist and sometimes a cleaner) usually struggle to stay afloat, thus leading to high closure rates.

In private security, skills challenges arise from the need for flexibility in operations which often require surveillance, patrol, report writing and other industry-specific skills. Security companies have to ensure that staff are well skilled with issues in each industry where they are deployed for instance at a grade school, officers need to be skilled in dealing with miners, at a bank, officers need skills in monitoring and dealing with even cyber-breaches and in mines, officers need to be well equipped with safety guidelines. This industry-specific needs therefore mean officers require further training every time they are moved from one industry to the other.

In both sectors the threat of technology advances is well recognised and understood. Technology is likely to replace human labour especially where companies do not move quickly to retrain their human resources. In private security, the use of Closed-Circuit Television (CCTV) cameras, biometric locking systems and other technologies means human patrols become less necessary. Rather, demand for CCTV monitoring personnel, armed response guards and cyber-security specialists' increase. The same challenge is noticeable in legal services where some of the key attorney functions such as legal advice. With robot assisted legal processes (which is often cheaper and faster than human lawyers), customers are likely to shift to the technology alternatives, thus the need for lawyers to become re-educated and transform the scope of their duties as quickly as possible.

4.8 Required interventions to improve economic contribution

Strategies required to enhance subsector operations are largely in the regulatory, technology investment and skills development spaces. According to stakeholders in the legal services, the following interventions by different stakeholders are necessary to enhance the subsector's contribution:

- i. There is need for more focus on the ethical conduct of lawyers – it has been noticed that stories of lawyers embezzling clients' funds over the recent years in South Africa has led to a decline in public confidence in lawyers. This hence further encourages clients to pursue different alternatives to obtain legal advice. New competitors such as accounting firms which are branching into legal services hence end up becoming alternatives for clients.
- ii. Lawyers must contribute more to community service – regulators should consider raising the minimum number of *pro bono* hours individual attorneys can offer, thus improving poor people's access to justice.
- iii. Lawyers to become re-trained so as to transform their roles and align to technology advances as the fourth industrial revolution arrives.
- iv. There should be total stakeholder cooperation to ensure greater gender and racial equalities in the law profession – several sole proprietorships are owned by black South Africans, who still appear to have less opportunities in the legal profession compared to other races.

On the other hand, several other interventions are required in private security. Training itself needs to be standardised such that the skills become either the same between individuals trained through SASSETA and PSiRA, or there should be a clear hierarchy showing which training is higher than the other, to avoid confusion in the employment of security officers. Inter-stakeholder seminars for exchange of ideas with airing of complaints were also suggested by participants as a measure of ensuring all stakeholders move in the same direction in growing the subsector. The following skills and qualifications were identified as future needs which will be essential to security companies:

1. Come back of the Adult Basic Education and Training (ABET) to ensure all security officers can read and write
2. National Certificate for Security (with a standardised learning curriculum)
3. Computer skills to equip officers in areas such as CCTV monitoring
4. Firearm handling training

5. Report writing skills; since officers are expected to act as witnesses in insurance matters and sometimes to the SAPS
6. Cybercrime handling; given that several companies are investing in databases, biometric security systems and other new technologies which are prone to cyber-attacks
7. Armed response or reaction specialists to handle situations such as car chases in active shooting scenes
8. Customer care or communication skills especially for front-line officers who become the faces of companies they get deployed to

The study has therefore established that despite the availability of numerous challenges to the operation of businesses in private security and legal services, there are enough interventions which, when implemented, can ensure that the subsectors contribute higher to the South African economy.

4.9 Conclusion

This chapter began by presenting a snapshot of the finance, real estate and business services sector in terms of its contribution to national GDP; and provincial distribution of GDP generation and the demographic representation of employees in target subsectors. This is followed by a presentation of contributions measured by using the ESSA model which uses value addition, employment and business activity as key variables. Results were presented with the aid of visual charts to show how each subsector contributes to the sector and the national economy. Overall, the presentation of results showed different trends in economic contribution among the subsectors, the sector and the economy. While these differences were noted, it was also important to discuss the implications of each distinct trend to the overall economy.

A review of input from key stakeholders interviewed also provided insights which show that skills, technology and regulatory challenges are among the top challenges affecting firms in private security and legal services. However, despite the challenges, interventions in skills development and regulation are likely to enhance the subsectors and ensure they contribute better to the economy.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The previous chapter presented an analysis and discussion of findings based on data collected from StatsSA and analysed using the ESSA model. The model key focus was an establishment of the contribution levels of each target subsector to (i) its sector and (ii) the overall economy. Analysis also involved discussing key trends on each variable to establish whether there is an upward or downward trend in absolute figures and percentage contribution from 2013 to 2017. This chapter summarises study findings, draws research conclusions based on the findings and offer recommendations accordingly.

5.2 Summary of findings

Analysis of results in the previous chapter included the assessment of economic contribution on key variables namely: value addition (measured by GVA), employment creation (measured by employment headcounts and salary and wage bills) and business activity (measured by total income and net profit). An additional assessment of the business sector profile showed that there has been a general decline in the percentage contribution of the finance, real estate and business services sector to South Africa's GDP. Figures show a fall from about 20.3% in 2013 to 19.8% in 2017. Review of sectoral GDP data further showed that the finance, real estate and business services sector has remained a top contributor to the economy despite a downward trend.

5.2.1 Contribution to GVA

Results suggest that private security consistently contributes higher value to the economy from 2013 to 2017; the lowest contribution being 1.11% in 2014 and the highest being 1.71% in 2017. Meanwhile, legal services contribute relatively less to value addition, and ranges from 0.88% in 2016 to 1.22% in 2017. At the same time, their sector contributes the highest when compared to the rest of the economic sectors, ranging from 21.36% in 2013 to 22.28% in 2017.

It was further established that private security contributes more to the finance, real estate and business services sector value addition; with a range from 5.16% in 2014 to 7.68% in 2017 as compared to legal services subsector which ranges from 3.95% in 2016 to 9.47% in 2017. The combined effect on the sector peaks at 13.15% also in 2017. An overall upward trend was established in absolute figures, contribution to the sector and the economy for both subsectors.

5.2.2 Contribution to employment

In terms of percentage contribution, the finance, real estate and business services sector experienced a sharp increase from 13.31% in 2014 to 22.82% in 2017; thus, signifying that as national employment increased at a slower rate, the finance, real estate and business services sector has enjoyed a steady, higher increase in employment. Similarly, private security contributed a lowest of 1.89% in 2014 and a highest of 3.25% in 2017 while legal services contributed a lowest of 0.44% (2014) and a highest of 0.75% (2015-2017). The two subsectors' combined impact on the finance, real estate and business services sector was an average of 17.51% by the end of 2016.

Furthermore, the average yearly salary and wage shows that legal services employees earn higher than the national average, sector average and more than twice the average earnings of private security employees (using 2016 and 2017 figures adapted from StatsSA 2018). Meanwhile, despite the decline in national employment, the salary and wage bill has witnessed an uninterrupted upward trend from 2013 to 2014 for the national economy, the finance, real estate and business services sector and target subsectors. By the end of 2017, private security took up about 2.18% of the economy's salary and wage bill as compared to legal services' 1.75%.

5.2.3 Contribution to business activity

In percentage contributions, each subsector's individual contribution to total income over the years is below 1%; with private security and legal services topping at 0.68% and 0.48% respectively (giving a combined economic impact of 1.16%). At the same time, the finance, real

estate and business services sector tops in economic contribution at 11.63% in 2014. A review of combined impact on the finance, real estate and business services sector showed that the target subsectors contributed lowest in 2014 (7.42%) and highest in 2017 (10.86%).

On the other hand, contribution levels on net profit showed a sharp contrast from the usual trend. Private security firms proved to be less profitable than legal services firms albeit their leading position in GVA, employment and total income. Private security firms failed to contribute up to 1% over the years under review; going as low as 0.03% in 2015 and topping at 0.51% in 2017 while legal services firms contributed the lowest (1.22%) in 2017 and the highest (1.51%) in 2014. The finance, real estate and business services sector however showed signs of profitability by contributing up to 41.95% of net profits in the economy in 2014.

5.3 Conclusions

The primary objective of this study was to measure the contribution of the legal services and private security subsectors using latest available data from 2013 to 2017. Using the ESSA model, key variables of GVA, employment and business activity were measured. Firstly, it is clear from the data that the private security subsector is larger in size than the legal services subsector. From contributing greater to value addition, employing more people, paying out more in total salaries and wages (even though individuals earn less than the national average) to generating more total, private security is larger. However, despite sector size, private security earns lower net profits when compared to legal services; which shows low business profitability. Stakeholders in the private security have indicated that low profitability in the subsector can be attributed to stiff competition in the industry as well as the influx of unregistered players who are competitive due to reduced operational costs as they do not pay some of the regulatory fees.

Secondly, there has been a notable steady increase in percentage contribution of private security and legal services firms to the national economy. GVA trends, total income trends and employment trends all show a steady increase in the level of impact each subsector has on the economy and the finance, real estate and business services sector. Some of these increases in influence are despite market trends; such as employment headcounts which continued on a

steady upward trend even though national employment appears to be stagnating. This however does not hold true for net profit; which has shown a steady decline in the percentage contribution of subsectors to the parent sector and the economy. The decline in net profit is corroborated by stakeholder interviews which established that indeed, profits are falling due to the increased competitiveness in subsectors with new entrants and technology substitutes.

5.4 Recommendations

Given the results of economic contribution and general trends in contribution, the following recommendations are made:

- The SASSETA should consider investing in training activities which build the skill level of private security employees. As it stands, results suggest that most employees are security officers who are not multi-skilled and are of lower education level, hence they get paid lower than the national average. Training events which improve skill levels and make these employees more valuable to their respective companies can therefore enhance their production capacity.
- Firms in the private security subsector should engage in activities which improve their profitability. Techniques such as benchmarking international best practices are useful in ensuring the discovery of cost-cutting measures or economies of scale that increases Rand earnings per unit of cost.
- Skills development initiatives in both subsectors should concentrate on new technological methods security and legal services are now being provided. With the increase in automated surveillance systems for instance, employment in private security will likely decline if human resource skill is not transformed. The same applies to legal services where automated internet legal counsel provided over the internet may overtake human lawyers. Skills interventions discussed in 4.8 can be used as a guideline to ensure which skills are invested in.
- The PSiRA should consider expanding inspections to ensure all security companies providing services are licenced. With an increasing crime rates, the resultant increase in demand for legal services (mostly from small and informal firms) is encouraging the rise of unregistered security companies offering services. This is likely crippling

registered firms, especially small ones, who are required to pay several mandatory fees and the minimum wage.

- Regulatory requirements to be implemented in consideration of the size of firms in the subsectors. A balance should be established between maintaining a functioning and professional private security and legal service industry and creating an environment for firms to flourish. For instance, while regulatory fees, Providence Funds and minimum wages are crucial to every South African, enforcing them on small firms which are still struggling to gain momentum might discourage enterprise. However, this recommendation should be closely considered in the context that firms in private security and legal services often deal in third party assets; and security for these has to be prioritised. Regulatory liberalisation should therefore not result in the employment of poorly trained workers, and poor service provision standards.
- A regulatory review to be conducted in legal services to safeguard the profession's reputation. Incidences of lawyers embezzling clients' funds should be investigated by the Legal Practice Council and appropriate actions swiftly taken.

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APPENDICES

Appendix A: Private security stakeholders discussion guide

QUESTIONNAIRE NUMBER

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Name of interviewer	
Name of organisation	



*Analysis of the Economic Contribution of the Private Security and Legal Services Sub- sectors
(SASSETA) in South Africa*

2019

RESEARCH CONDUCTED BY



ADMINISTRATIVE SECTION

Name of interviewer		
	Tick	Comments
Interview completed		
Hard copy		
Electronically		
File name		

INTRODUCTION

Underhill Corporate Solutions (UCS) has been contracted by the Safety and Security Sector Education and Training Authority (SASSETA) to conduct a study titled ***“Analysis of the Economic Contribution of the Private Security and Legal Services Sub- sectors in South Africa”*** which includes the analysis of secondary data and in-depth interviews with regulators.

The study is particularly interested in understanding the current performance (economic contribution) of these subsectors, what has been driving this performance and what are factors which will influence the contribution of these subsectors in the future.

Participation in this study is completely voluntary and you can withdraw your participation at any point during the interview. All information will be treated as confidential and will only be used to produce aggregate results on the total industry or its subsectors. UCS will not publish any names of individual participants in this study and will only record such names to ensure our client will be able to trace and confirm the interviews took place.

We appreciate your participation and your opinions in this process

Interviewee undertaking

I confirm that I am voluntarily participating in this study and have not been coerced in any way to do so. I also understand there are no rewards of any form accruing from my participation in this study.

SIGNED: _____

DATE: _____

Signature of interviewee

For office use:

CROSS-CHECK ON INTERVIEW BY UCS		
Outcome of cross-check:		
Questionnaire was completed correctly?	Yes	No
COMMENTS		

INSTITUTIONAL DETAILS

Complete or check information for correctness

Name of institution		
Name of Department		
Street address		
		Postal code
Postal address (please include province and postal code)		
		Postal code
Telephone number	()	
Fax number	()	
Title, name and surname of person interviewed		
Position of person interviewed		
E-mail address of person interviewed		

1. What are the factors that can lead to an increase in the level of contribution by the private security subsector to the SA economy under the following sub-subsectors?

Sub-subsector	Reason(s)
Private Security	
Private Investigation	
Polygraph Services	

2. What are the factors that can lead to a decline in the level of contribution by the PS subsector to the SA economy under the following sub-subsectors?

Sub-subsector	Reason(s)
Private Security	
Private Investigation	
Polygraph Services	

3. Given the factors discussed in question 1, what therefore, is the outlook of economic contribution by the private security subsector?

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4. Where do you see the PS subsector economic contribution in the next 5 years in terms of:

4.1 Value addition.....
.....
.....

4.2 Employment creation.....
.....
.....

4.3 Revenue & profitability.....
.....
.....

4.4 Number of registered companies.....
.....
.....

4.5 Export of services.....
.....
.....

5. What could be done in terms of skills development in the private security sector to ensure that the contribution of the subsector is enhanced?
.....
.....
.....

6. What are the challenges facing PS companies that make it challenging for the sector to make a bigger contribution to the SA economy?

6.1 Skills issues.....
.....
.....

6.2 Governance issues.....
.....
.....

6.3 Technology.....
.....
.....

6.4 The regulatory trajectory
.....
.....
.....

6.5 Government support
.....
.....
.....

7. What is the Private Security Industry Regulatory Authority, employer bodies and other related stakeholders doing to ensure contribution of the private security subsector to the South African economy is enhanced?

7.1 Regulatory interventions.....
.....
.....

7.2 New investments.....
.....
.....

7.3 Partnerships.....
.....
.....

7.4 Other interventions.....
.....
.....

Thank you

Appendix B: Legal services stakeholders' discussion guide

- To help us understand the importance (economic contribution) of **the Legal Services (LS) subsector** can you please provide the information on the following:

1.1 Number of registered companies

Category	2013	2014	2015	2016	2017
Legal Services					
Paralegal Services					
Sheriffs					
Legal Aid Services					

1.2 Number of business closures

Category	2013	2014	2015	2016	2017
Legal Services					
Paralegal Services					
Sheriffs					
Legal Aid Services					

1.3 Number of employees

Category	2013	2014	2015	2016	2017
Legal Services					
Paralegal Services					
Sheriffs					
Legal Aid Services					

1.4 Provincial/Constituent distribution of legal services firms & practitioners

Category	Legal Services	Paralegal Services	Sheriffs	Legal Aid Services
Black Lawyers Association (firms)				
(practitioners)				
Cape Law Society				
KwaZulu-Natal Law Society				
Law Society of the Free State				
Law Society of the Northern Provinces				
National Association of Democratic Lawyers				

1.5 Turnover by firms

Category	2013	2014	2015	2016	2017
Legal Services					
Paralegal Services					

Sheriffs					
Legal Aid Services					

2. What are the factors that can lead to an increase in the level of contribution by the LS subsector to the SA economy under the following sub-subsectors?

Sub-subsector	Reason(s)
Legal and Paralegal Services	
Sheriffs	
Legal Aid Services	

3. What are the factors that can lead to a decline in the level of contribution by the LS subsector to the SA economy under the following sub-subsectors?

Sub-subsector	Reason(s)
Legal and Paralegal Services	
Sheriffs	
Legal Aid Services	

4. Given the factors discussed in question 3, what is the outlook of economic contribution by the legal services subsector?

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.....
.....

5. Where do you see the LS subsector economic contribution in the next 5 years in terms of:

5.1 Value

addition.....
.....
.....
.....

5.2 Employment

creation.....
.....
.....
.....

5.3 Revenue &

profitability.....
.....
.....
.....

5.4 Number of registered

companies.....
.....
.....
.....

5.5 Export of

services.....
.....
.....
.....

6. What could be done in terms of skills development in the LS subsector to ensure that its contribution is enhanced?

.....
.....
.....
.....

7. What are the challenges facing LS companies that make it challenging for the sector to make a bigger contribution to the SA economy?

7.1 Skills

issues.....
.....
.....
.....

7.2 Governance
issues.....
.....
.....

7.3 Technology.....
.....
.....

7.4 The regulatory trajectory
.....
.....
.....

7.5 Government support
.....
.....
.....

8. What is the Law Society of South Africa, employer bodies and other related stakeholders doing to ensure contribution of the legal services subsector to the SA economy is enhanced?

8.1 Regulatory
interventions.....
.....
.....

8.2 New
investments.....
.....
.....

8.3 Partnerships.....
.....
.....

8.4 Other
interventions.....
.....
.....

Thank you

APPROVAL:

Prepared by: Underhill Corporate Solution (UCS)

Date: 24 March 2019

Recommended / Not Recommended / Recommended with Amendments

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Date:

Approved / Not Approved / Approved with Amendments

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Date