THE ENTERPRISE DEVELOPMENT REPORT

Impact Amplifier
& NYU Center for Global Affairs
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CONTENTS

1 | FOREWORD
   PAGE 3-6

2 | RESEARCH SUMMARY AND METHODOLOGY
   PAGE 7-8

3 | CHAPTER SUMMARIES
   PAGE 9

4 | STRATEGISING IMPACT
   PAGE 10-15

5 | ADAPTING BEE WITH THE HELP OF GLOBAL INFLUENCE
   (DR. THAMI MAZWAI)
   PAGE 16

6 | BUILDING LASTING BUSINESS THROUGH THE FSC
   (SISA NTSHONA)
   PAGE 17

7 | INITIATING IMPACT
   PAGE 18-21

8 | TEACHING THE TOOLS TO EMPOWER
   (SUZANNE ACKERMAN)
   PAGE 22

9 | MEASURING IMPACT
   PAGE 23-25

10 | IMPACT IN MINING: A CALL FOR LEADERSHIP
    (MARC VAN OLST)
    PAGE 26

11 | BUILDING COMMUNITIES THROUGH COLLECTIVE ACTION
    (SHARON WHITE)
    PAGE 27

12 | PROPELLING IMPACT: RECOMMENDATIONS FOR THE WAY FORWARD
    PAGE 28-29

THE ENTERPRISE DEVELOPMENT REPORT
Billions of Rand are committed to Enterprise Development (ED) every year by the South African corporate sector. This scale of investment holds the potential to substantially impact socio-economic transformation in the country. The money invested in Enterprise Development however, has not realized its potential to-date nor accomplished the underlying intentions of the Broad-Based Black Economic Empowerment (B-BBEE) policy. As Enterprise Development is not generally a core competency of most corporations, it has often defaulted to an exercise of B-BBEE compliance. As such, many companies have not fully used their investment in ED as a means to achieve strategic objectives or to unlock its transformative potential.

With Enterprise Development now taking the spotlight in the national economic empowerment agenda thanks to the Department of Trade and Industry’s amendments to the B-BBEE Codes of Good Practice, companies will have to start thinking more strategically about their approaches to ED and how to invest the required 3% of net profits after tax in line with core segments of their businesses, particularly their supply chains. Having their supply chains at stake should be a strong motivator to more carefully and methodically identify ED opportunities and work to build solid, reliable supplier partners. Companies that attempt to do this though tick-box methods will struggle under the new framework.
As Enterprise Development is not a core competency of most corporations, it has often defaulted to an exercise of B-BBEE compliance.

We designed this research in light of changes to the B-BBEE Codes to begin exploring the essence of Enterprise Development: its transformational potential. Since no previous studies have been made publically available, our starting point was to frame the landscape of current Enterprise Development strategies and understand how these are decided and implemented. Sixty Enterprise Development practitioners from the Top 100 companies on the Johannesburg Stock Exchange, representing some of South Africa’s largest ED programs, contributed their time and insights to this study. They shared details about all aspects of their companies’ ED strategies and offered rich, thoughtful commentary on their perceptions of Enterprise Development as a tool for achieving socio-economic change.

This report is structured around the three major themes we believe are limiting the socio-economic impact of Enterprise Development. These include: misalignment between the stated motivations for ED and its strategic implementation; the business skills gap of small and emerging businesses; and the limited application of specific impact goals and measurement frameworks within ED strategies. In general, our research found that at the top end of the corporate sector, ED representatives recognize why Enterprise Development has not had a more significant (and measurable) impact on socio-economic change, in spite of its perceived potential. Although most interviewees believe that transformation is at the core of their ED efforts, a number of the other critical issues were raised.

Facing challenges in the ED space

To start, although the majority of participants recognize the value of Enterprise Development in achieving socio-economic change and believe this recognition is reflected in their core businesses, they acknowledge that without government intervention they would not have ventured into the ED space.

Secondly, participants identified a lack of basic business skills as one of the critically limiting factors to building a strong entrepreneurial community and reliable small business suppliers. While many of them have tested various methods, a consistently successful model for BDS has not yet been identified. As a result, corporates opt for less time- and resource-intensive initiatives over sub-
stantial BDS programs. When ED is directly involved in the supply chain, non-financial support, such as Business Development Services, is necessary to ensure ED partners develop into strong and reliable suppliers; more focused initiatives are required by the corporate sector to facilitate enterprise growth and supplier readiness.

Lastly, respondents generally measure the result or impact of Enterprise Development initiatives with simple metrics, measuring the amount of money spent or jobs created rather than larger community- or national-level impact metrics. ED practitioners in our study do recognize however, that impact assessment is crucial to ensuring the relevance of ED to their business strategies and to gauging the success of their initiatives in accomplishing what the economic empowerment policy intended for them to do. Implementing ED without an assessment process also means the internal learning process cannot reach its full potential.

To supplement the narrative of the report, we asked ED practitioners and experts to comment on the key issues we identified. These short pieces are meant to provide the reader with complementing perspectives on these topics.

Based on our findings, we have outlined several recommendations as a way forward for Enterprise Development, focusing on a need to design ED to be more impactful and relevant to business. This means driving Enterprise Development with an investor’s mindset, where investment decisions are made based on thorough due diligence practices and with potential returns, financial and non-financial, taken into account.
Enterprise Development should be driven with an investor’s mindset, where decisions are made through thorough due diligence and taking potential returns into account.

Drawing from a global context
South Africa’s private sector should draw from an international context to do this, since the conversation around Enterprise Development is often clouded by South Africa’s heavy, historically-nuanced B-BBEE context, as Dr. Thami Mazwai, small business expert and resident executive at Wits Business School, points out in his opinion segment. What ED represents, when looked at objectively, is an example of global socio-economically-driven investment trends that are designed to achieve positive social and/or environmental impact through financial investment (impact investing). If South Africa’s corporate sector adopted an impact investing approach, it would enable companies to more methodically and meaningfully propel ED’s transformational capacity by building lasting small and growing businesses while also reflecting their own interests.

Successful Enterprise Development has the potential to substantially drive real and lasting change in South Africa. What’s more, it could propel South Africa’s reputation as a laboratory for supply-chain driven impact investing on the global stage.
Impact Amplifier and the NYU Center for Global Affairs’ Enterprise Development Report represents the first comprehensive, public study of Enterprise Development strategies and perceptions among South Africa’s corporate sector. Sixty of the Top 100 companies on the Johannesburg Stock Exchange participated in the research.

Our original target sample included 110 companies from the Business Times’ 2012 Top 100 JSE-listed companies over the last five years plus 10 additional blue chip companies listed on the Business Times’ 2012 Top 40 but not on the Top 100. From this base list of 110 companies, we eliminated the following from the sample: investment holding companies; property unit trusts, which are not required to do Enterprise Development under the Property Sector Charter; subsidiaries whose parent companies were also in the sample and do not have separate Enterprise Development initiatives; companies whose ED is handled by another listed company; and, companies that did not appear to have an active staff presence in South Africa. The final sample consisted of 92 companies of which 60 participated in the research process.

The list of companies that participated in this study is confidential. They identified themselves according to their industry sector categories.

We initiated the data collection process for the study in March 2013 by identifying and contacting the lead Enterprise Development practitioners at all the companies in the sample. From March to May 2013, the survey data was collected via telephonic and in-person interviews and by

Study Participants by Industry Sector

- Financial Services: 23%
- ICT: 15%
- Industrials/Engineering: 15%
- Construction: 14%
- Manufacturing/Distribution: 12%
- Mining: 8%
- Real Estate: 5%
- Retail: 5%
- Tourism: 3%
- Other: 3%

n= 60
online survey. In total, 45 of the 60 surveys were completed telephonically, three in-person and 12 online. Time for completion ranged from 20 minutes to one hour.

The lead Enterprise Development contact for each company responded directly to our survey in all cases but two, where team members completed the questionnaire. Only 14% of participants overseeing Enterprise Development have ED as their primary job function. Others include (in descending order) general B-BBEE compliance, general CSI, CSR and sustainability, financial reporting and/or corporate accounts, human resources and business development.

Participants responded to a standard set of survey questions, which were divided into five sections:

- General information, including company sector, B-BBEE status level, Enterprise Development spending and internal Enterprise Development resources
- ED strategy, including primary ED drivers, frequency of ED strategy review and company cultural values relating to ED and transformation
- ED implementation, including how ED funds are committed and who the targeted beneficiaries are
- Metrics and impact assessment, including baseline metrics used to evaluate ED programs, frequency of impact assessments and opinion of the importance/necessity of conducting impact reviews
- General ED perception, dealing with the role of ED in the transformation agenda, the effectiveness and value of ED, the impact potential of the new B-BBEE codes, clarity of ED requirements and industry collaboration on ED initiatives.

The data was then aggregated and analysed for inclusion in the report.

“Transformation is a moral business imperative, enabling us to remain relevant in the societies where we operate.”
- Survey Participant
There is wide support for Enterprise Development as a tool for socio-economic transformation. Government policy however, continues to be the key driver of transformation in the corporate sector.

Participants are feeling the benefits of their ED initiatives, but recognise significantly more must be done to achieve broad impact. They will face near-term challenges to comply with the new Codes of Good Practices because substantial work must be done to align ED with their supply chains.

Participants take a variety of approaches to Enterprise Development, but acknowledge that business development services are the most critical to ensuring the business readiness of their ED recipients. Because BDS is time and resource intensive, few companies have BDS-centered ED strategies. The need for small business training and preparation means there must be a more focused effort on the provision of BDS from the industry. Participants identified a skills gap among a number of the small businesses they target for ED support. This has made many hesitant to implement ED alignment to core supply chains.

Impact assessment has yet to become standard practice for ED programs. Current practices focus on readily available metrics rather than broad socio-economic indicators, creating a substantial lack of information around Enterprise Development’s success in achieving B-BBEE goals.

Participants generally support having baseline standards to evaluate their initiatives.
STRATEGISING IMPACT

Corporate Enterprise Development Strategy and Perception
The majority of corporate participants support Enterprise Development’s place in national economic transformation, recognising it is mutually beneficial, but would not initiate ED without government interference.

Broad-Based Black Economic Empowerment (B-BBEE) was introduced in 2003 as a process for recalibrating the wide economic disparity caused by colonialism and the Apartheid regime. It was designed to engage the private sector in the broad national socio-economic transformation agenda. 95% of corporate Enterprise Development (ED) leaders agree with the general premise of the policy and support the corporate sector playing a prominent role in driving socio-economic change.

How the private sector supports economic transformation however, is a subject of considerable debate. While other B-BBEE compliance criteria have drawn heavy public questioning, almost all of the participants in this study (93%) feel Enterprise Development and Preferential Procurement, which deal with how companies engage with and support other businesses, are appropriate and effective tools to catalyse change.

Indeed, support for Enterprise Development in may stem from the fact that 75% of respondents feel their businesses have benefitted from their ED initiatives. Most said their companies had taken steps to align Enterprise Development with their core business strategies, enhancing the value on both sides.

Nevertheless, over 66% of participants admit they would not initiate Enterprise and Supplier Development independently; the B-BBEE requirements have been their critical motivation. Now that ED programs are in place, more than 80% believe Enterprise Development will benefit the long-term success of their companies and the corporate sector overall.
Most participants’ strategic goals for Enterprise Development are aligned with the national economic transformation agenda but are not sufficiently motivated to achieve significant impact.

It is a widely held view in the corporate Enterprise Development community that ED strategies in the sector are not only driven by B-BBEE compliance; rather, they are designed with national transformation goals in mind. More than 66% of corporate ED practitioners said they believe achieving positive socio-economic impact is a principal driver of Enterprise Development in the corporate sector. Most companies focus on affecting change locally, concentrating in communities where they operate, though almost an equal number said they strive for national impact. Twelve percent said their strategies target supplier development and empowerment while 9% expressly stated that their company’s only goal is to meet B-BBEE compliance criteria.

What statement best reflects the principal driver of Enterprise Development at your company?

- Aims to drive socio-economic transformation at the national level: 38%
- Aims to drive socio-economic transformation in the communities where we operate: 41%
- Aims to develop and empower our company’s own suppliers: 12%
- The only goal is to meet B-BBEE requirements: 9%

n= 58
Our company should have a more comprehensive strategy and should be more proactive. Not because it’s a legal requirement, but because we could be more competitive.

- Survey Participant

The perception of Enterprise Development’s success in driving transformation and opportunity is far more divided, however. In interviews, respondents attributed Enterprise Development’s perceived limits or lack of success in driving more meaningful change is based on limited incentive to do more. The current Codes of Good Practice set only one requirement for Enterprise Development compliance: that companies commit 3% net profits after tax to recognized ED initiatives. The Codes give companies wide room to devise Enterprise Development programs in accordance with their specific business needs, areas of expertise, resources and visions for success. Yet, because companies are not required to align ED with key business drivers, they are not strongly motivated to strive for high impact or success rates.

Sixty-five per cent of corporate ED leaders feel Enterprise and Supplier Development are the most effective tools for facilitating economic transformation through the private sector. The vast majority of participants agree however, that in order to successfully enable equal socio-economic opportunity through its Enterprise Development programs, the corporate sector should strive to have a greater impact than it currently does. But just as most feel Enterprise Development would not be initiated without policy intervention, many also commented that the private sector will not be independently motivated to strive beyond current practices to achieve greater reach and impact.
The new Codes of Good Practice’s heavy focus on aligning Enterprise and Supplier Development will have a significant negative impact on many respondents’ B-BBEE compliance levels because they have not substantially aligned ED practices with core business strategy.

In late 2012, the government announced changes to the Codes of Good Practice’s seven scoring criteria. Public response from the private sector expressed concern that current compliance levels will drop significantly once the proposed changes take effect. Based on the proposed Code amendments, 66% of compliant participants expect their status levels to drop at least one level.

Other factors will influence compliance levels under the new Codes. A major concern for businesses is that the B-BBEE points system will change along with compliance requirements, meaning even companies that maintain their current number of points will feel an immediate drop in levels.

Nevertheless, ED will be a big factor under the new Codes since Enterprise and Supplier Development will count for nearly 40% of B-BBEE points. For many, it will reflect how substantively they have aligned their transformation initiatives to their core business strategies, particularly for Enterprise Development and Preferential Procurement. Currently, Enterprise Development is among the easiest segments to earn full credit for, since it only has one requirement. Indeed, 66% of respondents achieved full ED points on their scorecards, compared to Preferential Procurement, where scores are far more varied.

The new Codes will force companies to invest themselves more heavily in their Enterprise Development initiatives by requiring a direct link between ED and their core businesses – specifically, their procurement needs. The intent is to guarantee ED beneficiaries’ access to markets to

**Expected Change in B-BBEE Status Levels from the New Codes**

<table>
<thead>
<tr>
<th>Level</th>
<th>Current levels</th>
<th>Expected levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1</td>
<td>0.05</td>
<td>0.00</td>
</tr>
<tr>
<td>Level 2</td>
<td>0.10</td>
<td>0.05</td>
</tr>
<tr>
<td>Level 3</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Level 4</td>
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<td>0.20</td>
</tr>
<tr>
<td>Level 5</td>
<td>0.40</td>
<td>0.30</td>
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<tr>
<td>Level 6</td>
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<td>Level 7</td>
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<tr>
<td>Level 8</td>
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<tr>
<td>Level 10</td>
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</tr>
<tr>
<td>Level 11</td>
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</tr>
</tbody>
</table>

n= 45
Of the seven elements on the scorecard, Enterprise Development is the hardest to meet. 3% NPAT is millions for us, and we have struggled to find initiatives to engage in.

- Survey Participant

promote their business growth and sustainability; what naturally follows is that larger companies will be more strongly committed to the success of their ED support since their own supply-chains will be at stake. This means companies that have opted for the most accessible approach to Enterprise Development, or that have taken a charity or compliance approach, will be negatively impacted by the new Codes. In general, the private sector could see lower average scores for this B-BBEE component than they have been accustomed to.

A majority (66%) of respondents said Enterprise Development is already linked to company business strategy, with 55% reporting there is a close collaborative relationship between their ED and procurement teams. This should hint at companies’ preparedness for the Codes’ new requirements. Yet, over 65% of the “core business strategy” group said their compliance levels will likely go down. This suggests they may not be as substantially in sync as corporate ED representatives believe. One data point that validates this is that Enterprise Development-core business alignment does not appear to be particularly relevant to whether participating companies attempt to measure ED impact.
Adapting BEE with the help of global influence

Dr. Thami Mazwai, resident executive, Wits University

Striving to make a positive community impact has become a fundamental tenant of business globally. For multinational companies, supporting local development and small businesses in the communities where they operate is an integrated part of their business practice; they recognize the value of these efforts for community members and their own performance and competitive advantage alike. Supplier development is a particularly effective tool, because it ensures that companies support their own business needs while providing small businesses with access to markets, which is key to their growth potential and sustainability.

With the latest amendments to the Codes of Good Practice, this symbiotic relationship is now at the centre of the B-BBEE’s mission as a means to truly empower people and their communities.

Nevertheless, there is resistance to the changes from the business community, primarily from South African businesses rather than multinationals. Unlike multinationals, for which supplier and community development have become standard business practices, many South African companies are entirely too consumed by the policy’s racial connotations to recognize how they can benefit from these changes.

Companies which fail to see the big picture lose out on profitability.

There are those businesses that will be prejudiced or sceptical of government intervention in any case, of course. For many others, the pushback is driven by discomfort in being forced to adapt their long-standing business and relationships. Those which fail to see the big picture, however, will lose out on competitive advantage and profitability in the long run.

This is not to say the new structure of the Codes will not pose legitimate challenges, particularly for companies that source most of their goods and services from foreign or multinational suppliers. But at the very least, they can begin the process of building local enterprises to support their businesses. Supplier development is a balancing act that requires a proactive, gradualist approach.

In all, the new Codes are taking a long-term view to empowerment in this country – one that is ultimately friendlier to established businesses than previous versions. They embrace the global business value that investment and gradual improvement in local markets and economies will encourage greater profitability and success for all players. South African companies would be wise to do the same.
Building lasting business through the FSC

Sisa Ntshona, head of enterprise development, Absa

It took two to three micro-finance institutions to shake up the whole global industry. They got the big banks scratching their heads because they proved there is money to be made at the base of the pyramid.

The question at the heart of the Financial Sector Code (FSC) is: “how do you make banking relevant to a broader section of the population while still practicing economically viable business”? The FSC does not ask financial services companies to venture into non-economically viable spaces; rather, it requires them to devise strategies to capture new markets, as micro-finance institutions did.

The new rules do not prevent a tick box approach. But financial institutions that take a compliance mentality will miss out on the opportunity to build a more sustainable business. The country is changing very quickly. Financial services companies need to think seriously about who their clients will be in 10 years’ time.

For Absa, the objective is to be part of job creation in the country and its point of departure is that money alone will not solve the problem. Eighty per cent of new businesses fail. If financial institutions want to play in the development lending space, they cannot just push money along and hope for the best; they have to go beyond their traditional services and facilitate business support and access to markets for new enterprises. To this end, Absa has set up Enterprise Development centres across the country to provide advice, coaching and mentoring for small businesses.

Absa also actively works with large corporates to identify emerging businesses to support their supply chains, then provides both financial and business growth support to bring these enterprises up to the quality and capacity the corporates need. The goal is to ease that 80% failure rate down to a more palatable figure. It makes sense to spend money to look after the capital we advance.

The banking sector must also begin to think differently about lending. A large segment of South Africa’s population cannot borrow against traditional assets. Banks must still lend responsibly, but must rethink traditional definitions of collateral and security. Absa has launched a R250 million fund for non-traditional lending, which includes “cash-flow lending” - lending against the business itself. It may also consider “opportunity cost” as security for a line of credit.

In all, financial institutions that do not take the necessary steps to integrate the FSC into their core business are taking a short-term view and compromising their competitive advantage in the long run. Because ultimately, this idea that financial services should have a social agenda is taking on globally; the “FSC” is just the South African name for it.
INITIATING IMPACT

Corporate Implementation Practices for ED
Financial support is the most commonly offered form of Enterprise Development among participants, but they identified a critical need for business development services to ensure the sustainability of the supported enterprises.

The B-BBEE Codes recognize numerous types of Enterprise Development support, including interest-free and preferential loans, equity, grants, pro bono services, business development services, training, and mentoring. As a result, corporates take varied approaches and most employ a combination of these strategies.

The most common type of Enterprise Development support offered is direct financial assistance. 72% of respondents said they extend financing to ED beneficiaries, most commonly in the form of grants and interest-free or preferential loans.

Second to financial assistance are business development services (BDS), such as business workshops, financial literacy training, mentoring and occasionally, business incubation.

**How does your company invest its Enterprise Development funds?**

- Direct financial investments: 10
- Business development services (BDS)/incubation: 4
- Preferential services, rates and terms: 5
- Financial investments and BDS: 15
- Financial investments and preferential terms: 7
- BDS and preferential terms: 6
- All three strategies: 10
- Independent strategy: 2

n=59
We don’t look for ‘potential’ suppliers. If we identify a business for Enterprise Development, they’re immediately incorporated into our supply chain.

- Survey Participant

BDS are essential to ensuring the sustainability of ED supported enterprises. Nevertheless, they are time and planning-intensive, particularly for in-house staff who provide training and mentorship. This is perhaps why few corporates have explored or implemented BDS-centred Enterprise Development strategies.

59% of companies provide some level of BDS support, most frequently alongside financial assistance. Respondents acknowledged that BDS provide a level of security on loans because they support business and financial management preparedness.

Finally, 47% of respondents offer preferential services, rates or terms as part of their Enterprise Development strategies. Early payment agreements, generally 15 days or less, with small suppliers and contractors were the most frequently mentioned type. This appears to be the simplest way for companies to align enterprise development with their core business. It represents a short-term view however, because it caters only to recipients’ immediate needs, not their long-term growth potential. Other services mentioned include free legal or accounting advice, free office equipment and furniture, and discounted and free office rent.

Only 10% of respondents mentioned they work with a third party fund manager to help them invest their allocated Enterprise Development funds, even though most corporate Enterprise Development practitioners are not investment specialists. Indeed, only 14% of respondents said ED is their primary responsibility.

What is your primary responsibility within your company?

- Enterprise Development
- Business Development
- Financial Reporting
- General BEE Compliance
- Corp. Social Responsibility
- Human Resources
- Other

n=49
Participating companies hesitate to test supplier-focused Enterprise Development strategies in core areas of the business.

Enterprise Development beneficiary groups vary almost as widely as implementation strategies. This is especially true for recipients of financial assistance, who include suppliers, prospective suppliers, community businesses, start-ups, and others which fit into corporates’ value-chain but may not be geographically or supply-chain linked. Financial services firms, for example, develop products to support small businesses all over the country. Other beneficiaries include restaurant franchises, industry-specific technology start-ups, and broad-based black empowerment partners.

Where BDS are offered, there is a stronger connection to suppliers and local community initiatives. Of the survey’s 35 participants that provide business development services, 66% support current suppliers and prospective suppliers with the goal of building and strengthening small enterprises that directly support the business. Companies offering preferential services, rates and terms overwhelmingly focus on their suppliers.

“On the supplier side, our Enterprise Development is non-core to the business because we can’t compromise on the quality of our staple products.”

- Survey Participant

While over half of the study participants’ ED strategies are already focused or shifting their attention to procurement and supplier development, many cater to non-core segments of the business rather than key strategic areas. In interviews, some participants said they feel aligning Enterprise Development with core procurement needs is too risky, citing a dearth of ED businesses that could offer the quality of products and services they need. Owner-driver schemes, where ED assistance is offered to contracted truck drivers who transport a company’s goods, became a recurring example. Most of these initiatives were described by participants as a convenient way to link services procurement to ED without requiring heavy risk management efforts. Other examples include ED support for office cleaners, waste collectors, caterers and event facility managers.
Teaching the tools to empower

Suzanne Ackerman, head of transformation, Pick N Pay

It is impossible to promote meaningful enterprise development through financial support and access to market alone, given the current circumstances in this country. Entrepreneurs commonly lack understanding of the most basic of business basics – simple concepts like the difference between turnover and profit that even business curriculums in South Africa assume is common knowledge. Many of the entrepreneurs Pick N Pay encounters and partners with do not have these basic concepts and tools in their repertoire.

This recognition drove the decision to launch a small business incubator four years ago. It was designed as a three-level program that has allowed even the smallest of small businesses to become PNP suppliers. Since its inception, there has been constant demand for the program from entrepreneurs and small businesses, reaffirming how desperately corporate incubation services and mentorship are needed in South Africa’s small business community. Business incubation is an intensive, highly involved process for cultivating enterprise development, but it is impressive – and rewarding – to see how quickly businesses grow once business fundamentals, like financial literacy, have been mastered.

As the program matures, Pick N Pay is working to implement lessons learned. Recognizing the incubator could be more closely aligned to current business needs, the company recently restructured the process for identifying small businesses to admit. Now, rather than allowing them to approach PNP, the company’s procurement teams identify farmers and enterprises to admit based on products needed in stores. This ensures that the model remains relevant to PNP’s own business, in addition to the entrepreneurs it supports.

Pick N Pay is also working on a formalized impact assessment process. Certain key metrics, such as business turnover, productivity, quality control and delivery consistency are monitored regularly. More should be done however, to understand the effect of the company’s enterprise development initiatives on business growth and sustainability and towards the creation of jobs and new economic opportunities.
MEASURING IMPACT

*Metrics and Impact Assessment*
Respondents recognise impact assessment as a crucial part of Enterprise Development, but in practice, do not apply measurement practices that allow them to accurately capture and understand impact. Most support having a base-level set of standards for guidance.

Very little is required of companies to prove the effectiveness of their Enterprise Development initiatives since the only benchmark outlined in the Codes of Good Practice is proving that they spent 3% NPAT through recognized ED channels. Seventy-three per cent of respondents acknowledge their initiatives cannot be accurately assessed without measurement methods in place, either because they currently attempt some level of ED impact assessment, or if they do not, that because they do not feel the value of their ED programs is accurately captured without it.

ED impact assessment is far from widespread practice however, since just over half of corporate ED representatives regularly evaluate the impact of their initiatives. This means not all companies that said ED is core to the overall business strategy, as mentioned in Chapter 1, can identify how ED specifically supports their core business. Additionally, it means even fewer can prove the extent to which they are successfully meeting their strategic ED goals, like promoting economic transformation in their local communities or at the national level.

Cost and lack of resources were cited as the main obstacles for companies without formalized assessment processes and whose evaluation methods do not accurately capture the value and effectiveness of their ED initiatives.

Even for those with measurement methods in place, the extent to which Enterprise Development’s value is accurately captured is highly dependent on the metrics used. Responses reveal these vary widely across the corporate sector.

Does your company attempt to measure the impact of its ED initiatives?

- Yes: 54%
- No, but should: 19%
- No: 22%
- Don’t know: 5%

n=59
saying that 72% of corporates with assessment practices in place said they attempt to capture, mainly because of the government’s emphasis on job creating initiatives. A handful added that they also look at job survival rates.

Corporate Enterprise Development leaders suggested that guidelines for impact assessment would be helpful, both in making the case for it within their own companies and for evaluating impact more accurately. 80% would like to have at least a base-level set of standards, especially since the new Codes revisions are adding new layers for compliance. Most were quick to qualify however, that they do not support extensive legislation of impact assessment or rigorous standards; rather, guidelines should be industry-specific and flexible to a wide variety of Enterprise Development initiatives.

"My feeling is that B-BBEE measurements broadly should be changed to impact rather than spend. We need to show what impact we have."

- Survey Participant

Furthermore, most metrics cited focus on how Enterprise Development immediately impacts beneficiaries, evaluating data points on business profitability, sustainability and product and service quality, rather than indicators that represent B-BBEE’s main purpose: socio-economic transformation. Community-level metrics are tracked fairly consistently by mining companies because they are mandated to drive community development programs around their operations. Otherwise, the only notable exception is job creation, which 72% of corporates with assessment practices

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**THE ENTERPRISE DEVELOPMENT REPORT: MEASURING IMPACT**

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**Should there be standardized metrics to measure the socio-economic and environmental impact of ED?**

- Yes
- No
- Don’t know

n= 55
Impact in mining: a call for leadership

Marc van Olst, partner, Spinnaker Growth Partners

It is not true that the mining industry does not contribute to local community upliftment and enterprise development. Each mining house has a sizeable structure and fund dedicated to the implementation of Social and Labour Plans, and mining CEO’s all speak very sincerely about their commitment to community and enterprise development.

But, the industry’s impact has not been meaningful in its intent to share mining-generated welfare to improve relationships with labour and stakeholder communities, from the intended beneficiaries’ point of view.

At the heart of this failure is a failure in leadership. This is not a judgment; rather, it is a call for a new type of leadership that can translate financial contributions into meaningful impact.

Miners already have experience in the type of leadership required. For a mine to operate well, underground teams need to communicate with plant teams, suppliers, government agencies, labourers, and many others. Mining works because of the ongoing coordination during planning, production and emergencies. Simply put, mines would fail without this coordination.

So why is it so tough to recreate this inbuilt ethic to create shared value in community development? Because of the subservient nature of the industry’s relationship with their regulatory body, the Department of Mineral Resources, and the industry’s inability to create a more peer-like relationship.

On one project I was involved in, two years of effort and several million Rand went into designing a high-impact agricultural initiative that would connect over 100 small-scale farmers to a market and create over R200 million for the community each year. Ultimately, mid-level agents at both the mining firm and DMR decided to take an easier path with their SLP investments rather than doing something transformational. Neither group of agents were incentivised to do anything more than check boxes.

Mining leaders sense the urgency of these issues and are capable of thinking big. But to execute game-changing initiatives, they must tap into the leadership and coordination skills that are intrinsic to the industry’s core business. They could do this by effectively aligning community development with business strengthening their leadership teams and working collaboratively with each other. This will be how they unlock the value of community engagement.

In an era where poor labour relations or unhappy communities can close business, it is imperative that community and enterprise development be elevated on the management agenda and bestowed with visionary talent who have the mandate to think big and act assertively.
The development of small to medium enterprises contributes significantly to South Africa’s economy. Enterprise Development has the ability to create wonderful opportunities for the communities in which private companies operate. This is true for mining communities.

The mining sector needs to interrogate their relationships with workforce-communities and engage in a transparent debate about Enterprise Development so to achieve a win-win outcome and return on investment for all parties involved. Companies know and understand the “Life of Mine” and with this premise they need to ask themselves one basic question: How may we collaborate with key stakeholders to build stable, independent communities? Mining companies have to invest in ED because it is required under the Mining Charter and Social and Labour Plan. Instead of applying a tick-box approach to ED for the sole purpose of adhering to legalities and maintaining mining licenses, wouldn’t a strategic perspective go further to improving the “Life of Community”?

Community and enterprise development can no longer be treated as a “soft” side of the business. There has to be closer involvement and leadership in these initiatives at the CEO and or leadership level. An executive champion who drives clear goals on how to achieve community wellbeing, workforce stability and long-term independence, will achieve a better reach and return on investment for all parties concerned.

A few mining houses are undertaking good work, but so far none have developed scalable models. Closer collaboration or partnerships within the mining industry will help scale up the impact of ED in communities. We all know the saying: the sum is bigger of the parts thereof. Imagine if all the mining houses in a work-force community were not competitive within the realm of ED, but rather shared and pooled their resources within a geographic area. Mining operations within close proximity to one another should therefore come together and design local initiatives that complement one another. For instance if one mine is investing in agriculture, imagine if other mining houses then invested in the same program but focused on other components, such as transportation of goods or crops.

A significant mindset change is required for the mining industry to be successful in community and enterprise development. Mining firms must ultimately choose innovative approaches and drive them collaboratively through sound, well developed processes. It is not only the long-term survival and sustainability of communities that depend on this – their own immediate goals do too.

**Building communities through collective action**

*Sharon White, managing director, Re-Action*
Enterprise Development has tremendous transformational potential in South Africa and could also significantly influence the economic development landscape globally. The new B-BBEE Codes of Good Practice were written with the intention to help companies fully realize this potential, but to be successful, the corporate sector must engage more meaningfully in their approach to ED and take practical steps to improve the strategic gaps that currently exist.

First, companies must align Enterprise Development with the functionality of their supply chain. For both corporations and the businesses in their supply chain to feel the benefits of ED, implementation must be proactive and aligned to strategy. This requires a shift from a compliance approach to one driven by outcomes and impact. The changes in the Codes represent a good time for companies to revise their approach to Enterprise Development and adopt an investor’s lens, designing strategies that include: clear impact and return targets at both the business and social level, comprehensive due diligence processes, and routine measurement assessments. Strengthening the supply chain can play a fundamental role in enhancing competitiveness, innovation and longevity while also achieving a key developmental imperative.

Second, companies must begin to address the critical need for business skills training and mentorship by implementing appropriate business development services (BDS) alongside other types of financial and non-financial ED support. ED recipients will struggle to grow into reliable suppliers without a solid grasp of business fundamentals.

Likewise, corporations will be unable to fully realize the benefits of ED for themselves if the business skills gap of their suppliers is not remedied.

It is vital that companies understand the BDS landscape, the various service models on offer, and choose appropriate providers to achieve their goals. Part of influencing the effectiveness of BDS provision, should also include the alignment of in-

“Enterprise Development has to be integrated into the business to be sustainable and not just a ‘feel good’ initiative.”

- Survey Participant
centives to successful business outcomes. Companies must be realistic about their own internal capacity to deliver BDS, as internal experts often do not have the capacity or skills to train and mentor entrepreneurs and small businesses. Working collaboratively with external BDS providers can relieve pressure from companies’ individual resources while ensuring relevant, efficient services are delivered.

**Third, impact assessment must be built into Enterprise Development strategies at the outset, within an investment-minded framework.** These should be comprised of socio-economic impact and business metrics so companies can equally gauge their socio-economic and financial returns. Structured assessment practices will also help companies identify ways to improve their initiatives.

Since there is strong support for a standardized, sector-specific measurement framework within this study’s sample, industry associations in collaboration with government entities may be an appropriate forum for developing a set of metrics that can be broadly applied to a range of ED programs.

**Finally, the corporate sector should initiate a more collaborative process for devising and sharing Enterprise Development best practices and for pooling resources to implement sophisticated, private sector initiatives.** Most participants in this survey agreed that the industry would be better served by more cooperation on ED (80%) and did not feel that their companies’ competitive edge would be negatively impacted by doing this (83%). This suggests that the lack ED collaboration to date may be based on a misconception about others’ willingness and interest in working collectively. Once again, industry associations may be an appropriate forum to initiate the process of bringing corporate players to the table of collaboration.

"We as corporates are now sitting with the practical challenges. Before, B-BBEE was a tick-box approach. Legal compliance is the easy part, but change management is more difficult."

- Survey Participant
Impact Amplifier is an investment, supplier development and sustainability advisory firm whose mission is to accelerate the growth and capital provision of high impact, innovative businesses in Africa.

To address Africa’s socio-economic and environmental challenges, innovative entrepreneurs and business models must emerge. Impact Amplifier drives this vision by: assisting impact investors to source and invest into compelling opportunities; providing investment readiness and advisory services to businesses, which combine financial success with positive social and environmental change; and delivering supplier development and sustainability advisory services to corporations and public institutions.

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The NYU-SCPS Center for Global Affairs is an academic hub of study and innovation where scholars and practitioners from around the world address today’s most pressing global issues. CGA’s programmes integrate academic scholarship with an explicit commitment to implement real-world solutions to challenges in international conflict and peace building, business and law, the environment, and transnational crime. Through its graduate, non-credit, and public programs, CGA educates and prepares global citizens to be effective agents of change in businesses, nongovernmental organizations, and government agencies at the local, regional, national, and international level.

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