GSB BUSINESS REVIEW

#2 SUMMER 2014

GRADUATE SCHOOL OF BUSINESS
UNIVERSITY OF CAPE TOWN

The rise of the academic activist

WORLD DESIGN CAPITAL
HOW TO THINK LIKE A DESIGNER TO SOLVE COMPLEX CHALLENGES

BUSINESS SCHOOLS UNUSUAL
CHANGING THE CONTINENT ONE BUSINESS AT A TIME

FULL COLOUR THINKING

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GSB Business Review is the magazine for alumni and friends of the Graduate School of Business at the University of Cape Town.

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Cover photo: MPhil student Francois Petousis deep in conversation with Cape Town entrepreneur Tobela Kilimba. The photo was taken by Bev Meldrum as part of a Learning Lab to explore business model innovation at the bottom of the pyramid. Bev is passionate about social entrepreneurship and photography and can be reached at www.bevmeldrum.com.

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WELCOME

The Africa Rising narrative is gaining ground as the continent heads towards a record two decades of growth. But while the champagne corks are popping, more and more voices are also being raised in caution. As one World Bank report puts it, Africa's growth is not yet a tide that is lifting all boats. Inequalities have expanded in tandem with economies, and Africans today enjoy less than one-twentieth of the living standards of Europeans.

As Africa's top business school, the UCT GSB is one of these voices. The school has no doubt that there is vast opportunity on the continent, but it is clear that this cannot come at the cost of the poor and the environment.

Business schools have a key role to play in Africa – not only by providing an analysis of the context for business, but by creating the conditions for bright people to engage innovatively with the challenges, to become, in fact, activists for change. This issue showcases some of the best of this work at the UCT GSB from an analysis of US/South African trade relations to a glimpse into the mind of a young social innovator.

We have an impressive array of contributors, so there is not much space left over for me. You will need to flip through these pages to see the rich ideas and excitement brewing here for yourself.

JANE NOTTEN
Editor

CONTRIBUTORS

Mills Soko is an associate professor at the UCT GSB specialising in international trade and doing business in Africa. He convenes the UCT GSB business roundtable series, which seeks to facilitate much-needed debate on key social and economic issues.

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Dr Lindi van Niekerk is a medical doctor and the Inclusive Healthcare Innovation (iHI) Lead at the UCT Bertha Centre for Social Innovation. As a young doctor, she says she was driven to cure patients, but soon realised that the answer often didn't lie in her prescription.

John Luiz is a professor at the UCT GSB and director of the International Relations Office at the school. In 2013, he was elected president of the Economic Society of South Africa and was appointed to the national South African Statistics Council.

Lisa Templeton is a photojournalist, editor and award-winning travel writer. With two decade's experience in the field, she has worn the sensible shoes of the news journalist and the spike heels of the corporate communications manager, covering a range of industries.

Walter Baets is the director of the UCT GSB and holds the Allan Gray Chair in Values-Based Leadership. Formerly Professor of Complexity, Knowledge and Innovation at Euromed Marseille Ecole de Management, he is passionate about building a business school for "business that matters".

Dave Marrs is a former *Business Day* finance editor who now runs the publication's Cape Town bureau. He is also chief lead writer, a columnist and editor of the *Bottom Line*. When not engaged thus, he can be found rowing in False Bay or building boats in his garage.

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Bekezela Phakathi is a Cape Town-based journalist and freelance researcher. A Rhodes University Journalism and Media Studies graduate, he has a particular interest in economics and politics and writes on these topics for the *Business Day*.

Stephanie Giamporcaro is the research director and a senior lecturer at the UCT GSB. With a special interest in responsible investing, she is the lead researcher on the *Africa Investment for Impact Barometer*, an annual publication that offers a snapshot of the investment for impact market in Africa.

Nceku Nyathi is a senior lecturer in the Allan Gray Centre for Values-Based Leadership at the UCT GSB. With a pedigree in organisational studies and leadership theory, he has a deep interest in the role of values in transforming business on the continent.

Stephen Peterson has held several faculty and research positions at Harvard University and introduced and directed its prestigious programme in Public Financial Management for 24 years.

ERRATUM **In the Autumn 2014 issue** we incorrectly referenced Michael Paige, Dean at Endicott College when we meant Michael J. Page, who is Provost and Vice-President for Academic Affairs at Bentley University. The latter is a former member of faculty at the GSB. We apologise for any confusion or embarrassment caused.

To celebrate the launch of the Postgraduate Diploma in Management Practice a special mural was created in a single day on the UCT GSB campus. Although later painted over, the sequence was filmed for a promotional video which can be viewed on the UCT GSB YouTube page.

New Postgraduate Diploma in Management Practice to plug skills gap

The University of Cape Town Graduate School of Business (UCT GSB) is launching a new postgraduate diploma to overcome the lack of qualified and skilled middle managers that is aggravating Africa's already turbulent economy.

South African business schools offer excellent top-end and lower-end business qualifications – but there is a gap in the middle of the business education ladder. It is this gap that the UCT GSB aims to fill with its important new course – the Postgraduate Diploma in Management Practice (PGDip).

"What we don't see in South Africa is the kind of qualification that speaks to middle managers and young senior managers and which goes beyond functional insights. At this level, people need not only knowledge of finance and accounting, but also how to go beyond this and use it in a broader framework," says director of the UCT GSB, Professor Walter Baets.

The PGDip, which will run for the first time in 2015, is a pre-master's programme that builds vital business skills for success in uncertain economic times. It offers a choice between three specialisation streams: Innovative Leadership, Wine Business or Business Administration.

Baets believes companies need employees who are skilled at postgraduate level, who have some kind of basic management knowledge but need the expertise that comes with the deeper business and psychological insights that traditionally come with longer and more expensive courses such as an MBA. "This is where there is a lot lacking in competence in South Africa. It's not at the top, but in the management positions where people lack basic knowledge and integrative insights," he says.

Saskia Hickey, UCT GSB market intelligence and strategy manager says "the programme gives participants tools that allow meaningful reflection, challenging individuals on a personal as well as professional level." Hickey adds that an important difference between the new PGDip course and traditional management programmes is that in the PGDip there is real integration between subjects, which allows crucial insights into how sections like marketing, accounting and finance all come together in a company or organisation.

The programme takes a systems thinking and action learning approach, a proven educational method developed and perfected over several years at the UCT GSB in its other business education courses. Students implement knowledge in their workplaces in between modules via action learning projects. This means companies and organisations see immediate benefits from employees participating in the course – while individuals are able to witness how theories work in practice – a valuable educational tool.

Professor Baets believes that in the future, business schools will develop more postgraduate diplomas as these address immediate needs and offer condensed knowledge packages in interactive formats, making them optimal for learning.

"We all like to think we are good in management practice without having had any training and of course, there are a few exceptions but there can only be so many Richard Bransons and Bill Gateses. For most people, it can help enormously to get this kind of structured approach and in one year, they can obtain enough information to contribute vastly to their organisation or company."

Professor Baets says business schools have to respond to the needs of society. "We cannot keep at one kind of learning when it is clear that more people want and need another kind of education and learning approach.

"More people want this as it is a way in which skills can be applied very quickly and it is an extremely powerful and effective tool," he says.

NEWS ROUND-UP

Business roundtables focus on the big issues of the day

From left: At one of the recent UCT GSB business roundtables to discuss the BRICS bank were Mills Soko, associate professor at the UCT GSB and Michele Ruiters, Africa integration specialist at the Development Bank of Southern Africa.

The UCT GSB has initiated a series of high-level business roundtables aimed at facilitating and stimulating debate on issues of key economic and social importance for South Africa and the broader African continent.

Series organiser, GSB Associate Professor Mills Soko says that the events are designed to get business leaders, policymakers, academics and civil society representatives literally around a table to flesh out some of the pressing issues of the day. Topics covered since the series was initiated in May include a debate on the future of mining in South Africa following the protracted platinum strike, an assessment of EU/South African economic relations, a preview of the US/Africa Leaders Summit, and a discussion on South Africa's role in the newly-established BRICS bank.

"As interest grows in South Africa as a global economic player, it is becoming more critical that we are well informed and asking the right questions about these issues," says Soko.

"Universities and business schools must play a key role in facilitating and stewarding these conversations. We want to deploy the school's convening power to promote structured dialogue around current socioeconomic and business challenges. As Africa's top business school, we believe we are well placed to lead this process."

The UK connection

The UCT GSB has launched a UK alumni club, to give graduates based in the UK more opportunities to connect with each other and to stay in touch with the newest thinking in the business world.

Dubbed The Graduates, the club plans to convene four unique events each year. It held its inaugural dinner on Monday 13th October with guest speaker James Espey OBE. The annual subscription fee for membership of The Graduates will be given 100% to the newly launched Alumni Endowment Fund, which will be used to fund bursaries for talented students from less privileged backgrounds to study at the UCT GSB.

Newly appointed Fundraiser at the GSB Peter Wingrove says, "The UCT GSB is the top business school in Africa, but to remain the best, it needs to be able to fund world-class international faculty as well as deserving students, regardless of their financial circumstances."

Wingrove says he plans to have a UCT GSB endowment in place by 2016 when the school celebrates if 50th anniversary.

GSB energy expert appointed to top national body

Energy and infrastructure expert Professor Anton Eberhard has been appointed to the National Advisory Council on Innovation (NACI) – an advisory body to the Department of Science and Technology on the role and contribution of science, mathematics, innovation and technology, including indigenous technologies, in promoting and achieving national objectives.

Professor Eberhard, who directs the Management Programme in Infrastructure Reform and Regulation at the UCT GSB and is a member of the National Planning Commission, is an advocate for the reform of state-owned utilities to improve the supply and access to electricity in emerging countries on the African continent.

"Innovation is the key to finding new ways to address the many challenges South Africa faces in the fields of science and technology. We need to find our own solutions to our infrastructure and technological challenges. And we are up to the task," he said.

Keeping FAST COMPANY

The UCT GSB is a key partner in the local version of FAST COMPANY magazine – the US's most popular and progressive business media brand – which launched in South Africa in October.

The school's director, Professor Walter Baets, sits on the editorial board of the publication and has also been invited to contribute a monthly column. "We are really excited to be associated with this prestigious publication," said UCT GSB marketing director Saskia Hickey. "*FAST COMPANY* celebrates a new breed of innovative and creative thought leaders who are actively inventing the future of business and this fits perfectly with the GSB brand."

FAST COMPANY will be published in South Africa by Insights Publishing in Cape Town and edited by Robbie Stammers, former editor-in-chief of *Leadership Magazine.*

GSB hosts African business educators

Business educators from across Africa were urged to think more innovatively in order to offer relevant and meaningful training to the continent's future business leaders at two events hosted by the Association of African Business Schools (AABS) at the UCT GSB in July.

While the latest economic data shows continuing strong economic growth for countries on the African continent – and specifically in West and East Africa – there is a danger that the opportunities created by this new wealth will not translate into benefits for Africans and will only increase the gap between rich and poor. According to Dr Nosakhere Griffin-EL, lecturer in inclusive innovation at the UCT GSB, finding ways to make businesses better, not only financially but also socially and culturally relevant, should be one of the core functions of business schools in Africa.

The two events; the AABS Case Teaching and Writing Course and the Teaching Master Class – Design Thinking and Innovation, sought to explore ways for educators in business disciplines to become better teachers and to help them think more innovatively. One of the highlights was the participation of Harvard business administration professor Srikant Datar, one of the world's top design and innovation thinking experts.

Dr Nosakhere Griffin-EL.

UCT GSB director, Professor Walter Baets, is the incumbent chairperson of the AABS, an organisation of more than 30 African business schools.

GSB team heads for MBA Olympics

A team of students from the UCT Graduate School of Business will compete for the third year running at the prestigious John Molson International Case Competition, in Montreal, Canada, this January.

The oldest and largest case competition in the world, 150 students from 36 business schools in 14 countries compete each year.

"This is a great honour, as the event is traditionally oversubscribed, with a long waiting list of international business schools hoping for a spot," says GSB lecturer and team coach Johannes Schüler.

The team consisting of Chris Human and Robyn Moor from the modular MBA, and Ralph Thomas, and Caryn Jeenes from the full-time MBA class of 2014 was selected after a rigorous process of elimination. An initial selection of sixteen hopefuls were put through a gruelling training process "starting with a deep-end weekend of five cases and some pretty blunt feedback sessions", before pitting their wits against each other in a series of simulations. The two teams left standing went head to head and presented their solutions to a DeBeers business case at the annual Consulting Conference hosted at the GSB on 9th September.

The winning team will be heading to Montreal on Boxing Day to fit in some more team preparation before the event starts on 4th January.

"Despite the high stakes, the atmosphere was pretty friendly and supportive," says Chris Human. "Personally, I would say that I've learnt more during the case study prep sessions than in any other single part of my MBA experience so far, and that is saying a lot. It's is an awesome experience and a privilege and, of course, there is more coaching to come."

From left: Chris Human, Robyn Moor, Ralph Thomas, Caryn Jeenes, Johannes Schüler.

APPOINTMENTS

NEW RESEARCH DIRECTOR TO DRIVE TOP-CLASS RESEARCH AT THE UCT GSB

Academics should strive to do research that deals with real challenges and opportunities in society, says Dr Stephanie Giamporcaro, senior lecturer and the new research director at the UCT GSB.

"Meaningful research is very important at the GSB. The school, which is one of just 60 around the world to have triple crown accreditation, participates and collaborates at an international level," says Dr Giamporcaro. This necessitates a strong research mission that is in line with the business school's vision, which is to become a leading business school in emerging economies through a values-based and sustainable business approach.

Dr Giamporcaro came to the business school in October 2011 as a senior lecturer in finance and has been very involved in research initiatives, like the PhD programme and research design and methodology workshop.

Promoting PhD students and developing them into world-class researchers with a passion for research is one of her key objectives as research director. "PhD students should graduate from the UCT GSB, not only with an internationally recognised PhD qualification, demonstrating thought leadership in their area of specialisation, but also a broader understanding of and love for research," she says, adding that they must be able to make an original contribution to theory, while also addressing practical, social or organisational challenges.

Dr Giamporcaro's own field of interest is responsible investment, which relates to all three clusters of research at the school – social innovation and sustainability; values-based leadership; and emerging market finance, investment and trade. One element of her research looks at the extent to which individuals in South Africa control or play a part in the way their pensions and savings contributions are used and invested by the companies they work for. She is also the lead researcher on the *Africa Investment for Impact Barometer*, an annual publication that offers a snapshot of the investment for impact market in Africa.

She says other faculty at the UCT GSB are working on similarly interesting research projects. "We try to use our expertise as researchers to mainstream certain ideas and develop them into usable frameworks for business and people in organisations. We want to be engaged with business in bringing about change for more responsible and ethical business choices," she says.

Do not undervalue the resilience that three to five simple, sturdy, honest core values, expressed succinctly, can give a business, particularly in times of crisis, says Dr Tim London, formerly of the UK's University of Cambridge, who joined the team at the Allan Gray Centre for Values Based Leadership at the UCT GSB in August.

"The global economy has placed a premium on values-based leadership, and the South African economy is an ideal place to put it into practice, particularly as it has been examining the notion of values and asking the questions: if we are different to 30 years ago, how has the country changed since the onset of democracy?"

Dr London says that it is an interesting time to be in South Africa and at the UCT GSB, particularly as the Allan Gray Centre for Values-Based Leadership, which was established in 2011, is itself relatively new. "South Africa is very interestingly placed at present as it comes out of apartheid and assumes its role in BRICS (an acronym given to the association of five major emerging national economies: Brazil, Russia, India, China and South Africa) and evolves into an emerged market," he says.

VALUES-BASED LEADERSHIP IS MORE THAN JUST A GLOBAL BUZZ-PHRASE

Dr London, latterly the director of programmes at the Institute of Continuing Education at the University of Cambridge, England, was raised in Minnesota in the US, and has worked all around the world, including Northern Ireland, the US, Georgia and Saipan, the largest of the Northern Mariana Islands in the Pacific, as well as in Egypt. During this time, he has acquired a number of degrees, including a BA Psychology (Colgate University, New York), a Master of Arts (University of Illinois-Springfield, US), a Graduate Certificate in Higher Education Teaching (PGCHET) and a Master of Laws (both from Queens University, Belfast), and a Doctorate of Education (Peabody College of Vanderbilt University, Nashville). He is currently studying an MBA through the University of Liverpool, UK.

It is a career path that has given him a global view and a passion for a working philosophy of core values, which he believes can play a key role in guiding an organisation – or a country – through difficult times.

The trick, he says, is to develop your personal core values, as well as business values and to be totally honest. "If your core value is to do whatever makes the most money, then be honest about it. But it gives your business core concepts, or building blocks by which to rebuild or refocus your business when bad things happen."

"I'm excited to be at the UCT GSB," says Dr London. "It is a community with a lot of passion and interest in including and serving the broader business community, and looking at what we can do to get that right and to deliver courses that are interesting, relevant and groundbreaking."

The rise of the academic activist

BY BEKEZELA PHAKATHI

Academics have a privileged place in society and, as such, can play a powerful role in shaping its direction for the better.

Academia is often criticised of being too naïve about the realities of life beyond the ivory tower – far removed from the needs of society. *The Economist* magazine once described America's Ivy League universities as "not so much 'palaces of learning' as bastions of privilege and hypocrisy". But more and more academics are rolling up their sleeves to get involved in the mission of finding practical solutions to some of the pressing challenges in society.

In 1970, the late Norman Borlaug was awarded the Nobel Prize for his contribution to the world food supply. The American biologist was instrumental in setting in motion the so-called 'green revolution' by creating high-yield, disease-resistant crops that helped millions escape starvation.

Despite subsequent criticism of his work, mostly from environmentalists, many academics today look at Borlaug's work as an archetypal example of how scholars can make an impact on society. He showed on a grand scale that academics do have a role to play in shifting the direction of society.

"As an academic, I think there is a sense of responsibility to interact and communicate not only with fellow scholars, but with a broader community," says UCT GSB professor Ralph Hamann. Hamann is one of many academics and staff members at the institution who has embraced the idea of pursuing scholarly work in tandem with activism.

Academics pursuing activism with the aim of bringing about social change are influential in many ways and their significance goes beyond the lecture room, where they provide academic guidance and more to many students. They are perhaps a key element in a modern society. Their views and involvement in societal issues can carry enormous weight and in many instances help to positively shape the future – either by challenging the *status quo* or by finding ingenious solutions to societal and business needs.

"There is a spectrum of work that academics are engaged in that will have practical relevance," Hamann says.

"There are sometimes these clichés of ivory towers ... I think it is possible for some researchers to be quite aloof or separated from practical issues or policy issues. Even so, if they develop good theory, then that can have a significant practical impact."

The work of the Massachusetts Institute of Technology (MIT) Media Lab is a case in point. Situated in the heart of MIT's campus, in Massachusetts, the Media Lab is one of the world's leaders of invention – promoting a unique, anti-disciplinary culture to develop disruptive technologies that could have everyday uses for millions of people. Some of the Media Labs' successes include the development of the Aspen Movie Map, which was the precursor to the ideas in Google Street View, and Netra, a $2 add-on smartphone device that automatically tests for an eyeglass prescription.

The key to the MIT Media Lab experiment lies in their stated aim "to look beyond the obvious" and to ask the "not yet asked questions whose answers could radically improve the way people live, learn, express themselves, work and play". Whether working in the technology space, as MIT does, or by innovating policy, processes and business models as the UCT GSB does, looking beyond the obvious and asking the unasked questions is central to the academic activist mindset.

Professor Hamann himself has been asking just such questions aimed at making a difference to business in South Africa as academic director of the Network for Business Sustainability (NBS). The organisation, which is affiliated to the Canadian NBS established in 2005, was set up with the aim of connecting researchers and professionals across the globe who are interested in corporate social responsibility. It essentially aims to address business sustainability issues within the South African context by better using and building the considerable business and academic resources in the region. Companies involved in the NBS Leadership Council include Santam, Transnet and Woolworths, and Hamann says that although the South African NBS has only been operating for just over a year, he believes it has already started to make a difference.

"We have many stories of impact, where people tell us how they have used some of our material. Companies have told us that NBS has influenced the way they think about strategy," says Hamann.

Very few people would argue that the challenges faced by companies nowadays are varied and indeed intricate. From considering the environmental and societal impact to health, safety and labour relations, the risk implications for businesses operating in the modern world have never been so perceptible. Business needs top notch and relevant advice to help get through the multifaceted socioeconomic milieu in which it operates.

"There are sometimes these clichés of ivory towers ... I think it is possible for some researchers to be quite aloof or separated from practical issues or policy issues. Even so, if they develop good theory then that can have a strong practical relevance."

PHOTO Bev Meldrum.

GSB MPhil students engage with entrepreneurs in Khayelitsha outside of Cape Town.

"NBS is an example of an organisation that tries to close the gap between research and practice," Hamann points out. He emphasises that the relationship between business and academic researchers is at times difficult, adding that some practitioners had actually written off academics, as they did not "understand their language". The NBS is working to bridge the divide between practitioners and researchers to offer practical solutions for businesses.

While Hamann acknowledges that time constraints and career incentives can make it difficult for an academic to pursue activism or related activities, he believes that academics still can find effective and smart ways of making a positive impact on society.

"The trick is to find those activist activities that contribute to the scholarly theoretical work and vice versa." He adds that it is interesting to think of the UCT GSB as a collection of activist scholars because there is a stereotype, especially amongst academics and activists, that business schools are essentially handmaidens to business, capital, bosses and management. However, such stereotypes are partly diminishing, Hamann notes.

He says that on the contrary, the UCT GSB offers an environment that fosters activism among staff, faculty and students alike. The school actively encourages its academics to "challenge taken for granted assumptions" and to go beyond case studies and grapple with real problems. The most tangible manifestation of this has been the launch of the Solution Space at the beginning of 2014. Partly modelled on the interdisciplinarity of the MIT Media Lab concept, the space offers a physical home for the school's innovation programmes and initiatives and seeks to connect people in the innovation ecosystem (academics, practitioners, policymakers, entrepreneurs, investors and so on), allowing them to work together to invent and test new business models, products and services, and incubate businesses aligned to African markets.

"Academics engaged in social change work experience powerful personal and professional benefits."

But can it work? In a 2013 research article on academia and activism, Michael Flood, Brian Martin and Tanja Dreher of the University of Wollongong, Australia, suggest that academia and activism are simply different things. Every activity has a bottom line. In politics, it's votes. In business, it's money. In religion, it's souls. Activism is about promoting social change, which is a different bottom line to that of academia, which is knowledge generation. However, the three writers argue that many academics engaged in social change work experience powerful personal and professional benefits. Activist academics can find meaning and comfort in the sense that their work contributes to the greater good, nourishing a sense of personal and collective purpose. UCT GSB lecturer, Dr Nosakhere Griffin-EL, is one such academic.

"In my life, I have always combined dreaming and acting, what I call dreamocratic action," says Dr Griffin-EL. "I see this as a calling and believe I was placed on this earth to live a purpose-driven life. Honouring that purpose means I had to find out what I love doing and understand how it can assist in the development of a better world. My purpose in life is to assist individuals in articulating their dreams, while providing them with the support to pursue those dreams within a real-world context."

PHOTO: Bev Meldrum.

Guest lecturer Nicolas Pascarel, from Reciprocity with MPhil students in the Solution Space at the UCT GSB.

Dr Griffin-EL teaches and mentors students through the Solution Space, and conducts research to understand how to make the world more inclusive through what he calls "the pedagogy of dreaming".

"The Solution Space is a place where dreams meet courageous action," he says. Experienced and aspiring entrepreneurs enter the space with innovative ideas and transform those ideas into inclusive businesses that create economic and social value. But it is not about creating businesses for the sake of creating businesses. For real value to emerge, Griffin-EL cautions that entrepreneurs must innovate *with* members of the socially and economically oppressed, not *for* them. Solutions must be embedded within a context.

"Disembedded innovations have the aspiration of meeting people's unmet needs, but without a grounding in a specific social reality, the innovation will never have the intended impact," he says. To achieve real impact, entrepreneurs must engage in dialogue with community members, and develop innovations grounded within that experience.

"The Solution Space experiment is too young to judge its impact. However, five years from now, our success will be judged on whether we have managed to create inclusive businesses that are both profitable and socially relevant," he says.

Whether it works or not, he believes that, as an academic, the important thing is to try. "The work of academics has to go beyond publishing, it has to create the possibility for a better future." For Griffin-EL, that future is "an Africa free of the contradictions that prevent its citizens from reimagining themselves and their societies as transformable through their concrete action", but the field is wide open. The needs are great, the invitation to get involved is broad and the possibilities, in theory, endless.

Towards a social compact for South Africa

South Africa urgently needs to find a way to develop a more inclusive social order that brings labour, government and business into agreement.

BY JOHN LUIZ

For anyone who hoped that the gruelling five-month Association of Mineworkers and Construction Union (Amcu) strike would have taught South Africa something, the hard truth is that social unrest is here to stay. Ongoing labour disputes are symptomatic of a larger, more systemic fault line within the political economy and are likely to continue sporadically until key structural issues are addressed.

There is growing frustration that the rate of improvement in people's lives does not measure up to their expectation of what the post-apartheid scenario would deliver. And business is going to find itself increasingly dealing with the often unrealistic demands of its workers, which may reflect something much larger than their immediate work circumstances. This cannot be dealt with purely at the labour relations level, but needs to be understood in the national context of a broader social consensus.

Journalist Martin Creamer quoted Nhlanhla Nene, Minister of Finance, as saying: "We must find a balance between meeting the earnings expectations of shareholders, the realisation of the vision of economic transformation required by the electorate and occupying our rightful place as global corporate citizens."

This notion of a social compact between government, business and civil society as a basis for long-term economic development and growth underpins economic models in many industrialised countries. The East Asian authoritarian historical experience saw political legitimacy arise from high economic growth rates. Social protection and political participation were suppressed. The state had to keep delivering the high economic rents and, in return, labour focused on productive activities and long hours of work.

"The ongoing labour disputes are symptomatic of a larger, more systemic fault line within the political economy."

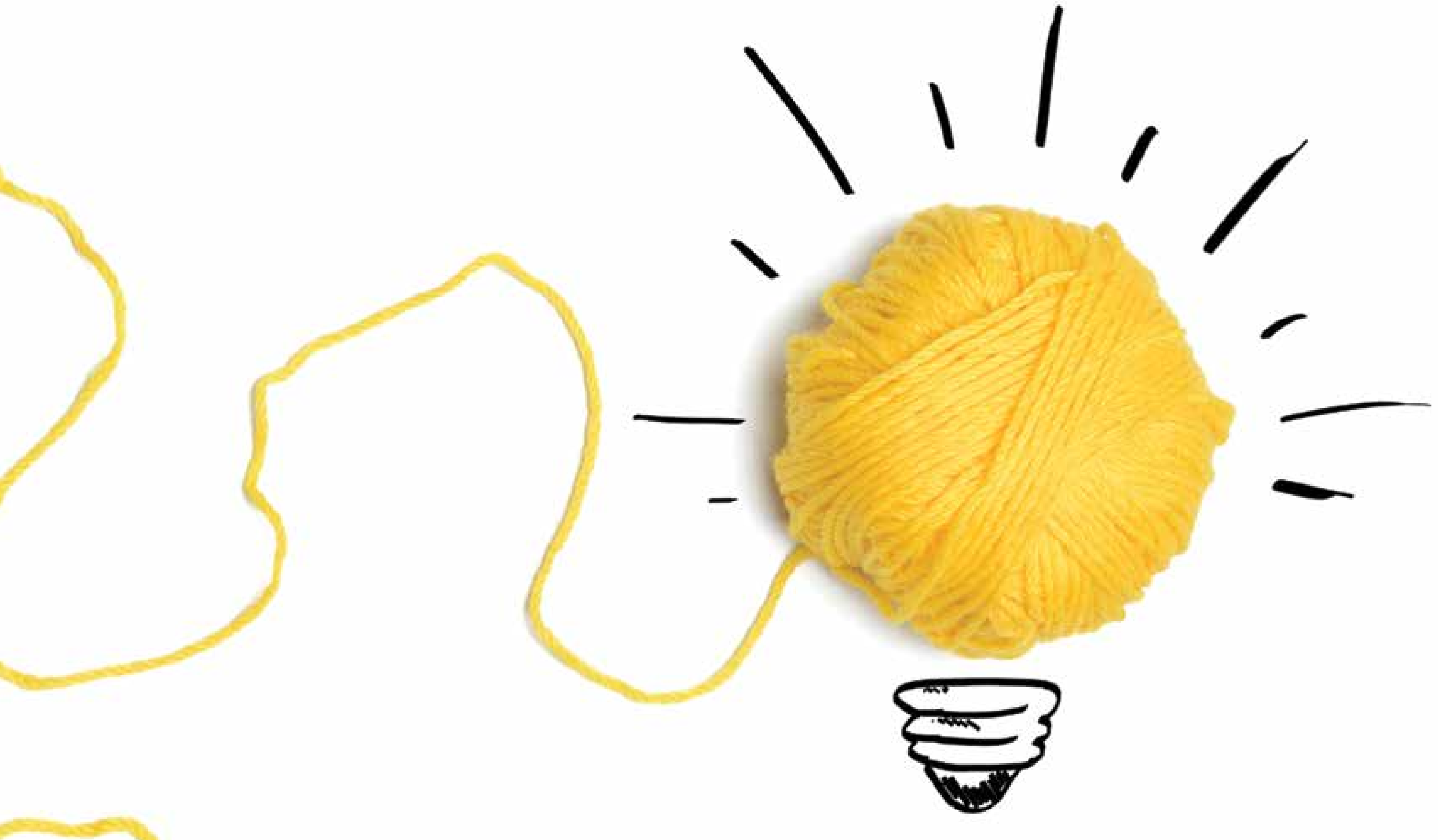
In Europe, a very different social compact emerged that saw a more collaborative, corporatist framework, which focused not only on production, but also on the general wellbeing of the populace. Despite these differences, what ties them together is the implicit or explicit compact that exists between business, government and labour as to the future direction of the sociopolitical economy. This political equilibrium can change over time and indeed has done so in various East Asian countries. As per capita income levels rose, so the populace demands transformed and required political liberalisation and growing social protection from the state.

In Africa, we have generally seen a lack of imagination on the part of both the state and society about a long-term social compact. Historically, Africa has not had a well-developed formal social net and the state has suffered from a lack of legitimacy and has had to find other non-transparent ways to govern. The recent transition to democracy in many African countries, from the mid-1990s onwards, accompanied by higher economic growth, raises the question of how to consolidate this process within a modern state, which is accountable to its citizenry. South Africa is an interesting case because it has developed a very comprehensive approach to social security, given its level of development. Currently there are around 10.3 million beneficiaries of child support grants, and 1.2 million of disability grants. The overall cost of these social grants amounts to 3.5% of South African GDP. There have been calls for higher taxes to finance social demands, but this is only a viable option if there is confidence in the government's ability to deliver social progress and that it will not be used to further the system of patronage for a small elite.

Furthermore, social security does not address the root causes of unemployment and inequality in South Africa; instead it is putting an increasingly unsustainable pressure on the fiscus to support an ever-growing number of welfare recipients with a static and limited taxpayer base. This issue has become increasingly politicised, thus reinforcing the importance of social compacts.

The South African post-apartheid dispensation was a negotiated settlement between elite groups that left the majority of the population without 'voice'. The search for a new social order that accommodates this frustration is pressing. Finding ways to bring about more inclusive development and ways to compensate those who are not making the transition successfully to a new economy is critical.

The ideal outcome is a long-term social compact, which brings business, government and labour together in an attempt to address the structural deficiencies in South Africa's political economy. This will not be easy, given the country's past and the antagonistic relations between these stakeholders. But the alternative is rising instability and continued policy vacillations leading us down a path that nobody wants.



Think like a designer to solve complex organisational and social challenges

BY KOSHEEK SEWCHURRAN

The application of design thinking can not only solve complex problems within organisations and in the workplace – but can also help to improve living conditions and uplift communities, as the citizens of Cape Town found out during their city's year as the World Design Capital 2014.

As the City of Cape Town lowers the by-now familiar yellow and black World Design Capital (WDC) flag at the end of this year, the inevitable question as to whether hosting the initiative has made any appreciable difference to the people in the city has to be asked.

Cape Town set out to try something quite ambitious during its year-long tenure as World Design Capital. It went beyond just leveraging design as a tool to improve the social, cultural and economic life of the city (the stated objective of the WDC initiative), to actively employing 'design thinking' to resolve some of the city's most entrenched problems, such as segregation and unemployment.

Over the past few months, the city has identified a sample of 76 design-led projects and programmes aimed at uplifting and improving conditions for citizens of Cape Town. Some of these have included upgrades to healthcare clinics, new parks for urban areas, youth skills development programmes and improvements to traffic and transport dilemmas.

Richard Perez, programme director for the WDC at the City of Cape Town, believes that design thinking provides an effective framework and process structure, which ensures greater success and better implementation as there is more engagement with end users. He says design-led thinking should be seen as a tool or a technique to help people "think like designers" around the challenges they are facing – whether in the private or public sector, within budgets or existing systems.

While the idea of budgets and design may seem like polar opposites, design thinking in the world of business (and now service delivery) is gaining ground around the world. Some of the world's most successful and fastest growing companies are design led and design thinking is being employed to find solutions for a host of different kinds of problems.

In their book, *Solving Problems with Design Thinking: Ten Stories of What Works*, Jeanne Liedtka, Andrew King and Kevin Bennet provide detailed examples of the design thinking techniques used at top companies like Toyota, IBM and 3M. These techniques include visualisation, journey mapping, brainstorming, prototyping and assumption testing.

In some cases, design thinking led to greater efficiency and cost cutting, in others to successful mergers and company culture building. It is clear from their book that design thinking can be used for a wide range of business challenges. In fact, it can be used to resolve just about any situation one can imagine – from factory floor issues to product launches, all the way up to the boardroom.

> "In most organisations, the highest payoff is not in innovating the solution but in innovating how people work together to implement the new possibilities they see amid organisational inertia, bureaucracy and risk aversion."

For instance, computer giant IBM wanted to rethink their trade shows. They made use of design thinking to do market research, interviewing more than 100 experts in 20 fields – some not specifically related to their industry at all, like educators and psychologists – to gain an idea of how people behave and what makes them feel comfortable at a trade show, for instance. This led to them redesigning the way their trade show structures were set up. The design thinking tool of mindmapping was used to sift through large amounts of data and spot patterns, to develop new insights. Then they built prototypes of new physical spaces and tested these at a smaller show. The result? Double digit increases in client engagement leads – an increase of 78% year-on-year.

A completely different business challenge was faced by Suncorp in Australia. The country's banking giant was merging with an insurance leader, Promina, and the companies were organisationally very different. They needed to find a common strategy to smooth the merger process. Visualisation and metaphor brainstorming, as well as rapid prototyping were used to engage participants and help them think more creatively about the future of the company. And after 18 months of strategic conversations, rolled out at 10 business units, 94% of employees said they understood the company's new vision and how they fitted in.

Liedtka, King and Bennet concluded that the big lesson to be learnt from the Suncorp example was that you should meet people where they are, not where you want them to be. The power of reframing is another valuable contribution of design thinking they say. Impatience is often the biggest obstacle to innovation as many people want to rush towards solutions instead of taking time to properly examine the situation. "In a wonderful paradox, that same ambiguity that makes us so uncomfortable, it turns out, also has the potential to unleash a level of energy we rarely experience when presented with a *fait accompli*. Leaving space for stakeholders to be part of the discovery of new ideas, to be part of the emergence of innovation, gives meaning to their efforts and has tremendous power."

In most organisations, the highest payoff is not in innovating the solution but in innovating how people work together to implement the new possibilities they see amid organisational inertia, bureaucracy and risk aversion, say Liedtka, King and Bennet.

It is an intensely practical process adds Richard Perez, who shared the City of Cape Town's experiences with design thinking at the Business of Social and Environmental Innovation (BSEI) conference at the UCT GSB this October, which had an exclusive focus on design thinking. And it is especially valuable in situations, like in the city, where the stakeholders are divergent. Because design thinking involves opening up traditional ways of thinking, it can help to break down communication barriers, especially within set structures, to encourage the flow of ideas and the development of solutions.

Design thinking drives us to really question the fundamental assumptions ingrained in institutional processes that drive delivery to improve social and economic conditions. It also provides us with a robust framework within which to think about how we can change these conditions and start to address the complex problems facing our society and our continent like hunger, poverty, poor health and so on – through business and research.

Richard Perez says it is probably too early to tell if the Cape Town WDC has yielded any tangible results for citizens of the city, but he hopes that design thinking will drip feed through and change the way the city approaches issues in the future. By sharing these experiences with an audience of business students and leaders at the UCT GSB conference, the ideas can also gain wider credibility and give more organisations fresh ideas to implement innovation at structural levels.

The enduring value of design thinking lies in its ability to change mindsets and behaviour – no easy task. As Liedtka, King and Bennet point out in their book, if one shifts people's mindsets, one can put into motion a series of behavioural changes in the conversations they have – with co-workers, customers and management – as well as with clients and suppliers. It can change how people see the world and ultimately, in the hard outcomes they – and their organisations – create.

> "Design-led thinking should be seen as a tool or a technique to help people 'think like designers' around the challenges they are facing – whether in the private or public sector, within budgets or existing systems."

Friend or foe?

WHAT DOES THE BRICS NEW DEVELOPMENT BANK MEAN FOR SOUTH AFRICA?

BY LISA TEMPLETON

With the bedding down of plans to establish a development bank for the BRICS countries – an initiative that will cost the South African taxpayer a significant amount – experts ask: are South African interests being taken care of?

With its core function being the financing of infrastructure in emerging markets, the fledgling New Development Bank (NDB), brainchild of BRICS (Brazil, Russia, India, China, and South Africa), is designed to serve its five member countries and those regions of special interest to them.

The NDB, however, signifies a lot more than the potential for infrastructure development, something sorely needed if African countries are to foster industrialisation and bolster intra-regional trade. It also seeks to ease the Western grip on global finances and offer a potential counterweight to the World Bank and International Monetary Fund (IMF).

It also has geo-political implications as South Africa beds down with potentially self-serving giants such as China (the NBD will be headquartered in Shanghai and China has insisted upon representation at the African regional centre of the bank to be located in South Africa) and Russia. Experts raise the questions: what is in it for South Africa? Can we guard against the bank it simply serving the interests of South Asia? What do we have in common culturally or values wise with the other four member countries? And will it make access to finance easier or will it inevitably mimic the conditionalities of the IMF and World Bank anyway?

"The NDB is a fait accompli," says Mills Soko, associate professor of international political economy at the UCT Graduate School of Business. "We have to make it work. It is clear that there is a lot of thinking to be done to come to a consolidated, coherent strategy. The question we need to keep asking is: what is in it for South Africa?"

"It offers growth," says Andile Kuzwayo, director, BRICS at the National Treasury. "This is an African story and who will benefit most from improved infrastructure in Africa? South Africa. With GDP shrinking by 0.6% in the first quarter of 2014 we are looking for growth and investing in the fastest growing region globally is the right thing to do."

Speaking at a roundtable discussion at the UCT GSB, Kuzwayo said: "We don't have the funds to finance our own infrastructure needs, let alone the $96 billion needed per annum for infrastructure development in sub-Saharan Africa." He said a regional bank meant local knowledge, which could ensure wise and strategic investment choices, to benefit not only South Africa but the continent.

But if South African taxpayers' money is partly used to finance a road in Liberia, what is in it for South Africa? Martyn Davies, chief executive officer of Frontier Advisory, said it was questionable if the long-term benefits would, in fact, flow into South African coffers.

South Africa will engage as both a shareholder and a borrower in the NDB, according to Kuzwayo. With the South African contribution financed by the taxpayer, the NDB will have $50 billion as seed capital, with South Africa, and the other four members, contributing $10 billion over a seven-year period.

With more questions than answers as yet around the NDB, Davies cautions whether enough has been done to tie this money into the interests of South African companies. He also questions if the idea of a state-owned bank is several decades out of date.

But Michele Ruiters, Africa integration specialist at the Development Bank of Southern Africa, one of five reference banks working alongside the Fortaleza BRICS summit in Brazil in July, from which the NDB announcement was made, said the new bank will be positive. "We welcome a new institution bringing investment for infrastructure. It's a good thing. But as an African institution we would want to know how the NDB will complement us, and how do we make sure that funding comes our way?"

> "The NDB will also offer a US$100 billion dollar Contingent Reserve Arrangement to protect against global liquidity pressures and impacts upon national currencies by global financial pressures."

Ruiters queried whether NDB would lend finance in local currency to hedge currency risk, which might make it a more viable alternative to the likes of the World Bank for emerging markets.

She cited World Bank figures that identify a funding shortfall for African infrastructure of $100 billion a year and the greatest infrastructure need as power, without which there will be no growth and no industrialisation, as well as the need to provide bulk water, power and sanitation to households. Rail also needs substantial boosting. "Infrastructure is a priority," she concluded. It is a prerequisite for boosting intra-regional trade among SADC countries, which is currently at a low 16%, despite the fact that the region has the most developed infrastructure in sub-Saharan Africa.

Others, however, query if the NDB will be more democratic than the established international financial institutions in financing this much-needed infrastructure development. Peter Draper, senior research fellow at the South African Institute of International Affairs and director of Tutwa Consulting, says that a major bug-bear with these banks is the prohibitive conditionalities around loans. "I wouldn't be surprised if NDB conditionalities don't end up looking different to those of the World Bank. It remains to be seen given the membership. China is not about democracy, is Russia?"

He also pointed out that BRICS is a geo-political instrument, with the BRICS dynamic centred on strategic competition within the Eurasian core, Russia, India and China, which are orienting themselves against the West, while not really trusting each other, and sabre rattling in the Ukraine and along the China/India border respectively.

The risks may, however, be outweighed by the positives. The NDB will also offer a US$100 billion dollar Contingent Reserve Arrangement to protect against global liquidity pressures and impacts upon national currencies by global financial pressures.

Associate Professor Soko, who moderated the roundtable discussion, says that it is important to have these conversations to reach a greater understanding so that South Africa's national interests are represented. "The NDB has enormous potential, but it is clear that much thinking needs to go into making certain this happens to our benefit," he says. "To date it has been justifiable for South Africa to place the interest of its neighbours ahead of its own, given the country's past, but it is time to balance that with South Africa's domestic interests. While the jury is out on whether the NDB will play out in favour of South Africa and the continent, only time will tell and we need to remain informed and keep our interests front of mind."

PHOTO Marcelo Camargo / Agência Brasil.

A rising tide lifts all boats

BY DAVE MARRS

China has displaced the US as Africa's biggest trading partner and has gained much political and economic influence on the continent, but as the US economy rebounds, South Africa has had to work to repair its increasingly antagonistic relationship with this important but undervalued trading partner.

"BREAK the kettles and sink the boats" is an ancient Chinese saying attributed to Xiang Yu, a prominent warlord of the late Qin Dynasty. He is reputed to have issued this order at the Battle of Julu in 207 BC after he and his men had forded a raging river in pursuit of the enemy. The intention, of course, was that by destroying all means of retreat, his army would have no choice but to commit to a struggle to the bitter end, and therefore be more likely to achieve victory.

The English equivalent is to 'burn one's bridges', which also has military origins. However, the Chinese version is more relevant to this article, which concerns another form of warfare, albeit a low grade variety – international trade.

In the case of the Battle of Julu, sinking the boats worked out well for Xiang Yu, who triumphed over rival commander Zhang Han. But it was a high-risk strategy that could have gone badly wrong. That is presumably why in English the expression to 'burn one's bridges' is invariably preceded by the words 'should not': it makes sense in most circumstances to keep your options open.

This is a lesson the South African government will hopefully have learned after coming perilously close to sinking its boats in pursuit of a policy favouring China and emerging markets – the BRIC bloc in particular – over traditional trading partners such as the EU and US.

There was some logic to favouring China a few years ago, when the US was in the depths of a depression brought about by the subprime crisis and Europe was sinking under the weight of excessive debt. China was the new engine of global growth and seemed primed to eclipse the US as the world's dominant economy, so it made sense to hedge our bets by diversifying trading partners.

What did not make sense, and still doesn't, was an urge to sink boats after crossing the river to engage with China. South Africa's diplomatic relationship with the US became increasingly antagonistic, soured by an erratic voting record at the United Nations, a perplexing approach to human rights abuses in Zimbabwe and a penchant for rash anti-Western rhetoric on the part of the governing African National Congress and its allies.

However, several years and trillions of dollars in quantitative easing later and it is the US economy that is rebounding and China that is starting to look flat. While trade with China has mushroomed over the past decade, the terms of that trade have not favoured South Africa's long-term economic development, being focused on commodity exports and imports of low-cost manufactured goods that have contributed significantly to its gradual deindustrialisation.

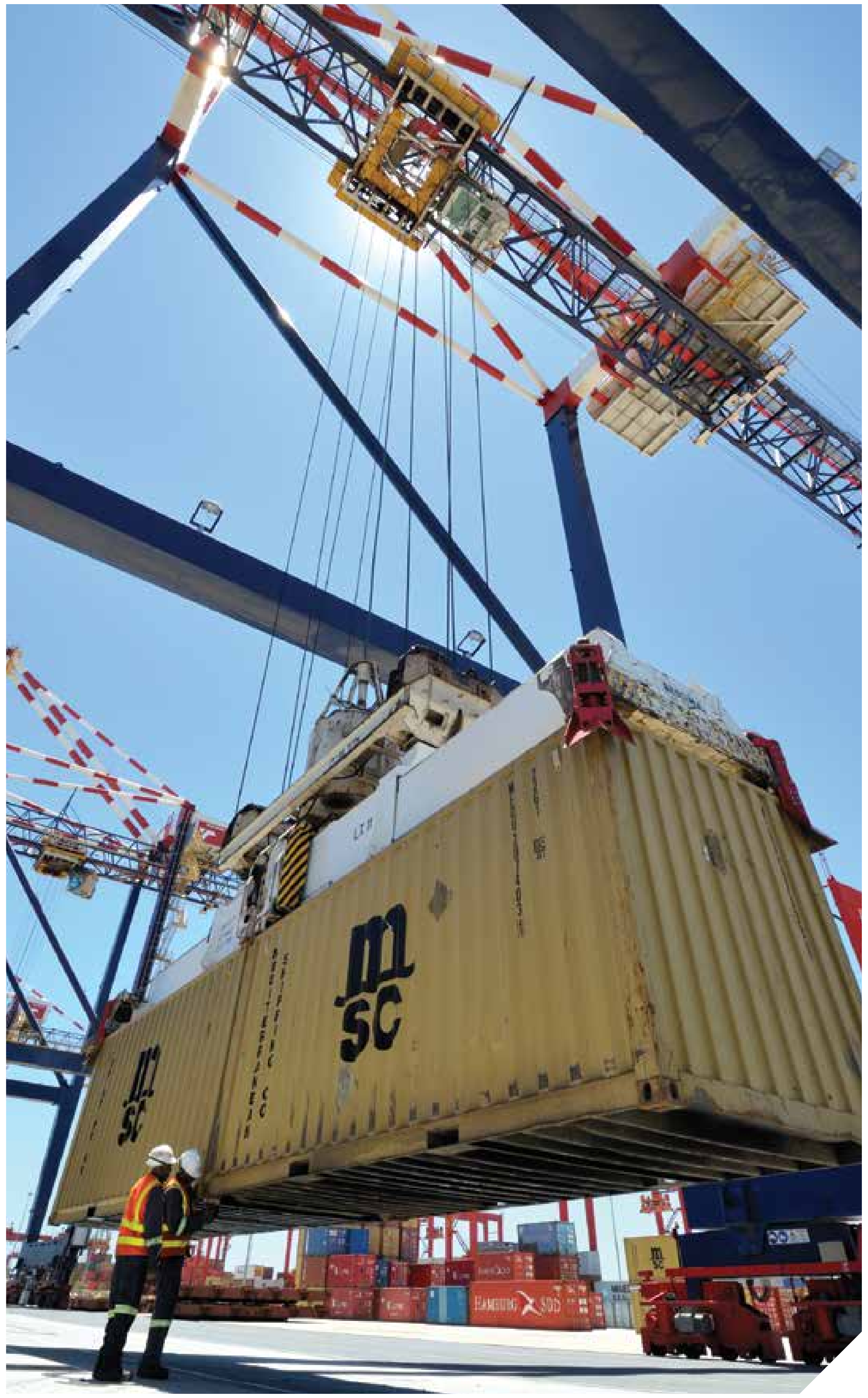
With Europe still in the doldrums, the lifeline that has kept us from being stranded on the wrong side of the river is the US Africa Growth and Opportunity Act (Agoa), which will be renewed in September next year, following an agreement struck at the US-Africa Leaders Summit in August – subject to ratification by the US Congress and the various African governments.

Agoa is credited with boosting US-Africa trade by more than half since 2003, and the US remains the biggest investor in Africa, despite China's rapid advance and centuries of European colonial history. African trade with the US totalled $39 billion last year, although less than $5 billion of that (excluding SA) was non-oil products. SA is the largest non-oil African exporter to the US by far at $8.5 billion last year, actually enjoying a trade surplus of $1.2 billion.

Prior to the implementation of Agoa, South Africa's exports to the US comprised primarily minerals and metals; now about two thirds of that trade is in value-added manufactured products. Yet we have taken advantage of only about a third of the 6 000-odd tariff codes that Agoa has made available to African countries tariff-free in terms of the agreement.

Panellists who participated in a roundtable discussion organised jointly by the UCT GSB and South African Institute of International Affairs ahead of the US-Africa Leaders Summit agreed that the biggest challenges under the renewed Agoa agreement will be ensuring the continent diversifies its product offering from extractive, resource-based exports towards trade in higher value-added goods and services. The continent's ability to exploit the opportunities offered by Agoa is also limited by infrastructure shortcomings, investor insecurity over the longevity of the agreement, obstacles to intra-African trade and difficulties getting to grips with the US's sometimes complex import requirements.

"It's crazy," said panellist and US Consul General Erica J Barks-Ruggles. "This is the only continent in the world not trading with its neighbours." She also pointed out that despite the decimation of the SA clothing manufacturing sector due to low-cost Asian imports, manufacturers have not



taken advantage of the zero duty on uniform imports to the US under Agoa, which is ordinarily 20%. The same applies to baby clothes.

South Africa is not the only one at fault in its neglect of the relationship with the US. The US itself, possibly distracted by its response to the September 11, 2001 terror attacks, was slow to recognise the implications of China's economic rise and increased engagement with Africa.

As a result, China has displaced the US as Africa's biggest trading partner and has gained much political and economic influence on the continent. With Africa widely expected to be the fastest growing continent for the foreseeable future, the US has a lot of catching up to do.

US President Barack Obama's announcement at the leaders' summit of $33 billion in trade and investment commitments to help spur development is a good start, especially as some of that covers projects such as electricity generation and infrastructure that should encourage intra-African trade. It also included about $14 billion in private sector deals, among them General Electric's

"The continent's ability to exploit the opportunities offered by Agoa is also limited by infrastructure shortcomings, investor insecurity over the longevity of the agreement, obstacles to intra-African trade and difficulties getting to grips with the US's sometimes complex import requirements."

investment in the production of locomotives in South Africa.

UCT GSB Associate Professor Mills Soko, who chaired the roundtable discussion, says while Agoa has undoubtedly been mutually beneficial, it is clear the relationship between the US and Africa needs to be refined, and the two sides' priorities could be better aligned. Specific issues that need to be addressed include access to finance, particularly to upgrade infrastructure; the provision of incentives for US firms to invest in key African sectors; support for agriculture; and a dedicated effort to expand trade in services. It is also imperative that US domestic agricultural subsidies be reviewed as they prevent African goods from being competitive, even with the benefit of Agoa, he says.

Concern has been expressed by some commentators over the fact that the Agoa renewal announcement did not come in the form of a joint communiqué, just a statement by President Obama, which might mean some of the African delegations have reservations about how the agreement will be received back home. And the summit studiously avoided any mention of the most issues that have caused most tension between African countries and the US in the past, specifically disagreements over security matters and the effect corruption and poor governance have on foreign companies' ability to do business on the continent.

There are a number of reasons to be hopeful that the summit – and especially the extension of Agoa for a further five years – will continue to produce concrete benefits for both the US and Africa. As Xiang Yu might have acknowledged, a rising tide lifts all boats – as long as they have not been scuttled.

Make sure you get your ticket to the game

BY STELIO ZAKKAS

The impending implementation of the new BBBEE Codes of Good Practice may have many a business cowering in the corner, but there is opportunity as well as risk embedded in the legislation.

Broad Based Black Economic Empowerment (BBBEE) is back at the top of the business agenda as the new BBBEE codes get set for implementation in May next year.

Like it or not, a satisfactory BBBEE rating is perceived by procurement divisions in the public and private sector as an 'entry ticket', after which companies are expected to compete on capability, competency, price and the like. And the new BBBEE codes are going to make it that much more difficult for small, medium and large companies alike to get in on the game.

Businesses are already preparing themselves for a big drop in their BBBEE rating. The changes in the points necessary to reach the much sought-after level four rating; the need for especially qualifying small enterprises (QSEs) to bring about change in their ownership and management control; and the reduced points allocation for the likes of enterprise development and socioeconomic contributions leave a bitter taste in the mouths of especially SME business owners. The recently published amendments to the codes for QSEs, appear to offer little relief.

It is not all doom and gloom however. The new codes do offer some positive outcomes not only for SMEs, but for the economy and society in general.

The importance of SMEs (particularly black-owned ones) has been a key topic of the legislative and policy landscape in South Africa. With SMEs making up the greatest part of the South African business landscape, the enforcement of the ownership element on QSEs, which was discretionary in the past, will likely see a real and genuine move toward empowering previously disadvantaged communities, whether by way of direct equity, or the likes of employee empowerment trusts. If done right, enfranchising employees will also bring fresh energy to many SMEs. According to the book *Equity: Why Employee Ownership is Good for Business* published by Harvard Business Press Books, giving employees a financial stake in the business enables firms to grow faster and more profitably than conventionally run competitors.

Another real positive for SMEs is the increase in the targeted percentage procurement spend from 15% to 30%, and points allocation associated therewith, for companies who procure from value adding suppliers in their businesses that are deemed exempt micro enterprises (EMEs) (turnovers of up to R10 million) and QSEs (turnovers of greater than R10 million up to R50 million). Over and above this, procurement targets from 50% black-owned value adding suppliers has increased significantly from 12% to 40%, with a points allocation of nine points (as opposed to only three in the old codes). This, along with the increase of the turnover permitted to qualify as an EME to R10 million, creates real opportunities of sustainable growth for the plethora of companies falling within the expansive SME sector in South Africa.

In addition, the thoughtful inclusion of the need to advance suppliers through supplier enterprise development, rather than merely contributing to enterprise development alone, has the intended effect of enabling black-owned suppliers to the private and public sector to develop themselves beyond their own means and create sustainable enterprises that have a clearly defined growth path and potential.

The greatest benefit to be derived from the new codes will lie in the element of skills development. Though one might view the new codes as a passing of the education buck by government to the private sector, business should rather view this as an opportunity to make a real investment in its people. If strategised correctly, this element offers a relatively easy manner in which to obtain up to 25 points toward a competitive BBBEE rating, while gaining an advantage in the form of the training and education undertaken by employees.

The benefits a business will obtain will come down to the effort they put into sourcing training and education alternatives that bring about either an improvement in their core competencies and capabilities, or a rectification of the day-to-day frustrations and inefficiencies they face. Rather than waiting for the codes to hit them, there is much that business can do to step forward and meet them proactively, with a view to growing their businesses and contributing to the development of the South African economy.

Business schools unusual

BY NCEKU NYATHI AND WALTER BAETS

Business schools in Africa need to rethink business education so that more holistic and creative responses to the continent's economic and social challenges can emerge.

Africa may be in growth mode, but it is by no means certain that growth alone is going to transform the continent into a place where people aspire to live and work.

While the African economy has grown at an average of 5% a year over the last few years and growth is predicted to reach 7% by 2016, according to the World Bank, a recent report by the Africa Progress Panel (APP) reports that over 48% of people living in sub-Saharan Africa still live below the poverty line. Economic prosperity has not made a measurable impact on the lives of the 413 million Africans surviving on $1.25 per day.

The continent urgently needs to find ways for more people to benefit from the fruits of economic growth – not just stakeholders and international investors, but ordinary people – and one of the obvious vehicles through which to achieve this is business. But not just any business, it must be inclusive business.

Inclusivity is not a new concept in business, but is emerging as a key theme of current economic thinking, particularly in terms of the way forward for the African continent. It argues for the inclusion of low-income communities in the value chain – both as producers and consumers – not at the cost of profitability, but for the gain of society and the environment. It is a call for business where ethics and values play a bigger role in day-to-day operations.

African business schools have the power to effect this shift. They have the knowledge and expertise needed to put new theories on how to do business more inclusively into practice, and of course to train the next generation of graduates to understand and enact these new ways of doing business. Business schools have the opportunity, not only to shape and polish the intellectual resources of the continent by preparing future business leaders, public works officials and budding entrepreneurs to be truly successful in business, but also to create leaders who are committed to sustainable enterprises that are inclusive and help to improve the lives of others.

In experimenting with ways to increase their impact, African business schools have perhaps more opportunity than most. The sheer scale of the challenges on their doorsteps invites academics and students alike to role up their sleeves and get to work experimenting with how business and the power of business thinking can be used to change people's lives for the better.

It is no longer enough to put people in classrooms and tell them what they need to know – or bombard them with case studies, as is the tried-and-tested method of many of the best business schools around the world. African business schools have the opportunity to spearhead emerging economy business thinking, from close proximity to emerging economy issues and to redefine business models that don't work so well in emerging markets to create ones that focus on developing the base of the pyramid and creating shared value. They can push the agenda on social innovation and the role this can play in business. In essence, they can break the mould in traditional education in order for more holistic responses to the challenges the continent faces to emerge.

At the UCT Graduate School of Business, this imperative has spawned numerous initiatives including the Solution Space, which has been called a living manifestation of the business school of the future. Programmes and initiatives like the MPhil in Inclusive Innovation and the Social Innovation Lab, a stream on the MBA that allows students to essentially immerse themselves in the imperatives of social innovation, were started because the UCT GSB realised that the continent needs people in the trenches who have the training and mindset to implement real-world change by applying practical innovations.

Changing the continent one business at a time

If the African business school of the future is to look something like the UCT GSB: creative, interactive, challenging and entrepreneurial; then how is this going to change the continent?

One such outcome is quite simply the impact on development of local business; changing the continent one business at a time. For example, the UCT GSB, through the Bertha Centre for Social Innovation and Entrepreneurship and the Solution Space, is working in partnership with one of Cape Town's poorest areas – Philippi – to boost business development in the area. Philippi is one of the larger townships situated outside of Cape Town. It is part of the Cape Flats with a population of around 700,000 people. Philippi, like many other townships, is an under-developed and under-serviced area with high unemployment rates.

Philippi Village is a new development that aims to shift that by creating a space in the centre of Philippi that will nurture entrepreneurs, support skills development and harness job creation. The development aims to invigorate this area with job opportunities and recreational activities.

Philippi Village will be an entrepreneurial development with a social impact. It will be a multi-use, multifaceted environment that will house local businesses and entrepreneurs, an event and entertainment centre, sports and conferencing facilities, and an education space.

These efforts are increasingly being given global recognition. In 2012, the Social Innovation Lab at the UCT GSB was included as a case study in the *Inspirational Guide for the Implementation of Principles for Responsible Management Education*, an initiative of the United Nations Global Compact, which highlights 64 schools around the world leading the way in this regard. The UCT GSB's neighbour – the University of Stellenbosch Business School, was also featured in the guide, for its sustainability research in an African context.

"Research is showing that interest in socially innovative business is growing – not only from an investment point of view, but also at the coal face – as a result of student demand."

By being more in tune with their context and its challenges, students emerging from these schools (and others that follow their lead) are more likely to take what they have learned and apply it to creating a sustainable business that addresses people's actual needs.

Complex problems need fresh thinking

Research is showing that interest in socially innovative business is growing – not only from an investment point of view, but also at the coal face – as a result of student demand. Data from The Bridgespan Group shows that across some of the top MBA programmes, there has been soaring interest in social enterprise in recent years, and schools have grown their offerings with socially beneficial content to meet the demand. Between 2003 and 2009, the average increase of this content in the schools polled was 110%. The Yale School of Management showed the highest increase in 2009, with 95% of their course offerings now incorporating social benefit content.

A 2012 study from the Association of MBAs (AMBA) shows that one in five MBA graduates now believes that sustainable or responsible management is the most important MBA topic. The research was conducted among 1 000 graduates from AMBA-accredited business schools in 75 countries and heralds an important shift in the way students and business schools alike are thinking about the MBA.

The UCT GSB, itself an AMBA-accredited school, has seen this trend reflected in its own student body. More than 60% of the MBA students polled at the school in 2013 said that they chose to study at the UCT GSB because of the business school's work in social innovation and sustainable business management.

So while many investors are eyeing Africa as a high-growth option in troubled times, the opportunities for social innovators are far greater. Social innovation has great potential for investors because of the great demand for it across emerging markets, and because it improves the overall environment in which to do further business in the future. Improved health, education, infrastructure and job creation all lead to better business.

The gold is not in traditional business approaches. It is not about selling more stuff to people that they don't need and cannot afford. It is in the more elusive approach of creating shared value and innovating in a way that improves the lives of the consumers. Underlying this notion is the idea that if you deal with the need, the demand will emerge and the consumer will support you – basic business sense.

Combine this with cultivating a mindset for innovation and this is how we help to prepare the future leaders on the African continent to be successful – not only in terms of profitable companies – but also in achieving more sustainable, inclusive and socially innovative business solutions that truly add value to the lives of stakeholders and shareholders.

In this way, the economic boom on the continent can be successfully translated into social and environmental capital on the ground – helping to transform Africa into a place where people choose to work and live.

Breaking the deadlock

TACKLING THE SOUTH AFRICAN LABOUR MARKET CRISIS

BY MILLS SOKO AND NEIL BALCHIN

With South Africa reeling from the effects of its worst labour strike in history, the country needs its leaders to move beyond blame and pessimism towards lobbying for real change in the South African labour market in order to generate the jobs needed to tackle poverty and inequality in the country.

Dealing effectively with South Africa's massive unemployment problem and the harmful effects of frequent strikes on productivity and economic growth will require major structural reforms to the labour market and its institutions. Unless these are undertaken, it is unlikely that the South African economy will be able to generate the number of new jobs – especially unskilled jobs – required to address the unemployment problem and tackle poverty and inequality in the country.

South Africa's unemployment problem is well documented. A major contributory factor to the unemployment challenge in South Africa is the current state of the country's labour market institutions and regulatory environment. In this regard, a rigid labour market, the ongoing crisis in collective bargaining, the widespread prevalence of the controversial practice of labour broking, problems with the determination and implementation of minimum wages, and policies that actually hamper – rather than aid – efforts to achieve higher rates of job creation, are all to blame.

At the same time, the growing prevalence of strikes in key sectors of the economy, notably mining, threatens to stifle economic growth and much-needed investment. In the period between 2007 and 2012, 41.9 million 'man days' were lost to strike action, more than four and a half times the equivalent number of days that were lost between 2001 and 2006. The Department of Labour's annual industrial action report for 2012 states that workers lost R6.6 billion in wages as a result of strikes (up from R1.1 billion in 2011). As of the end of March 2014, the wage strike in the platinum mining sector had, single-handedly, cost workers some R4.4 billion in lost wages and employers some R10 billion in lost production. This cycle of value destruction is a fundamental obstacle to tackling poverty, inequality and joblessness in South Africa.

Current labour market challenges

The efficiency of the South African labour market is currently undermined by a number of issues. One fundamental problem stems from the economy's low capacity to absorb labour – the current employment to population ratio is just 41.9%. This modest labour absorption rate is primarily a product of the mismatch between the skills of the workforce and those demanded by industry. Owing to a lack of training and skills development, a large share of the country's workers do not possess the skills required to fill the hundreds of thousands of job openings requiring highly skilled workers across South Africa. This problem has been exacerbated by changes in the sectoral composition of employment in the country, where a shift towards a more capital- and skill-intensive economy has meant that fewer and fewer new low-skilled jobs are becoming available. Inadequate vocational skills training and a poor quality education system have only worsened the skills deficit.

"There has been poor leadership from government. The government's decision-making and labour market policies remain heavily influenced by the views of trade unions – particularly Cosatu – and those of big business; to the detriment of medium-sized and small businesses."

Access to higher education, in particular, remains a problem. In its August 2013 proposal for undergraduate curriculum reform in South Africa, the Council on Higher Education reported that despite significant improvement in access to higher education across all population groups, the growth is not sufficient to meet South Africa's human resource needs. The National Plan for Higher Education has set a 20% target participation rate (the total enrolment across all ages expressed as a percentage of the 20- to 24-year old age group in the population) in higher education. The steady growth in the participation rate in South Africa – from 15% in 2000 to 18% in 2010 – suggests that the 20% target is likely to be met by 2015/16. In line with this, the Department of Higher Education and Training's green paper published in 2012 revised the target participation rate to 23% by 2030, but this is still described as 'modest' compared to average participation rates in Latin America (34%) and Central Asia (31%), and well below the rates of between 40% and 50% that are common in developed nations.

A range of other factors are hampering job creation efforts in South Africa. Certain aspects of labour legislation are highly restrictive by global standards. Rigidities associated with arbitration processes and in policies and legislation governing the hiring and firing of workers serve as obstacles to hiring new workers. The growing incidence of abuse of the Commission for Conciliation, Mediation and Arbitration processes relating to dismissal, which has slowed down the arbitration and dispute resolution system, further discourage businesses from hiring new workers in South Africa.

A number of other impediments – both real and perceived – discourage businesses from taking on new employees. These include the lack of a clear probation period for new employees and limited rights of recourse to dismiss employees who do not meet expectations during the probationary period; as well as unduly onerous dismissal protection, particularly for executives and high earning employees. These factors have encouraged many employers in South Africa to opt for alternative, atypical forms of employment, such as employing workers through labour brokers.

To be sure, the practice of labour broking is widespread in South Africa, and has been the source of considerable controversy. While labour broking is an effective mechanism to assist workers to gain entry into the labour market, it also makes those employed in this way vulnerable to arbitrary or summary action, and undermines their ability to contest unfair labour practices or unfair dismissal. The national government's response to address these issues – which includes the introduction of the notion of 'deemed employment' after a three month period – is likely to add further cost and complexity to the system and invite legal contestation. That, in turn, is likely to adversely affect the number of jobs available, and to increase unemployment.

Apart from these issues, one of the most visible problems in the South African labour market is the crisis in collective bargaining. The dominance of centralised bargaining in South Africa – at odds with the move towards decentralised bargaining arrangements internationally – favours large employers, institutionalises the power of trade unions and results in greater incidence of fixed wages across sectors. The main problem with centralised bargaining is that it does not adequately recognise differences across enterprises and stifles labour management relationships at the enterprise level. There is a body of empirical evidence to suggest that centralised bargaining also restrains wage levels in certain sectors – with financially stronger employers only required to pay the modest wage increases that can be afforded by smaller or weaker enterprises, while the weakest enterprises face the prospect of being squeezed out because they cannot afford the increases in wages that the majority of enterprises in the sector are prepared to pay.

"There is an urgent need to tackle the abuse of temporary workers, including through labour broking arrangements."

In addition, the practice of extending collective bargaining agreements across entire industries places small businesses and entrepreneurs at a disadvantage. The push by trade unions for industry bargaining has also resulted, as a quid pro quo insisted on by employers, in the practice of setting actual wage increases rather than minima at the industry level, which has meant that employers are accommodated at the lowest levels of affordability.

Furthermore, industry bargaining precludes the option of linking wages to productivity. A productivity-linked wage system could address the problem of a combination of rising unit labour costs and falling productivity, which threatens job creation and undermines the competitiveness of the South African economy.

What and who is to blame for these problems? Major trade unions must accept responsibility for their failure to achieve real gains for workers through effective collective bargaining over the past decade. The Congress of South African Trade Unions (Cosatu) has strongly

promoted industry bargaining. For their part, business organisations and employers have, until recently at least, also been content to leave bargaining to industry representatives, while paying little attention to workplace relations. This has come at the expense of meaningful engagement at the enterprise level. Consequently, industrial strikes and deadlock have become the norm rather than the exception. A key cause of instability in the labour market over the past few years has been the growing distance between trade union representatives and workers, as well as the absence of a meaningful social wage. Well-grounded concerns that employers have pursued high levels of profit for owners, shared with top managers, at the expense of lower paid workers, have also been a source of much consternation for trade unions and workers alike.

Moreover, there has been poor leadership from government. The government's decision-making and labour market policies remain heavily influenced by the views of trade unions – particularly Cosatu – and those of big business; to the detriment of medium-sized and small businesses. The South African minister of labour has floundered and the African National Congress has said different things to different stakeholders, attempting to please all but doing little in practice to chart a way forward out of the crisis. The government has publicly committed to implementing the National Development Plan (which means, among other things, improving the social wage and growing jobs by cutting the cost and complexity of doing business) but has pushed through labour law amendments that will – according to its own policy impact assessment – have the opposite effect.

There is a way out

Amid this chaos, there is a clear need for change. First, there is an urgent need to tackle the abuse of temporary workers, including through labour broking arrangements. Even so, although the protection of vulnerable workers is non-negotiable, this must occur without unnecessarily increasing the cost and complexity of doing business or destroying jobs. One way to balance these competing interests would have been for the law to hold the clients

"One of the most visible problems in the South African labour market is the crisis in collective bargaining. The dominance of centralised bargaining in South Africa – at odds with the move towards decentralised bargaining arrangements internationally – favours large employers, institutionalises the power of trade unions and results in greater incidence of fixed wages across sectors."

of labour brokers jointly and severally liable, together with the labour brokers, for dismissal. It is difficult to see how the highly complex notion of deemed employment, recently introduced in the Labour Relations Amendment Act, will provide more accessible protection to workers.

Second, there is a need to remove the obstacles to taking on employees that are currently encountered by businesses. The removal of these obstacles will require reining in the highly inflexible and expensive system for protection against unfair dismissal. The current system is a significant barrier to job creation, and carries enormous cost internally (for businesses and government) and externally (in administering the dispute resolution system). A sensible policy response would be to introduce a qualifying period for dismissal protection that would not affect those already in employment. For lower paid workers, this might, for example, be six months. For higher earning employees a qualifying period of 12 or 24 months would be more appropriate. Additionally, there should be no protection (other than against discrimination and similar serious violations of employment standards) for top executives and high income earners, provided that a prescribed notice payment is made. Changes of this kind would significantly increase flexibility in employment, encourage job creation and free up much-needed resources which can be invested in the collective bargaining system.

Third, the collective bargaining system needs a radical overhaul. What is required is a move away from the preoccupation with industry level bargaining in favour of re introducing two-tier bargaining at both the industry and plant level. The most effective way of restoring meaningful plant level bargaining would be to reintroduce a duty on employer and representative trade unions to bargain in good faith in appropriate bargaining units. Interest arbitration, in which a properly trained arbitrator or panel of arbitrators (typically with an independent arbitrator assisted by one assessor nominated by the employer and trade union, respectively) decides on the final outcome of collective bargaining, should be strongly promoted as a means of resolving disputes at deadlock without loss of wages through strike action or the corresponding harm caused to the employer's enterprise.

The reintroduction of bargaining at the enterprise level has the potential to restore much-needed rationality and credibility to the collective bargaining system. It also gives workers a far better opportunity to gain an equitable share of the value generated by the businesses in which they work. Moreover, a move towards two-tier bargaining, in which only minimum wage levels or a basic framework are set at industry level, and actual wage levels at plant level, would facilitate wage settlements that far better reflect the current economic realities in South Africa.

Finally, skills shortages within the labour force – which represent a binding constraint to economic growth and development in South Africa – should be addressed as a matter of priority. This will require a rethink of the country's existing vocational training system. As a first step in this process, the largely ineffective Sector Education and Training Authorities should be replaced by industry colleges focused on training artisans and other similar vocations, while greater emphasis needs to be placed on improving the link between existing vocational training programmes and actual opportunities in the workplace.

It is clear that the South African labour market is in the midst of a prolonged and worsening crisis. This is most evident within the existing collective bargaining system. That said, casting blame for the crisis – as both trade unions and business are wont to do – does little to identify a way out of it. The South African labour market requires leadership, and it needs real change.

Dealing effectively with South Africa's massive unemployment problem and the harmful effects of frequent strikes on productivity and economic growth will require major structural reforms to the labour market and its institutions. Unless these are undertaken, it is unlikely that the South African economy will be able to generate the number of new jobs – especially unskilled jobs – required to address the unemployment problem and tackle poverty and inequality in the country.

Acknowledgement

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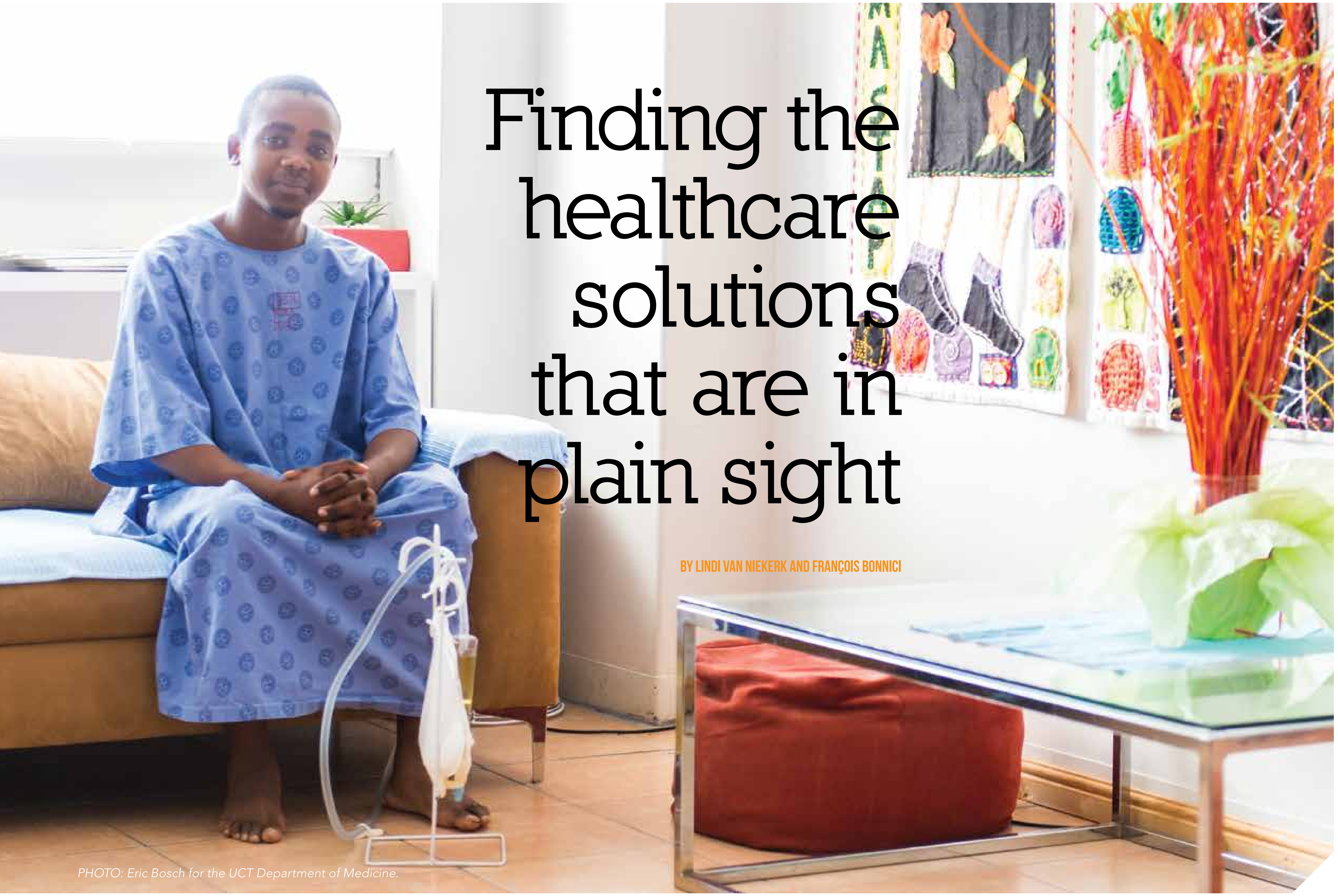


PHOTO: Eric Bosch for the UCT Department of Medicine.

Finding the healthcare solutions that are in plain sight

BY LINDI VAN NIEKERK AND FRANÇOIS BONNICI

In the South African public healthcare arena, opportunities for innovation abound for those who dare to look past the problems and reimagine new ways of doing things.

Public healthcare in the developing world is not generally considered an inspirational topic. Daily reports of tragedies, failures, frustrations and resource constraints eclipse the efforts of many who work tirelessly to deliver basic care to millions of patients who need and deserve better.

Mired in this reality of treat and triage, the quest to innovate, to find new ways to eliminate obstacles, overcome constraints, reduce inefficiencies and make healthcare, public and private, better for the people it serves, seems like a luxury that the system cannot afford. And yet, if you look for them, there are dozens of stories of inspiration and hope – where healthcare workers in seemingly impossible situations have found creative ways to address their challenges.

These front-liners are ideally placed to drive innovation. No-one understands the challenges and the gaps in service delivery better than those who have to deal with the bitter reality of these gaps.

Like Clare Roberts, a doctor at Red Cross Children's Hospital who, distressed at the chaotic and system of index cards and textbooks that served as the engine of knowledge about poisons, compiled AfriTox, an online database of toxins and toxic substances, which now provides easy, potentially lifesaving access to relevant and appropriate knowledge in emergencies. Or Dr Ashraf Grimwood who, in his quest for an AIDS-free generation, founded not-for-profit organisation Keth'Impilo that provides specialised training and mentoring for community healthcare workers to help HIV/AIDS patients and their families live more positive lives.

These ideas, two of many showcased in the inaugural edition of the *Health Innovator's Review*, published by the Bertha Centre for Social Innovation and Entrepreneurship in January, show us that innovation is not just for scientists and techno buffs. We don't all need to be Steve Jobs or Mark Shuttleworth to change things for the better.

The modern world has mythologised innovation, painting it as an act of alchemy that is born in thin air, ignited by the fusion of imagination and opportunity. But the truth is, innovation is born out of need. It grows from real problems in the real world, and from looking and re-looking at those problems in a way that can reveal a solution hidden in plain sight. It begins with a shift in mindset, a fresh way of looking at a problem, and seeing it, instead, as a possibility. The corrective mindset focuses on what's broken, and tries to fix it. The transformative mindset says: "It's broken? Let's change it." In that way, it's not so much a mindset, as a setting free of the mind.

Often the answer to the most pressing medical problems are not high-tech gadgets or expensive new drugs, it can be as low tech or 'no-tech' as compensating for a lack of incubators by promoting skin-to-skin contact between mothers and newborn babies. Twenty years of research has proven that the latter boosts infant health in ways that technology cannot match, with clear evidence showing a 50% drop in deaths in premature newborns in developing countries. But despite isolated examples, many of these potentially life-saving innovations are never recognised or, more importantly, scaled up to benefit wider numbers of people.

"The ancient art of healthcare has always been governed by the impulse to find new and better ways of promoting wellness, preventing and treating illness, and helping people live longer, healthier, happier lives."

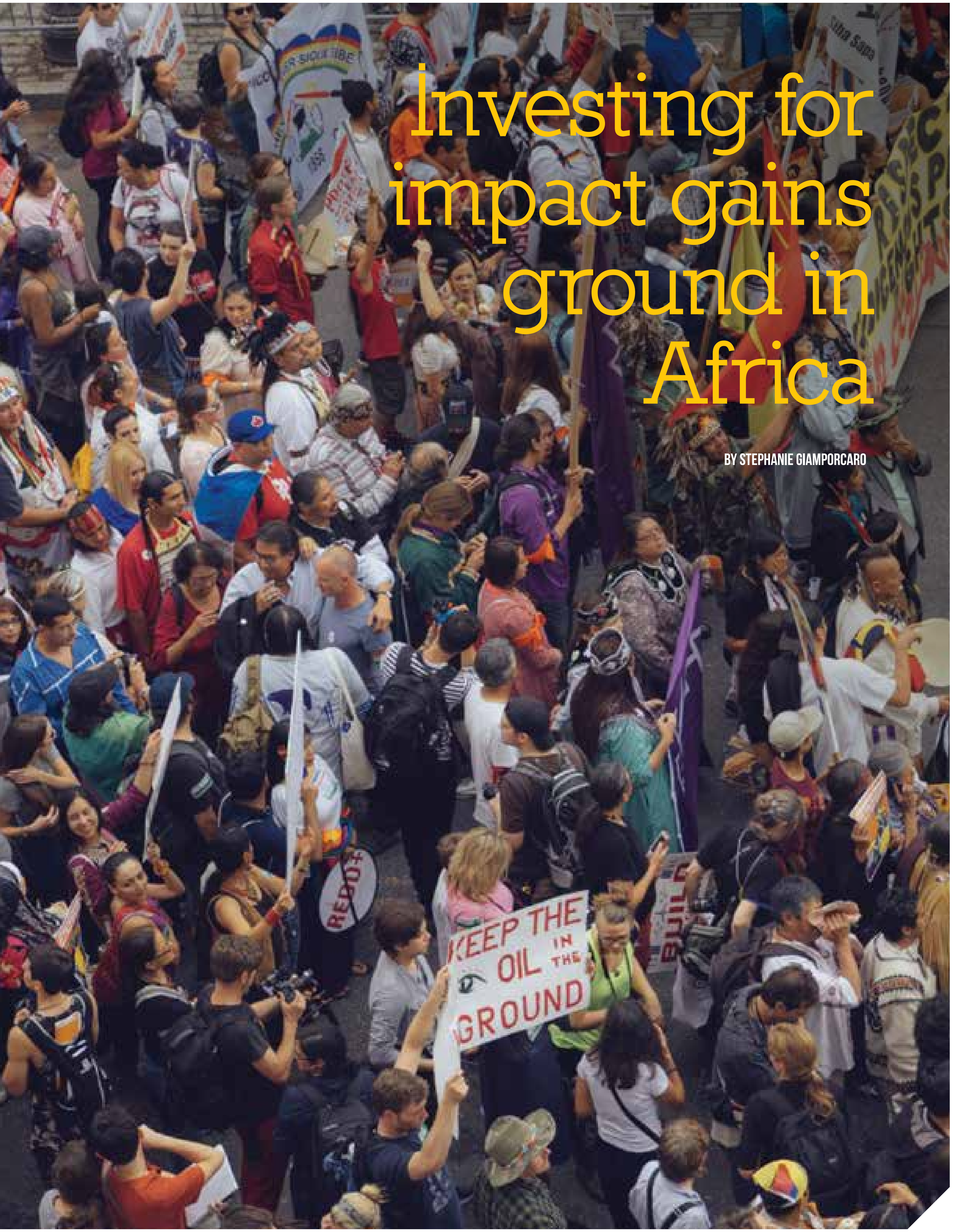
To allow these ideas to find their way into the mainstream, people in the system need to be given the opportunity to speak up and the confidence to push proposals and suggestions through the right channels. Frances Westley, the Canadian author, consultant and innovation activist says that: "Social innovation is an initiative, product, process or programme that profoundly changes the basic routines, resource and authority flows or beliefs of any social system." What is called for then is a transformation of the whole system – from the bottom up and the inside out.

As with most bureaucracies, the health system is more used to a top-down approach. It is rules-bound and evidence based. How then do you create a climate and culture of social innovation and allow these bright ideas from the front line – no matter how small – to take root and grow?

The Inclusive Healthcare Innovation Initiative is an unprecedented collaboration involving the UCT GSB, and the UCT Faculty of Health, driven by the Bertha Centre for Social Innovation and Entrepreneurship, which seeks to do just this. Its aim: to rise to the challenge of re-imagining healthcare in Africa. The initiative champions a bottom-up ideology and seeks to transcend current challenges in the system to improve health outcomes for patients, but also to change the routines, responsibility and values of the healthworkers responsible for delivering the care. Its latest project has seen the launch of a first-of-its-kind Innovation Programme at Groote Schuur Hospital to help public sector health workers to become the innovators themselves. The programme will build innovation capacity in the hospital and create a network of frontline innovators and link these with policymakers in the Department of Health.

This kind of change does not come easily – or indeed quickly – but it is imperative. By seeing all people as potential innovators, we unlock boundless opportunities to pioneer solutions and business models that may allow for healthcare solutions that benefit millions more people.

The ancient art of healthcare has always been governed by the impulse to find new and better ways of promoting wellness, preventing and treating illness, and helping people live longer, healthier, happier lives. It is time to look past the daily bad news and create a new culture of reimagination and innovation in healthcare that benefits all South Africans and the economy as a whole.



Investing for impact gains ground in Africa

BY STEPHANIE GIAMPORCARO

Savvy investment firms would do well to heed the growing voice of socially conscious investors calling for more ethical investments that earn profit with principle.

As hundreds of thousands of people around the world took to the streets this September to protest against climate change ahead of the UN climate summit in New York, news also broke that the Rockefeller Brothers Fund, an $860-million philanthropic organisation, has joined the divestment movement and is pulling its investments out of the fossil fuel industry because of concerns around climate change.

The irony that the Rockefellers amassed their fortune on the back of oil is not lost on the fossil fuel divestment movement, which began a few years ago on US college campuses and was partly inspired by the success of the anti-apartheid campaign. The movement quite simply urges investors to use their money to send a message to an industry widely believed to be behind the climate crisis by getting rid of stocks, bonds, or investment funds in fossil fuels.

"South Africa has a total of R4 trillion assets under management, of which retirement funds represent about half. This is a substantial sum with which to send a message of change."

Around the world a slew of institutions, cities, foundations, organisations and wealthy individuals have heeded the call and have made divestment commitments. Arabella Advisors, a firm that consults with philanthropists and investors to use their resources to achieve social goals, reports that groups have pledged to divest assets worth more than $50 billion from portfolios, and the individuals more than $1 billion.

These commitments demonstrate vividly what research is validating; that investing for impact (IFI) – defined as the allocation of capital into investments that combine financial returns and positive impact on society and the environment – is gaining ground worldwide.

According to a recent PwC survey of US asset managers with a significant portion of investments in markets across the globe, four out of five international investors have considered IFI in one or more investment contexts in the past year. About 85% said they expected to consider them three years from now.

Research from the UCT Graduate School of Business backs this up. The *African Investing for Impact Barometer 2014*, released by the Bertha Centre for Social Innovation and Entrepreneurship in September, shows that IFI is on the rise in Africa's two biggest economies. The largest study of its kind, the *Barometer* surveyed more than 1 200 funds managed by investors in South Africa and Nigeria and found that almost half of them do speak about IFI.

In the surveyed sample, South African IFI constitutes 41% of the funds (representing R717 billion, approximately US$ 67 billion). In Nigeria, IFI constitutes approximately 34% of funds overall (representing US $ 2.3 billion in the sample).

In both South Africa and Nigeria, the private equity (PE) space is leading the IFI industry with the larger proportion of IFI strategies found among private equity players. In South Africa, 62% of IFI funds are in private equity, almost double the 36% in asset management (AM). In Nigeria, the difference is even more pronounced with 39% of IFI in PE and 5% in AM.

These numbers herald a shift in the investment industry, although it has not yet reached its tipping point. The UCT research, which is the first study to try to measure and understand this burgeoning investment trend in Africa, points to a lack of clear and broad communication from investors as one of the factors possibly holding things back.

The majority of South African investors – 82% of private equity firms and 60% of asset managers – have a dedicated section on their website for their IFI activities. Barometer researchers found, however, that more details could and should be given on the practical implementation of their IFI policies. The same situation was also observed among Nigerian investors. Most of the financial institutions surveyed do not display much – if any – detail on how they include impact criteria in their investment strategies.

Investors' commitment to local and international disclosure and reporting codes and principles are also useful for getting a better understanding of the IFI industry. The UN-supported Principles for Responsible Investment (PRI) is the leading association for IFI players in South Africa, followed by the local CRISA (Code for Responsible Investment in South Africa). PRI and CRISA signatories commit to disclose and report on their IFI practices. However, the *Barometer* reveals that the level of disclosure and reporting varies widely from one investor to another.

The PwC report found similarly that a lack of options and poor corporate reporting about sustainability are preventing individual investors from acting on their beliefs. As a result, the market for IFI investment products remains under-developed.

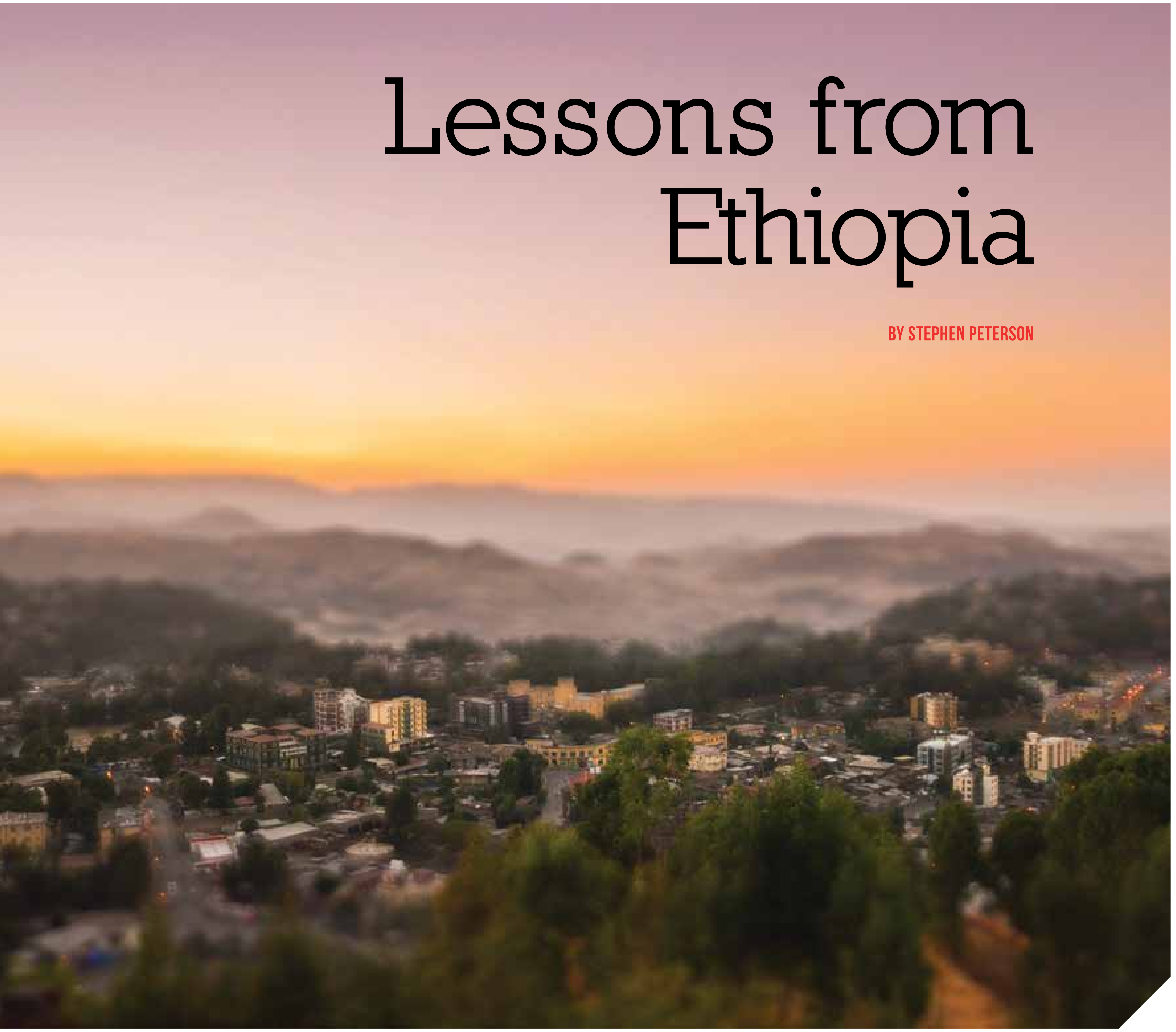
Without more genuine dialogue between investors and their financial planners, investors are hampered in their choices. Part of the problem is that the modern structure of retirement fund plans makes it difficult for even the most socially-minded investor to direct the make-up of their portfolio.

But as more and more investors start to demand a more ethical world, there is an opportunity for savvy investment outfits to meet their customers where they are and give them more opportunities to align their investments with their ethics.

There is much positive difference that this can make. While divestment of fossil fuel and climate change is becoming the flagship of a new generation of activists, James Gifford, senior fellow at the Initiative for Responsible Investment at the Harvard Kennedy School says that there are also many other challenges that responsible investors can engage with investee companies on, including human rights and labour standards in supply chains, gender diversity, anti-corruption, biodiversity loss, excessive executive remuneration and conflict minerals, for example.

With Africa's biggest institutional investment market, South Africa has a total of R4 trillion assets under management, of which retirement funds represent about half. This is a substantial sum with which to send a message of change.

The IFI market is big enough now to prove that there is money to be made from sustainable and responsible investments, but the only way to accelerate that is through demand. Whether that means engaging with employers on their practices, or taking the reins on their personal portfolio, individual investors are the ones who can move IFI into the spotlight and from niche to mainstream investing.



Lessons from Ethiopia

BY STEPHEN PETERSON

Most public finance management reforms in developing countries are doomed to failure, but South Africa's finance minister, who is facing the daunting task of crafting a reform programme for a country on the brink of recession, can draw inspiration from the success of Ethiopia's reform path.

The past year has not been a rosy one for South Africa's financial outlook. In June, the International Monetary Fund (IMF) cut South Africa's economic growth forecast for the third time in less than a year, hard on the heels of the sovereign credit downgrading of the country by rating agency Standard & Poor's, and Fitch's revised outlook on the South African economy from 'stable' to 'negative'.

High current account deficits, rising general government debt and potential volatility, Eskom's limited electricity supply and the cost of external financing are some of the reasons cited for these decisions, which must be causing the country's new finance minister, Nhlanhla Nene, some headaches.

In combating these trends, one of the elements that requires Nene's urgent attention is improving public financial management. Efficient public finance management is a pillar of economic growth and integral to a country's political health.

While there are measures in the public finance management field for assessing how well a financial system is performing, there is much confusion about ways to reform a system. Where can a finance minister look for guidance or models?

Most public finance management reforms in developing countries have failed, have had little effect or have even caused damage.

Richard Allen, a long-term observer of public finance management and a retired official of the IMF, recently concluded: "The old consensus … has proved largely unsuccessful." This 'old' consensus is actually a more recent one: the view that effective public finance management requires sophisticated financial techniques.

"The secret to successful reform is learning, which requires effective training. In Ethiopia, more than 85% of the funding for the reform of its budget, accounts and financial information systems was allocated to the training of more than 72 000 officials."

Ironically, this state of affairs has occurred because of a failure to follow two earlier principles: public finance management reforms are contextual, and countries must have the basics in place and must function smoothly before they introduce advanced financial techniques.

Standing out in this generally dreary picture of the world's public finance management terrain is the 12-year reform of Ethiopia's public finances (1996–2008), judged by the World Bank to be one of the most successful. Nene might consider the broad lessons of this reform in crafting a reform programme for SA.

Of course, public finance management reforms are contextual and South Africa's path will be different from Ethiopia's, but these two countries' contexts have three features in common – a large population, deeply decentralised administrations, and independence from foreign aid – that should guide policymakers' thinking as they shape a programme.

The Ethiopian reform gave rise to a new analytical framework for public finance management reform that the minister may find useful: COPS (context, ownership, purpose, strategy). The key to successful public reform, in the financial sector or elsewhere, is coherence. The COPS framework shows how to achieve coherence by ensuring that government policy (ownership, purpose and strategy) is appropriate to the context (culture, history and institutions).

Ownership by government of the design, implementation and operation of a reform is essential if the reform is to be fit for context and thus sustainable.

The management of public money is a core state function. A government can use funds from foreigners to support the design and implementation of a reform, but should never let foreign aid drive the process. And it should not rely on inherently unreliable foreign aid to sustain its financial systems.

The purpose of specific reform can be located on a continuum from basic to sophisticated. 'Basic' means establishing external control, which is public financial administration. At the other extreme is 'sophistication' – establishing internal control, which is public finance management.

The distinction between public finance administration and public finance management goes to the heart of how governments allocate and monitor public money – how they control their finances. Financial control is embedded in a country's political and state arrangements; it is not free-standing. Public finance administration is defined by external control based on political and state arrangements that focus on compliance, which limits discretion.

Management is fundamentally about discretion – making choices about objectives, taking the risk of deploying resources to achieve those objectives, being held accountable for decisions and having incentives to perform. Thus, the continuum of financial control from external to internal control is a crucial sequence: to promote coherence in a reform of South Africa's financial systems, the finance minister needs to assess whether the country's public finance administration is robust and ready for public finance management, or whether public finance administration needs toning up.

In any event, history has shown that public finance management is not a precondition for economic development: robust public finance administration is sufficient.

There are four possible strategies of reform: recognise what exists; improve what exists; change what exists; and sustain the improvements and changes introduced.

Too often, reform is viewed myopically as involving only change, which usually entails importing advanced techniques from other contexts. Yet, in most cases, reform should include more than one of these strategies, for example, a combination of 'recognise' and 'improve', with some change.

One strategy that is seriously underused is 'recognise'. Understanding and respecting what exists should always be the first order of business of a reform, yet it is often ignored.

Governments in developing countries frequently do not understand the strengths of their own systems and are quick to change them, often on the advice of outsiders.

Another indispensable aspect of reform is sustaining it, yet for many reformers this is an afterthought, if they do not overlook it altogether. An initial recognise-improve-sustain approach to reform is faster, cheaper and far less risky than one of change, which has been shown to fail or to have no effect.

The former approach is also more likely to work in South Africa because, under decentralisation, financial reform should address the weakest levels first.

The secret to successful reform is learning, which requires effective training. In Ethiopia, more than 85% of the funding for the reform of its budget, accounts and financial information systems was allocated to the training of more than 72 000 officials.

Training ensured government ownership and sustainability of the reformed systems. It also created a setting in which senior officials could learn from one another – what has and has not worked in their quest to build effective financial systems. Nene may feel that the task is a challenging one – but he should take heart that he does not have to walk the path alone.

It's better to 'be good' than 'have goods'

For chartered accountant and current MBA student at the UCT GSB, Mariam Cassim, success is about more than financial gain – it is about adding value to communities and people's lives.

As a child, Mariam Cassim dreamed of becoming an air hostess. "Where I came from, air travel was a luxury that only the wealthy could afford and air hostesses always looked professional and glamorous when fulfilling their duties." These days, as a company executive and a member of various boards, she flies around the world for business all the time. At the relatively young age of 32, Cassim is the CEO of Thebe Connect, the telecommunications arm of the Thebe Investment Corporation. Recently the South African Institute of Chartered Accountants (Saica) also named her as a finalist in the 35-under-35 most outstanding young chartered accountants in South Africa.

For the first time this year, Saica has handpicked the top CAs in the country, recognising not only their exceptional career achievements, but also their active involvement in the community and in changing the world around them for the better – something that is very close to Cassim's heart. She has always been extremely aware of the importance of giving back. "I was raised in a family that was very active in the community. My excellent grades at school were only celebrated to the extent that I acknowledged my obligation to use my ability to make a broader contribution to the less fortunate some day," she says.

With this came the lesson that excellence should be pursued and that you needed to apply yourself to the fullest of your ability. But while they encouraged ambition and perseverance, her parents taught her that the end goal should not only be about the self, but also about others. Excellence needed to be channelled, they believed.

This is why Cassim has always taught and tutored maths and accounting to students from

"My excellent grades at school were only celebrated to the extent that I acknowledged my obligation to use my ability to make a broader contribution to the less fortunate some day."

disadvantaged backgrounds. She started doing this while still at school and took a break only recently when she began the time-consuming studies for her MBA at the UCT GSB.

Education and learning are very strong forces in her life. Not only a proponent of better education for the less fortunate, she also continuously strives to learn more and improve on her own skills. "I firmly believe that the road to success is always under construction. For me, learning is continuously improving, never reaching a stage where we stop learning.

"The MBA has been a phenomenal life-changing experience for me in terms of learning. I have developed exponentially. It has allowed me to change the course of my thinking, to better understand who I am as a person and also to see the organisation as whole, understanding all aspects of the entire ecosystem."

Cassim joined Thebe in April 2008 after completing her articles at KPMG to form part of the internal corporate finance team, honing her skills in BEE transaction structuring through various merger and acquisition transaction deals. She created an initiative that resulted in R150 million of new value for the company by unlocking existing synergies and improving post-merger integration with more than 30 investee companies.

A key attraction for her was the fact that the company is not exclusively driven by profit. "The largest shareholder of Thebe is a community trust, which means that every day in the office is spent contributing to the betterment of society, which is one of my key personal values."

One example of these activities was a recent initiative with 50 spaza shops in Soweto, in which local shop owners were shown the benefits of group buying power and the power of operating together instead of alone.

While she certainly has achieved much already in her young career, Cassim feels much more can still be done. "I still believe that I have not attained success in establishing a strong enough link between my personal values and beliefs and my daily activities, particularly professionally." She intends to focus on creating integrative business models that benefit business as well as society.

Cassim, who is also a wife and a mother of a two-year-old boy, concludes on a more spiritual note, "I have learnt that what matters more than having the goods is to be good and to do good; that unfortunately does not come with any professional designation; poverty of spirit afflicts even the wealthiest in pocket."

Getting it right for SA

Ruli Diseko, MBA graduate and up-and-coming executive talent at Lonmin plc, believes it is time for all South Africans to roll up their sleeves and help change the country for the better.

Deputy president Cyril Ramaphosa recently told the Marikana Commission that as a nation, South Africans all failed the miners and their families, and that they share collective responsibility.

Ruli Diseko, for one, is not shirking this responsibility. In fact, he relishes the opportunity to contribute to helping repair the tarnished image of South Africa's mining industry. The 31-year-old up and coming Lonmin executive, who was recently listed by the *Mail & Guardian* as one of the country's top 200 young South Africans, says if the mining industry can get it right, it would provide a blueprint for how to make things right for many more challenges plaguing the country.

Diseko made the *M&G's* annual list in part for his work as head of the office of the chief executive officer of Lonmin, Ben Magara. He directs the CEO's strategic work streams, and works with the executive team on strategy development and value optimisation. This has given him an inside view on how important execution is, and how vital it is to make things happen. "I need to ensure that we all pull together as a team to get results. This is important work that we have to get right," he says.

Diseko says he realises that when people hear Lonmin, they immediately think of the tragic events that occurred in August of 2012 during the strike by miners in the platinum belt. "Marikana was a week that changed all of our lives. It happened to all of South Africa. We all went through something heartbreaking that day," he says.

There has been much positive change at Lonmin since Marikana and while Diseko believes the mining industry in South Africa should continue to improve, he also thinks it is transforming and that the good work of improving the lives of employees and communities should be accelerated.

The pivotal nature of the mining sector means it remains exciting, despite the inherent challenges of transformation. "I see it as an opportunity. The mining industry gets a lot of bad press but when the lights are on, it is time to perform. We need to get it right for our industry to continue to create jobs and opportunities for future generations. "All of us, not only those at Lonmin, will be judged by how we respond to the wellbeing and living conditions of people. The question is, what are we doing as young people to ensure that there is real change?"

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Diseko has experienced change in his lifetime, which gives him the optimism to believe in his future and that of South Africa. The third of four children, raised by a single mother in Orlando East near Johannesburg, he dreamed of owning spaza shops. "My real interest, even as young boy, was people and commerce. In the township, the most accessible representation of that was the spaza shop," he says.

A strong believer in the power of education, Diseko obtained a BComm degree at UCT after high school and 10 years later, completed his MBA at the UCT GSB. "Going to UCT was the best thing that could've happened to me," says Diseko. "I was forced to challenge my own thinking and my own mental models. It was a fantastic environment and it was my springboard. My UCT degrees opened many doors."

He believes it is easy to have strong opinions about what needs to be done or how things need to change, but that it is more valuable to get involved and be a part of the change you want to see. "If you are in South Africa, you understand the history and legacy of this country. So the next question is, 'Do you have people who have the right agenda and the right energy to address these things?'

"Actually, I think more than anything, we have opportunities. We don't need time, we need the right mindset and focus and people who will put up their hand and say 'yes, we have tangible plans in place to create a better future'."

Q&A

Inside the mind of the social innovator

MPhil student Francois Petousis, founder of Lumkani, is one of a new guard of social innovators who are inspired to use their energy and ingenuity to create social value.

BR: **In 2013, Lumkani (previously Khusela) won the People's Choice Award at the Global Social Venture Competition (GSVC), held each year at the University of California, Berkeley. More recently you came second in two separate categories at South Africa's innovation summit, and received an award to go on a South African trade delegation to Japan. You've also reached the finals of the Seedstars World competition taking place in Switzerland early next year, and the finals of the Global Innovation through Science and Technology (GIST) competition. Tell us a bit more about Lumkani and why it is turning heads around the world.**

FP: Lumkani is a proactive, early-warning, fire detection system designed for shack-dwellers worldwide. It is a network of individual low-cost fire detectors within communities, which, when triggered, alert whole communities to the event of a fire, so that they can take swift action to either stop the fire or escape with families and possessions intact. It is practical and scalable and we have a strong plan to do so. The social impact scales as the business does, so there is a significant market that we have great opportunity to serve. When you consider how many people there are in the world who live in slums (over 1 billion) where fire risk is a daily anxiety – you get a sense of the potential of this device. The impact of shack fires has an adverse effect on economies and is a development challenge that needs to be addressed.

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BR: **Do you think that social innovation is gaining momentum in the world as a way to solve wicked problems?**

FP: There is no doubt that the scale and complexity of the problems we face in the world today demand more and more from us. Social innovation, which by its nature is collaborative and creative and looks at challenges with fresh eyes, is definitely born out of this. At the GSVC event there was definitely a sense in the room of a shift in the world – that all these people were devoting their lives to discovering how we can create a world where you get paid to do 'good', where business can function to support that which really matters and makes a difference to humans. It was inspiring to know that this was the focus of people from across the globe. The room was far from what traditionally is the mood of a competition. The ethos was of support and collaboration, because at the core, everyone was there to serve a bigger purpose than their own.

BR: **Where did the idea come from?**

FP: Lumkani, which means 'be cautious', was initially the topic of my engineering thesis at UCT to develop a low-cost fire detector that I developed with Samuel Ginsberg, who today is the main designer of our technology. The project grew further when social change agent, Emily Vining joined the team. During my MPhil at the UCT GSB I realised that the idea had the potential to be a social venture that generated profits to sustain itself, not an NGO that would be dependent on funding and that that was in fact the way to really grow the organisation to reach meaningful numbers of people. We started working with an exciting mix of people to build a strong base for our social business including economist, David Gluckman, product developer, Max Basler, and engineer and strategic thinker, Paul Mesarcik. None of what we've developed so far would have arisen without this fantastic team of committed people. When we came together was when everything really started to expand. Our best ideas came through conversation.

BR: **What advice do you have to give to aspiring social entrepreneurs?**

FP: You've got to get out into the world and play. Try things out. Engage with the people and the world you want to impact. You'll learn the most and it'll give you the personal connection you need to be inspired in your work. With that connection will come the deep care and values that need to be clear in any growing social enterprise. The other big one for me has been to share what you're up to with the world, with all the people around you. Everything and everyone that we need to make something come to life, is out there. We just need to ask. When the right people are on board, things grow fast and with such depth… and of course it's far more enjoyable working together. Oh, and dream big.


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