Creating shared value:

How South Africa led the world in corporate governance & economic empowerment

By Wayne Visser

The concept of shared value became increasingly important for business in South Africa during the 1990s, long before it was coined by the Harvard academic duo of Michael Porter and Mark Kramer. Fortunately for me, I had a front-row seat.

In 1997, having helped to kick-start the South African New Economics (SANE) Foundation, I then joined the global accounting firm KPMG. My mandate was to establish an Environmental Unit, which later evolved to incorporate social, economic and ethical dimensions and become KPMG Sustainability Services. Over the next six years, I advised numerous companies, many of them multinationals, on how to improve their sustainability performance.

So, what of lessons? There are two that I want to share and both are areas in which I believe South Africa has made a significant contribution to the worldwide quest for sustainable business. The first is corporate governance and the second is economic empowerment.

Challenging shareholder supremecy

Following the success of the UK's Cadbury Report in 1992, South Africa launched its own King Report on Corporate Governance in 1994, under the chairmanship of former High Court judge and company director, Mervyn E. King. King went much further than Cadbury in recognising the non-financial aspects of corporate governance and incorporating the concept of wider stakeholder accountability. In later updates, in 2002 and 2009, the King Report placed sustainability and responsibility at the heart of corporate governance.

When I caught up with Mervyn King in Turkey a few years ago, he told me that directors are accountable to the company first, not to shareholders, and that a broader set of stakeholders provides a better perspective on what is good for the company in the long term. It is no coincidence that he went on to chair the GRI and now spearheads the International Integrated Reporting Council (IIRC).

Although the King Code is a voluntary standard, in common with other corporate governance codes around the world, the Johannesburg Securities Exchange (JSE) made compliance with the code a listing requirement. This had a dramatic effect. By 2003, 85% of South Africa's top companies were already practising annual reporting on sustainability-related issues, and 77% of the companies referenced the existence of an internal code of ethics or code of corporate conduct.

There is a downside to the boom in sustainability reporting since the 1990s, evident not only in South Africa but around the world. I believe it has distracted us from a related, and in some ways far more important trend, namely social and environmental accounting. This refers to financially quantifying the social and environmental impacts of business, or to use economics jargon, pricing the 'externalities'.

In fact, while at KPMG, I helped a large chemical company to design an environmental accounting system. At the time, social and environmental accounting was a strongly emerging field, under the intellectual leadership of UK academic Rob Gray, and the pioneering efforts of companies such as

BT, Baxter International and Ontario Hydro. Today's much-hailed environmental profit and loss account of Puma is actually 15 years behind the times.

Power to the people

The second lesson that I took away from my time with KPMG in South Africa has to do with the issue of black economic empowerment (BEE), which has strong resonance to later concepts of bottom-of-the-pyramid (BOP) strategies, inclusive business and creating shared value.

First, it is important to understand the context in which BEE emerged. When the new, democratically elected African National Congress (ANC) government came to power in 1994 under the leadership of Nelson Mandela, South Africa's growth had been stalling for a decade. GDP growth was averaging less than 1% a year, around 23% of the population were unemployed and 57% were living below the poverty line.

The ANC government's macroeconomic policy response managed to boost South Africa's annual growth to 5.6% by 2007 when the global recession hit. However, serious concerns remained about the concentration of wealth in relatively few hands—typically, white-owned multinationals and high-net-worth individuals. As a direct consequence, the government introduced a new piece of legislation, the Broad-Based Black Economic Empowerment (B-BBEE) Act of 2003. This was further entrenched by B-BBEE Codes of Good Practice in 2007 to provide a standard framework for the measurement of B-BBEE across all sectors of the economy.

The B-BBEE scorecard was designed to cover seven areas, namely ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socioeconomic development (including industry-specific and corporate social investment initiatives). The codes became binding on all state bodies and public companies, and the government was required to apply their criteria when making economic decisions on procurement, licensing and concessions, public–private partnerships, and the sale of state-owned assets or businesses.

Private companies were also required to apply the codes if they wanted to do business with any government enterprise or organ of state. As a result, many industry sectors have, following extensive stakeholder engagement, created their own voluntary B-BBEE Charters, which have subsequently become legally binding commitments. The question is: have all of these efforts been effective in creating a more inclusive economy? And what can other countries and companies learn from South Africa's experience?

Despite widespread criticism that B-BBEE has simply created a new, black elite class, the evidence shows that the policy *has* been effective, albeit moderately, in growing the black middle class. I believe this South African experience tells us something about how difficult it is to achieve a genuinely inclusive, equitable economy under modern capitalism. The rich and powerful tend to concentrate, reinforce and protect their wealth and influence, irrespective of race or other characteristics.

If South Africa can teach us anything, it is that we will need much more than new jargon (such as 'shared value') or greater transparency (in the form of 'value-added statements') to reverse the 'trickle-up' economics that is hard-wired into our Western, shareholder-driven capitalist system.

Article reference

Visser, W. (2013) Creating shared value: How South Africa led the world in corporate governance & economic empowerment, *Wayne Visser Blog Series*, 17 July 2013.

Source

Part 5 of 13 in Wayne Visser's Searching for Sustainable Business blog series for CSRwire

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