

Enterprise Development: A golden chance for the Rainbow Nation

The importance of Corporate Social Responsibility has rarely been quite as tangible as it is in South Africa today. Few occasions in history have so thoroughly displayed the mind of man, the soul of society, as Enterprise Development does in the Rainbow nation in 2008. These next 5 years will leave a legacy to be lived out by our children and their children, and it will be glorious or it will be gory; it will emancipate or it will subjugate; it will inspire or it will shame; and the choice is in our hands.

The global wealth divide (the gap between the “haves” and “have nots”) is at historical highs - it grew by roughly 2500% over the last 50 years - and social justice efforts are stepping up to combat these gross inequalities. This arbitrary statistic becomes real when you consider that - in this age of unprecedented affluence and convenience - a child under the age of 5 starves to death every five to seven seconds.

There are good reasons South Africa’s social justice movement finds itself expressed in the Black Economic Empowerment (BEE) effort. Compliments of Apartheid, the wealth divide loosely finds its form in the black / white divide in South Africa. 50% of black people, and 70% in 2 of our provinces, live on under R8 / day (US\$1, or a loaf or two of bread). BEE aims to restore some semblance of fairness and civil stability to South African society and so also improve business sustainability, by compensating for the inherited environmental disadvantages of South Africa’s most poor people, who happen (by vast majority) to be black people.

Alas, BEE is, by default, narrow-based (it helps those who least need it), until regulations force a broad-based approach. Market logic dictates that it be so: NB-BEE is the least cost, highest value approach. History tells us that only broad-based empowerment will prevent a Zim-esque decline into a deep and dark social and economic pit for our balmy nation. It’s not a political matter; it’s a matter of human nature. People need hope; and if most of the nation finds itself with none and a revolutionary or dictator promises them some, they are likely to follow him/her; and the world we live in is just crazy enough to make the emergence of that revolutionary / dictator inevitable. Narrow-based empowerment merely slows the process. Perhaps. Without broad-based BEE, the Rainbow Nation will inevitably become the Dark Cloud of Africa as resentment from the starving masses wells up into violent revolution.

Unfortunately, the first five years following the 2002 release of the BEE Codes of Good Practice saw the implementation of BEE being very narrow-based. Hence, most savvy South Africans would have guessed in early 2007 that the release of the Broad-Based version of the BEE Codes of Good Practice (B-BBEE COGP) would aim to stimulate a shift in the business community’s BEE approach to a truly broad-based version that helps the vast poor masses. Few would realise just how great that shift could be. A single change in the Codes would hold potential to alter the future of this nation, and fast; and it lay in the unassuming, unknown, enigmatic entity that is Enterprise Development.

Enterprise Development (ED), simply speaking, is helping small businesses grow in order to create jobs. In South African BEE terms, it is company A spending a

portion of its profits to help black empowered company B grow, hopefully creating jobs.

In the first era of BEE (2002-2007), ED received little attention beyond some confused frowns. The 2007 B-BBEE COGP substantially bolstered the importance of the ED aspect of the BEE Scorecard, increasing its weighting from 10% to 15% and the target spend from 2% of net profit to 3% of net profit. At the same time, government began paying increasing lip-service to broad-based empowerment. Confused frowns now turned into worried frowns, as the business community suddenly needed to come to grips with this newly important animal.

Why the emphasis? Why is ED so important? Perhaps the best way to make the point is in brief: globally, ED is the most powerful known weapon to fight poverty and create a vibrant and fair society that creates opportunities for more of the poor. After roughly 60 years of concerted efforts to fight poverty by global developmental specialists, in which trillions of dollars have been spent by many big brains and golden hearts on various forms of international aid and welfare, and many and varied approaches have been tried, the global community of development (anti-poverty) practitioners has arrived in the last decade, for the first time, at somewhat of a consensus on how to best fight poverty. Several Iron Curtains and Wide Walls, a number of Socialist States, a raft of white elephant infrastructural projects with accompanying debt-crises, one prolonged bout of bad Neo-Liberalism and a failed Washington Consensus later, we can finally agree - thanks largely to some Asian Tigers - that the best way to fight poverty is within a capitalist economy with strongly pro-poor economic policies which aim to create jobs for everybody by investing in growing small

businesses. There's much more to it, of course, but that's the crux and indispensable centre of it. Ultimately, and without discounting the importance of parallel welfare approaches and underlying empowerment and security efforts, the provision of more and better jobs is by a long way the most powerful means, not to mention the only sustainable means, of attacking poverty; the only sustainable means to create jobs is to expand trade and industry; and the only sustainable means to achieve that in developing nations, where small businesses generally make up 50% - 80% of the economy, is to grow small businesses. That's Enterprise Development: it creates jobs and, therefore, dignity, hope and justice.

And it works too. Several global case studies demonstrate how ED can create thousands of jobs in a short space of time through strategic and concerted efforts. A World Bank study in Sri Lanka demonstrated how an ED program accelerated job creation by 30% amongst supported businesses (5). ED, done well, is a catalyst for explosive growth, job creation, and social stability.

While all this may make ED sound like purely a social tax (which is mostly how it is viewed in SA today), done well, ED is very good for business and should be used to create competitive advantage. 3% of net profit is a big expense item (for example, typical investment in training is only 2-4% of payroll). If your competitors are spending it poorly (i.e. doing ED poorly) and you are effectively using it to create access to new markets or strengthen strategic suppliers (for example), you are investing in competitive advantage. In fact, the most powerful forms of ED are those which help your bottom line. In many cases, as a contributor to ED with a significant budget, working within your own value

chain to grow sales or reduce costs is likely to have more job-creating impact per Rand invested than any other form of ED.

The good news is that SA's B-BBEE COGP could create sufficient ED investment to double the rate at which jobs are created in South Africa! South Africa needs to create roughly 600,000 jobs per year to achieve the State's AsgiSA program target of halving unemployment by 2014. We only created, on average, 280,000 jobs per year between 1994 and 2005 so something simply must change. Fortunately, South Africa is in the unique position, globally, of having regulations which stimulate a market for somewhere near R4Bn worth of private sector ED investment (*Edge estimates*). For example, based on their declared net profit, Sasol alone would need to spend R500Million on Enterprise Development in 2009. R4Bn worth of private sector ED investment could create between 40,000 and 400,000 additional jobs per year, if available global benchmarks of job-creation efficiency are anything to go by.

In summary, if ED is done well, there is no more powerful, sub-Divine vehicle to turn our humble nation's potential miracle story into a miracle story. ED is central to the Rainbow nation's solution.

That's the good news. The bad news is that, if ED continues to be implemented the way it is being today, this opportunity will be squandered with little to show for it. 60 years of efforts by experienced ED professionals has left us with very little measurable impact and many hard lessons, including that ED must be designed and implemented well if it is to have any impact at all. While ED is too complex to have a "Best Practice", *Edge* has identified from global research a

"Best Principles": golden principles without which Enterprise Development is likely to fail or deliver miserable, unmeasurable outcomes. Alas, most SA ED efforts observed by *edge* (a few notable exceptions aside, such as Sasol's Chemcity and Anglo Zimele) are being implemented with no regard for the principles that work and, not surprisingly, success stories are few and far between. It's not entirely their fault, since the South African business community are not ED practitioners. In addition, ED is far more complex, specialised and challenging than even senior line manager roles, and it is not their core business. Nonetheless, responsibility lies in their hands to get it right.

Both the great tragedy and the golden opportunity lie in the fact that a handful of enlightened but simple decisions by a few thousand individuals (mostly corporate businessmen, the DTI, and ABVA - the Association of BEE Verification Agencies) would radically alter the future of this nation. Even a single decision: let's do what we must to make ED work. Simply making the decision to invest the effort required - and partnering with those who know how - to make ED have an impact on your own business and sustainably grow job-creating businesses is the beginning of national change. We cannot point to a single other sub-Divine project or force that could potentially double the rate at which jobs are created in this nation. Every decade or so, a single chance comes along to make an unparalleled difference to our national destiny. ED is it for this decade. And today that chance is being squandered. "My people are destroyed for lack of knowledge". Well, now we know. The question is what will we do about it?

Our childrens' future is shaped by the decisions you and I make today. ED has the unparalleled potential to make the Rainbow Nation a reality: a better nation for all, in our lifetime. The business community has the power to make a handful of simple decisions in regard to how they undertake ED, and so shift the future of this nation from Zim-esque gradual decline to Asian-style steady climb. Today, those decisions are not being made and our children (and their children) will live out the consequences of our present intent in regard to ED, as we are living out the consequences of Apartheid.

We can change course. The future is in our hands. Rarely in global history has Corporate Social Responsibility been so real. Lets step up to the plate and change the nation. Let's leave a legacy.