

INSTITUTE OF DIRECTORS  
SOUTHERN AFRICA

# Sustainable Development Forum: Addressing social inequality in business

June 2017

Better directors. Better boards. Better business.



**The Sustainable Development Forum (the “Forum”) is constituted as a forum of the Institute of Directors in Southern Africa (“IoDSA”), and is sponsored by Standard Bank. The activities of the Forum have specific focus on developments relating to sustainability issues.**

**The objective of the Forum is to serve as a platform for dissemination of guidance to directors on sustainability. The dissemination of such guidance will typically take the form of position papers and roundtable discussions.**

The current members of the Forum are:

- Bongiwe Njobe
- Gideon Serfontein
- Jayne Mammatt
- Joanne Yawitch
- Karin Ireton - Chair
- Kgomotso Tshaka
- Linsey Dyer
- Loshni Naidoo
- Melissa Fourie
- Mervyn King
- Mohamed Adam
- Mzila Mthenjane
- Parmi Natesan
- Prof Derick de Jongh
- Sue Lund
- Tanya Nassif
- Tracey Davies

*This position paper is compiled from the discussions of the Sustainable Development Forum (“Forum”) working group comprising experienced sustainability advisors. The information contained in the position papers disseminated by the Forum is of a general nature and is not intended to address the circumstances of any particular individual or entity. The views and opinions of the Forum do not necessarily represent the views and opinions of the sponsor, Standard Bank, the Institute of Directors in Southern Africa and/or individual members. Although every endeavour is made to provide accurate and timely information, there can be no guarantee that such information is complete or accurate as of the date it is received or that it will continue to be accurate in the future. No reliance should be placed on these guidelines, nor should any action be taken without first obtaining appropriate professional advice. The Forum shall not be liable for any loss or damage, whether direct, indirect, consequential or otherwise which may be suffered, arising from any cause in connection with anything done or not done pursuant to the information presented herein. Copyright rests with the Forum, and extracts of this paper may be reproduced with acknowledgements to the Forum.*

## Introduction

---

No organisation can isolate itself from the world around it. The economic, socio-political and environmental shocks and stresses that it experiences – sometimes global, sometimes local - present both challenges and opportunities. Yet, too few organisations engage regularly and strategically on these big issues to either ensure effective management of risks to markets or supply chains, for example, or to find business solutions that work in both organisations and society.

Social inequality is one such issue. Because of the enormity of the consequences, it should be a topic of leadership debate in every organisation that wants to sustain value creation over time.

Historically, business often argued that social inequality was a matter that should be addressed by government. While the provision of a social safety net is no doubt a primary role of government, social inequality remains persistent and endemic, for a range of reasons both within and outside direct government control.

There are various reasons why organisations should address social inequality, acknowledging that most already run Corporate Social Investment "CSI" or philanthropic programs. CSI programs tend to be viewed in cost terms rather than opportunity. This paper argues that different emphasis is required and that it should be director-led and rooted strongly in the business.

This paper sets out:

- What is social inequality?
- Key South African statistics
- Business perspectives
  - where the information shows why this issue should be regarded as a strategic leadership issue and addressed accordingly
  - a brief view of transformative opportunities
- Integrated thinking in relation to King IV
- International and national focus
- How to do this - questions to facilitate effective engagement on the topic
- Conclusion
- Links to other resources for further information

## What is social inequality?

---

Social inequality manifests globally in the growing number of unemployed and disaffected youth; in perpetuating racial divides that trap whole groups in poverty; in unequal education and health care; in the wage differentials that persist between men and women; and, in the tidal waves of refugees seeking respite from war, catastrophe and poverty. Social inequality impacts on every aspect of business.

## Key South African statistics <sup>[1]</sup>

---

### Demographics

Population:	55.9m (mid-year est. 2016); 40.6 m (1996)
Females:	51% (mid-year est. 2016)
Black:	80.7%; White: 8.1% (mid-year est. 2016)
Youth:	(15-34): 36%; (0-14): 30% (mid-year est. 2016)

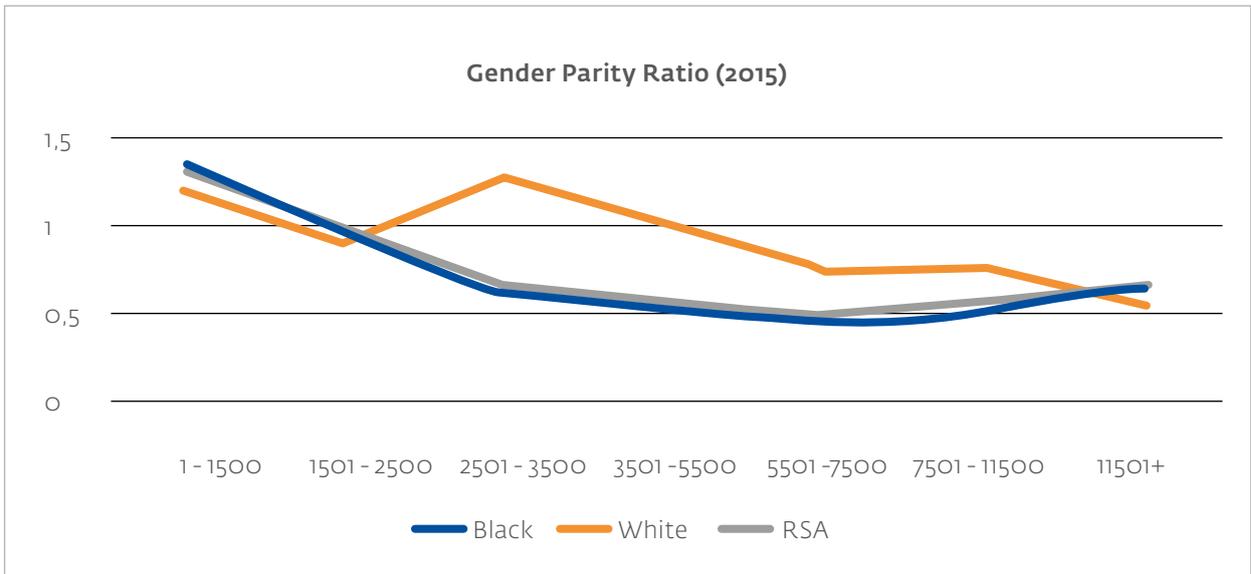
Unemployment:	26.5% (2016)
Youth unemployment:	35.8%; Black: 39.1%; White 9.5% (2015)
Women unemployment:	27.7%; Black: 31.5%, White 6.1% (2015)

### Economic

GDP:	-0.3% (2016); 3.1% (1996)
------	---------------------------

+/- 17 million South Africans dependent on social grants (Feb 2017) ≈31%





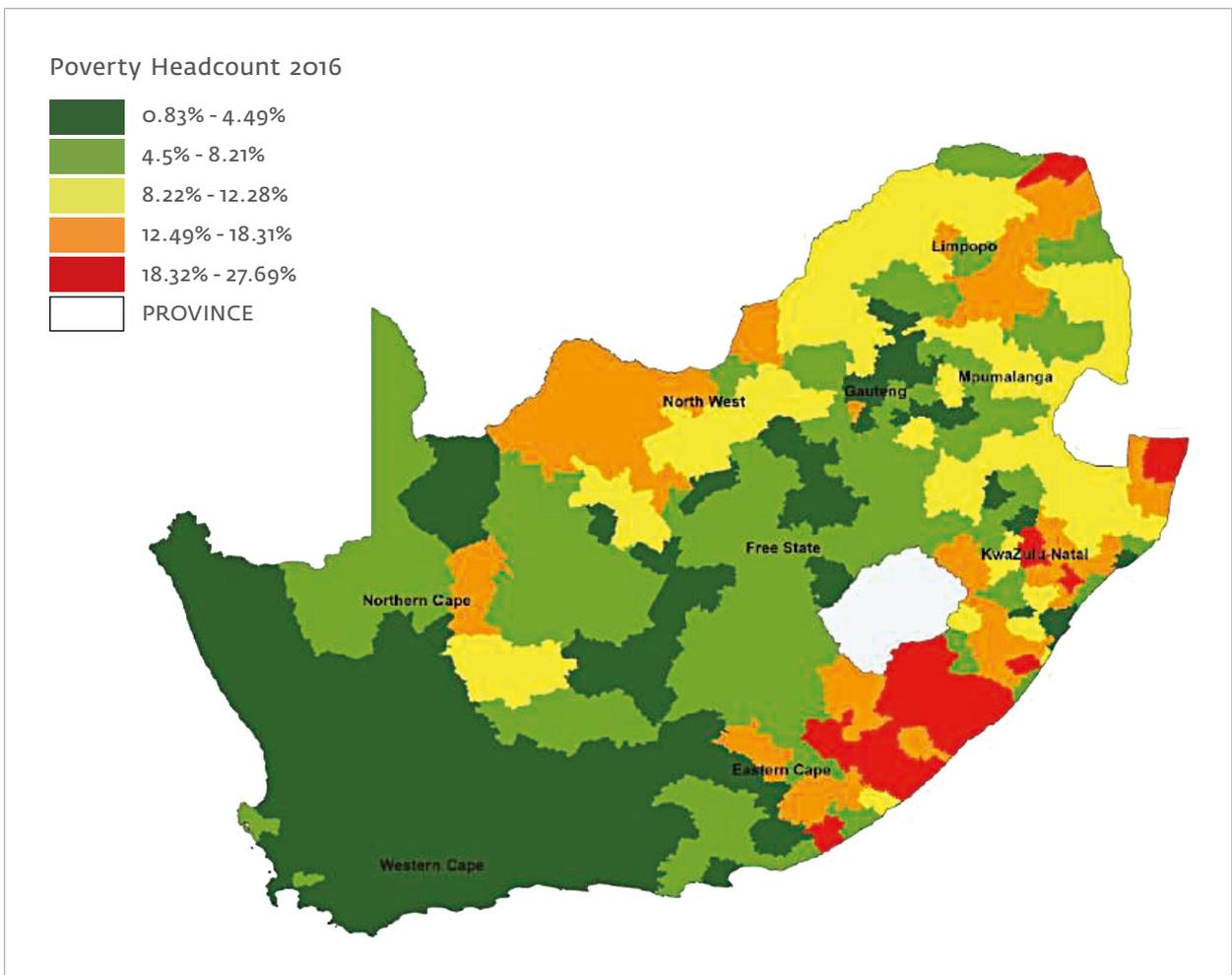
### Education

Women education- matric: 24.6%; Black 21.8%; White 39.7% (2015)

Youth education- matric: 28.4%; Black: 27%; White 38.9% (2015)

### Poverty in South Africa

**Map 3.3: Percentage of households living in poverty according to SAMPI by local municipality. 2016**



## Skills

While there has been a growth in skills at all levels, there has been an effective doubling of workers which emphasises the need for employment at all levels.

### Number of workers by skill level 1994 - Total 8,9 million



### Number of workers by skill level 2014 - Total 15.1 million



## Business perspectives

---

The World Economic Forum's 2016 report on global risks shows that failure of national governance, unemployment and the failure of critical infrastructure are the highest risks for sub-Saharan Africa.<sup>[2]</sup> For South Africa, in particular, aging and inadequate infrastructure, service delivery, skills shortages, corruption, social transformation, poverty and inequality are pressing matters to be addressed if we are to achieve social and economic transformation.

Inequality in any society shapes the psyche of the country and affects productivity, market growth, the supply chain and the strategic choices that must be made. The potential customers of a business are reduced, the pipeline of new skills becomes limited and social instability affects both market transactions and investor confidence.

Organisations need to consider inequality in two dimensions: those that they control – i.e., their own organisations and activities; and, those where they can exercise influence both individually and collectively through partnerships.

Those organisations that are responding effectively to social inequality are driving this through their strategy-setting processes, taking into account issues such as unemployment, gender inequality, skills deficits and how these impact on their employees, current and future customers, supply chain, and business aspirations.

Organisations should ensure that they do not contribute to the problem. They need to ensure that they have addressed issues such as racial bias, gender pay parity, and equal access to skills development within their own employee corps.

Addressing social inequality is not only about addressing poverty, it is about addressing the consequences of inequality and, more relevant in the context of this paper, is a way to address business risks and consider how these impact organisations:

- unequal education affects the available workforce and productivity;
- unequal healthcare affects wellness and productivity;
- unequal opportunity creates resentment and tension and an unstable market;
- unequal pay penalizes women who are frequently primary breadwinners in families;
- unequal or discriminatory opportunities reduces the size of the talent pool from which the company can draw its resources; and
- unequal access to basic services limits growth and development of the area and its people, and consequently, limits the growth of future customers.

In some organisations the natural fit might be an operationally significant focus on healthcare, or the development of pro-poor products. In others the focus might be on education, nutrition or transport. All address key dimensions of inequality and all are most effective as a way of doing business, rather than of philanthropy.

While many examples of addressing social inequality began with CSI initiatives, the scale needed and the urgency of increasing the efficacy means that a more business-like approach is needed, along with effective monitoring and measurement and a focus on impact rather than spend.

Skills development and availability of human resources have become a key concern for business. Many organisations have made bursaries available for studies in fields related to their business needs as part of their CSI initiatives. However, as the skills deficits become more prominent, organisations have moved these from their CSI programmes into their mainstreamed skills development pipelines. Some leading companies are strategically investing beyond their immediate needs to address skills advancement over longer timelines and with broader scope. This highlights the need for scale and scope of interventions that extend beyond a single organisation. The mobility of scarce human resources in competitive global markets presents a systemic risk to economic growth in highly unequal societies.

## Transformative opportunities

There are many opportunities for companies to transform the way they do business to lighten their footprint, reduce costs or create new business and expand their markets. The Business and Sustainable Development Commission in their recent report,\* has identified transformative opportunities worth potentially trillions of dollars. Other successful examples include:

Organisations repacking product in lightweight sizes that can be carried by pedestrians and afforded by individuals living on limited social grants or weekly wages.

Organisations offering on-site nurse-delivered healthcare to increase access for staff and communities – thereby also improving productivity by reducing downtime for those seeking help.

Using TV channels to support education and increasing subscribers; participating in national initiatives to find solutions to the higher education funding crisis).

IT companies offering free online training in coding that helps them identify talent and provides an important saleable skill to all others.

A bank using its online platforms to facilitate exchange of ideas on water efficiency and identifying emerging entrepreneurs with commercialisable products.

One plumbing organization, for example, invested in training the unemployed in a community in basic plumbing skills and the use and installation of their products, thereby increasing the access of the community to plumbing assistance and creating brand ambassadors who would prefer their products.

\*Better Business, Better World - BSDG report. [businesscommission.org](https://www.businesscommission.org)

## Integrated thinking

---

The King IV Report on Corporate Governance is designed to help directors and executives in executing their leadership responsibilities and increasing their ability to take advantage of the opportunities and manage the risks posed by the external environment.

*"Integrated thinking takes account of the connectivity and interdependencies between the range of factors that affect an organisation's ability to create value over time."<sup>[3]</sup>*

By adopting the philosophy, principles and standards of good corporate governance, organisations can contribute to the bigger system of value creation within South Africa, within Africa and globally. Without this, business would commit itself to a downward spiral of increasing risk.

The King IV Report also promotes integrated thinking, which challenges leaders to consider their social and environmental impacts, opportunities and challenges as part of their mainstream business thinking. This paper can assist in addressing social inequality and its impact on the business.

*"There is an interdependent relationship between the organisation and its stakeholders, and the organisation's ability to create value for itself depends on its ability to create value for others."<sup>[3]</sup>*

*"As the organisation is an integral part of society, it has corporate citizenship status. This status confers rights, obligations and responsibilities on the organisation towards society and the natural environment on which society depends."<sup>[3]</sup>*

Debates about creating value should not be once-off exercises and should be based on environmental scanning and adjustments of the organisation's business responses should be an ongoing process.

## International and national focus

---

Southern Africa is not alone in experiencing major challenges linked to social inequality and unequal access to resources. While the World Economic Forum risk reports focus on the business perspective, governments at local and international level have agreed the need for programmatic responses to reduce risk and improve the likelihood of growth and development. The United Nations Sustainable Development Goals "SDGs"<sup>[4]</sup> which were agreed by all governments in 2015, the Africa 2063 Agenda and The (South African) National Development Plan 2030 "NDP"<sup>[5]</sup> are unanimous in setting out the imperative for all organisations – public and private – to find opportunities to address the key risks.

The SDGs and the NDP address major inequalities and attempt to reduce inequality in systematic and focused ways. The IoDSA held a series of dialogues on the SDGs around the country to emphasise that both the SDGs and the NDP can provide organisational leaders with the necessary prompts to give effect to the integrated thinking expected of them in the King IV Report and other codes of corporate governance.

## How to do this?

---

- 1.** Leaders should be continuously assessing the socio-political context in which they operate. They need to understand their key stakeholders and any shifts in those stakeholders and current and future strategies for:
  - where they operate;
  - supply chain development;
  - markets;
  - product development;
  - innovation in business practices;
  - technology;
  - human capital management;
  - resource allocation and utilization; and
  - stability.
- 2.** Turn leadership debates to the potential of inclusive capitalism and of longer term shared value, in which stakeholders, consumers and communities benefit from approaches that also secure new markets for the organisation. The current political rallying cry in South Africa of radical economic transformation reflects the urgent need for inclusive growth and a meaningful change to endemic poverty and inequality.
- 3.** Identify opportunities that provide benefits beyond the returns to investors and the remuneration of employees, as they are more likely to secure long term success.
- 4.** A key question is whether the value that an organisation creates is measurably more than wealth creation for shareholders and management?
- 5.** Each organisation is unique in its make-up, its market positioning and its operational circumstances. Solutions cannot be formulated against a checklist or as a replication of what others are doing. Each organisation has the potential to provide niche strategic leadership on addressing social inequality.
- 6.** Be cautious of activities that are PR driven rather than driving change (communication and media can confuse rather than explain). How does the organisation's communication strategy support its overall value creation strategy?
- 7.** Think about unintended consequences. Are cost cutting measures – such as extending payment to 60 or 90 day terms impacting on small and emerging business? Does the organisation favour large distributors, like chain stores, thereby affecting small local businesses that serve their communities?
- 8.** What can and should be done at operational level? What would the benefit be from industry-wide approaches or collaboration on local or national level?
- 9.** Are there business practices, behaviours, or products that should be stopped and what would the impact be of stopping or changing any practices?
- 10.** Do the organisation's commercial responses contribute to the transformation of unequal society or are they quick fixes with little or negative long term impact?
- 11.** How will the leadership measure progress over the short, medium and long term? Transformative responses are not about spend but about impact.
- 12.** Are the products/strategies/choices that the business is making (business behaviour) having a positive or negative impact on social inequality? Are there products/ activities that business should stop/minimise?
- 13.** What is the impact of your products/activities on your
  - Supply Chain
  - Investor decisions (e.g. ratings agency statements)

## Conclusion

---

Social inequality is a significant local and global challenge for organisations and requires strategic leadership by governing bodies and executives in order to mitigate the risks. There are however opportunities to be found if a governing body integrates the consideration of socio-economic conditions into its strategic planning rather than simply relying on a CSI program to fulfil its obligations. This paper provides a prompt for leaders and a link to additional resources to assist them in formulating inclusive strategies. It emphasises that there are both internal operational ways of addressing inequality that may still exist in the workplace as well as external societal issues that affect continued value creation.

## Resources

---

- [1] Statistics South Africa  
<http://www.statssa.gov.za/>
- [2] World Economic Forum Annual Risk reports  
<https://www.weforum.org/reports/the-global-risks-report-2017>
- [3] King IV Report on Corporate Governance for South Africa 2016, IoDSA  
<http://www.iodsa.co.za/kingiv/>
- [4] UN Sustainable Development Goals  
<http://www.un.org/sustainabledevelopment/sustainable-development-goals/>
- [5] National Development Plan  
<http://www.gov.za/issues/national-development-plan-2030>
- [6] Reporting on Outcomes paper (IRCSA)  
<http://integratedreportingsa.org/reporting-on-outcomes/>





## **Institute of Directors in Southern Africa**

National Office-Johannesburg  
PO Box 908, Parklands 2121.  
Johannesburg,  
South Africa

144 Katherine Street,  
Grayston Ridge Office Park,  
Block B, 1<sup>st</sup> Floor, Sandown,  
Sandton, 2196

Tel: 011 035 3000  
Email: [IoDSA@IoDSA.co.za](mailto:IoDSA@IoDSA.co.za)  
Web: [www.IoDSA.co.za](http://www.IoDSA.co.za)