

THE

GROWTH AGENDA

Priorities for mass employment and inclusion

BUSINESS AND GOVERNMENT



GROWTH SERIES
Report 6



CENTRE FOR
DEVELOPMENT
AND ENTERPRISE



About CDE

The Centre for Development and Enterprise (CDE), an independent policy research and advocacy organisation, is South Africa's leading development think tank. Since its establishment in 1995, CDE has been consulting widely, gathering evidence and generating innovative policy recommendations on issues critical to economic growth and democratic consolidation. By examining South African and international experience, CDE formulates practical policy proposals outlining ways in which South Africa can tackle major social and economic challenges. CDE has a special focus on the role of business and markets in development.

CDE disseminates its research and proposals to a national audience of policy-makers, opinion formers and the wider public through printed and digital publications, which receive wide media coverage. Our track record of successful engagement enables CDE to bring together experts and stakeholders to debate the policy implications of research findings.

The CDE Growth Agenda Series

Series editor: Ann Bernstein

Reports in the Growth Agenda series are based on CDE's many policy initiatives, commissioned research and think pieces, as well as consultations and workshops with experts and stakeholders. They were written and edited by Ann Bernstein, Antony Albeker and Professor Alexander Johnston. The entire project has been guided by a reference group of CDE Board members, supplemented by other senior advisers. We are grateful for the advice and assistance of many other people in helping CDE to produce this series of reports.

This document and the six other reports in the Growth Agenda series are available from CDE; they can be downloaded from www.cde.org.za.

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5 Eton Road, Parktown, Johannesburg 2193, South Africa
P O Box 1936, Johannesburg 2000, South Africa
Tel +27 11 482 5140 | Fax +27 11 482 5089 | info@cde.org.za | www.cde.org.za

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The Growth Agenda

Priorities for mass employment and inclusion

For the past two years the Centre for Development and Enterprise (CDE) has been working on a major project to identify national priorities for faster economic and employment growth.

More than 20 years after apartheid far too many South Africans live in poverty, largely because far too few have jobs. This has serious implications for our society; South Africa's considerable democratic achievements are being put at risk by the political, social and economic consequences of low growth, unemployment, poverty and inequality.

As we have worked on the project – commissioning research, taking soundings and consultations, testing ideas with stakeholders – concerns about the country's trajectory have deepened and been more widely expressed by people from all walks of life. There is a broadening consensus that we are in deep trouble; this is an opportunity to focus on priorities for action.

This report is one of the CDE Growth Agenda series of publications. We have identified the catalytic priorities which form the essential building blocks for a fundamentally new approach to accelerating growth and employment in South Africa. These priorities comprise a basis for encouraging a wide conversation across South Africa, by offering a diagnosis of what is going wrong and focused recommendations for getting the country back on track.

The CDE Growth Agenda series consists of seven reports:

- Summary overview: Insights and key recommendations
- Jobs
- Accelerating inclusive growth
- Cities
- Skills
- Business and government
- An export processing zone for the Nelson Mandela Bay Metro

“The bottom line is this: South Africa needs accelerated growth that is urban-led, private sector-driven, enabled by a smart state, and targeted at mass employment.”

BUSINESS AND GOVERNMENT

INTRODUCTION

The dysfunctional relationship between business and government is a key reason why the South African economy is in trouble.

This document offers an analysis of this failing relationship. Its principal messages are:

- A solid business-government relationship is essential for faster growth and mass employment.
- South Africa cannot hope to achieve growth and mass employment with a government that is anti-business.
- Companies and business organisations need to reassess their role in South Africa and their own contribution to the flawed relationship with government.
- The silence of business leaders and their organisations is not a good strategy for a country in trouble, with a racially discriminatory history.

This report will first deal with business and then government in our analysis of what is going wrong. It will conclude with recommendations for both parties on how best to start building the better working relationship that is so vital to growth and employment.

“The dysfunctional relationship between business and government is a key reason why the South African economy is in trouble.”

BUSINESS IN A YOUNG DEMOCRACY

More than 20 years into South Africa’s democratic era, business has been unable to find effective ways of articulating and defending its interests and activities as a vital contributor to national development. This is partly because business is a diverse sector in which competition is more common than co-operation, partly because of the choices companies have collectively and individually made, and partly because the government has forced them onto the defensive.

The diversity of the business sector should be recognised

South African business ranges from crony capitalist enterprises to colluding cabals, from struggling small firms to world-class corporations. CDE is concerned with the many honest owners, executives and managers, both black and white, who run local and international businesses, both large and small.

The diversity of the business sector poses many problems of collective action. Companies in different sectors may differ widely about desirable public policies: manufacturers and retailers regard Chinese imports differently; exporters

and importers have different views of a desirable exchange rate; clothing manufacturers in Cape Town have a different view of lower minimum wages in non-urban areas than firms in Newcastle; and the credit extension policies of retailers and their use of questionable garnishee orders affect labour relations in businesses that employ indebted consumers.

Size also matters: the interests of small, medium-sized and particularly new firms and entrepreneurs are underrepresented. Big business and government are both good at proclaiming how important they are, but less good at listening to them, or ensuring that their actions do not have negative impacts on smaller companies or aspirant entrepreneurs.

Business is also racially divided. The country's apartheid history has produced different interests and organisations, which makes the business sector as a whole even more complicated.

These differences divert attention away from the common interests in an enabling environment, shared by all enterprises, large, medium and small. These include: stable policy; sound rules about access and competition; protection against crime, for goods as well as people; a plentiful supply of skilled labour; and good public transport and well-managed cities. As a result, collective business interests are found in many different business organisations. While some might be more effective in representing narrow sectoral interests, the principal business organisations in South Africa are not effective in influencing the overall business environment.

“The interests of small, medium-sized, and particularly new firms and entrepreneurs are underrepresented.”

‘Going along to get along’

In the face of sustained attacks on its legitimacy and the pressure of having to do business with government, ‘established’ businesses have increasingly chosen to be defensive, reactive and accommodating, rather than clearly articulating business and market interests and realities. This is understandable to some extent, since business leaders are in a difficult situation; castigated by some high government officials for not speaking out clearly, and lambasted by others when they do.

‘Going along to get along’, as participants in and sometime implementers of policies they believe to be misguided and damaging is probably the most common response. Others have become disenchanted and opted for silence and withdrawal. A lack of plain speaking does not foster effective communication about the problems besetting the economy, or make clear what business actually needs from government, leaving unchallenged mistaken and damaging ideas about the sources of economic growth in a global economy. It also leads some in government to suspect, correctly, that business leaders don’t say in public what they say or think in private. A climate of mistrust is the result.

This approach to business engagement with government is fundamentally flawed. Too much time is spent trying to be ‘trusted’ and seeking a good relationship with government by being compliant and uncritical. A component of this approach is the willingness to ‘help government out’ when its policies fail. Instead of constructively arguing for a different approach to achieving common national goals, business support often functions as a ‘Band-Aid’,

propping up failure in the form of wrong policies, failed implementation, or a reluctance to deal with uncomfortable root causes. This never really works, and renders business complicit in the failure.

A different approach would aim for authenticity and respect. It would do this by clearly and energetically articulating business interests and communicating them effectively to politicians, officials and the wider public. This more strategic and pro-active approach would require greater honesty and forthrightness, situated in a strong commitment to national goals. When differences arise about how to achieve these goals, whether about policy or implementation, they should be debated.

Corporatism is past its sell-by date

One of the formal platforms for engagement among business, government and labour is a corporatist forum, the National Economic Development and Labour Council (Nedlac). Corporatism is an arrangement that allows large and well-organised interests, in this case big business and organised labour, to have privileged access to the law-making process and the exclusive right to defend and promote their interests close to government. This approach is most clearly manifested in Nedlac, but has other dimensions in public life as well.

Government and business have entered into a number of accords (covering skills and training, basic education, youth, the green economy and local procurement) and also participate in various presidential working groups dealing with these issues, as well as the provision of infrastructure. All this takes place in the context of the president's nine-point plan, the National Development Plan (NDP) and there is talk of a social compact.

Nedlac, the accords, and the working groups are based on a set of ideas about business participation which lend credibility to initiatives that frequently work against market approaches. They see 'business' as a single, centrally directed actor, willing and able to deliver a complex set of commitments and actions that frequently go against business's deepest interests and inclinations.

In the period of transition and the early years of the democratic era, it seemed useful for national government, organised business and organised labour – the so-called 'social partners' – to participate in a form of corporatism, a continuation of the negotiation process that resulted in a political settlement.

Twenty years on, it is clear that this arrangement has been of little use to any of the parties, except for a form of crude distributional bargaining. Government dislikes Nedlac because labour has tried to use it as a second parliament and business dislikes it as it is extremely resource-intensive and often just another site for business-bashing. It is hard to see how these processes have improved the national economic environment. Moreover, these privileged relationships have worked to undercut the interests of smaller and newer firms, and benefit the formal workforce in large companies at the expense of the unemployed.

Nedlac and the corporatism it embodies have become a symbol of stalemate among business, labour and government. It is devoid of the vision of partnership and creative social dialogue that were among its avowed purposes. Instead, the 'partners' participate in summit meetings, most of which are full of empty rhetoric and result in extravagant promises, few of which can be delivered.

“Instead of constructively arguing for a different approach to achieving common national goals, business support often functions as a ‘Band-Aid’.”

The whole idea of social partnership as a route to managing public policy and the economy has broken down; this is one of the ways in which politics and governance in South Africa are changing. Business has never been a social partner in any strong sense – unlike the state, which is centrally directed, and unions, whose leaders are elected representatives. ‘Business’ consists of too many independent entities on whose behalf its ‘representatives’ cannot really make significant commitments. It is a mistake to see these representatives as akin to elected leaders who can deliver a constituency. The growing fragmentation of the labour movement means that it no longer represents a single constituency either. And government no longer displays the consistent leadership and policy coherence necessary to be the manager and arbiter of any effective social partnership.

Overall, corporatism in South Africa amounts to enormous activity which is frequently misdirected, with little if any positive impact on the economy, little respect built on either side of the business-government divide, and much wasted effort and resources.

Business needs more than private relationships

“The whole idea of social partnership as a route to managing public policy and the economy has broken down.”

The default approach of organised business to political engagement is to avoid public debate and confrontation and to rely on the ability of business leaders to build the kind of personal relations with senior politicians needed to shift policy. There are obvious benefits and attractions to this approach, particularly in a society in which public opinion about business and markets is ill-informed and often negative, and in which it is relatively easy and attractive for tub-thumping politicians to attack business.

However, it also has some shortcomings:

- **The presumption that a personal engagement with senior politicians is an effective way of influencing policy.** Given that government’s policy-making machinery is often weak and inefficient, and there are any number of other actors and processes affecting policy-making, over-reliance on personal relations is risky – the more so given the high turnover in the top echelons of government.
- **Democracy requires formal and transparent policy-making processes.** Transparency also prevents suspicion as to what is happening in all those behind the scenes discussions. Who is benefiting from the backroom deals?
- **Few business leaders are also experts in public policy.** The result is that, with the best will in the world, there is only so much that personal, back-channel conversations about public policy can achieve.

Informal backroom engagement is often ineffective and generates risks of its own. Of course closed-door interactions are sometimes necessary and desirable, even in democracies. However, they are more dubious and will achieve less if that is all business does. They must be complemented by robust public engagement. In a democracy public positions and participation inform discussion and provide new insights. Public contributions by business as to how South Africa can meet its many challenges and willingness to participate in debate will help validate business leaders as committed citizens contributing to the country.

It is essential, therefore, that business develop a more energetic, robust, and strategic campaign to influence public opinion.

In the late 1980s and early 1990s, big companies devoted significant energy and resources to engaging in public policy debates, funding extensive programmes of engagement between senior business leaders and economists on the one hand, and leaders of the liberation movement on the other. As democracy approached, this strategic outreach helped to communicate to the expanding community of participants in public life how markets and companies contribute to economic growth, and therefore national development. This was based on a broader understanding by leading companies of the need to influence the national context in which companies would operate. No one does this now, and South Africa needs it.

This may be because companies thought that life would become simpler under a legitimate government in a multiparty democracy, and that they could therefore gracefully withdraw from the public domain. They may also have assumed that the political settlement had confirmed their own legitimacy. However, these assumptions have not been realised. Twenty-two years into democracy, the country has regressed markedly in the area of reasoned debate and public policy engagement. Informal relationships still play a significant role, but the policy-making community has broadened, and structures such as parliament, provinces, metros, departmental advisers and the government's alliance partners all need to be taken into account.

The many implications of operating in a democracy have not been fully thought through for individual companies and business organisations. Democracy draws attention to divisions, complexities and contradictions that cannot be ignored, suppressed or hidden. In a complex society experiencing a wide range of challenges, business has to engage strategically and effectively, publicly as well as privately.

The final point to make here concerns the state of business organisation in South Africa. Effective business organisations have a vital role to play in our society. They must build on common business interests to promote growth and an enterprise-friendly society; they must make the case for why an enabling business environment is in the interests of all South Africans and not only those of the companies that happen to exist today, and they must engage effectively with the legislature, the executive and all the other interests that influence public policy.

It has not been easy to pursue these aims over the last 22 years. Our history of racial discrimination and exclusion has shaped the composition of business and its leadership. Multiple attempts at organising and re-organising business have resulted in two national organisations. Neither of them is proving effective in influencing the growth debate, or in promoting the reforms required if South Africa is to achieve the growth goals of the National Development Plan (NDP) or the mass employment the country desperately needs. The reasons for this failure relate as much to strategy, energy and ideas, as they do to the difficult climate of a post-liberation society.

The problems range from the quality of business submissions to parliament, to the energy and effectiveness of engagement with policy makers, to the almost complete absence of a publicly articulated business view on growth and its central role in national development.

South Africa's economic crisis coupled with its employment crisis, cry out for a new effort to find the right strategy and organisational architecture.

“In a complex society experiencing a wide range of challenges, business has to engage strategically and effectively, publicly as well as privately.”

Silence as South Africa enters dangerous waters

Business is one of the most powerful components of civil society and a major funder of many organisations in the civic arena. When its leaders and organisations give in to political bullying, retreat from public debate, and 'go along to get along' with government and the ruling party, significant negative consequences follow. A pliant business community that retreats from public debate and shows fear of government is bad for the country. The voices for economic growth and the reforms required to achieve it are weakened. If business is not vocal, the space for defending other vital aspects of our hard-won democracy narrows dramatically, and fewer powerful leaders defend the Constitution when it is under attack. The result, is that in a period of danger, public space for robust debate, criticism, and the promotion of alternative ways of achieving South Africa's goals shrinks.

The key to achieving faster growth is to unleash the potential of markets and enterprise. South Africa needs existing companies to survive and expand. But even more importantly, it needs the development of many more businesses in a competitive environment. Business silence concedes too much ground to those who denigrate markets and the role of business in generating growth. In this respect, business has contributed to its own crisis of legitimacy.

“Business silence concedes too much ground to those who denigrate markets and the role of business in generating growth.”

Leading business organisations do issue public statements, but do so rarely, and they don't have much public impact. They are often defensive, cautious and hesitant. The most recent example of this was the response by South Africa's apex business organisation, Business Leadership South Africa (BLSA) to the removal of the minister of finance, Nhlanhla Nene, in December 2015. This attracted considerable criticism from many in business and the media. Peter Bruce, editor-in-chief of South Africa's two leading business publications, wrote, 'In the middle of a crisis that could have shut South Africa down, BLSA forfeited its right to speak for anyone.'

A statement by South Africa's business leaders in the midst of an unprecedented economic crisis should have spelled out the consequences of the president's actions for all South Africans, indicated that he had single-handedly undermined one of the major achievements of democratic South Africa, namely the creation of a world-class treasury and global confidence in the country's fiscal management and stated unambiguously that this had undermined their confidence in the president's ability to govern the country.

A stronger and more appropriate statement was contained in an open letter to the president and the country by a group of prominent, mainly black, South Africans, including a few leading business people (Reuel Khoza, immediate past chairman of Nedbank, and Bonang Mohale, chairman of Shell). They wrote, 'the damage this is causing to the credibility of the country may take years or even decades to reverse ... we are gravely concerned about the manner in which you are governing us.'

Business should participate more actively in public policy issues

With hindsight, it is possible to argue that 20 years of democracy have not seen sufficient 'learning by doing', or self-criticism and nimble adaptation to circumstances by business leaders and the organisations they fund.

South Africa was always going to be a complex society in which to do business. The apartheid legacy of discrimination, poverty, unemployment and inequality, coupled with the dynamics of 'post-liberation' politics, resulted in a challenging environment in which to promote market economics. Whatever the underlying merits of the argument – which are extensively debated – many South Africans believe that business and capitalism were complicit in the denial of human rights and exploitation under apartheid. Add the enormous damage done to the image of business and markets by the global financial crisis of 2008, and the folly of not participating in the public battle of ideas is compounded.

As in many other developing countries, capitalism (or market economics) has to prove itself again and again as a system that can deliver for all citizens, and not just the 'fat cats' in a new democracy.

One of the most unequal societies in the world, South Africa has exceptionally high levels of inequality between workers and executives. The result is a near-unwinnable 'debate' about executive remuneration which serves to stoke anti-business sentiment. Whatever the merits of individual compensation packages, it seems clear that, as a group, South Africa's business leaders would be in a better position to defend themselves against the accusation that they are 'fat cats' if they paid themselves less.

It is hard to see how this could be done, but if companies want greater public respect and constructive terms of engagement with the government and its supporters, their boards should link remuneration more closely to performance and explain to the public why the huge payment packages earned by many CEOs and other senior executives are essential to the health of the company and its ability to contribute to growth and employment.

Business' subdued and sometimes ambivalent response to its own challenges – such as instances of poor corporate governance, and collusive and anti-competitive behaviour – has not helped to improve its legitimacy. Members of the public read about companies that collude over the price of bread or the building of soccer stadia and do not read one or two statements issued by organised business, or occasional opinion pieces in the media by its leaders.

Similarly, organised business has erred in not attending closely enough to the very different ways in which corporations have approached Black Economic Empowerment (BEE). Some companies have created significant wealth for large numbers of ordinary South Africans. Others have opted to further enrich the already rich black elite, especially those that are politically well-connected. Leadership is required on this issue; 'best practice' should be lauded and communicated, and undesirable approaches criticised.

“As in many other developing countries, capitalism (or market economics) has to prove itself again and again as a system that can deliver for all citizens, and not just the ‘fat cats’ in a new democracy.”

The tragedy of Marikana is another example of business, through its own conduct, undermining its legitimacy. Many interests are to blame for this chain of events, but it should be noted that the mining company involved failed to deliver on its commitments. It promised to provide housing for its workers, and at a time when high platinum prices yielded significant profits, very little was done.

South African business which has spent so much time and energy on building relationships with the new democratic politicians has not gauged correctly the context in which it is operating. It is a highly contextual reality, shaped by an apartheid history, liberation politics and the 2008 global economic crisis which to many undermined capitalism, companies and business leaders. In this context to neglect the public arena and perceptions of markets, firms and profits in that arena has been a big mistake. Public debate influences how government, the ANC and other groups, perceive business. Silence allows anti-market voices to dominate public discussion while keeping quiet also fails to provide support to pro-market voices within government, the alliance and elsewhere.

“Underlying almost all government attitudes to business is the deeply-held suspicion that the pursuit of profit has inherently bad social and developmental outcomes and is a stubborn obstacle to transformation.”

GOVERNMENT THINKING ABOUT BUSINESS, MARKETS AND ECONOMIC GROWTH

The dysfunctional relationship between business and government is shaped by certain key attitudes and assumptions in government and the ruling political alliance. *(See the CDE Growth Agenda series Report 3, Accelerating inclusive growth, for more information on the state’s role in the economy.)*

Suspicious about business motives

Underlying almost all government attitudes to business is the deeply-held suspicion that the pursuit of profit has inherently bad social and developmental outcomes and is a stubborn obstacle to transformation. It is for this reason that government has imposed a wide range of obligations on business; some require outlays of cash, some require businesses to devote expensive legal and managerial resources to monitor compliance and some dictate business decisions about the people they should employ, the partners they should work with and the suppliers they should use. These impositions are costly and make it less likely that new businesses will be created, or survive and grow. They are disproportionately onerous for smaller and new enterprises – the most promising sources of new jobs – which commonly lack the resources to deal with them, thus creating further barriers to entry, hampering growth, and leaving more space for large and established firms to dominate the economy.

Business in the state’s shadow

Government’s default response to South Africa’s developmental challenges is that economic problems are caused by the market, or ‘monopoly capital’, and the solution invariably lies in some form of action to be undertaken by the state. This attitude, which started in the early 2000s and has gained momentum since then, is a major shift away from the relatively open and market-friendly approach of the previous decade. Since then, the prevailing attitude has been

that the state must lead South Africa's economy and society, playing an activist and interventionist role. The private sector cannot be trusted to play a leading role in generating economic growth and should be relegated to the role of supporting and implementing government initiatives.

The fact that business did not push back at all on this claim, after it first appeared in government's Ten Year Review of 2004, is a measure of its lack of appetite for public engagement, its lack of vigilance, and its increasingly co-opted posture. Although individual business leaders have recently begun to question in public the subordination of business to the state, the damage is significant. (*See box: Business leaders speak about government.*)

The distrust of business is evident across every sphere of economic activity: policy-makers describe medicine manufacturers as 'vultures', and world-class mining companies as 'dirt diggers', and sometimes confront firms seeking to provide primary, secondary or tertiary education in ways which suggest that they see no role for them at all. (*See box: Government and alliance leaders speak about business.*)

This statist policy orientation gives the state a role which it is ill-equipped to play. It creates a false expectation of state resources in terms of bureaucratic capacity, leadership and direction. Eskom stands out as a classic example of state failure as a steward of economic development. Other examples of state mismanagement include the SABC, SAA, PetroSA, the South African Post Office, Sanral, Infracore and Prasa.

Each institutional failure has its own causes, but all exhibit a failure to recognise that public institutions cannot function effectively if they are led by people whose main traits are political loyalty, factional comradeship and venal self-interest, rather than competence, qualifications and experience. The consequences of poor appointments are made worse by an overload of often contradictory functions which government requires state enterprises to carry out.

This statist mind-set also assumes a unity of purpose and approach as well as decisive and persuasive leadership, which are simply not present in the state apparatus, the tripartite alliance, or in the state's relations to other interests and players in the economy, including business. Unsurprisingly, policy coherence suffers, and confidence in the country and its government declines.

“Government's default response to South Africa's developmental challenges is that economic problems are caused by the market, and the solution invariably lies in some form of action to be undertaken by the state.”

Growth needs effective states and competitive markets

Ironically, where the state is needed – for effective policing, healthcare, water, managing provision of infrastructure or good schools – it is often absent, incompetent, or compromised by patronage and corruption. But where it would be better for the state to step back from regulation or supervision, it is tying up people, companies, entrepreneurs and investors in mountains of red tape, and trying to deliver goods and services that would be better provided by the private sector. Private sector participation in many aspects of the economy (for example by major service providers) is mostly unwelcome, and even where it is allowed, the state's capacity to manage the relationship is frequently weak. The Renewable Energy Independent Power Producer Programme, a notable exception to this damaging trend, has demonstrated that good social returns

BUSINESS LEADERS SPEAK ABOUT GOVERNMENT

No one from government has ever come to us, local business leaders and asked us what we think about the economy, and what needs to be done... There is still very deep-seated mistrust between business and government both ways. – **Sizwe Nxasana, former CEO, FirstRand, 15 March 2015**

South Africa lacks a coherent economic policy, and government departments are failing to work together. ... South Africa has no economic policy. – **Koos Bekker, chairman, Naspers, 7 May 2015**

Without courage, wisdom bears no fruit. ... Executives should stop acting like thermometers recording prevailing conditions and rather transform and regulate the temperature of our nation. – **Reuel Khoza, former chairman, Nedbank, 28 June 2015**

A government that supports uncompetitive state enterprises cannot criticise private enterprise for taking the necessary action to survive in these tough times. – **Mark Cutifani, CEO, Anglo American Corporation, 30 July 2015**

There is a 'trust deficit' between government and business. – **Bonang Mohale, chairman, Shell (SA), immediate past president, Black Management Forum, 18 June 2015**

The private sector wants to help, but the government does not believe we can. ... If government thinks it can do everything, we are not going to succeed. – **Stephen Koseff, CEO, Investec, 14 September 2013**

The sooner government understands the economic realities of running a business, the sooner they will do the right thing. – **Neal Froneman, CEO, Sibanye Gold, 6 August 2015**

Foreign investors need to take away a consistent message: 'we want your money, we want you to create jobs in this country, come join us, and we'll look after you.' – **Koos Bekker, chairman, Naspers, 8 May 2015**

Business needs to speak the truth to government before it is too late. – **Isaac Shongwe, executive director, Barloworld, 31 May 2015**

Labour legislation in this country has destroyed small business. – **Herman Mashaba, Founder of Black Like Me, 26 May 2015**

The one industry where South Africa consistently outperformed the world since 1994 was tourism. Then we impose new visa regulations that no one can explain, and the effect is immediate. We shoot ourselves through both feet, and then claim unintended consequence. – **Christo Wiese, chairman, Shoprite, 10 September 2015**

If we cannot converge and find a win-win – something given and gained by labour, shareholders, communities and government on behalf of the nation as a whole – the asset value of our mining industry will decline to the point where companies worth billions of dollars will be worth only hundreds of millions of dollars, and jobs will be threatened on an increasingly large scale. – **Rick Menell, chairman, Credit Suisse, 19 October 2015**

Quite frankly, the leadership of this country is becoming very hard to defend abroad. – **Johann Rupert, chairman of Richemont and Remgro, 25 November 2014**

It is business that creates the sustainable jobs and the new industries this country so badly needs. An ever more centralised government stranglehold on industry cannot do this. – **Simon Susman, chairman, Woolworths, 4 October 2013**

Business is sitting on hundreds of billions of rand it could invest, but does not – because we have not given it a stable environment with regulatory certainty that encourages foreign direct investment. – **Bonang Mohale, chairman, Shell (SA), immediate past president, BMF, 5 June 2015**

State-owned enterprises are supposed to be run on a commercial basis, but the decisions they take are contrary to that ethos. What is happening at SAA and PetroSA is totally unacceptable. It is tantamount to sabotaging the interests of the country. – **Vusi Khumalo, president, SACCI, 9 August 2015**

Business can help fix South Africa's problems, but this needs appropriate leadership and guidance from government, which it is not getting. ... Instead of the pragmatism we need, we have a reversion to dogma and ideology. – **Gareth Ackerman, chairman, Pick 'n Pay, co-chairman, Consumer Goods Council, 8 November 2015**

There needs to be a real conversation about the power of the private sector, or it will leave the same legacy as business in the apartheid era: that it didn't stand up to the government. – **Khotso Mokhele, chairman, Impala Platinum, 1 November 2015**

GOVERNMENT AND ALLIANCE LEADERS SPEAK ABOUT BUSINESS

The narrative gaining popularity – that the government is hostile towards the private sector – I find quite curious. We don't have a state construction company or a state manufacturing company. – **Jeff Radebe, minister in the Presidency, 17 June 2015**

The private sector is on an investment strike. They are unpatriotic, and we must engage them. – **Gwede Mantashe, secretary-general, ANC, 2 October 2014**

The predators have been doing everything in their capacity to undermine and erode the gains we have achieved, and to find new ways of deepening and subordinating our people to financial-economic exploitation. ... We need to disrupt the logic of profitability first if we are to build a financial sector for the people. – **Blade Nzimande, minister of higher education and training, speaking about South African banks' 'parasitic and exploitative behaviour', 5 October 2014**

These capitalist vultures [in the private healthcare sector], which thrive on people's illness to make huge profits, have to be taught another lesson. – **Blade Nzimande, speaking about opposition to National Health Insurance from the private sector, 17 June 2009**

Extraordinarily opposed. – **Aaron Motsoaledi, minister of health, when asked whether he was against the private sector building private medical facilities, 2 October 2014**

There are many influential people in the National Health Insurance policy environment who do not feel the private sector can be trusted to deliver affordable health services in private hospitals for the poor. – **Aaron Motsoaledi, minister of health, 22 September 2015**

My view is that the ANC almost all the time tries to engage with business, but business engages only when they see a threat to their world. My point is they should make sure they always engage; not only now that there is a problem must they say we must rally around now that we are going to lose our money. – **Lindiwe Zulu, minister of small business development, 21 December 2015**

They have drawn a line on how they view the government. They have chosen to attack the state instead of working together to solve the country's problems. – **Keith Khoza, ANC spokesperson, on an advertisement critical of the government by First National Bank, 21 January 2013**

We're saying, the real march must go to the Johannesburg Stock Exchange, and demand for the private sector to fund education. All those trillions that are there in these corporations must fund education. That's where the real march should be directed, not in Pretoria to the Department of Higher Education. – **Khaye Nkwanyana, spokesman for the department of higher education and training, on a march to the DHET's by students protesting against the cost of higher education, 4 March 2015**

Let's be very clear. It's not foreign nationals who are "stealing" jobs from South Africans. It is profit-maximising bosses who are exploiting the desperation of immigrants fleeing poverty and civil war in their own countries... It isn't foreign nationals who are "stealing" jobs. They are not the criminals. It is the bosses who employ them who are the thieves. – **SACP May Day statement, 1 May 2015**

Measures to fund university education must be found, and white monopoly capital cannot hide behind political opportunism and their hatred for this dispensation in order to shirk or run away from their responsibility. A wealth tax must be seriously considered. – **Malusi Gigaba, minister of home affairs, 28 October 2015**

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can be combined with returns to investors through private sector involvement in infrastructure. Government economic policy also fails to appreciate the nature of markets and risk-taking, especially in industries where investment horizons are very long. Mining is a good example. (See box on page 14: *The mining sector and government schizophrenia.*)

Reluctant converts and a misunderstanding of markets

In the 1990s the newly-elected ANC government adopted an approach to economic policy that was more market-oriented than many of its leaders would have considered appropriate. However, its leaders have portrayed the embrace of market mechanisms as a reluctant and forced necessity, and seldom in positive terms as the best choice for delivering growth and inclusion. Government and ANC leaders – especially when addressing their own constituencies – have tended to attribute their conversion to the alleged power of markets to bend governments to their will, a power to which they reluctantly submit while maintaining the language and attitudes of socialism, and sometimes Marxism.

“This refusal to acknowledge the positive power of markets marginalises real supporters of market reform in or close to government.”

In some respects, this is unsurprising. However, the ANC’s ambivalence about the market, and the wariness with which its most business-friendly leaders speak on this subject, has had a number of adverse consequences. It concedes enormous political space to the ideological enemies of market policies, and the breadth and depth of opposition to market-friendly policies is considerable, both inside the ruling alliance and beyond it. Portraying market liberalisation as a distasteful necessity cedes the initiative to populist opponents. As a result, the ANC has not had the ideological wherewithal to defend its policies against populist attack, a problem that has been greatly accentuated by dwindling growth and the global crisis of legitimacy through which capitalism has gone since 2008.

By far the most significant problem resulting from the ANC’s reluctant embrace of the market, however, is that its policy work was never followed through: macroeconomic policy was focused on the correct goals of stable and declining debt and low inflation, but the policy reforms needed to enhance economic efficiency were never developed. This has meant that, in debating its opponents on the left, the ANC has the worst of both worlds; it is saddled with the perception of having been pro-business and pro-capitalism, but has not captured the social and economic gains (especially economic and employment growth) that a fuller and more effective embrace of the market might have generated.

All this makes the government look weak in the face of mysterious and impersonal global forces, and creates uncertainty in the minds of investors, both domestic and foreign. If the market has no real champions in the government and the ANC, its base is weak and the future uncertain.

Last but not least, this refusal to acknowledge the positive power of markets marginalises real supporters of market reform in or close to government, who are either pressured into silence or forced to retreat into coded double-talk which only the initiated can understand.

Failure to understand the nature of business

Business is widely misunderstood, especially by many in government and its support base. There is a tendency to ignore, or be simply unaware of, how businesses start, what factors influence investors, what makes firms grow, what makes them dynamic and innovative, and what makes them falter. (See the *CDE Growth Agenda series Report 3, Accelerating inclusive growth, for more on this topic.*)

Some of the most revealing examples of this are the allegations by government figures of an 'investment strike' by South African companies. This persistent allegation reflects a total lack of comprehension of how market economies work. Business cannot organise an investment strike, for the simple reason that there is no central platform from which this could be arranged. Businesses do not get together to discuss investment opportunities, whether and how much each business should invest in which opportunity, and how politics affect those decisions. If they did, they could rightly be accused of anti-competitive behaviour. Nor do businesses answer to each other, or to representative organisations. Most of the time, they compete with each other. And even if some misguided individual sought to organise an investment strike, he would surely fail, because businesses would not believe that their competitors would not take advantage of this 'opportunity'. If businesses are failing to invest, it is not because of a politically motivated 'strike', but because returns on investment are too slight and uncertain.

It is perceptions of risk, and the level of risk-adjusted expectations of returns on investment, that are deterring business from investing, or investing more, in South Africa. Government does not seem to realise that companies regard business opportunities in South Africa as constrained by an overbearing and barely competent state, hemmed in by regulation and narrowed by crony capitalism. At the same time, their confidence is shaken by attacks on property rights, and the bullying, punitive attitude and tone adopted by some government figures towards certain economic sectors, companies, and even individual business leaders.

The tradition of regarding calculations of risk by businesses as an outrageous slur on the government has not died with the removal from office of former president Thabo Mbeki. Mbeki's rage when, in 2004, the then CEO of the Anglo American Corporation, Tony Trahar, spoke of the reduction of political risk in the country, and his previous branding of SASOL as 'racist' for saying BEE requirements might add to business costs, still cast a long and intimidating shadow.

The right of government to reply robustly is as significant as the right of criticism. But ascribing hidden and subversive motives to routine business decisions and seeking to discredit critics by distorting and exaggerating what they say, tends to close down debate and drive legitimate concerns underground.

It is hard to believe that the government and ruling party have been unaware of the effect of the business and political environment on investment decisions, some of which have a horizon of up to 30 years, yet this appears to be the case. Companies are major sources of jobs and taxes, and have legal responsibilities to shareholders, the people who work for them, the banks that lend them money, and the regulators who regulate them. Investment decisions are guided by these responsibilities and not by party politics.

"The persistent allegation of an 'investment strike' reflects a total lack of comprehension of how market economies work."

“Partnership is a two-way street. We cannot expect the private sector to deliver on their obligations, if the state does not deliver on its part of the deal.”

THE MINING SECTOR AND GOVERNMENT SCHIZOPHRENIA

The government’s attitude to business finds its purest expression in relations with the mining industry. It is here that the burden of history is greatest, the demands most varied and burdensome, the regulatory uncertainties most pronounced, and the threats of punishment most extreme. The result is that all parties, including government, acknowledge that the industry has underperformed throughout the commodities supercycle when South Africa’s competitors boomed.

Mark Cutifani, chief executive of Anglo American plc, has noted: ‘We have the single largest measured minerals inventory in the world, but in the course of the last ten years, real values in terms of the prices of mining companies’ shares listed on the JSE have declined by 30 per cent. At the same time, the rest of the exchange performed exceptionally well. ... For an industry that is the most important driving force of the local economy, directly and indirectly contributing 18 per cent to GDP, it is not good enough. No one can afford to stand by and let the next ten years be another lost decade for the country.’

Yet all of the government’s numerous growth plans – in their own and often contradictory ways – target the mining industry for increased investment, production and employment. Those hopes for the exploitation of South Africa’s estimated \$2.5 trillion mineral reserves coexist uneasily with an official attitude that sees business as simply another lever government can pull to bring about the social changes it desires, and whose freedom it can curtail at will while simultaneously multiplying demands on it and threatening its very existence (through withdrawal of licences to operate).

Companies could be forgiven for being uncertain about where they stand. In July 2015, Jeff Radebe, minister in the Presidency, acknowledged the importance of the industry, by noting that it provided ‘over 50 per cent of exports and almost 20 per cent of private sector gross fixed capital formation’, and the difficulties of profitability in an environment of falling commodity prices. Addressing the launch of Mining Operation Phakisa, he went on to say:

‘A core element of a developmental state is the ability to partner business so as to unlock the growth of the private sector on the basis that this growth will be accompanied by the achievement of the state’s developmental priorities. ... Partnership is a two-way street. We cannot expect the private sector to deliver on their obligations, if the state does not deliver on its part of the deal.’

This is an admirable manifesto, but it is hard to reconcile with state weakness, a sanctions-driven and unstable regulatory regime, and a set of non-commercial demands that include regulated beneficiation, supply of feedstock to industry at below market prices, changing demands for BEE on top of contribution to growth through exports, employment and the fiscus through tax and royalties.

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Crony capitalism and anti-business simultaneously

The legacy of apartheid is still felt throughout South African society. Race-based inequalities in income, asset ownership, and human capital development continue to restrain development. At the same time, there is a danger that the need to correct the skewed distribution of assets and opportunities can be hijacked by narrow, self-interested groups. This danger is heightened when many believe that political power is the route to enrichment.

In this respect, South Africa's growth prospects have been damaged by the way in which the social, economic, political and ethical necessity of promoting black-owned and managed companies has frequently degenerated into crony capitalism and elite enrichment, with the misguided practice of cadre deployment playing a key enabling role. What South Africa needs is a package of well-funded policies that would ensure the development of more well-educated and skilled black South Africans, and a more dynamic entrepreneurial society that will include more black entrepreneurs, managers and investors. Instead, we mainly get political influence-peddling, 'tenderpreneurs' and policies and attitudes that emphasise the redistribution of existing equity and wealth rather than its expansion.

Crony capitalism now reaches far and wide in the country; from small towns to slices of SOE business and growing chunks of the national economy, well-connected ANC patrons, politicians and officials are appropriating more and more money and other assets, but delivering little growth and employment in return. This is the flip-side of growing government intervention in large areas of the economy; the spoils available to the politically connected are that much bigger.

A fundamental miscalculation that allows this drift is the belief that the policies of racial redress on the one hand and those aimed at stimulating growth and employment on the other can be pursued without a meaningful relationship between them. This means that the costs for the economy and the country's growth prospects are never properly accounted for.

“Crony capitalism now reaches far and wide in the country; from small towns to slices of SOE business and growing chunks of the national economy.”

IMPLICATIONS FOR ECONOMIC GROWTH

Government

Government ambivalence about, and sometimes outright hostility to, markets and business makes faster growth much harder to achieve. A lack of trust, the desire to discipline business, and the subordination of business to unrealistic state ambitions, lead to overregulation which only large companies can manage. This results in an increasingly costly environment in which to do business and a less entrepreneurial economy, thereby entrenching the dominance of big business.

Policy incoherence and a lack of visionary leadership has resulted in an uncertain policy environment, viewed worldwide as the biggest risk for potential investors. A failure to fully understand how private-sector companies operate and flourish, and to embrace competition throughout the national economy (in the public as well as the private sector), has led to low growth, low levels of entrepreneurship, declining infrastructure, and stubbornly high levels of unemployment.

Business

National business leadership and its organisations have overestimated the extent to which policy can be influenced by personally engaging with senior politicians and officials behind the scenes. This is not generally an effective way to influence policy in a democratic system and few business leaders know enough about policy development for this to be effective.

Rather than this approach, business could improve its contribution to policy debates by committing resources to programmes aimed at influencing public opinion about business, its impact and its role in development. Linked to this, business leaders and their organisations, whose skills sets are best suited to running companies, need to involve professionals with the skills needed to analyse, develop and influence policy, both in public and in private.

Business also needs to participate more actively in the public debate about how South Africa should accelerate economic growth and inclusion for the benefit of all citizens and especially those who have been left out of the modern economy, or denied opportunities in the past. Defensive reactions are far less effective than a strategic programme where business chooses its priorities and aims to influence debate on critical issues of policy and implementation vital for growth and national development.

“Economic growth requires effective drivers and competitive markets, with appropriate roles for each. The key drivers of the South African economy are private companies and government. The relationship between them is vital.”

RECOMMENDATIONS

Economic growth requires effective states and competitive markets, with appropriate roles for each. The key drivers of the South African economy are private companies and government. The relationship between them is vital.

The kind of growth South Africa needs is not facilitated by polarised and outdated perceptions of state and market. A successful modern economy needs prudent regulation and a well-run state to collect and then invest tax revenue in sound health, education, and infrastructure programmes. Each country must find the best mixture of state and market to suit its capacities and growth needs.

Too much of the South African debate is focused on business and government, existing companies and immediate priorities. This narrows and often confuses the real issues involved in this essential conversation.

South Africa should focus far more closely on how the correctly weighted roles of markets and states could massively expand the economy, enabling the development of a whole new generation of firms, entrepreneurs and employees. This calls for new attitudes and approaches.

1. If South Africa wants growth and employment, government must stop being anti-business

Government has acknowledged that the bulk of growth and jobs will come from the private sector. For this to happen at the scale South Africa needs, fundamental assumptions and attitudes need to change throughout

government and need to be communicated effectively to supporters and the general public.

- **Markets must be allowed to play a far bigger role in national development.**
- **Business needs to contest the idea that all or most of South Africa's problems are caused by the business sector or market failures**, and that the solution lies in greater state intervention in the economy.
- **Higher growth and mass employment require a far better understanding of the functioning of markets** and the private sector by politicians and policy makers, including:
 - the real costs, risks and rewards of doing business.
 - what companies need in order to succeed – the rule of law, policy certainty, a shared vision of growth, and an enabling environment.
 - the realities of competition – South African companies are competing for business every single day within the national and global economies.
 - business success means far more than profits for 'fat cats': successful companies contribute vast sums in taxes, wages, training, and health and pension benefits.
- **Abandon the notion that there are fixed numbers of jobs and business opportunities, and that the state is the primary agent that can distribute them fairly.** This zero-sum idea is hampering the market economy, and restricting entrepreneurship and growth.
- **Faster growth requires a positive attitude to all enterprises**, whether big, small, medium-sized, black, white, national or multinational. In order to reach faster rates of economic growth, we need to nurture all existing enterprises, as well as create the best possible environment and access for potential new entrepreneurs.

“Higher growth and mass employment require a far better understanding of the functioning of markets and the private sector by politicians and policy makers.”

2. South Africa needs a merit-based, professional civil service that understands business and markets

Over the past five years, the practice of appointing unqualified and ill-suited people to top jobs in the civil service and SOEs has escalated, with greatly damaging consequences. The merit principle has been ignored in far too many cases and the country's growth prospects significantly undermined.

- **Notions of merit, suitable qualification, and using all available talent in South Africa have to be restored.** Ideas such as 'relative skills shortages', ignoring people who have skills but do not meet 'other' requirements, should be discarded.
- **The NDP is correct to prioritise the professionalisation of the civil service, entrance examinations, and more effective training.** Restoring the distinction between state and party is vital to halt crony capitalism. Performance contracts for senior civil servants need to be revisited: for example, they should allow dismissals on the grounds of non-performance, without the massive pay-outs that have become perverse incentives for failing to perform.

- **Ministers and officials, especially in key ministries vital for the economy should understand the positive power of markets and business,** and have the ability to introduce and monitor regulations that encourage a competitive, privately-led economy, engage with the private sector and harness its expertise and resources to achieve public goals.
- **There is much to learn from some state institutions such as the National Treasury,** the South African Reserve Bank and South African Revenue Services as well as a number of private companies which have managed to combine transformation with institutional integrity and world-class excellence.

3. South African business needs to get its own house in order

A major part of business efforts to improve its relations with government and its perception in our wider society should be to get its own house in order.

“South Africa’s growth prospects have been damaged by the way in which the social, economic, political and ethical necessity of promoting black-owned and managed companies has frequently degenerated into crony capitalism and elite enrichment.”

- **Companies need to:**
 - Redefine their relationship with employees. A fundamental rethink is required on attitudes and practices, in ways suited to their sectors. While employee stock ownership plans (ESOPs) are important, other possibilities for worker engagement and participation, including a more equitable sharing of productivity gains, should be considered. Executive pay and bonuses that are not related to company performance are not justifiable.
 - Reassess how they are opening up opportunities for black South Africans, and ensure that their policies for doing so are effectively communicated. Apartheid was a system of structural race discrimination that permeated everything (including attitudes) and prevented black advancement in many different ways. Companies should review their performance over the past 20 years, and assess what more can be done with respect to appointments, subcontracting, racist attitudes in the workplace and opportunities for advancement.
- **Business organisations need to be more effective and fit for purpose.** Collective action in a diverse sector such as business is always hard, and it is made more difficult by the consequences of our apartheid history. However, some fundamental questions need to be asked about the leading national business organisations, Business Unity South Africa and BLSA, including:
 - How can they become more effective and influential in the broad debate about how growth and large scale employment should be achieved? Should they remain two separate organisations? Do their leaders reflect the diversity (age, race, gender, economic sector) of a changing business community? Are they staffed with people capable of dealing with the complexities of South African policy? Corporate South Africa devotes considerable resources to these organisations. Are they investing enough and are they getting sufficient return on their investment?
 - Has business devoted enough time and resource to professionalising its capacity for policy influence? While personal engagements between business and political leaders are important, policy

processes require rigorous analytical work, and sustained interaction as well as engagement across a broad institutional front. This should not be left to ad hoc interactions and should be organised more strategically and systematically. Business should learn from activist NGOs and Cosatu's extensive parliamentary office, energetic advocacy, network of policy players and harnessing of expertise in this regard.

- **Organised business should recalibrate its interactions with government to ensure that the dialogue is more honest and robust.** Government should consistently hear the message of what business imperatives are and business should not hesitate to disagree when necessary. Business should not participate in initiatives with which it disagrees and which it does not believe will succeed. Engagement should be forceful when its core interest in economic growth and employment are threatened. This fresh approach to interactions with politicians requires business leadership that is confident, open, articulate and courageous, leaders with the skills to understand political imperatives and the broader social context.

4. Business should participate more actively in public debates, and play a more active role in civil society

In a democracy, private deals are inadequate mechanisms for collective business engagement with government. Unlike in an authoritarian state, the public arena is made up of vital audiences – media, citizens, organised interests, parliament – with which business should engage. South African business is putting too much faith into private engagements and too little energy into influencing policy and the national debate through participation in public debates. Finding the right balance between the public and private spheres is essential.

In democracies, the 'public square' really matters. Business leaders and organisations need to participate in the debate on how South Africa should deal with its challenges of unemployment, poverty and inequality. Business has to make the public case for prioritising private sector-led economic growth, and explain how an expanding economy can create many new jobs. It has to make the case for the reforms that are essential for a market economy to maximise its ability to deliver growth and jobs.

- **South African business needs to take ideas more seriously.** There is a global battle of ideas about capitalism and the role of markets and firms. The contentious role of business in South Africa's apartheid history adds complexity to our version of this conversation. South African business needs to take this seriously. It needs to ensure that there is an ongoing and effective programme of public debate, engagement and serious contributions to help influence the direction of this conversation.
- **Business should promote its own agenda for inclusive growth, not just react to the government's agenda.** This means business should invest in professional policy work on selected priorities, and in the advocacy and engagement required to communicate its views to diverse audiences. It should provide examples of how the contribution of markets and firms to economic growth and national development can be maximised. It needs to communicate the vital role of enabling business environments. Business should identify key points in the

“Defensive reactions are far less effective than a strategic programme where business chooses its priorities and aims to influence debate on critical issues of policy and implementation vital for growth and national development.”

national calendar, (for example the national budget, the state of nation speech, youth day and so on) and ensure a strong, well-argued policy contribution on national priorities. Business views should be prominent in the national debate about growth and inclusion.

- **Business should stop being taken by surprise.** It should identify key issues vital to growth and jobs, and work in advance to influence the debate. Business should have foreseen a number of vital issues that cropped up in 2015, for example, and been ready with its own proposals early on. The issue of access to and the cost of higher education has been festering for some time; business should develop the capacity to participate in the public debate about this vital issue. The economy has been faltering for years and business should have a practical set of priorities for action and debate. Yet, instead of seeking to define and influence vital public issues, business leaders have largely been in a reactive mode. Imagine if business had itself provoked a debate about the state of higher education and the funding squeeze. Or if business put forward its approach to dealing with unemployment and encouraged debate on that. This could be one of the ways in which business demonstrates its commitment to building a better country and showing that it too has a vital interest in dealing with poverty and changing the opportunity structure for millions of poorer South Africans. Playing a more active role in the national debate will help to convey the commitment of the business sector to national development.
- **Large companies need to respond to the negative attacks on markets, capitalism and their roles in South Africa today.** Three priority actions can immediately be identified:
 - Document the benefits of ‘just doing business’ for all South Africans, and find effective and imaginative ways of communicating this to diverse South African audiences.
 - Document what companies have achieved over the past 20 years in moving away from apartheid practices towards sharing assets, opening up opportunities and expanding training for all. It is as important to assess what still needs to be done, as well as what has already been achieved. This should not be a mere public relations exercise but a serious and independent assessment. Again, this should be communicated in imaginative ways.
 - Larger companies can take the lead – as they did in the transition period – providing senior executives to participate in national public debates on vital issues and having the confidence, staying power and connections to work at getting more effective relationships with government, politicians and other important institutions of influence.
- **Business needs to recalibrate its social and strategic expenditure.** It is enormously generous on Corporate Social Investment but spends far too little on strategic thinking about South Africa and the business role in influencing policy work and strategic engagement about key policy issues. When you consider the impact that a bad policy can have on the business environment or conversely the enormous difference a good policy can make on economic growth, public service and business expansion, the point is clearer.

“Business should identify key issues vital to growth and jobs, and work in advance to influence the debate.”

5. Business needs its own agenda on black empowerment, poverty and inclusion

In the light of South Africa's history, and its consequences for black South Africans, business needs to pay special attention to creating a much fairer and more sustainable distribution of resources and opportunities within the private sector and the broader economy.

In a recent speech, Siphos Pityana, chairman of AngloGold Ashanti, lamented that transformation had become '... something of a zero-sum game ... with little thought given to how BEE can contribute to growth, employment and economic development. ... Unless we grow the economy and jobs, we are all reduced to a fight against each other for crumbs ... and a mindless and relentless race to the bottom.'

Business must unequivocally commit itself to dealing with racist attitudes in the workplace and to expanding opportunities for previously disadvantaged people. It must communicate its policies and approaches within its own companies and networks and to the broader society. It should reject attempts to narrow the desirable national objective of expanding opportunities for all, to various forms of elite enrichment and new types of exclusion.

Instead of being at the receiving end of a government agenda which is increasingly being shaped by narrow vested interests, business should develop its own approach to BEE. This should be one which supports faster growth, widespread inclusion and national development. It should prioritise the unemployed and the poor, the 'outsiders', while not neglecting what needs to be achieved in the rest of society. This approach would be built on quality education and training for the vast majority of South Africans. It would prioritise mass employment through higher and more labour-intensive growth, including low-skilled manufacturing; it would also emphasise the importance of nurturing existing companies and dramatically expanding opportunities through an enabling environment for new, especially black-owned and initiated firms.

All the options could be examined by an independent, growth-oriented commission tasked with reporting to leading business organisations within a year. The aims of such a commission would be to assess what has been achieved until now, for whose benefit, and with what consequences. It should look at unintended negative consequences of the current approach. It should then go on to define an approach to broad-based empowerment which could create new opportunities for millions of South Africans.

“Business must unequivocally commit itself to dealing with racist attitudes in the workplace and expanding opportunities for previously disadvantaged people.”

CONCLUDING REMARKS

To many South Africans the virtues of markets and enterprise are not self-evident. If business is to thrive in the long term and help South Africa grow, it cannot leave the defence of the market to chance, or to other interests. Business leaders and organisations need to define and defend their core interests and persuade others why this is good for everyone. Business needs to be a co-author of South Africa's future, rather than a victim of circumstance, a passenger, or co-opted without knowing it.

There is no coherent business strategy or effective organisation making a strong case for how to achieve the rapid and inclusive growth South Africa desperately needs.

Business leaders have struggled to engage effectively in the democratic politics of the country. They have overemphasised behind-the-scenes talks with government and underutilised the opportunities democracy provides to participate in public debate and through these mechanisms influence attitudes to markets and firms. They have not made the case for much higher and more inclusive growth as the only foundation to deal with the challenges of poverty, unemployment and inequality. They have not made the case for how South Africa is to create an environment for many newer and smaller firms. And they have not been effective in promoting the benefits of profit-making firms for national development or in putting forward practical proposals on how dynamic markets and companies can help resolve the country's many challenges.

At this time of crisis in South Africa it is not only government that needs a fundamental change of direction. Business needs a new strategy if it is to provide the leadership the country desperately needs.

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CENTRE FOR
DEVELOPMENT
AND ENTERPRISE

5 Eton Road, Parktown, Johannesburg 2193,
South Africa
PO Box 1936, Johannesburg 2000,
South Africa

Tel +27 11 482 5140 | Fax +27 11 482 5089
info@cde.org.za | www.cde.org.za

