

## SOUTH AFRICAN PERSPECTIVE AND CASE FOR SUPPLIER DIVERSITY



Supplier diversity is a process through which equal opportunities and a level playing field are provided to all businesses representing various ethnic communities to compete. It mainly refers to inclusion of businesses that have traditionally found it difficult or have been deliberately excluded from participating in the supply chains of large corporations. In South Africa the case for supplier diversity and development carries momentous and far reaching implications going beyond the impact on the bottom line, brand image and market loyalty.

*“Political emancipation without economic transformation is meaningless...”*

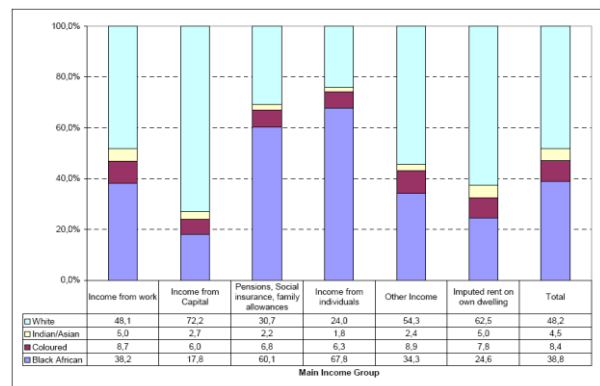
President Jacob Zuma, ANC 99<sup>th</sup> Anniversary Celebration, Polokwane, 8 January 2011

*“Having scored many achievements during the last 18 years, there is widespread consensus that we have been unable to reach the goal of a truly prosperous, inclusive, non-racial and non-sexist society .....Our broad-based black empowerment strategy and employment equity policies have not yielded sufficient results. The ANC must democratize and de-racialise the ownership and control of the economy by empowering Africans and the working class in particular to play a meaningful role”*

President Jacob Zuma at the ANC National Policy Conference, Gallagher Estate, Midrand, June 2012

South Africa’s GDP growth has remained at less than half the 6% required to create sufficient job opportunities to absorb the ever-growing ranks of the unemployed. Unemployment stands at around

25.2% and rises to almost 40%, if those who ceased to look for a job are included. Faced with more than 15 million people on social grants and huge demands to provide basic health, education, power and potable water services to the poor, the Government is forced to levy higher taxes on a narrow tax base. Blacks (defined as Africans, Indians and Coloureds) make up 91% of the population of 50.6 million South Africans, but own less than 10% of shares in JSE listed companies, and own about 30% of around 2 million formally registered small and medium enterprises. South Africa has consistently topped the list of countries with the widest income and wealth inequality in the world. The disparities overwhelmingly favour the minority white groups over the majority black population.



Since 1995 the Government, supported by many bilateral and multilateral donor partners, has given high priority to the development of small and medium enterprises as the catalyst to economic growth and job creation. The support programmes

covered the main support needs of small and medium businesses, and have focused mostly on black owned enterprises. However, most studies show that these programmes have had a low impact in improving the prospects of black enterprises in entering corporate supply chains, which still remain largely inaccessible.



By 2007 the government introduced policies and legislation to put pressure on corporations to engage in preferential procurement and enterprise development, targeting black suppliers. While most corporations boast of their B-BBEE ratings and impressive business transactions, running into hundreds of millions of Rand with Broad-based Black Economic Empowerment (B-BBEE) rated companies, few are able to provide reliable verifiable data on the number of bona fide black owned suppliers with whom they transact business, or the value of transactions. Many BEE rated suppliers have minority black shareholders who play no real role in running the companies. "Fronting" has been a major problem. A fast growing new business consulting industry has developed, supporting corporations to find clever ways to "tick the boxes" on preferential procurement and enterprise development, without changing the way they do business.

*"The elite compromise reached between the corporate sector and a leadership core of the ANC before 1994 exonerated white corporations and citizens from the part they played in the exploitation and deprivation of blacks. It enabled whites to transfer almost all their accumulated wealth almost intact to the new South Africa. After agreement on the elite compromise, the ANC leadership core was, admittedly, able to implement a policy of black elite formation, but it was deprived of the power to hold white corporations and citizens accountable for the systemic exploitation and deprivation of black people during the "century of injustice (1894-1994)."*

**Lost in Transformation: South Africa's Search for a New Future since 1986**, by Solomon Johannes (Sampie) Terreblanche, Emeritus Professor of Economics at Stellenbosch University, published by the KMM Review Publishing Company

The reality in South Africa is that the social engineering of apartheid deliberately marginalised and retarded black business, and proactively and successfully invested in and opened opportunities for Afrikaner businesses. Is it not possible to muster the same will, effort and innovativeness in developing black business, given the promise and prospects of creating a more robust, competitive and equitable economy? South African corporations have become global players having benefited from cheap black labour, and forced displacement of black communities from ancestral lands in order to exploit natural resources and land, leaving local communities in poverty and as ready reservoirs of cheap labour.

With the recorded low participation of black suppliers in corporate supply chains and poor support by corporations over the last 18 years, there is a wide perception and growing realisation that economic apartheid is alive. This is giving rise to a groundswell of a new activism demanding radical change, and increasingly violent worker strikes and service delivery protests. Transformation will happen. The question is whether South African corporations will lead the transformation and develop a win-win approach or wait for history to repeat itself at a high cost to everyone.

*"The inability of business to really make a difference to the lives of all our people has been at the root of the calls for nationalisation in this country. As long as the growth of the economy does not benefit the majority of our people, calls for nationalisation will return."*

Patrice Motsepe in an article by Loni Prinsloo, **Sunday Times** 1 March 2012

Corporations lament that they cannot find sound black businesses. And yet initiatives such as the DTI's Black Business Supplier Development Programme, the South African International Business Linkages Programme, the Tourism Enterprise Programme and others have found and supported thousands of sound black enterprises capable of B2B transactions with corporations. Some are sizeable and ready, while many are relatively small and need improvements. What they all need are business opportunities and a chance more than anything else.

For thousands of entrepreneurs from the black population groups the playing field is far from level. Many of these entrepreneurs have good ideas, are persistent, and have committed all their savings and physical assets to their businesses. What they

lack are strong networks; access to opportunities and decision makers in corporate value chains; access to technology, business mentoring and coaching; training to meet quality, safety and environmental standards; and scale required to get into corporate value chains.

Most of these types of entrepreneurs understand that they are not entitled to receive contracts unless they meet the requirements, that they must develop their capabilities and standards to compete, and when they secure contracts, they must continuously demonstrate competence to leverage their relationship with corporations. However South African corporations can and should go out of their way to offer carefully targeted supplier development support (coaching, mentoring, training, etc) to create a supportive culture in which the relationships can thrive.

Surveys with black SMEs indicate that few corporations engage in serious supplier development aimed at promoting supplier diversity or B2B relationships. Most opportunities made available are once-off and mainly low value, low margin transactions. Enterprise development takes place in standalone programmes; mostly outside of supply chains and with enterprises with which the corporation has no intention of doing business, done simply to score B-BBEE points.

Practicing preferential procurement and enterprise development as an exercise in “ticking boxes” to meet minimum compliance requirements and safeguard access to public sector contracts and concessions to operate, is short-sighted, unethical and counter-productive. In 2011 the government was compelled to introduce new legislation and a BEE Bill that will impose stricter requirements and increased penalties for non-compliance. Also in 2011 government, business, labour and community organisations agreed to a new voluntary accord to increase local procurement.

Despite these attempts to strengthen the BEE Codes and to forge partnerships, it is apparent that corporations will not have to do much more to comply with the codes. A few adjustments will enable them to meet the higher compliance standards, and even if they do not do so some will take comfort in the weakness of the system in holding them to account. What is needed is true transformational leadership and a change in attitude and values of Damascus Road proportions.

*“A return is needed to the “puritan” values of earlier capitalism (which also resemble much of contemporary Asian capitalism), with its future orientation, its emphasis on savings, investment, long-term horizons and benefits of economic activity accruing not just to the individual but to the community as a whole.*

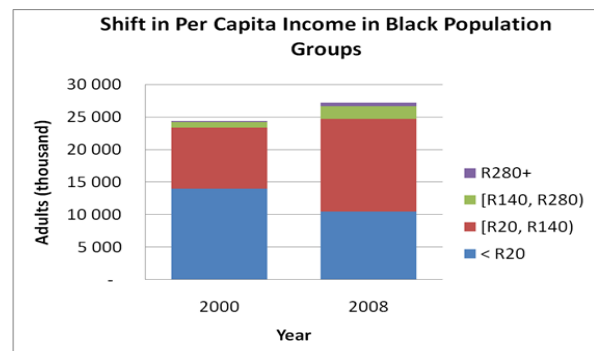
*“While many companies are doing sterling work in the truly transformational areas of education, training, enterprise development and community investment, all prerequisites of more substantive employment creation, there is also much evidence of a compliance mentality and a box-ticking approach to contributing to development and growth in these areas.”*

*“Lose the Short-term Thinking” by Michael Spicer, Sunday Times, 26 February 2012*

There is a real positive commercial opportunity and business rationale for embracing supplier diversity. As in other markets, significant changes are taking place in the black consumer market in South Africa. As shown below the total purchasing power of black communities has increased and presents a growing market opportunity for corporations.

- 1985 = R125 billion (41%)
- 2000 = R240 billion (54%)
- 2007 = R335 billion (59%)

As more blacks occupy positions at all levels in the public service, state corporations, and in private sector corporations, their purchasing power is growing. It is only a matter of time before activists, aided by social media, raise the consciousness of black consumers to make choices about which corporations they support. The diagram below shows the shift in per capita income within the majority black consumers in South Africa.



As consumer awareness and activism in these groups grows, they will support companies that are visible in working black suppliers from their communities, and may shun companies that are doing very little to support supplier diversity. There are significant opportunities for corporations that

seriously engage in supplier diversity to build an advantage over competitors in gaining market share and establishing brand loyalty in segments of the black communities.

Many SA based corporations, especially in the extractive, construction and retail sectors are also increasingly venturing into countries in the region and further into Africa. The corporations that quickly embrace supplier diversity, learn the ropes, and carry the practices with them into these new markets will gain a head start and find it easier to compete in these markets, where competition from China, India and Brazil is increasing. Most countries, especially those with energy and mineral resources such as Angola, Ghana, Nigeria, Mozambique, Zambia and Zimbabwe are requiring greater local participation and benefits for local communities under local content and indigenisation regulations.

*“As a country we are failing to build on the foundations of magnanimity, caring, pride and hope embodied in the Presidency of Nelson Mandela”*

Archbishop Desmond Tutu writing in **Business Report on 12 August 2012**

The SASDC members have a unique opportunity to bridge the gap between corporations and black business, going beyond compliance. Supplier diversity has never been an easy process anywhere in the world. The issues and challenges are well documented. To be successful and to have a real impact, supplier diversity in South Africa has to go beyond opening up routine low value transactional opportunities. It must involve technical assistance, mentoring, coaching and nurturing black business, to grow their capacity so that they stand a decent chance of becoming reliable partners. The investment in developing these suppliers needs to be driven not by compliance, but by the genuine desire on the part of corporate members to grow their black suppliers' performance and overall competitiveness – allowing them to become a real part of the corporate supply chain, with all the challenges and responsibilities this brings. Anything short of this will simply result in more lip-service to the cause of affirmative procurement and enterprise development, with no discernable changes in the way that large companies procure and small businesses fail to perform.

South African corporations continue to enjoy prosperity and to have the opportunity to contribute to a new and inclusive “rainbow nation”. A “reconciliation or Mandela dividend”, in the form an extraordinary effort, innovativeness and investment in black supplier development by business leaders

and corporations, to reverse the marginalisation of black business is merited and long overdue.

In the United States the supplier diversity initiatives that are seen as successful today, with purchases from black suppliers exceeding \$100 billion dollars a year from a starting point of just over \$80 million in 1972 were borne out of the race riots of the late sixties and early seventies, ignited by marginalisation of the minority black and Hispanic populations. South Africa is experiencing what are euphemistically referred to as service delivery protests, pervasive crime rates, and growing calls for nationalisation and expropriation. These are clear and timely signs that a business as usual approach to how corporations respond to the need for inclusiveness is steadily taking us towards the economic precipice as a country. It may be tempting to view this as alarmist, but it would be short-sighted to do so.

*“There are no short cuts and those who try to achieve their own narrow purposes - be it the retention of power, profit at any cost- will destroy our Constitution and with it the dream of a common, tolerant, caring and equitable South Africa.”*

Reuel J Khoza, Chairman, Nedbank in an article in **Politicsweb.co.za published on 14 August 2012**

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*The South African Supplier Diversity Council helps market leaders Buy Better from Black Business through best practice supplier diversity development implementation. We help you sustainably integrate Black-owned suppliers into your supply chain - thereby directly improving your corporate brand and image, increasing market share, competitiveness and B-BBEE compliance, while indirectly growing black businesses, employment and our economy.*

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