



# UPDATED DEMOGRAPHIC AND ECONOMIC DATA IN THE SAFETY AND SECURITY SECTOR

## Final Report

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## 1. INTRODUCTION AND BACKGROUND

The Safety and Security Sector Education and Training Authority (SASSETA) was established on 1 July 2005. It is one of the twenty-one Sector Education and Training Authorities (SETAs) established in terms of the Skills Development Act (Act 97 of 1998) as amended. SASSETA's licence has been renewed until 31 March 2020. The SASSETA was further re-established from 01 April 2020 to 31 March 2030 in terms of the Government Gazette issued by the Minister of Higher Education and Training (DHET) on 22 July 2019.

The SETA is classified as a schedule 3A Public Entity in terms of the Public Finance Management Act, (Act 1 of 1999, as amended), and it is accountable to its Board and the Department of Higher Education and Training (DHET). The rest of the Section 1 of this document focuses on SASSETA's scope of coverage, SASSETA's Strategic Plan and Research Agenda, the importance of data in skills development planning, and the problem statement.

### 1.1 SASSETA'S SCOPE OF COVERAGE

Box 1.1 illustrates Standard Industrial Classification Code (SIC) and sub-sectors, as well as employers (constituencies) covered by SASSETA.

#### Box 1.1: Sub-sector and Employers covered by SASSETA

SIC Codes	Sub-sector	Constituency
9110A*	Policing	<ul style="list-style-type: none"> <li>The Independent Complaints Directorate (IPID), the Secretariat for Safety and Security, Civilian Secretariat for Police, and The South African Police Service (SAPS).</li> </ul>
91301 91302		<ul style="list-style-type: none"> <li>Municipal and Metro Police Services, Traffic Management / Law Enforcement, and Road Traffic Management Corporation (RTMC).</li> </ul>
9110B*	Corrections	<ul style="list-style-type: none"> <li>The Department of Correctional Services (DCS)</li> <li>Private correctional services providers</li> </ul>
		<ul style="list-style-type: none"> <li>Kutama Sirthumbule Correctional Centre.</li> <li>Mangaung Correctional Centre.</li> <li>Judicial Inspectorate for Correctional Services.</li> <li>Correctional Supervision and Parole Boards.</li> </ul>
9110D*	Defence	<ul style="list-style-type: none"> <li>The Department of Defence (DOD).</li> <li>South African National Defence Force (SANDF) (SA Navy, SA Air force, and SA Military Health).</li> </ul>
9110C*	Justice	<ul style="list-style-type: none"> <li>The Department of Justice and Constitutional Development (DoJCD)</li> <li>National Prosecuting Authority (NPA), and Special Investigations Unit (SIU)</li> </ul>
91104	Intelligence Activities	<ul style="list-style-type: none"> <li>The National Intelligence Agency (NIA)</li> </ul>
91105		<ul style="list-style-type: none"> <li>The South African Secret Service (SASS)</li> </ul>
88110	Legal Services	<ul style="list-style-type: none"> <li>Legal and paralegal services</li> <li>Sheriffs</li> </ul>
88111		<ul style="list-style-type: none"> <li>Legal Aid Services</li> </ul>
88920	Private Security and Investigation Activities	<ul style="list-style-type: none"> <li>Private security, investigation, and polygraph services</li> </ul>

Box 1.1 illustrates that the Safety and Security Sector comprises of seven sub-sector and these are:

- **The Policing sub-sector** which covers public sector employers such the South African Police Service (SAPS), the Independent Police Investigative (IPID), and the Road Traffic Management Corporation (RTMC);

- **The Corrections sub-sector** which incorporates the Department of Correctional Services and privately-operated prisons in Limpopo and Free State provinces;
- **The Defence sub-sector** which includes the South African National Defence Force (SANDF) and all its armed forces;
- **The Justice sub-sector** which encompasses public sector employers such as the Department of Justice and Constitutional Development, the National Prosecuting Authority (NPA) and the Office of the Chief Justice;
- **The Legal sub-sector** which primarily cover private sector employers such private law firms and their regulatory authority, the Legal Practice Council (LPC);
- **Private security sub-sector** which includes employers such as private security companies as well their regulator, the Private Security Regulatory Authority; and
- **The Intelligence Activities sub-sector**, which incorporates the State Security Agency (SSA).

All of the seven sub-sectors constitute Chambers of the SASSETA comprising members nominated by employers and labour unions, and each is chaired by a member of the SASSETA Board. The primary role of the Chambers is to hold the hold the core service delivery programmes of the SETA accountable and advice management and the Board on matters skills development matters affecting their respective sub-sectors.

## 1.2 SASSETA's Strategic Plan and Research Agenda

SASSETA's Strategic Plan (2015/16 – 2019/20) outlines the following four Strategic Outcome-oriented Goals (SOG), namely:

**SOG 1:** To provide strategic leadership, technical and administrative support services to SASSETA;

**SOG 2:** To strengthen and institutionalise planning mechanism for skills planning, monitoring, evaluation and research for the Safety and Security Sector;

**SOG 3:** To reduce the scarce and critical skills gap in the Safety and Security Sector through the provision of learning programme; and

**SOG 4:** To strengthen efficacy in SASSETA's discharge of the quality assurance function.

In response to the Strategic Outcome-oriented Goal 2, i.e., strengthening and institutionalise planning mechanism for skills planning, monitoring, evaluation and research for the sector, the Skills Planning and Research Department compiled the Research Agenda for the SETA. The purpose of the Research Agenda is to support a sound skills planning in order to respond to the skills development needs of the Safety and Security Sector. This document also sets out five research focus areas for the SETA for the period: 2020 – 2025, and these are:

- Developing internal research capacity within SASSETA;
- Supporting and developing research networks (i.e. reference group) for the sector;

- Linking SASSETA's post-graduate bursaries holders with certain topics that are of significance in the sector;
- Building a research repository for the sector; and
- Developing systems and processes to improve SASSETA information [management].

In essence, the SASSETA's Research Agenda has been developed to support and the advance the SETA-sector strategy, and to further inform stakeholders about the SETA's research focus areas and priorities for the duration of the Research Agenda (i.e. 2020-2025). On the other hand, SASSETA utilises Workplace Skills Plans (WSPs) data and other data sources to determine and analyse skills gaps (top-up skills), as well as occupational shortages (scarce skills). The said analysis informs the development of the PIVOTAL interventions list, which confirms the key programmes of SETA as captured in the Annual Performance Plan (APP) and the Service Level Agreement with the DHET. The main purpose of this exercise is to improve performance at different workplaces in the safety and security sector.

### 1.3 IMPORTANCE OF DATA IN SKILLS DEVELOPMENT PLANNING

At the heart of the skills planning mechanism is the data, which includes WSP data as indicated above. Should the data be inaccurate, it will then provide misinformation the process of prioritising skills gaps and scare skills in the sector. Moreover, the data is dependent on ensuring that jobs are recorded accurately against the sector appropriate Organising Framework for Occupations (OFO) Codes.

### 1.4 PROBLEM STATEMENT

The safety and security sector comprises of employers in both the public and private sectors on the South African economy. Employers in the public sector constitutes security cluster institutions such as the South African Police Service (SAPS), the South African National Defence Force (SANDF), the National Prosecuting Authority (NPA), as well as The State Security Agency (SSA). Given to nature of operations of these public sector employers, the most recent and disaggregated demographic and economic data pertaining to these employers is not easy to come by. The same could be said about the private sector employees in the sector, that is, private security companies as well as law firms who are at competing for market share and seeking to maximise profit for their shareholders (owners). As a result, SASSATA have to make do with outdated data to inform skills planning in the sector.

### 1.5 THE PURPOSE OF THE STUDY

The main focus of this study was to

- ✓ Collect and analyse the most recently available data (2013 to 2018) on the economic contribution of the subsectors under review;
- ✓ Update the demographic data of all sub-sectors in the Safety and Security sector in South Africa and
- ✓ Produce a comprehensive report which includes an innovative method/model to be used in analysing data pertaining to all sub-sectors in the Safety and Security sector in South Africa.

The purpose of this study was to collect updated demographic and economic data about the Safety and Security Sector, and determining the economic contribution of various sub-sectors for the period 2014 to 2018. The next section (Section 2) is an exposition of the theoretical framework for this study.

## 2. THEORETICAL FRAMEWORK

### 2.1 INTRODUCTION

This section 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.

### 2.2 MEASURING THE CONTRIBUTION OF SUB-SECTORS IN 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 (iii) Economic Size and Structure Analysis (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 produced<sup>1</sup>. Worse still, where a specific subsector is not included in the I-O table<sup>2</sup>, it becomes extremely challenging to extrapolate its possible impact by either studying related (sub) sectors or activity within the 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) 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

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<sup>1</sup> In South Africa, the latest I-O table for the entire economy was published in 2011, and represents the economic outlook pre-2011

<sup>2</sup> As is the case with the private security and legal services subsectors of South Africa

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

**Table 2.1: 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)

### 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 industry'. 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 2.2 compares the three models using applicability to the current study by examining data requirements.

**Table 2.2: 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 2.2, 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.

### 2.2.2 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:

#### 2.2.2.1 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.

#### 2.2.2.2 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.

#### 2.2.2.3 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).

#### 2.2.2.4 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.

#### 2.2.2.5 Republic of 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).

## 3. ECONOMIC CONTRIBUTION OF THE SUB-SECTORS OF THE SAFETY AND SECURITY SECTOR IN SOUTH AFRICA

### 3.1 The Private Security Sub-sector

#### 3.1.1 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 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.

#### **a) 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 article<sup>3</sup> 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 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).

### **b) 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.

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<sup>3</sup> 'High South African crime rates and low faith in police boost private security'; <https://www.ft.com/content/ab7600e4-2068-11e7-b7d3-163f5a7f229c>

One of the main objectives of this research is to update statistics on the economic contribution of the private security subsector to the economy.

## 3.2 The Legal Services Sub-sector in South Africa

### 3.2.1 Overview of the Legal Services Sub-sector

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).

### 3.2.2 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).

### 3.2.3 Importance of the legal Services Sub-sector in the South African 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.

## 4. Research Methodology

### 4.1 Introduction

The previous section 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 section 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.

#### 4.1.1 Determining the Economic Contribution of Sub-sectors by means of the ESSA Model

This research develops an ESSA model based on findings 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 measured<sup>4</sup>:

- **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.
- **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.

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<sup>4</sup> Refer to the attached excel spreadsheet which contains an interactive ESSA model that can be easily applied to future assignments

#### 4.1.2 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 4.1 shows the data sources identified for this study and the data collection methods used.

**Table 4.1: Data sources for the study**

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

As shown in Table 4.1, 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 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).

#### **a. 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 4.2.

**Table 3.2: Key informants to the study**

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

Source: Underhill Corporate Solutions (2019)

Table 4.2 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.

#### **b. Analysis and measurement procedures**

Following data sources and collection methods presented on Table 4.1, the model follows a quantitative measurement approach aimed at establishing the percentage contribution made by each subsector to (i) the 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 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 business services sector. For instance, if the total revenue generated by all firms in SA amounted to R35 million while the entire 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 business services sector.

### **c. 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.

#### 4.1.3 Conclusion

This section 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.

## 5. PRELIMINARY RESULTS AND ANALYSIS

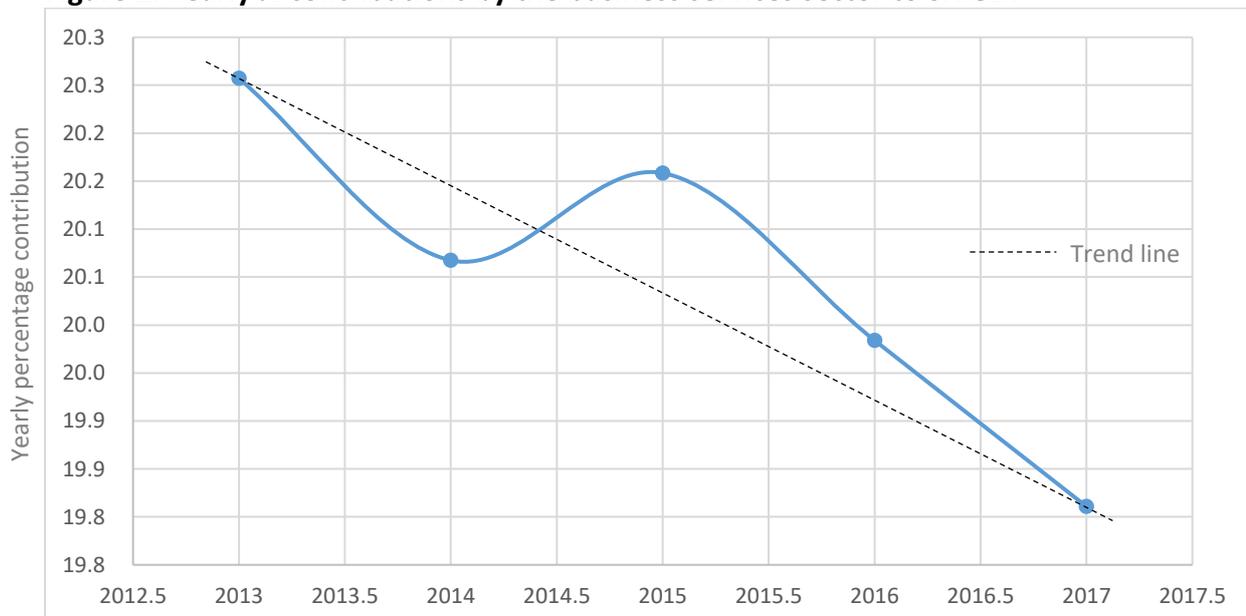
### 5.1 Introduction

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. Section 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 section, results from secondary data and stakeholder interviews are presented and analysed. The section begins by discussing the overall sector outlook (the 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.

### 5.2 Sub-sectors' profile of private security and legal services subsector

The private security and legal services subsector fall under the 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 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 business services sector as calculated by StatsSA<sup>5</sup>.

**Figure 1: Yearly % contributions by the business services sector to SA GDP**



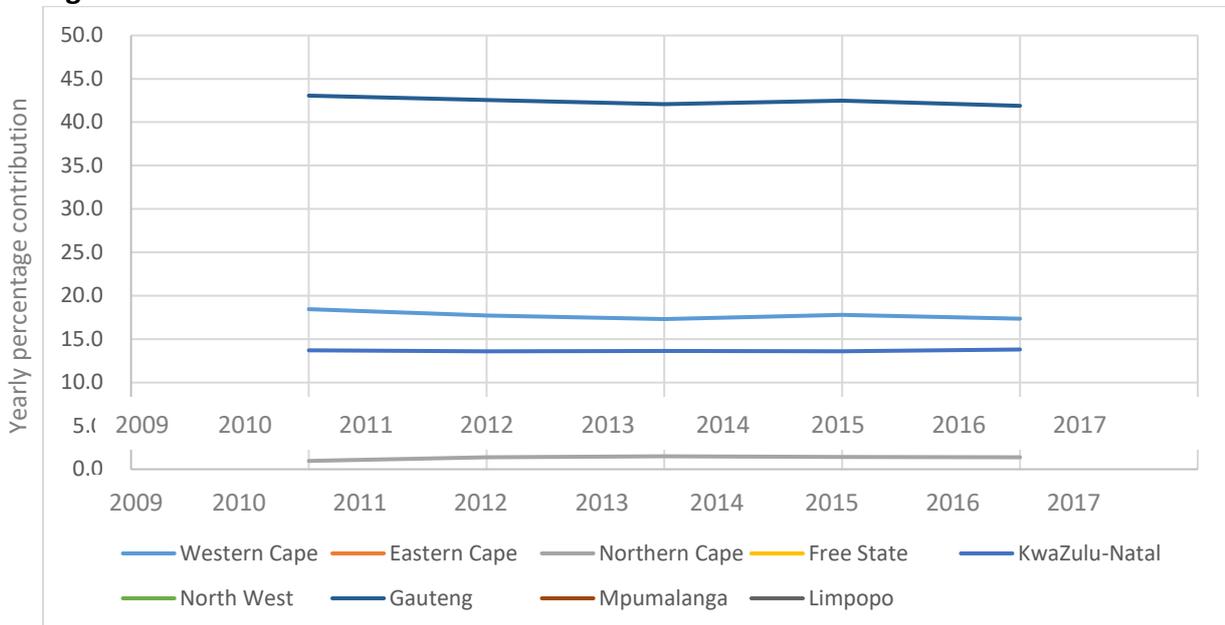
Source: StatsSA (2018)

<sup>5</sup> Refer to the spreadsheet on Annual, quarterly and regional GDP available at [http://www.statssa.gov.za/?page\\_id=1854&PPN=P0441](http://www.statssa.gov.za/?page_id=1854&PPN=P0441)

In Figure 1, the 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 contributor 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 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 business services sector.

**Figure 2: Provincial % GDP contributions to the business services sector**



Source: StatsSA (2018)

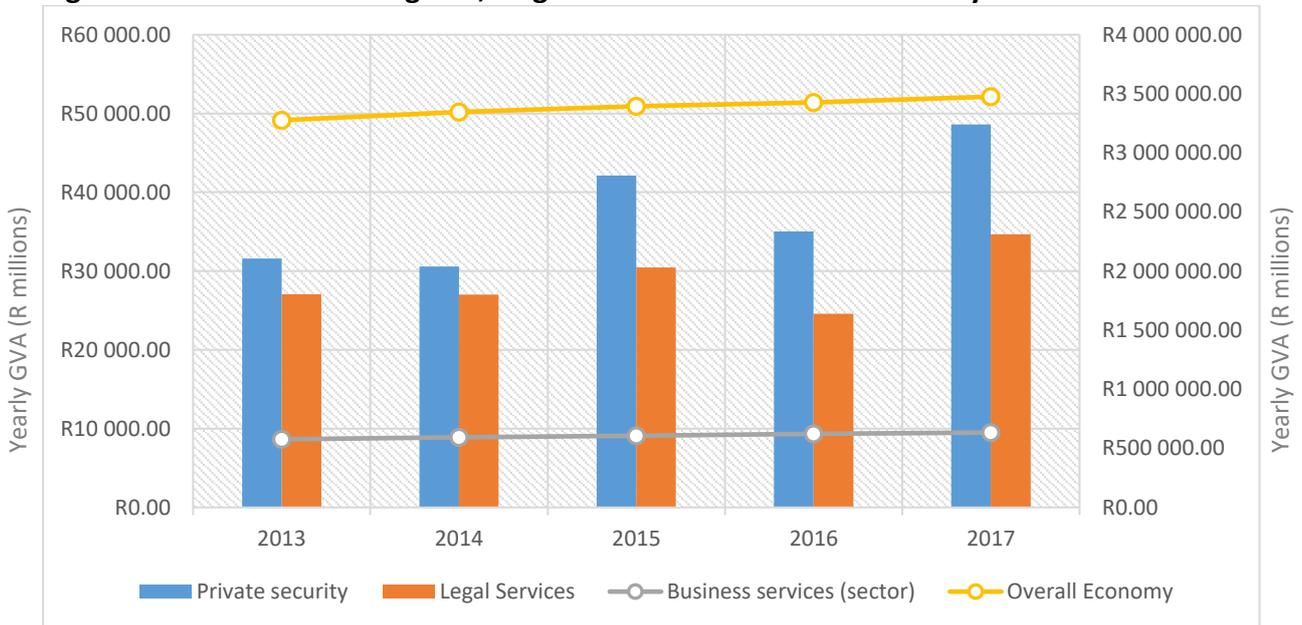
The time series provincial data shows that contribution from the Gauteng province is the highest throughout the years with a steady trend at just above 41%. The rest of the provinces also show a steady trend with Western Cape province contributing almost stagnant at just below 20% and KwaZulu-Natal province also relatively stagnant below 15%.

### 5.3 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 requires use of reasonable estimates to represent missing figures. In this study, 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<sup>6</sup>.

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



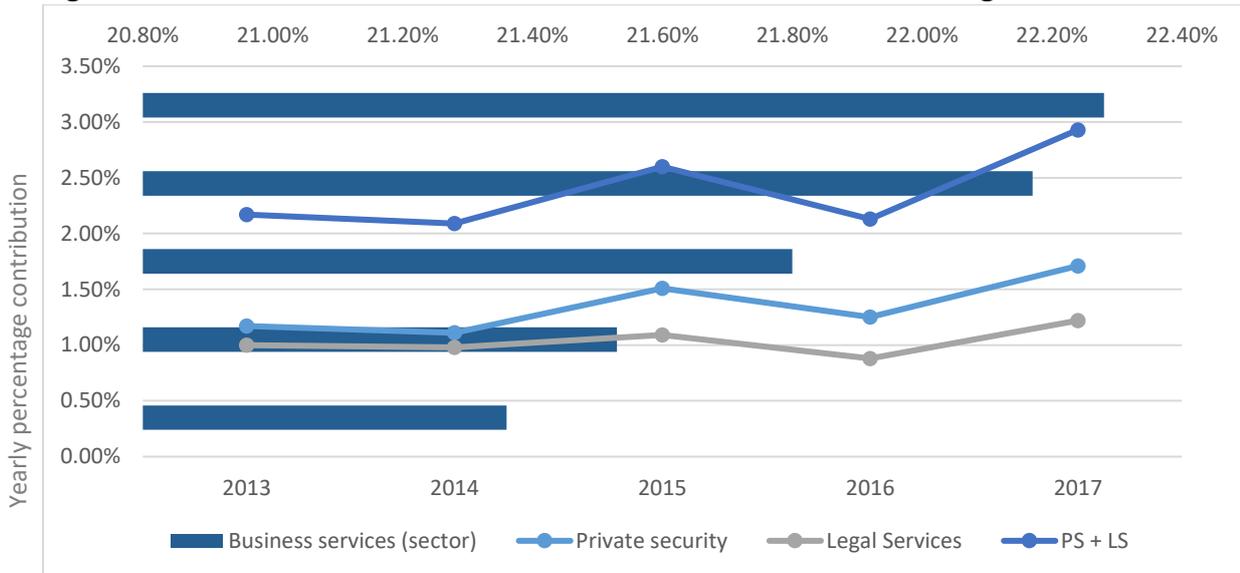
Source: StatsSA (2018)

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 business services sector and the national economy. There is a gradual increase in GVA for all subsectors with private security starting from R31, 583 billion in 2013 to R48, 621 billion in 2017 while the legal services subsector starts from R27, 058 billion in 2013 to R34, 673 billion in 2017. Similarly, absolute GVA for the business sector saw a steady increase from R576 707 in 2013 to R613, 413 billion in 2017 while GVA for the national economy also increased from R2, 699 trillion in 2013 to R2, 842 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.

<sup>6</sup> Refer to attached model in Excel format

**Figure 4: % contribution to GVA of the business services sector and target subsectors**

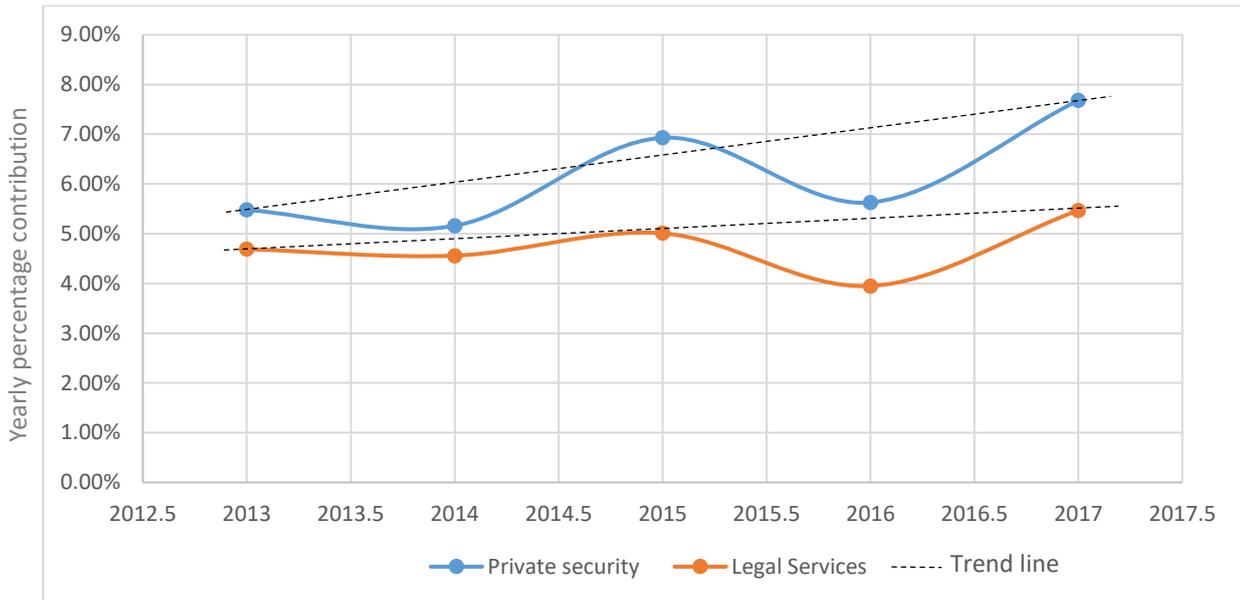


Source: StatsSA (2018)

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 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 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 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.

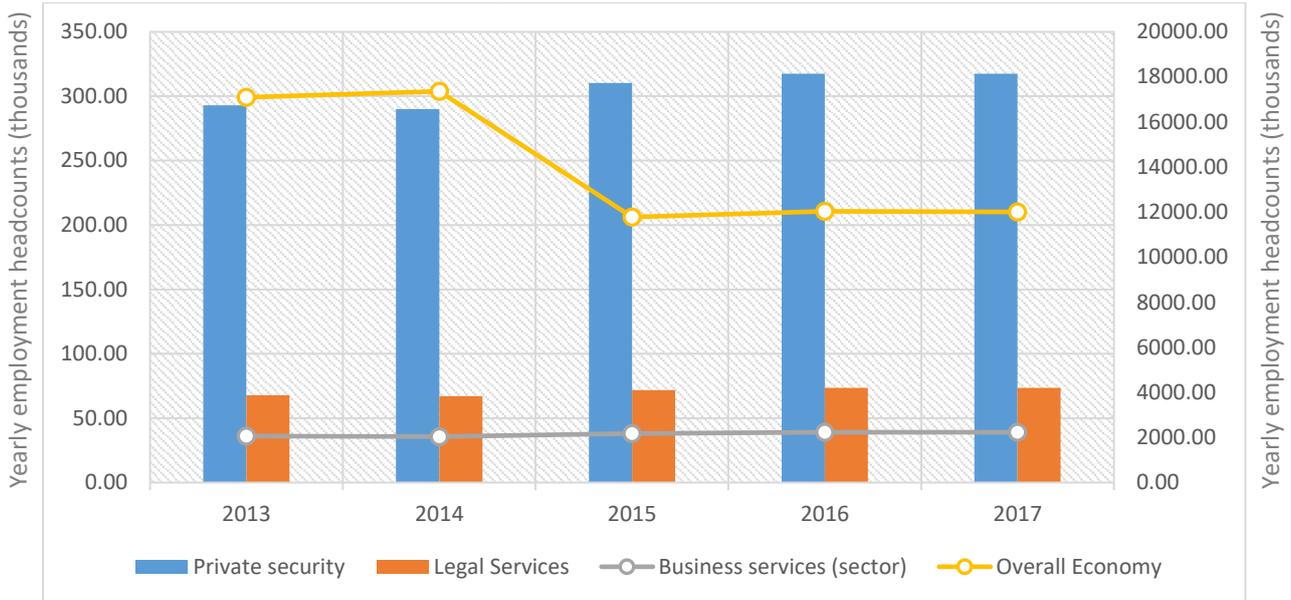
## 5.4 Contribution to employment

In the literature review section, 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.

### i. Employment headcounts

Figure 6 presents the number of people employed in the overall economy, the business services sector and the targeted subsectors. Headcounts were collected from the quarterly labour force surveys and the 2016 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**

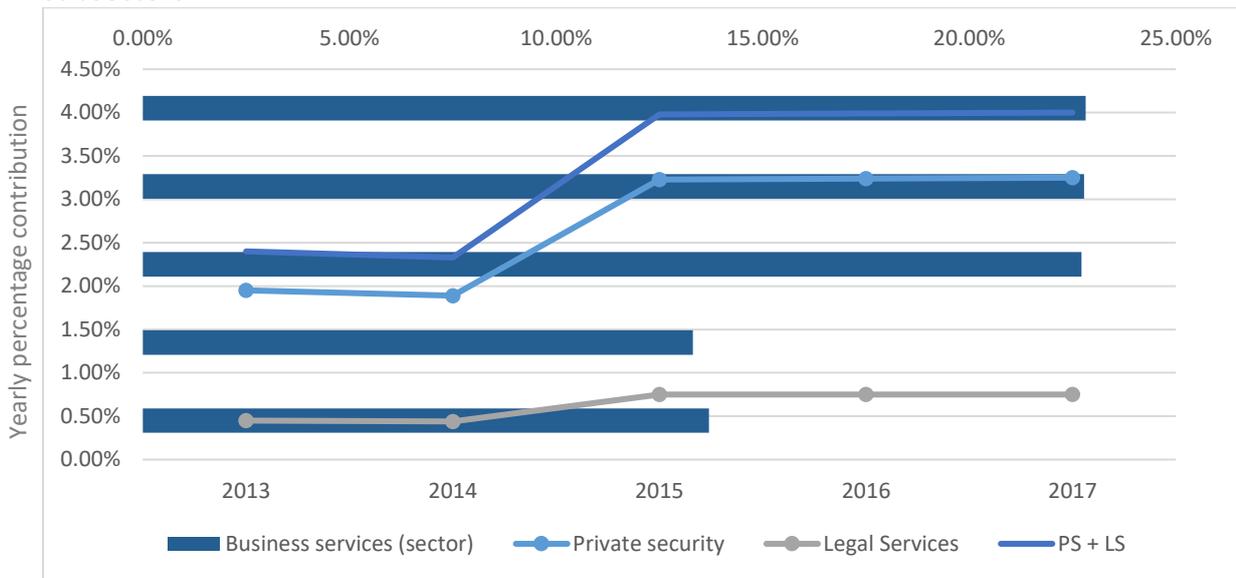


Source: StatsSA (2018)

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 are 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 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 business services sector in 2017.

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

**Figure 7: % contribution to employment of the business services sector and target subsectors**



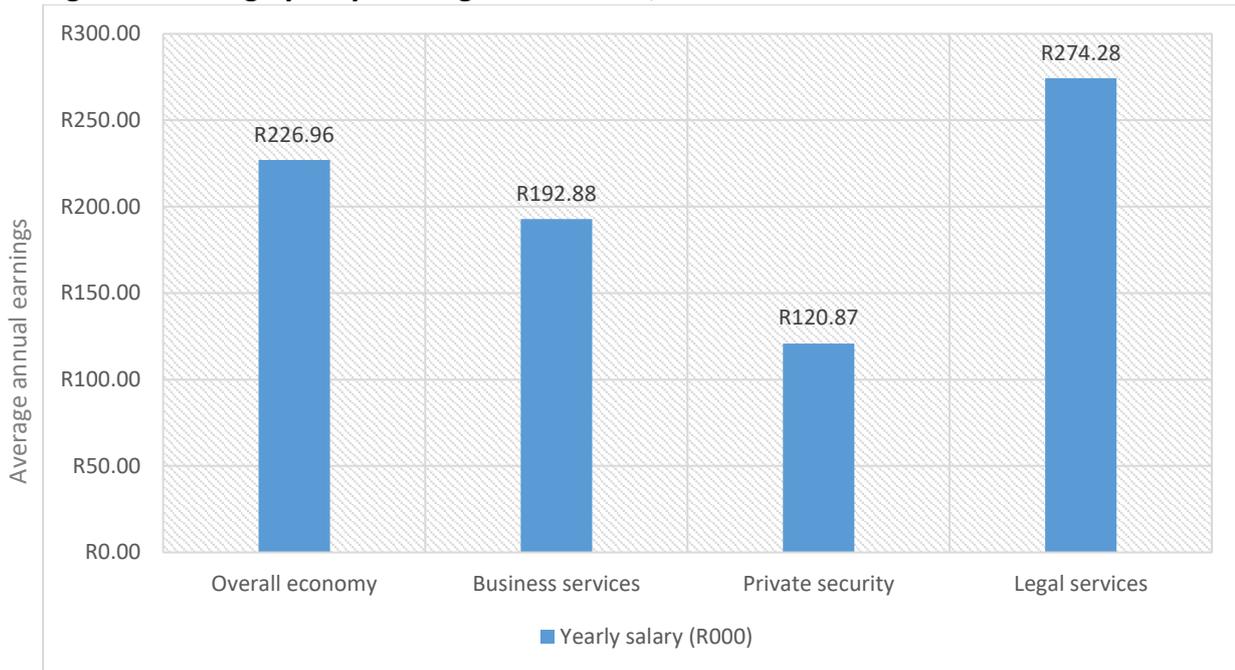
Source: StatsSA (2018)

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 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, business services employment remained steady; thus, improving its overall contribution.

## ii. Salaries and wages

By the start of 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 business services sector, the private security subsector and the legal services subsector.

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

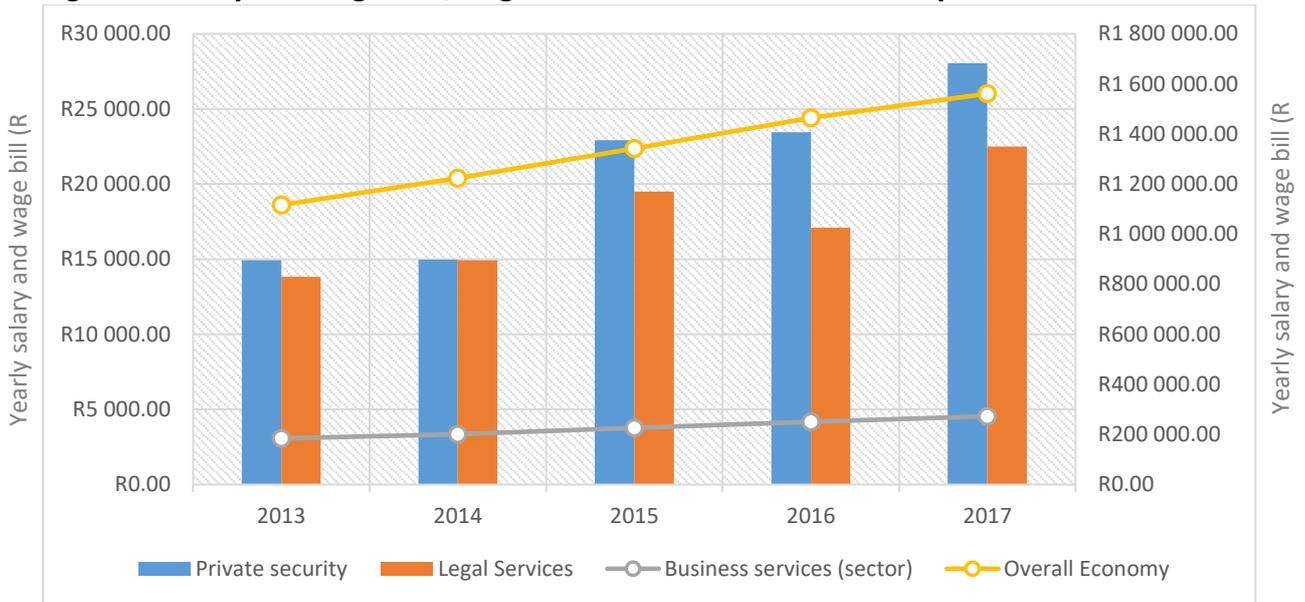


*Source: StatsSA (2018)*

On the chart, an average employee in the overall economy earns R226 956 while an average employee in the 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 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 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 business services sector and overall economy.

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

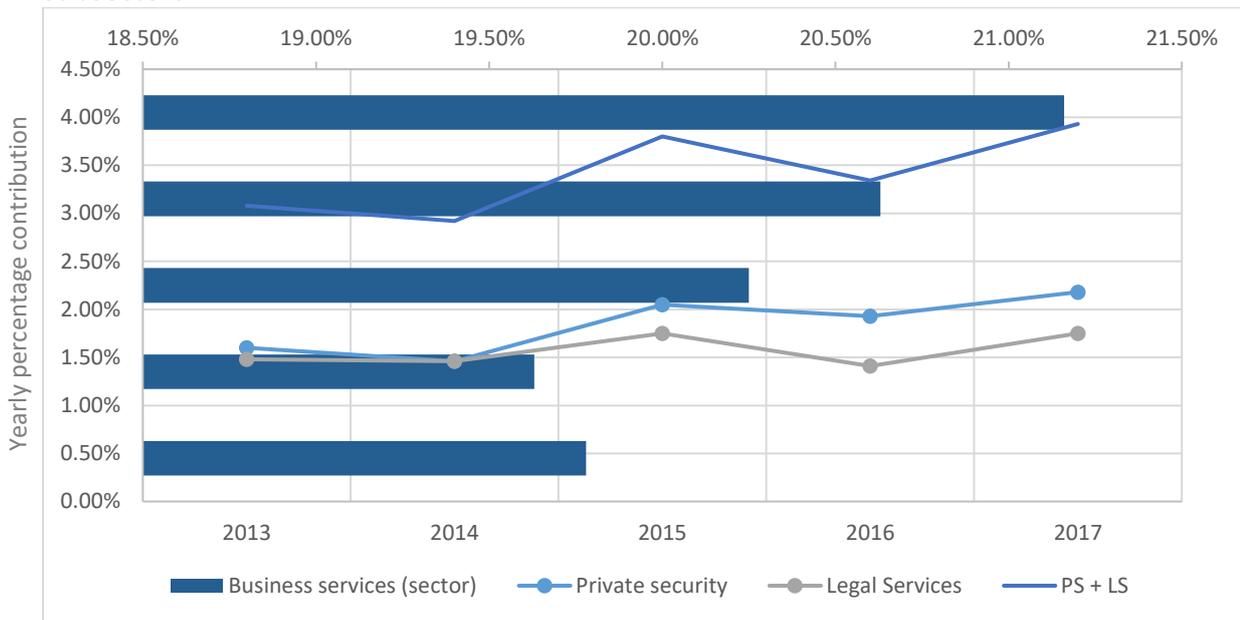


Source: StatsSA (2018)

For private security, the salary and wage bill was R14, 919 billion in 2013, R14, 966 billion in 2014, R22, 916 billion in 2015, R23, 445 billion in 2016 and R28, 036 billion in 2017 whilst for legal services, the salary and wage bill was R13, 814 billion in 2013, R14, 935 billion in 2014, R19, 488 billion in 2015, R17, 091 million in 2016 and R22, 498 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 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, 129 billion in 2013 to R1, 288 trillion in 2017; a 38% increase) versus the business services sector’s trend (from R184, 358 million in 2013 to R272, 575 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 business services sector and target subsectors**

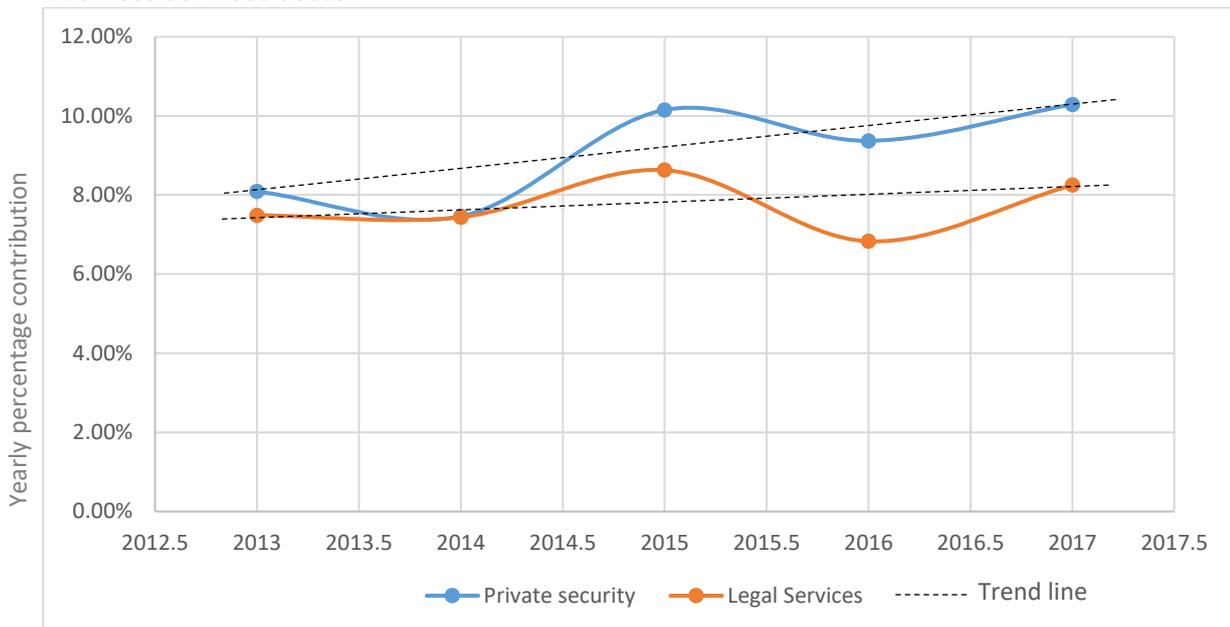


Source: StatsSA (2018)

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 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 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 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 began 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 business services sector appear to be on a steady increase.

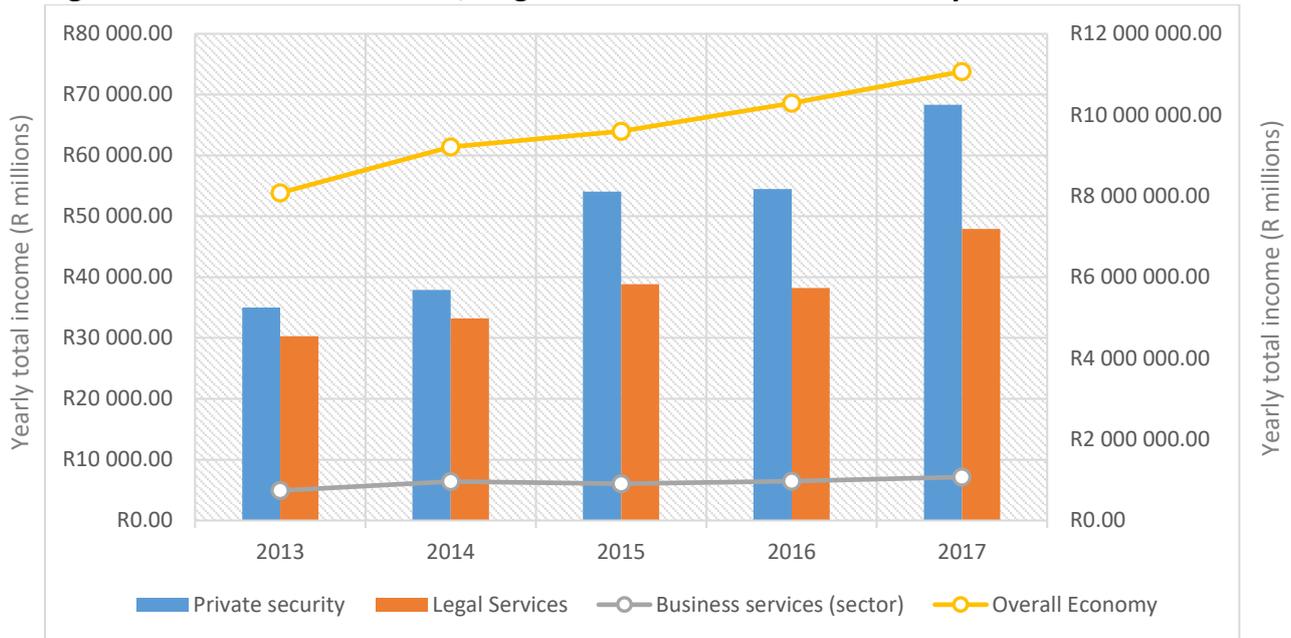
### 5.5 Contribution to business activity

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.

#### a) 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 business services sector and overall economy.

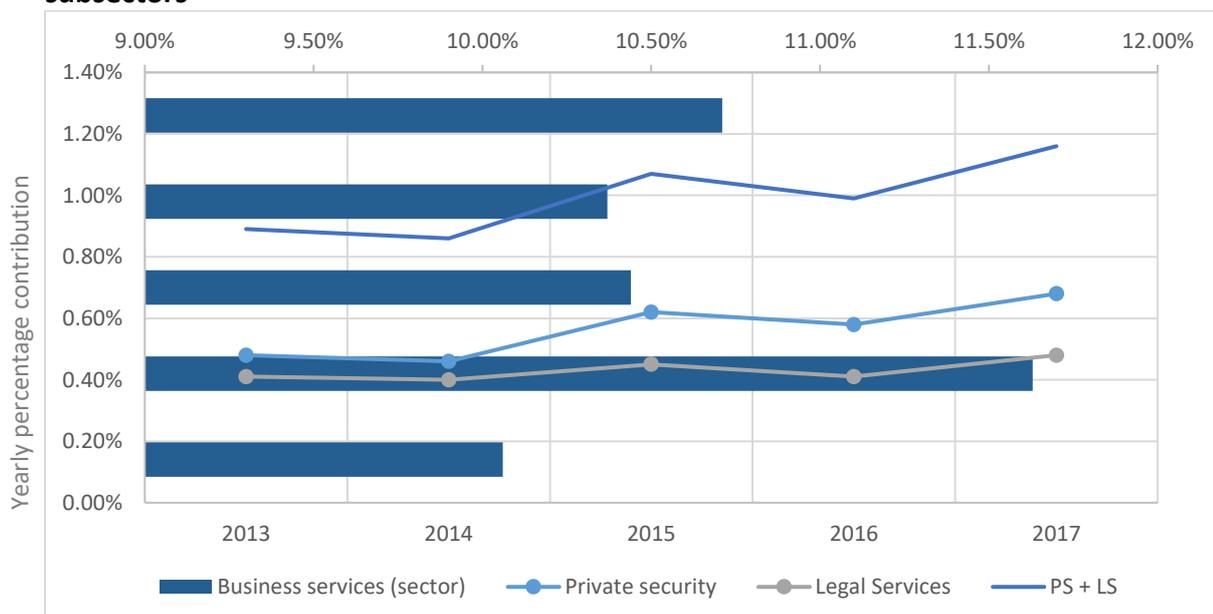
**Figure 12: Total income earned; target subsectors & overall economy**



Source: StatsSA (2018)

The private security subsector firms earned about R35, 036 billion in 2013, R37, 895 billion in 2014, R54, 060 billion in 2015, R54, 463 billion in 2016 and R63, 326 billion in 2017 whereas legal services firms earned R30, 268 billion in 2013, R33, 252 billion in 2014, R38, 839 billion in 2015, R38, 207 billion in 2016 and R47, 930 billion in 2017. The upward trend is also evident both in the sector and the national economy with firms in the business services sector moving from earning R738, 058 billion in 2013 to R1, 071 trillion in 2017 while the overall economy changed from R7, 340 trillion in 2013 to R9, 998 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 business services sector and target subsectors**

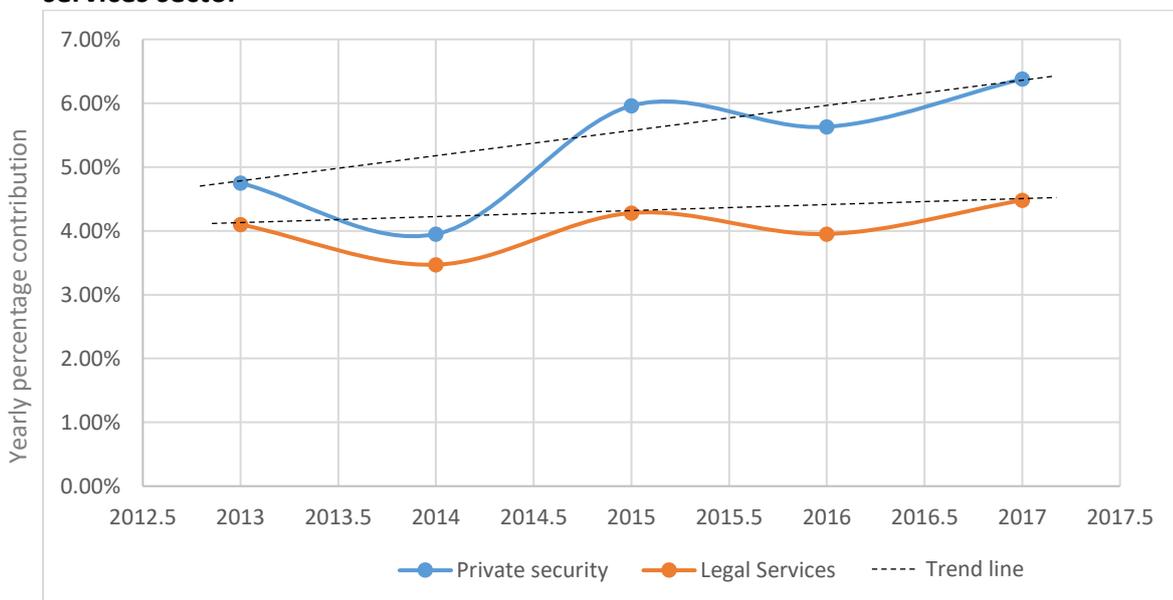


Source: StatsSA (2018)

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 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 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 business services sector**



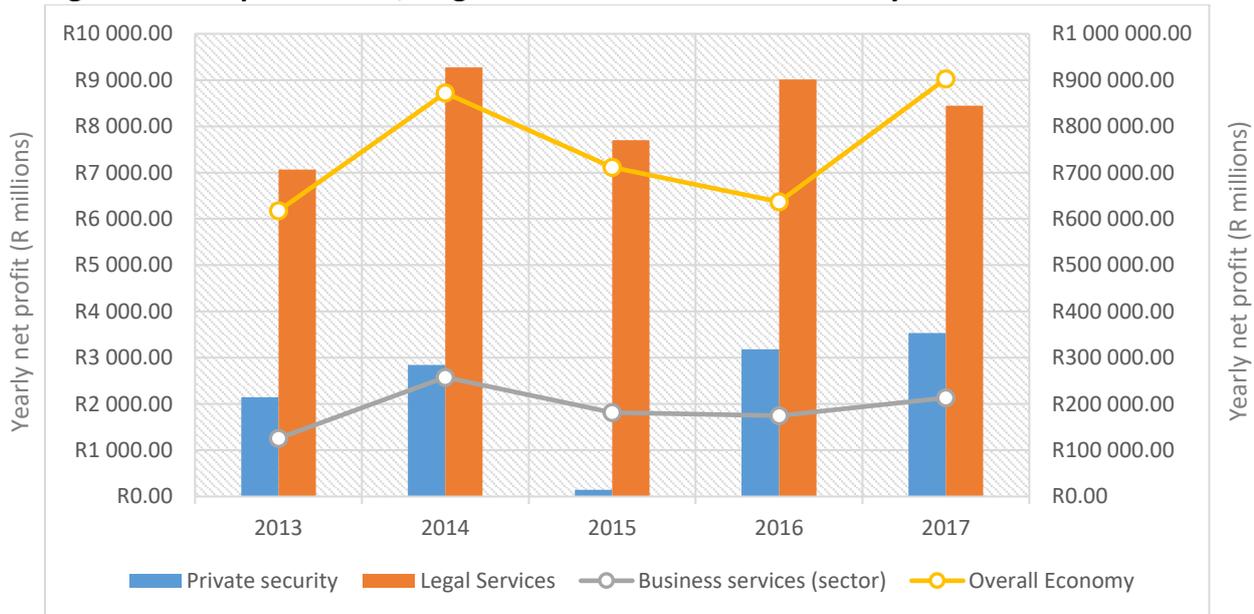
Source: StatsSA (2018)

While the private security firms' total income remains above legal service firms, both contributions are 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 business services sector got to 10.86% in 2017.

### b) 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, business services sector and the overall economy are presented.

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

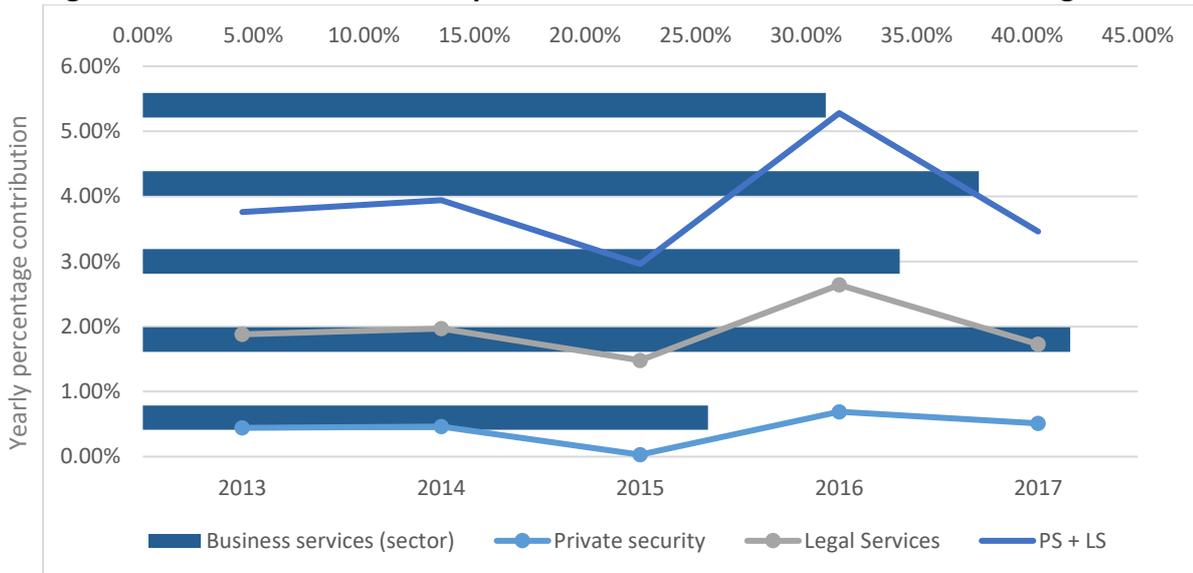


Source: StatsSA (2018)

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 are generally less profitable than legal services firms despite them employing more staff and earning more total income. Net profit earned by the firms in the business services sector and entire economy show high fluctuations; with sector net profit rising from R125 756 in 2013 to R257, 744 billion in 2015 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 are generally similar between private security and legal services even though legal services in this instance contributes more to the economy (refer to Figure 16).

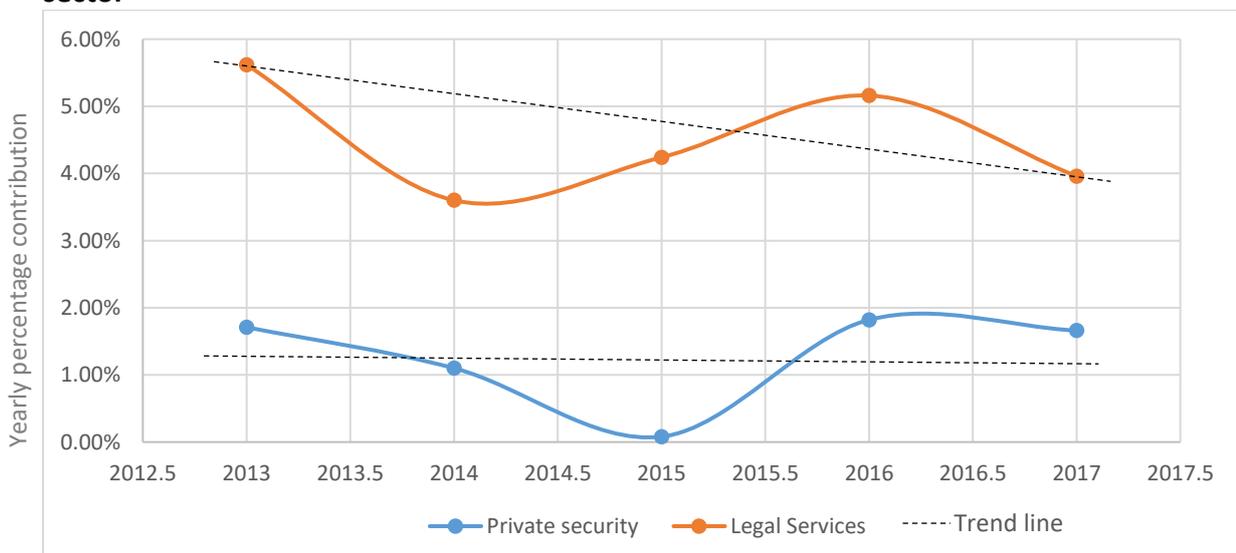
**Figure 16: % contribution to net profit of the business services sector and target subsectors**



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 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.

## 5.6 Conclusion

This chapter begins by presenting a snapshot of the business services sector in terms of its contribution to national GDP; and provincial distribution of GDP generation. 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.

## 6. DEMOGRAPHIC DATA OF ALL SUB-SECTORS IN THE SAFETY AND SECURITY SECTOR

### 6.1 Number of employers in the sector

According to the SASSETA 2019 WSP data, there were 3 355 levy-paying organisations in the safety and security sector. The overwhelming majority of these were in two subsectors: Legal Services (2 058) and Private Security and Investigation Activities (1 292). Furthermore, four government departments (i.e. Departments of Defence; Correctional Services; Justice and Constitutional Development, and the South African Police Service) are the major employers in the safety and security sector. Table 6.1 depicts number of active employers by subsector.

Table 6.1 Active Employers by subsector for 2018/19

Subsectors	Levy Paying Organisations	Government Departments
Defence	1	1
Corrections	4	1
Justice	3	1
Legal Services	2650	N/A
Policing (RTMC, IPID and SAPS)	3	1
Private Security and Investigation Activities	1620	N/A
<b>Total</b>	<b>4278</b>	<b>4</b>

Source: SASSETA SMS DATA (2019)

According to Table 6.1, the Private Security and Investigation Activities as well as the Legal Services subsectors have relatively more active employers in terms of WSP/ATR (Annexure 2) submissions, which is 1620 and 2650 respectively. Subsectors that includes government department have not more than five organisations.

Over the period 2011/12 to 2018/19, the number of employers in the Legal Services subsector increased from 1 688 to the current 2 650. Meanwhile, the number of employers in the Private Security and Investigation Activities subsector has however remained relatively stable over the period (see Table 6.2 below).

Table 6.2: Levy paying organisations in the safety and security sector

Subsector	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Number of organisations						
Legal Services	1 735	1 751	1 772	1752	1688	2 058	2650
Private Security and Investigation Activities	975	966	991	960	971	1 292	1620

Source: SASSETA SMS (2019)

Within the private sector component of the Safety and Security Sector, the Legal Services subsector is dominated by individually practicing legal and paralegal professionals. Businesses in the subsector include firms of attorney (of which only 18.3% employ more than one person, and only 0.8% employ more than 10 people) and non-governmental organisations (NGOs) as well as not-for-profit organisations (NPOs). Companies rather than individuals dominate the Private Security and Investigation Activities subsector. These range from large extensions of multinational companies, through to large, medium and some very small locally owned companies.

## 6.2 Employers by organisation size and per subsector in the Safety and Security Sector

Table 6.3 depicts employers by organisation, per subsector in the Safety and Security Sector.

Table 6.3 Employers by organisation size per sub-sector

Subsector	Size of organisation		
	0-49	50-149	150+
Private security	162	114	200
Legal services	325	82	28
Policing	-	-	3
Corrections	-	-	4
Justice	-	-	3
Defence	-	-	1
<b>Total</b>	<b>487</b>	<b>196</b>	<b>239</b>

Source: WSP data (2019)

Table 6.3 illustrates that most organisations (487) in the sector are small companies (0-49), and most of these are in the Legal services subsector (325). Large companies (150+) are the second highest (239) category, but in this instance private security companies are dominating (200). Furthermore, the table depicts that the safety and security sector is dominated by the two subsectors, that is, Private security (50%) and Legal services (49%). Figure 1-5 illustrates the percentage representation of employers in the safety and security sector by company size.

## 6.3 Provincial distribution of employers in the sector

The information present in Table 6.4 shows that the majority of employers in the Safety and Security Sector are located in Gauteng Province, while the Northern Cape Province has the least number of employers.

Table 6.4: Geographic location of employers by province

Subsector	Gauteng	Western Cape	KwaZulu-Natal	Free State	North West	Limpopo	Northern Cape	Eastern Cape	Mpumalanga
Private security	250	72	69	7	6	29	2	24	14
Legal services	249	83	66	16	11	7	1	29	12
Policing	3								
Defence	1								
Corrections	1								

<b>Justice</b>	3								
<b>Total</b>	<b>507</b>	<b>155</b>	<b>135</b>	<b>23</b>	<b>17</b>	<b>36</b>	<b>3</b>	<b>53</b>	<b>26</b>

Source: WSP data (2019)

## 6.4 Labour Market Profile

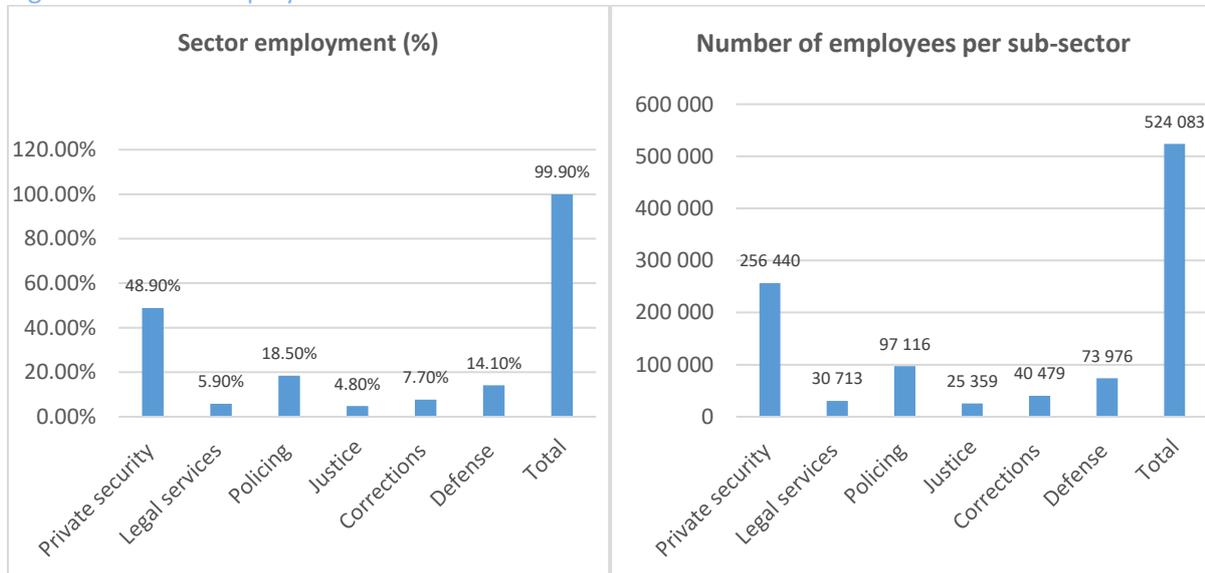
This section presents demographic data of employees in the Safety and Security Sector by focusing on total employment in the sector, distribution of employees per province, employment per occupational group, population group, gender, age, as well as disability status.

### 6.4.1 Total employment in the sector

Figure 6.5 below provides an overview of the total employment in the safety and security cluster. The statistics shows that the safety and security sector employ 524 083 members. Private security contributes almost half to this total employment (256 440), with the justice subsector having the smallest contribution of 25359. The second largest contributor is the policing subsector with 97 116 employees.

The private sector in the security cluster made up 55% of the employed population, while government departments made only 45%. Moreover, the private security subsector alone contributes more than the 45% compared to all four-government departments.

Figure 6.5: Total employment

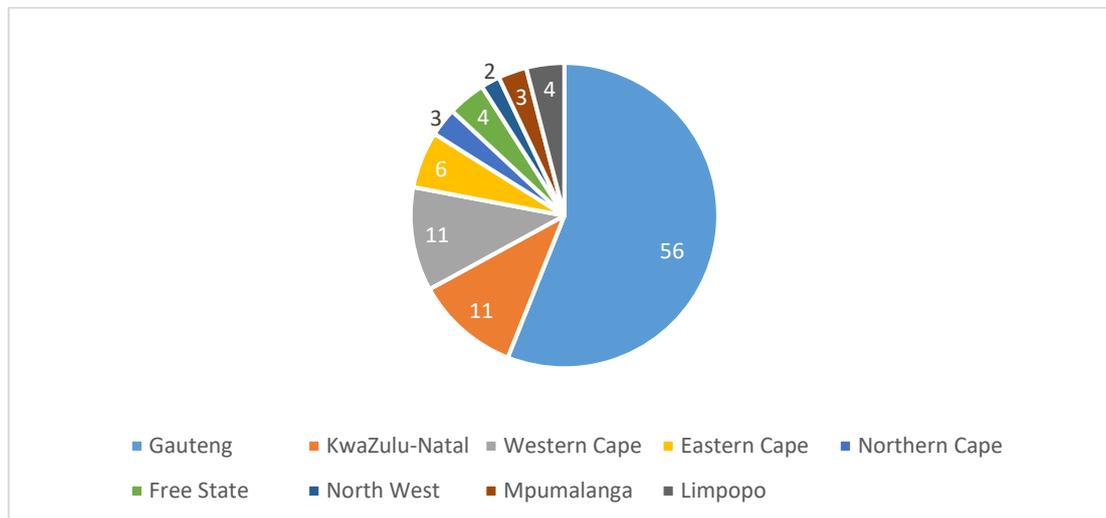


Source: WSP submissions (2019)

### 6.4.2 Employment by province

Figure 6.6 shows employment by province in the safety and security sector.

Figure 6.6: Labour force status by province (%)



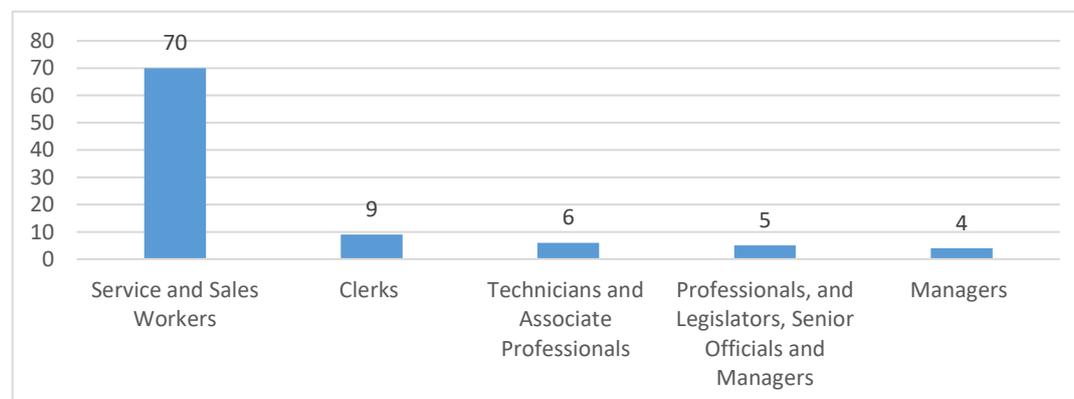
Source: WSP data (2019)

Figure 6.6 illustrates that most employees in the safety and security sector are based in Gauteng (56%) followed by KwaZulu-Natal (11%) and the Western Cape (11%), while very few are found in the North West Province (2%). Gauteng is affected by the fact that all the government departments, many of the public organisations as well as many private sector companies have their head offices in that province.

### 6.4.3 Employment per occupational group

Four out of the six SASSETA's subsectors (except Defence and SAPS) submitted the information on the occupational category of their employees according to the OFO code. In rectifying this data limitation SASSETA is in the process of engaging with relevant stakeholders to resolve this.

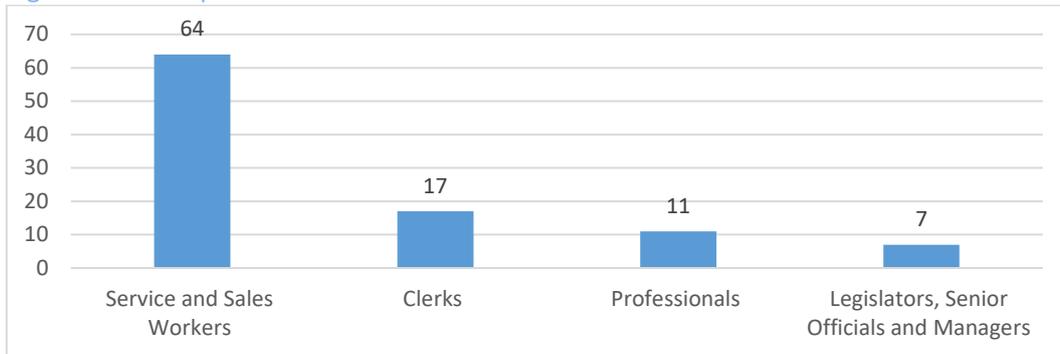
Figure 6.7 Occupational classification in the sector (%)



Source: WSPs data (2019)

Figure 6.7 shows that most employees in the sector are Service and Sales Workers (70%), with the remainder comprising Clerks (9%), Technicians and Associate Professionals (6%), Professionals, and Legislators, Senior Officials (5%) and Managers (4%). This overall picture is highly influenced by the large Private Security subsector, where 90% of employees are classified as Service and Sales Workers. Figure 6.8 depicts occupational classification in the Corrections subsector.

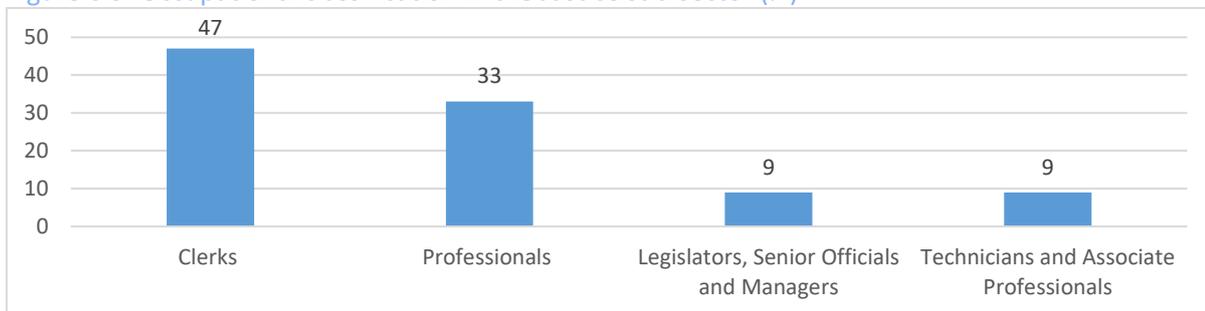
Figure 6.8: Occupational classification in the Corrections subsector



Source: WSP data (2019)

Figure 6.8 illustrates that the Corrections subsector is dominated by Service and Sales Workers (64%) followed by Clerks (17%), while Professionals (11%) and Legislators, Senior Officials and Managers (7%) are in the minority. Figure 6.9 shows the occupational classification in the Justice subsector.

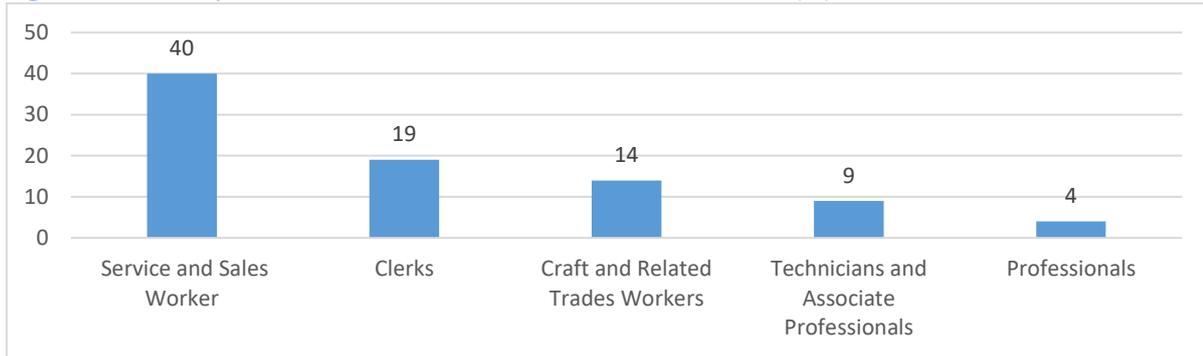
Figure 6.9: Occupational classification in the Justice sub-sector (%)



Source: WSP data (2019)

Figure 6.9 illustrates that most employees in the Justice subsector are Clerks (47%) and Professionals (33%), while Legislators, Senior Officials and Managers, and Technicians and Associate Professionals (9%) are as usual in the minority. The picture is slightly different in the Defence subsector, as depicted in Figure 6.10.

Figure 6.10: Occupational classification in the Defence sub-sector (%)



Source: WSP data (2019)

Figure 6.10 shows that the Defence subsector has a wider range of occupational categories compared to other subsectors in the safety and security sector. Nevertheless, Service and Sales Workers (40%), Clerks (19%) as well as Craft and Related Trades Workers (14%) constitute the bulk of occupations. Technicians and Associate Professionals (9%), and 4% Professionals (4%) are very few in the subsector. In contrast with other subsectors, occupational data in the Policing subsector is presented in terms of semi-skilled workers (with discretionary decision-making powers, skilled technically, academically qualified as well as professionally qualified) as shown in Figure 6.11.

Figure 6.11: Occupational classification in the Policing sub-sector



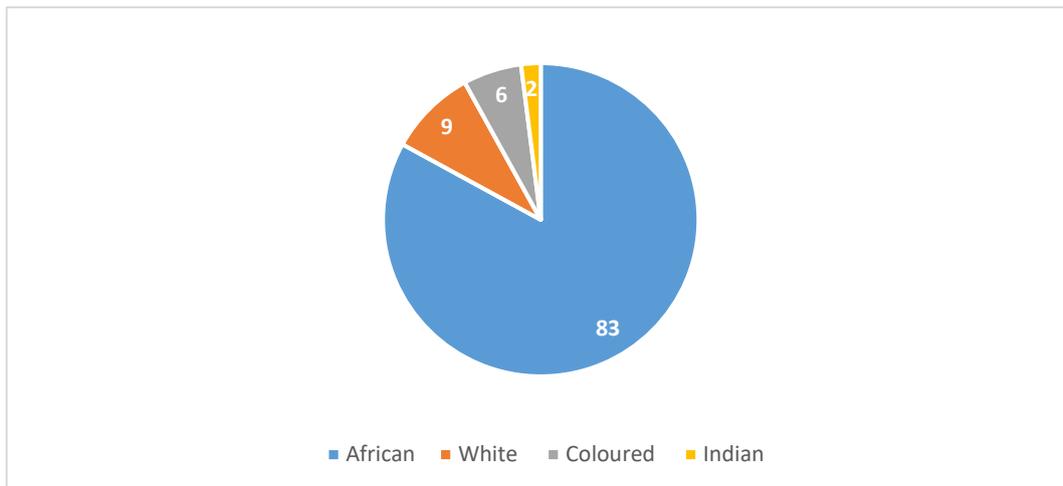
Source: WSP data (2019)

Figure 6.11 illustrates that most employees in the Policing subsector are categorised as semi-skilled (53%), followed by the skilled technical and academically qualified (39%). Employees classified as professionally qualified only account for 4% of workers in the subsector.

#### 6.4.4 Racial composition

Figure 6.12 illustrates racial composition in the safety and security sector. It reveals that most employees in the sector are African (83%), followed by White and Coloured (9% and 6% respectively). The diagram also depicts that there are very few Indian employees in the sector (2%).

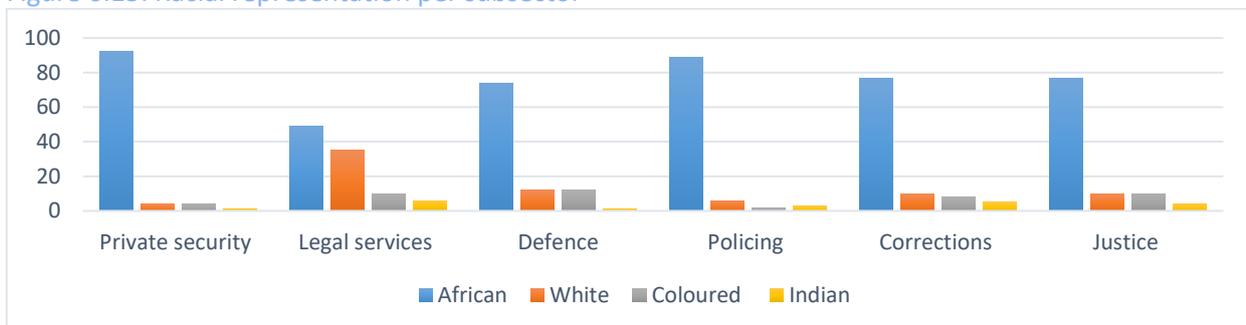
Figure 6.12: Racial composition: Percentage (%)



Source: WSP data (2019)

Figure 6.12 depicts that African representation is the highest (49%) in the Private Security subsector (89%), while the lowest is in the Legal Services subsector (43%). The diagram also shows that Coloured representation is the highest in the Defence subsector (12%) and the lowest in Policing (2%). On the other hand, Indian representation is highest in the Legal Services (6%) and the Corrections subsectors (5%), but the lowest in the Private Security subsectors (less than 1%). Nonetheless, White representation is the highest in the Legal Services (35%) and the lowest in the Private security subsector (4%).

Figure 6.13: Racial representation per subsector

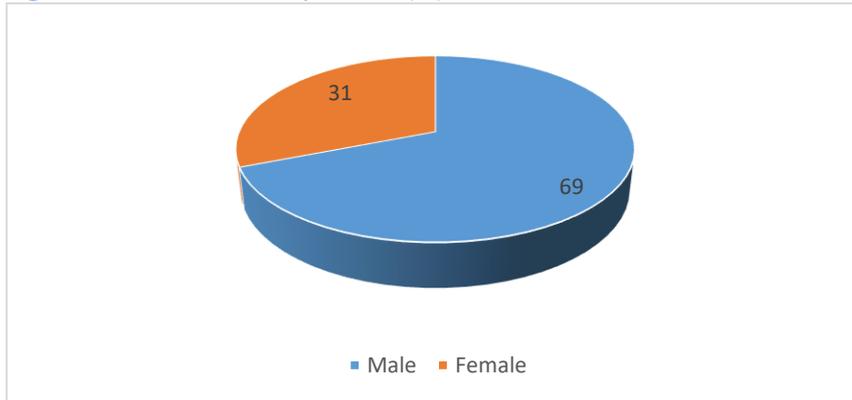


Source: WSP data (2019)

#### 6.4.5 Gender representation in the sector

According to the findings of the subsector research studies with respect of gender, it was established that 69% of the sector’s employees are male and 31% are female as depicted in Figure 6.14. This picture is influenced by the profile of the Private Security subsector, where most employees (79%) are male, whereas in Policing, approximately two thirds (66%) of employees are male, while the Corrections and Defence subsectors are at 69% and 71% male respectively. In contrast to the picture painted above, females dominate in both the Justice (58%) and Legal Services (63%) subsectors.

Figure 6.14: Gender composition (%)



Source: WSP data (2019)

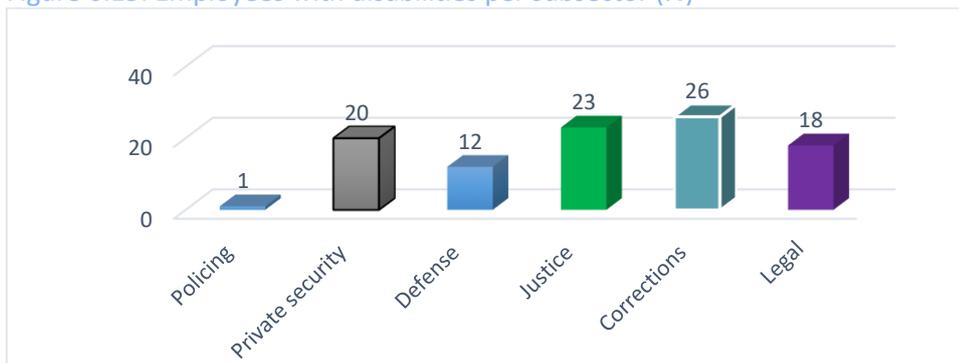
#### 6.4.6 Age distribution in the sector

In terms of the labour force by age, the findings of the subsector research studies (SASSETA, 2017) show overall, that the majority of employees (45%) in the sector are comprised of youth under the age of 35, while only 5% are over the age of 55. The most youthful of the subsectors is Private Security, where 53% of employees are under the age of 35 and only 2% are over the age of 55. Policing has the largest proportion (60%) of employees between the ages of 35 and 55, while the majority (23%) of employees in Corrections are over the age of 55.

#### 6.4.7 Disability status

Figure 6.15 illustrates the number of employees with disabilities per subsector of the safety and security sector.

Figure 6.15: Employees with disabilities per subsector (%)



Source: WSP data (2019)

Figure 6.15 depicts that there are 1 129 disabled employees in the sector and the majority (26%) of these employees are employed in the correctional services, while the minority (less than 1%) are employed in Policing.

## 6.5 Conclusion

From the subsectors studies conducted, they show that the safety and security sector is labour-intensive and simultaneously requires more technical as well as specialised skills to deliver its multi-faceted demands and mandate. It was also established that the sector is an important part of the South African social and economic landscape.

Furthermore, the overwhelming majority of employees in the sector are Service and Sales Workers (70), with Clerks (9%) being the next largest category, followed by Technicians and Associate Professionals (6%). Additionally, categories of Professionals, Legislators, Senior Officials and Managers respectively constitute only 4% to 5% of total employment. This overall picture is highly influenced by the bulky Private Security subsector, wherein 90% of employees are classified as Service and Sales Workers.

The majority of employees are African (83%), and an overwhelming majority is in the Private sector, followed by Whites and Coloureds (8.5% and 6.3% respectively). It is worth mentioning that Indian representation is the highest in the Legal services subsector (6.5%), although they only constitute 1.9% in the entire sector. It is also worth mentioning that Whites constitute 34.6% of the Legal services subsector, even though they account for only 8.5% in the entire sector.

The sector is male dominated (69%), while females make up to (31%). This is significantly influenced by the profile of the Private Security subsector (79% of employees are male). In contrast, females dominate the Justice (58%) and Legal Services (63%) subsectors respectively. Generally, 47% of the sector's employees are youth (under the age of 35), while only 5% are over the age of 55. The next chapter (chapter 2) discusses key skills change drivers and their ramifications for skills development in the sector.

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