A Mandate for Business Leadership:
The case of regulated gambling in South Africa

Linda de Vries
Perspectives of South Africa

Cry the **beloved** country

Gathering gloom
Call for competition

Progress since becoming democracy
Leadership vacuum or leadership challenge

Challenge SA Future

Mandate for business leadership
South African agenda - shaped by developmental agenda

- Comply with global movement on environmental issues
- Global Economic melt down
- Political wide spread change – 1994-2013
- Strong philosophical orientation i.e. cost/benefit vs. tangible /intangible costs/benefits consumption model (De Vries- 1991)
- Caution on becoming a gambling dependant nation
- Purpose to legalise but not aggressive - consumption model (NGB Act 1996 /amended NGB Act 2004)
- Private enterprise be allowed within tight regulatory framework
- National lottery- good causes - aggressive –state benefit (NLB Act 2001)
  Normalisation of society with shift in priorities of the democracy
- New formulations of Economic black EMPOWERMENT such as BRICS countries with South Africa as part of these emerging economies.

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Theoretical Organisational Framework of Gambling in South Africa

Theoretical Framework

- Established concept of gambling institutions with structure, forms and history
- Historically – Wiehann Commission – 1994: Casinos in previously Bantustans (TBVC) - formalised structure
- Steeped in traditions, rituals and also dominant culture of casinos as illegal, special trips

Institutional Theory

Population ecology- Casinos
- New forms of legitimate Casinos
- New entrants in Gambling Sectors (modes)
- Possible new flexibility in terms of group forming/mergers
- More formalised and regulation and structured and still institutional learning

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Regulatory Framework - Act 1996- Act 2004
Policy Framework

**Agenda of Government**
- 1994-1998 Reconstruction and Development Programme (RDP)
- 1999-2008 AsGiSa
- Accelerated Growth and development
- 2010-New Growth Path
- (NDP)

**Impact for-Outputs**
- Infrastructure
- Redress
- Access
- Growth
- Profitability
- Global relevance
- Industrialisation
- Job Creation
- Local Economic development
Background on possibility – 1996-2012: 38 Casinos

**Maturity of gambling sector 2010**
- Paternalistic past- (Homelands)
- Initiated political and business transformation
- Economic Transformation
- Meet the Policy initiatives of government

**Job creation, Income generation and infrastructure needs.**

New Legislation
- Technology challenges
- Mobile handsets
- Computers and internet
- Access to minors
- Safety
- Address the infrastructure needs
- Across all races and ensure participation of all

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Casino industry-1994-2012

- Gambling capacity increased from 1994 to 2002-exponentially
- 2002-2010-Only 30% since
- 2002-2012-doubled visitors- other entertainment offerings
- Since 2002-increase in GGR-6,6%
- Gaming positions only 3,3%
- Reflects a mature market and industry-
- CSI spend-25%-GGR
- 2012-R83million

Sources:
Wiehann Report
CASA Reports (2010-2012)
NGB Annual Reports (2002-2009)
### Casino Industry Evolution (1994-2012)

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>8 years</th>
<th>2002</th>
<th>8 years</th>
<th>2010</th>
<th>2012 (CASA)</th>
<th>Approved</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Casino Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of casinos</td>
<td>9</td>
<td>28</td>
<td>36</td>
<td>37</td>
<td>40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of slots</td>
<td>3700</td>
<td>17 628</td>
<td>22 345</td>
<td>22 688</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of gaming positions</td>
<td>4420</td>
<td>21 432</td>
<td>27 433</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Tables</td>
<td>120</td>
<td>634</td>
<td>848</td>
<td>830</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of visitors</td>
<td>n/a</td>
<td>30 million</td>
<td>60 million</td>
<td>64 million</td>
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<tr>
<td><strong>Revenue</strong></td>
<td></td>
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</tr>
<tr>
<td>Annual GGR</td>
<td>1890m</td>
<td>8260m</td>
<td>13 726m</td>
<td>15 000 m</td>
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</tr>
<tr>
<td><strong>Employment</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Casino employment</td>
<td>3000</td>
<td>30 000</td>
<td>34 000</td>
<td>34 019</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Social Investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R83 million</td>
<td></td>
</tr>
<tr>
<td>Total state taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R5 billion</td>
<td></td>
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<tr>
<td>Total levies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R1 billion</td>
<td></td>
</tr>
<tr>
<td>Total employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>18 242</td>
<td></td>
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<tr>
<td>-other*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total Annual Turnover</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R 4 billion</td>
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</tr>
</tbody>
</table>
Competitive Model – Casino Analysis - Industry

Barriers to entry

- Requests for Proposals
- Limited allocation
- Maximum 40 licences
- Limits allocated per geographic jurisdiction
- 2 Licences- unissued
- One Current Evaluated (Mpumalanga)
- Northern Cape- (Un-issued)
- Stringent requirements
- Subject to review (time/ performance)

Substitute Products

- Other modes
- Corporatisation versus SMME
- Economic and Demographic Transformation
- New Entrants
- Leisure/local community
## Limited Payout Machines (SMME)

<table>
<thead>
<tr>
<th>Route Operator(s) (5)</th>
<th>Listed</th>
<th>Number of sites 2010</th>
<th>Provincial Jurisdictions</th>
<th>Total Machines for play</th>
<th>NRGP-</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Grand Parade Investments</td>
<td>Yes-1996 BBBEEE-</td>
<td>37%</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hoskins CI (Vukani Gaming)</td>
<td>Yes-1994 BBBEEE</td>
<td>49%</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other- Privately owned</td>
<td>14%</td>
<td>2</td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Approved sites

| | 1200-1500 (site owners) | Licensed 6200-6500 machines | Sources: NGB reports Annual Reports GPI-Reports |

Sources: NGB 2010 Annual Reports- GPI, HCI and company websites
Zonke- Central Monitoring System
## Electronic Bingo-EBT- Jurisdiction Gauteng

<table>
<thead>
<tr>
<th>Group</th>
<th>Operations</th>
<th>Controlling Shareholder</th>
<th>NRGP-Mandatory</th>
<th>CSI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Galaxy Bingo</td>
<td>2475 seats 30%</td>
<td>Hoskins Consolidated Investments (HCI- JSE listed)</td>
<td>0,1%-NRGP</td>
<td>HCI trust- not significant</td>
</tr>
<tr>
<td>Viva Bingo</td>
<td>2830 seats 60%</td>
<td>Privately Owned-UK Investor</td>
<td>0,1% -NRGP*</td>
<td></td>
</tr>
<tr>
<td>Silk Gaming and Leisure</td>
<td>769 seats 10%</td>
<td>Phumelela-* disinvested</td>
<td>0,1% NRGP*</td>
<td></td>
</tr>
</tbody>
</table>

- **Gross Gaming Revenue-GGR**: R196million-R206 Million

- **Nominal Growth**: +/-5% per year

- **CSI**: very marginal

- **Mostly NRGP 0,1% of GGR**
The NGB was **established in terms of National Gambling Act 1996** (Act No 33 1996) - repealed by the National Gambling Act, 2004 (Act No 7 of 2004) (“the Act”). Its main responsibilities are:

- **To ensure uniformity, harmonisation & integrity** of the gambling industry in the Republic of South Africa by enforcing compliance through the National Gambling Act and other relevant legislation.

- **To conduct research studies** and **advises the Minister of Trade and Industry**, the gambling industry and other stakeholders on the state of gambling in the country.

- **To advise government on policy related to gambling** - Policy development in the gambling industry must emanate from the NGB through the dti for consideration.
Section 33 (a) (i) and (ii) of the Act requires the NGB to evaluate the issuing of national licences and evaluation of compliance monitoring of licensees by the Provincial Gambling Boards.

- Industry challenges - different norms per provincial jurisdiction
- Duplication of business compliance
- High Cost of doing business x 9 regulatory compliance requirements
- Taxes, and levies vary per regulatory body and legislature
- Licence requirements of BBBEE (Broad Based Black Economic Empowerment)
Incidence of Gambling-2012

- All modes
- Inclusive of lottery
- Inclusive of betting
- Inclusive informal and illegal forms
- Wave : Nov 2012
- Sample of 3500 respondents
- Probability sample
- In home interviews
- National sample/ coverage
The National Lottery remains the most preferred gambling mode with 77% of gamblers indicating that they have bought a Lottery ticket in the last 12 months. 26.2% of all gambling activity took place at illegal outlets or within an informal context.
Horseracing–sports betting

- Significant employer in value chain
- Betting–taxes, regulated
- Sports betting on line–some debates
Third most prevalent mode of legal gambling, games for money at licensed casinos mainly focuses on slot machines. These gamblers are disproportionately more white and coloured and have middle to higher household incomes.
Oversight on Provincial Gambling Boards

- Section 33 (a) (i) and (ii) of the Act requires the NGB to evaluate the **issuing of national licences and evaluation of compliance monitoring** of licensees by the Provincial Gambling Boards.
Governance/ Accountability

- Assurance, Evaluation, Integrity, Ethics,
- BBBEE Agenda
- Triple bottom line - people, environment and our outputs (deliverables)
- Large Scale benefit to local communities and host communities
- Changes in Companies act 2011
- Business Leaders as part of BUSA and CASA and decision makers in the country
- Are we effectively changing our historical context and addressing barriers
Modes of Legalised Gambling

- Casinos- 36 in 2010 and 38 2012- (RFP-2013)
- LPM(Limited Pay out Machines-) -(SMME’s- intention)
- Horse Racing –Wagering and betting ( Prior to 1994)
- Bingo ( No National Framework- but 11 active licences in Gauteng and 3 other jurisdictions issued RFP and Licences.)- 2013
- Sports betting-legal –online-but Interactive-Illegal
Current Status

- On BEE start-ups - listed on JSE
- Access for wide range of pDI’s before 1994
- Leadership local and South Africa and Africa
- Diversification into different modes
- IPAP - industrial development policy – local content
Transforming Organizations

- Reframing organizations
- Restructure-Mergers/
- Revitalizing
- Renewing people
  - Job Creation
  - Skills Transfer
  - Educational Opportunities
  - Marketability – key employees

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CASA- Casino Organisation in SA - National agenda

- Concurrent jurisdiction-Gambling in South Africa
- National and progressive human rights constitution dealing with discrimination, stereotyping
- Licensing – Legal forms in 9 Provinces-Each PGB- provincial laws
- South Africa not a federal state but unitary state
- Uniform standards and norms given the diverse legislations
What should the Gambling Businesses do?

- Work within the global economy
- Need to reinvent themselves
- Greater flexibility
- Broader vision
- Ability to operate in environment of increasing diversity and competition
- New territory without borders- use for our advantage- SADC, COMESA, ECOWAS
- Invest in people to create net(work) areas
- Deliver to all stakeholders / constituencies
Conclusion

- It’s our time ….
- The Business strategies must be different
- Businesses need to design strategies for change- benefit, vulnerability and impact
- Nothing will happen unless it is planned
- Context –modes, new challenges - Season for considering organisational and institutional change linked with political change and agendas.
- Controlling business future through focussed corporate planning strategy is needed.
- Thank you
References

- Khayabus -2012
- National Gambling Board – Annual Reports- 2004-2012
- NGB- Socio economic Studies 2009.
- CASA -The 2012 Survey of Casino Entertainment in South Africa