The workplace as a micro-environment for creating a well-being economy

A new lexicon for transformation

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In South Africa, the word ‘transformation’ is as familiar as pap ‘n’ vleis, Table Mountain and ‘sharp-sharp’ – but do we really understand it? And is growth a condition for socio-economic transformation?

The National Development Plan (NDP) is South Africa’s overarching policy agenda for moving the country to a new trajectory of high, sustained, inclusive and job-creating growth.[1] The NDP transformation ideals have essentially conformed to international developmental norms of supporting policy-planning interventions that help overcome the most pressing constraints on inclusive growth and social transformation by carefully sequencing and balancing the requirements of investment and exports with the things that drive sustainable job creation, poverty reduction and social cohesion.[2]

To you and me, there is growth when, as University of Pretoria economist Lorenzo Fioramonti puts it, we generate value that wasn’t there before:[3] by educating children, improving our health or creating a product. If any of these activities generate some costs, either for us individually or for society, we should deduct them from the value we have created. Taking this logical approach, growth equals all gains minus all costs.

The paradox, though, is that this model of growth does the opposite of what common sense suggests. In his recording of growth, Fioramonti suggests that since 1994, when South Africa became a democracy, we have gone backwards in many ways as the scope for livelihoods is narrowed. This is dramatised in the era of the Fourth Industrial Revolution, where such a high-magnitude impact – the most dramatic since colonialism – exposes malignant structural labour market problems. In particular, some traditional labour-intensive economic activities are being dramatically upended, while others are facing a slowdown.

This is a direct challenge to the conventional belief that growth is a condition for socio-economic transformation, or that we have achieved progress thanks to growth.

Dimensions of transformation

Poverty is the antithesis of social mobility and an obstacle to achieving transformation. We cannot ignore the fact that so many people depend on government, family or philanthropic endowments from corporates and other benefactors. Lifting people out of poverty is an act of dignity. We can therefore broadly define transformational success as having a positive, progressive and inclusive socio-economic impact that brings sustainable social and financial benefits to the individual, community and country.

To contextualise the state of transformation, let’s look at the results of the 2017 Statistics South Africa poverty report.[4] In terms of the report, poverty is multidimensional. It includes education, health, vulnerability and exclusion, which is why we use it as one of the proxies for an untransformed society. Looking at Figure 3.7.1, we begin to see how transformation addresses a state of impoverishment (exclusion) and empowers or enables successive physiological and psychological achievement (inclusion).

Figure 3.7.1: The dimensions of poverty reduction

Source: King and Palmer^5

In Figure 3.7.1, the 'alleviating poverty' up-arrow shows that the severity of poverty has been reduced, but without transforming people from 'poor' to 'no longer poor'. The 'lifting people out of poverty' up-arrow crosses the poverty line, which indicates the transformation from 'poor' to 'no longer poor'. The third arrow, above the poverty line, shows that people are able to stay out of, or prevent, poverty. However, they are vulnerable to falling into (or back into) poverty if they do not receive adequate support.

In South Africa, 53% of people are considered poor.[6] With such a poverty or transformation gap, what more can be said about contributions to transformation since the legislation was enacted?

The transformation record: a balance sheet

For most of the post-1994 period, policymakers assumed that growth and employment went hand in hand, and the economy's performance largely confirmed that assumption. However, the evidence is much more nuanced. The structural evolution of the global economy today means that growth and employment are actually diverging,[6] as we see from the following data.

The persistence of poverty and inequality

- A 2015 Statistics South Africa report on the rebasing of poverty lines showed that, while average real incomes had increased, more people were living in extreme poverty (21.7%, from 20.2% in 2012). Wealth inequality remains starkly along racial lines.[7]
- In addition, the Gini coefficient (a measure of income inequality, where 0 represents absolute quality and 1 is absolute inequality shows a high degree of personal income inequality within municipalities.
- The official unemployment rate, using the expanded definition in the South African Survey, is close to 40% (4.364 million). It is estimated that the number of unemployed black people is as high as 3.74 million – that's 85.7% of the total unemployment figure. Redistribution of income has been slow
- In addition to the decline in real incomes of black African households between 1995 and 2008,[8] income inequality has increased across the board since 2008.
- The monthly income of the poorest 10% of the population increased from R783 to R1 041 between 1994 and 2016, while the income of the richest 10% of the population increased from R71 005 to R97 899. The richest 10% of the population receive 40% of the national income, while the poorest 40% receive only 5% of the national income.[9]
- Again, inequality persists along racial lines, with the mean monthly income of black South Africans at R775.46 compared to R7 645.58 for whites.[10]
- The income gap has worsened since the global economic crisis of 2008. In 1995, the Gini coefficient stood at 0.64, increasing to 0.68 in 2008.[11] Using a Gini coefficient of 0.64 as a proxy, South Africa is one of the most economically unequal societies in the world.
- The share of employees in national income was 56% but it had declined to 51% in 2009, which essentially means income has been redistributed from the poor to the rich.[12]
- In 2008 the top 20 directors of JSE-listed companies, the overwhelming majority of whom are still white men, each earned an average of R59 million a year.[13] In 2009 the average earnings of an employee in the South African economy was R34 000.[14] On average, each of the top 20 paid directors in JSE-listed companies earned 1 728 times the average income of a black South African worker.

Control of the economy is still in just a few hands

- Executive and senior managers are still predominantly white, a situation which perpetuates historical networks that determine the probability of recruitment and promotion – and moving into a higher income bracket.
- The figures for management promotions in 2014 are yet another indictment on the socioeconomic quality of our democracy. Here's a breakdown of who received promotions to top management that year:
  - white men: 45%
  - white women: over 17%
  - black men: 13%

- black women: 6%

Economic power remains concentrated in white business

- According to an Oxfam report, the combined wealth of two of South Africa's richest families is equal to the total wealth of 50% of the population.[15] The Forbes 2014 World Billionaire List names the Rupert and Oppenheimer families as the wealthiest in South Africa, with a combined net worth of R13.8 billion (R150.5 billion).[16]
- The JSE is still dominated by a few large firms: 50% of the JSE is accounted for by six companies and more than 80% is accounted for by large banks and companies engaged in the core minerals–energy complex. Crucial sectors in the economy continue to be dominated by a few large conglomerates with cross directorships (directors sit on more than one board, or executives from different companies serve as non-executive directors on each other's boards). These conglomerates are vertically integrated, in other words, the supply chain is owned by a single company and therefore limits entry into the economy by smaller firms.[17]
- Traditional South African conglomerates such as Anglo American have undergone significant restructuring, encouraged by opportunities to diversify their operations globally thanks to financial liberalisation. Nevertheless, significant vertical and horizontal linkages continue to define the South African corporate landscape. The links between mining, finance and construction activities, wholesale and retailers, and food processing companies remain the main building blocks of the South African corporate structure.
- In addition, little by way of black ownership and control has been achieved over the past 21 years. Almost all the top 20 paid directors in JSE-listed companies are white men. Black ownership of JSE-listed companies is estimated to be between 1.6% and 4.6%.

THE CORPORATE PICTURE

Lesson

The sources used here give us a high-level view of transformation but do not conclusively reflect the complete status of transformation. The Top Empowered Companies of 2017 (Intellidex)[18] This report ranks the 100 most-empowered companies listed on the JSE, as determined by their black economic empowerment (BEE) score.

Looking at the report, we find that 34 companies achieved 100% compliance (level 4), or above, on the new BEE codes and 43 companies achieved this on the old codes.

The 2018 report will see more companies on the new codes, and some of their scores may be lower because of the stricter requirements for compliance under the new codes.

How the levels matter

The BEE score reflects a company's contribution to economic transformation and redistribution, and determines its BEE level. The higher the level, the more the company is recognised as a preferential supplier because of its BEE status (level 1 is the highest).

One of the factors contributing to a company's BEE score is the score of companies it procures from. For example, level 2 BEE providers allow a company to claim 125% of every rand spent with them when the company completes its own BEE verification audit. This multiplier claim reduces in line with the supplier's rating, with level 5 giving a company only an 80% claim benefit.

Companies therefore prefer procuring from suppliers that enhance their own BEE scorecard. They are also challenging their service providers to show their contributions to transformation as part of their own procurement requirements. On 1 October 2013, new BEE codes were introduced, with stricter requirements. Sector codes, for companies that have requirements unique to their sector, and which override the 'generic' codes, were updated to incorporate these changes. For example, the Financial Sector Code, gazetted on 1 December 2017, has two additional, sector-specific pillars: empowerment financing and access to financial services.

Intellidex submission to the Standing Committee of Finance and Parliament of the Republic of South Africa19

According to this report, the financial sector contributed 28% to GDP in 2015. The report addressed ownership levels, BEE empowerment deals and market concentration.

- Ownership was reported as being complicated by other financial industry legislation, which creates corporate risk when considering ownership partnerships. An increase in risk for BEE ownership transactions was found to be compensated for by reducing risk in other areas. This has reduced the appetite for new deals and constrains the impact of the financial sector on transformation.
- At the end of 2014 the top 100 companies had created R317 billion in wealth through BEE deals.
- On the issue of market concentration, the report highlighted capital monopoly held by the few main banks as well as barriers to entry. While the large sums of money mentioned in the report speak favourably to the issue of wealth creation, decision-making representation was pinpointed as an area that needed focus. A 2018 Department of Labour report shows this to be the case in most industries (67.7% of top management positions are held by white people).[20]

The overall picture is clear: economic opportunities and incomes are high for an educated minority of people at the upper end of the economy but they are diminishing at the lower end.

Western policymakers tend to argue that this is a good thing. But as this analysis suggests, they may not be right. And if their view dominates public policy and opinion, it will be difficult to address the issues related to transformation in a systematic way.

Redefining transformation: towards inclusive growth

How is it that some people believe we are still at the beginning of the country's transformation journey while others claim to have reached multiple milestones that have incrementally added to the well-being of our society? We are reminded in the NDP that 'no political democracy can survive and flourish if the mass of our people remain in poverty, without land, without tangible prospects for a better life [...] attacking poverty and deprivation must therefore be the first priority of a democratic government'.[21]

The simple fact of an unprecedented and potentially catastrophic social and economic crisis compels us to rethink our approach to transformation. But what does inclusive growth mean? Obviously, the idea that the 'pie' can grow indefinitely is alluring. As Fioramonti has argued:

It means everybody can have a share without limiting anybody's greed which is the underlying driving force of modern societies. A rising tide lifts all boats: while the rich get richer, the poor are also expected to benefit from what trickles down. […] Rampant inequality becomes socially acceptable because we hope the growth of the economy will eventually make everybody better off. We are thus coaxed into the false dream that growth is a win-win.[22]

But is it?

'The reality is that very little trickles down from the wealthy to the poor. In fact, it mostly works the other way around: wealth trickles up from the poor to the rich, because economic growth turns common resources that everybody can use, from land to water, into private goods that must be sold in markets,' says Fioramonti.[23] The reason, he adds, 'is that the poor, who struggle to operate in the new "growth economy" where everything has a price and money dominates social relations are kicked out of the system'.

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What is needed instead of benign neglect, he argues, is an agreement that rewarding employment for a full spectrum of people should be a fundamental goal. With that objective as a starting point, it will be necessary to increase both the competitiveness and the inclusiveness of the economy. This is largely uncharted territory. Distributional issues are difficult to solve because they require correcting outcomes in the global market without doing too much damage to its efficiency and openness.

Knowledge about promising new technologies and market opportunities, which resides in business, government, labour and education institutions, needs to be brought together and turned into initiatives.

A new growth path is needed. This includes forms of business that reconcile human needs with production processes, investment models that free people from their passive role as consumers, and systems of social organisation that reconnect people with their local communities.

This is an important step forward. Given the structural changes under way in the global economy – especially the growing premium on highly educated workers at the top end of the value chain – education should be boosted.

Long-term policy is needed to address these distributional effects and their structural underpinnings, and restore inclusive growth in the economy. In this sense, as Fioramonti puts it, 'the end of the growth economy can become the dawn of a new society which pursues inclusivity as the ultimate objective'.[24]

Where to from here? The role of corporates

The preamble to the South African constitution speaks about healing and rebuilding. There is a plea to establish cohesion among the people of the country.

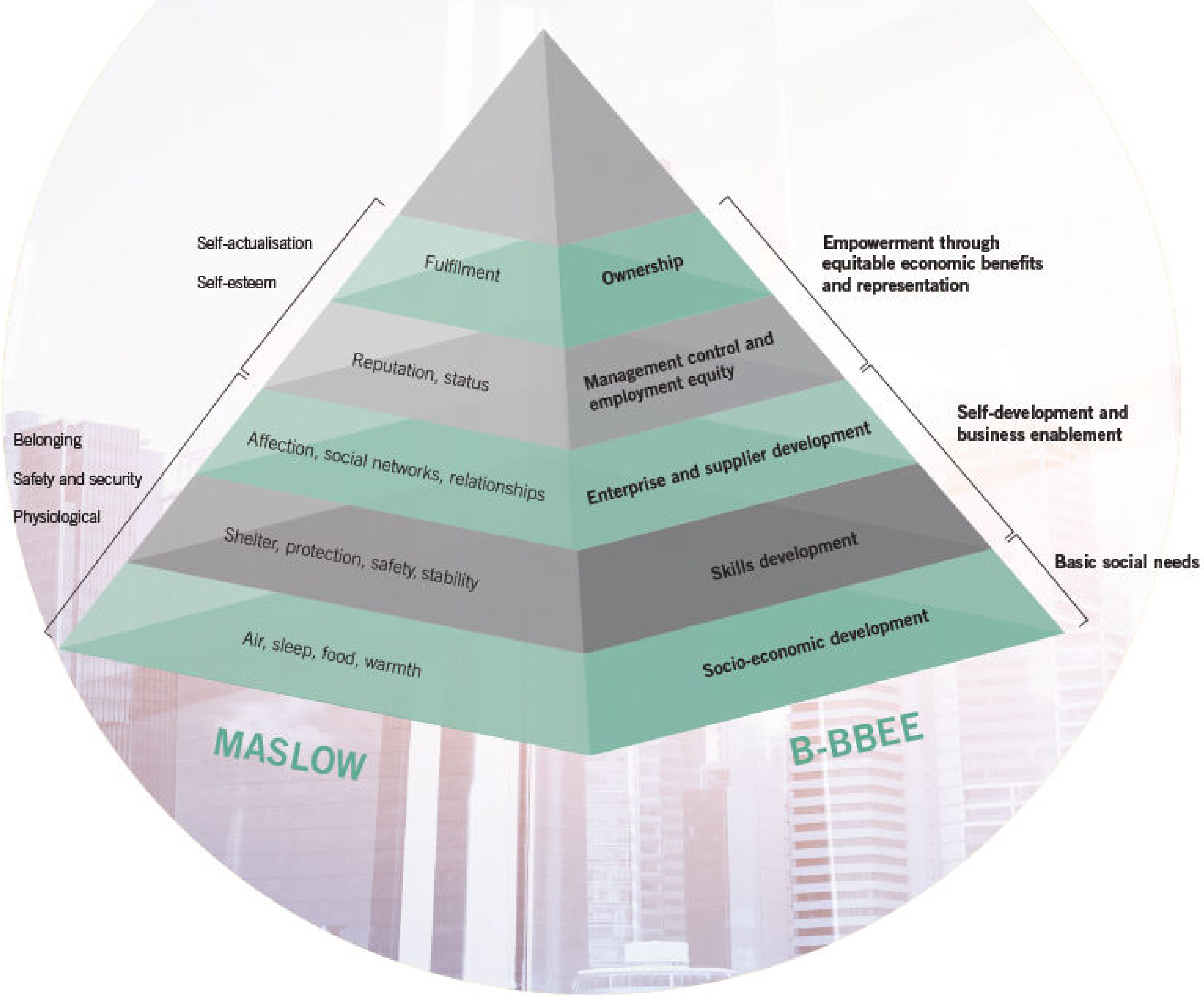
While South Africa's transformation strategy reaches across all sectors of society, it's important to recognise that not everyone can make an equal contribution. Some will have to stretch and do more, others simply do not have the capacity or the means to contribute. We believe that government and business resources will be the primary building blocks in enabling transformation to realise the vision set out in the preamble.

We turn now to the role of corporates in advancing transformation.

The structure and scope of transformation

Transformation and its components are best qualified in the pillars of the Broad-Based Black Economic Empowerment Act.[25] As shown in Figure 3.7.2, its link to well-being can be illustrated using the well-known theory, Maslow's Hierarchy of Needs, which sets out a hierarchy of physiological and psychological patterns of human motivations. In terms of social mobility, people aim to first meet basic needs, then seek to meet successively higher needs in society.[26] Similarly, the B-BBEE scorecard is about increasing socio-economic inclusivity, starting with social inclusion and culminating in financial inclusion as one progresses towards autonomy, ownership and representation.

Figure 3.7.2: Maslow's Hierarchy of Needs and B-BBEE (adapted)



Source: Transcend^27

B-BBEE

The specification of race in B-BBEE policy is sometimes obstructive, as people misinterpret who participates in, and profits from, this growth strategy. However, there is merit in its inclusion. If you read the targets at face value, they give a minimum compliance requirement for black representation which is often significantly lower than the relative demographic population: for example, a minimum of 25% black voting rights and maximum of 75% white voting rights in ownership.[28]

Sensitivities around distribution and redistribution processes obstruct transformation conversations. Also, the persistent perception that people are being excluded is mostly that: a perception. Research shows small shifts in many areas. We are yet to learn that B-BBEE is not about ownership transfer but about transforming the profile of economic inclusion. After all, business, government and society share in making this transformation a reality. Once we understand the context that this policy and legislation seek to address, we can accept that the NDP goals are consistent with those of B-BBEE, and that both are necessary tools for our country to move forward.

The corporate stakeholder strategy

Governance
Social ethics committees have been given greater scope to carry out their duties. Statucor, a national corporate stewardship services company, recommends that the ethics committee should be the custodian of the stakeholder-inclusive approach.[29] Responsive and proactive reputational risk management coupled with ethical leadership have become critical business imperatives that corporate governance addresses when holding corporates accountable for their actions. Social media also hastens the spreading of news – organisations have nowhere to hide when it comes to being publicly answerable to employees, communities, shareholders, customers and government.

Strategy
King IV™ states that South African corporations have a responsibility to engage with transformation intentionally; it is an inseparable part of value creation.[30] Governance is steering away from being rules-based and towards being values-based. When companies develop their transformation strategies they should therefore ensure there is alignment with not only the company strategy but also with its corporate governance principles.

Many corporates don't put as much effort into their transformation strategies as they do into their business strategies. That's because the transformation strategy is usually an add-on, not an integral part of business. If governance structures already refer to transformation as part of doing business, then it makes sense to include transformation from the beginning. A practical way of doing this is to map the BEE elements to elements of the business strategy, as shown in Table 3.7.1.

Transformation and business strategy alignment

Table 3.7.1: Example of transformation and business strategy alignment

BEE pillar (licence to do business)	Business strategy (a way to do business)	Alignment
Ownership	Governance of shareholding proportions, rights and interests	The shareholders and the board must be made aware of the strategic impact of all ownership deals. The BEE Commissioner is scrutinising deals for non-compliance. Any non-compliance or misrepresentation found can have a financial impact on the business.
Management control	Board and executive representation	The executive responsible for transformation should prepare scenarios for the board and executive committee so that they can understand the impact of decisions made on appointments and exits.
Employment equity and skills development	People strategy	The employment equity profile should be aligned with the skills plan. During this process, gaps and areas of redundancy and opportunity should be identified. The people strategy should be incomplete without this component, as employment equity gives you a dashboard view of your employee profile, which is what people strategies should be based on.

Over the rainbow

Talk of the rainbow nation can hardly be heard any more as many South Africans feel this vision faded with the passing of Nelson Mandela. Slow and unbalanced economic growth, low employment levels and opportunities as well as rising inequality have reinstilled fear in many. Beset with daily challenges, they no longer daydream about that fleeting time in the country's history.

We have demonstrated that it is necessary for all of us to move away from the negativity that surrounds the discourse on transformation. It is no longer feasible to look for shortcuts in BEE compliance because transformation has not been embedded in business strategy. This doesn't make business sense. As we see in other reflections in this edition of *Benefits Barometer,* we need to pull together to move our country forward with a new model of stakeholder collaboration.

'Trust is a fundamental element of social capital – a key contributor to sustaining well-being outcomes, including economic development.'[31]

An urgent dose of trust is needed if we are to achieve our transformation ideals.

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