



"Foreign companies have said this is the right road," says entrepreneur Siphoshezi, who drafted some of the first empowerment legislation while director-general in Nelson Mandela's cabinet in the late 1990s. "[They're saying] this is what you guys should be doing because this is the only way to grant the conditions for stability in this marketplace."

# Carrot & Stick AFFIRMATIVE ACTION IN SOUTH AFRICA

*U.S. companies adjust to regulation by a government that surpasses their own in its determination to redress social inequities.*

BY SONJA SHERWOOD

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A young black South African leaves his township in the Free State province for a job interview with Merck Sharp & Dohme (MSD), a subsidiary of U.S.-based Merck, 211 miles away. He hails Kombi taxis, private minivans that operate without published schedules, to Soweto, where an acquaintance puts him up for the night. The next morning, he rises before dawn and boards another string of minivans to reach his

appointment in a suburb on the opposite side of Johannesburg.

He arrives sweating and distressed, an hour late. A white Afrikaner manager instantly dismisses him: "In this company, you're supposed to be on time. Next!"

And that's where it would have ended, in the old South Africa. White managers could close their eyes to the everyday obstacles that beset non-whites, to say nothing of the larger

barriers erected under apartheid to keep them separate, under-educated and poor. Only since 1998 have employment-equity laws required that managers such as Eric Shipalana, director of human resources at MSD, give black job candidates a second look.

Shipalana, who is black, asked the young man what went wrong. In the apartheid era, pass laws restricted the movements of blacks and land laws housed them in remote townships. Travel still is challenging because few blacks own cars or live close to work. Upon hearing the man's story, Shipalana set him up in a hotel and rescheduled his interview.

"The typical Afrikaner manager never even thought about asking those questions," says CEO Chirfi Guindo, who related this story. "And then you have a white candidate for the same job, he rolled out of bed because he has a car. To some extent you need to take that into consideration at the entry point."

PHOTOGRAPHY BY HANNELIE COETZEE





Opportunities for white South Africans are “zero,” says Ian Sinclair, operation director at Lithotech Afric Mail, but he says transformation is for the good of the country.

The story illuminates the evolution that has taken place in global diversity management. Open a textbook on international business published a decade ago and the chapters on culture read like executive travel briefs. You’ll find information on how to bow in Tokyo and dining etiquette in Italy. More sophisticated material may delve into how different cultures relate to risk, time and honor.

Valuable as such advice may be, it’s not sufficient to help corporations construct responsible growth businesses abroad. The state of the art in cultural competency responds to the unique historic patterns of inequity that exist in a given country. In the context of South Africa, that means understanding how legalized racism has shaped labor relations, attitudes, schooling—even something as invisible as transportation.

U.S. companies that returned to South Africa when sanctions ended now find themselves heavily regulat-

**Mpho Seboni**, managing director of executive recruiter Spencer Stuart in South Africa, estimates that black job candidates earn a salary premium of between 10 percent and 30 percent.

ed by a government that surpasses their own in its determination to redress racial disparities. Black economic empowerment, or BEE, as South African affirmative action is known, sets tough hiring quotas and timelines. It establishes targets for diverse procurement, requires companies to earmark money for training and philanthropy, and, most controversially, asks that companies sell equity to black investors.

BEE’s reception has been mixed. Companies charge that forced equity transfers flirt with socialism. The government scolds executives for dragging their feet. Whites complain of reverse discrimination.

Almost no one is satisfied with BEE, but few dispute the need for it. South Africa has among the most unequal income distributions and highest unemployment rates in the world. With its high social spending

and low per-capita productivity, prosperity depends on a broader, blacker middle class (see related story, “The Making of the Black Middle Class”).

*DiversityInc* traveled to South Africa to inquire how multinationals on The 2005 DiversityInc Top 50 Companies for Diversity list—Merck, Pitney Bowes, Ford Motor Co., Citigroup, General Motors—are handling the transformation.

## Rules of Empowerment

In late 2003, South Africa’s fuel giant Sasol triggered a furious response from President Thabo Mbeki when it cited BEE as a risk factor in a compulsory filing it submitted to the New York Stock Exchange. In the first of many condemnations of those who “bad-mouth” South Africa, Mbeki accused the company of “bigotry” and “an outdated mindset.”

“The message,” Mbeki raged in a publicly broadcast newsletter, “is that black economic empowerment is not good for business.”



A response from Sasol then-CEO Pieter Cox was not long in coming. "We believe empowerment is a risk," he was quoted as saying in the South African weekly *Financial Mail*. "But we also know that it is a bigger risk if we don't do empowerment."

More than 600 U.S. companies do business in South Africa, employing more than 100,000 people, according to the U.S. Embassy in Pretoria. U.S. interests contribute roughly a quarter of all foreign investment, which totaled roughly \$122 billion in 2002, an increase of nearly 300 percent since 1994, according to the South African Institute of Race Relations (SAIRR).

South Africa is a gateway to greater Africa. It only has 10 percent of the population of sub-Saharan Africa but generates more than 45 percent of the region's gross domestic product, according to SAIRR. Sound macroeconomic policies, a well-developed infrastructure and world-class financial institutions put it at the helm of a movement to integrate Africa into the global economy.

On highways orbiting Johannesburg, black drivers outnumber whites. Stores are remarking their shelves to serve black

**"When my parents wanted to make me quiet, they would say, 'Keep quiet, the white person is coming, the white person is going to eat you up.'"**

*Eric Shipalana, Merck Sharp & Dohme*

shoppers. Absa, one of South Africa's largest consumer banks, estimates that the black banking market has grown 30 percent since 1995. The auto industry grew 22 percent in 2004.

The potential is huge, and for those wishing to tap it, diversity

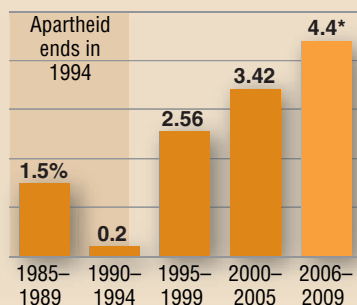
management is not optional. The government measures BEE compliance by a scorecard on a range of zero to 100 percent. Certain rating companies rank companies on a scale of A to E, A being the highest. Although affirmative action technically is voluntary, companies that aren't "black empowered" can't compete for lucrative government contracts, which account for about 25 percent of South Africa's gross domestic product.

## South Africa Then and Now

The South African economy under black stewardship is stronger now than it was during the dying years of apartheid, with low inflation, rising incomes and a commercial boom to the African National Congress' credit.

### Real Gross Domestic Product

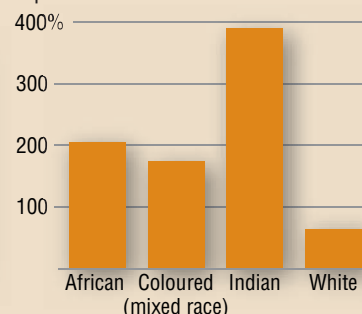
Five-Year Averages



\*Forecast.  
Sources: South African Institute of Race Relations and International Monetary Fund Country Report (Years 2001-2005).

### Increase in Personal Disposable Income by Race, 1960-2005

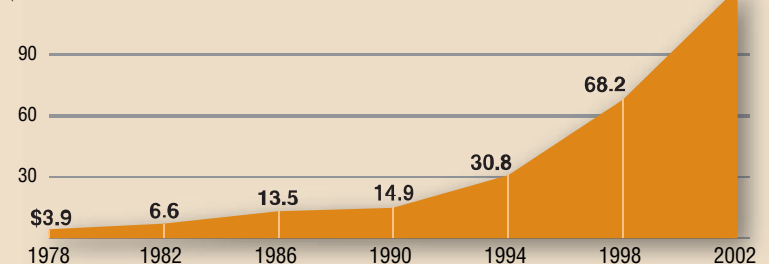
In percent



Source: South African Institute of Race Relations (includes some forecasted data).

### Foreign Investment

\$120 million



Source: South African Institute of Race Relations. Converted from rand at \$6/rand.

## Sold! To the Blackest Bidder

That's the position Pitney Bowes South Africa Ltd. found itself in when it opened a wholly owned subsidiary in South Africa in 2000. The \$5.4-billion global mailing-equipment and services provider established a small but high-growth beachhead in Kyalami, a suburb of Johannesburg, where it employs 56 workers. Business has been brisk, with sales accelerating from less than \$20,000 to about \$7.2 million in four years, beating the company's domestic growth rate of only 2.6 percent in 2004.

But with a BEE rating hovering between a C and a D, Pitney Bowes is shut out of half the market.

"You're not even allowed to enter the game if you're not between a B

or a C,” says Michael Springer, managing director for Pitney Bowes in South Africa, who fields daily requests from potential customers about the company’s empowerment rank. “I mean, you can do it, but they’ll give you only negative points and you will never get that order.” Right now, empowerment counts for more than a superior product, he says.

To improve its rating, Pitney Bowes resolved to sell between 25 percent and 50 percent of its equity to a suitable black partner—not an easy find in a country where few blacks have wealth or high-level expertise. After rejecting one candidate who turned out to be a former arms dealer, according to a board member, the company entered negotiations with Sipho Shezi, a director-general of the Department of Public Works in Mandela’s cabinet from 1995 to 1999.

Shezi’s partnership with Pitney Bowes promised to establish postal service in remote localities that have historically lacked municipal services, in part because service providers had no means to invoice residents. In an indication of the difficulties companies face in creating workable partnerships, negotiations collapsed.

“We don’t just want a stool pigeon or a figurehead,” says Andy Harper, board director of Pitney Bowes in South Africa. “We need somebody who has the skill set we’re looking for who can add to our business, bring in the right contacts and business and government knowledge.” (Shezi objected to Pitney Bowes’ asking price.)

Others aren’t so discriminating, and Pitney Bowes has lost contracts to companies that seemed to engage in spurious “fronting” partnerships, according to Victor Queiroz, DMT line of business manager for Pitney Bowes in South Africa. In the first



**Ben Pillay**, general manager, communications and government affairs at Ford Motor Co. of Southern Africa. Ford shares engineering and financial expertise with suppliers to help them cut waste. Suppliers in the program so far have saved between \$1 million to \$2 million. Ford benefits from lower future prices on parts.

Lawrence Mlotshwa, then group executive, human resources at Absa, one of South Africa’s largest banks. The banking industry recently introduced an inexpensive savings account called Mzansi. A million new accounts were opened within seven months of the launch, mostly by low-income citizens with no prior banking experience.

years of BEE, such evasions were widespread. Some companies created financial shells through which they loaned black partners the money they needed to buy a stake. Shezi tells stories of blacks given paychecks and cars in exchange for their appearance at government contract meetings.

“Our focus in this company has been very, very different,” says Queiroz. “We have focused on developing these people to our standards, instead of putting on a black face. A lot of the dealings, with guys eating from other people’s cakes and doing nothing, those guys are being exposed, and I think our govern-



ment is doing a huge job.”

In late 2005, the government announced it would penalize companies that fronted by docking their points on the BEE scorecard. It also is routing corruption from its own party, as Mbeki’s dismissal last year of Deputy President Jacob Zuma attests. In addition, a new breed of civil servant is emerging. As a condition of employment, these indi-



viduals, most of them black loyalists of the African National Congress, sign contracts that measure their performance against their compliance with BEE goals.

Ford estimates that 75 percent to 80 percent of the more than 39,000 cars sold in 2004 in South Africa went to purchasing agents who man-

general manager, communications and government affairs at Ford in South Africa. "That will happen more and more ... as the blacks move up."

Between the carrot of expanding consumerism and the stick wielded by Mbeki and his party's purse strings, the business case for

of those must be women.

Affirmative action carries no stigma as it sometimes does in the United States because transformation is seen as patriotic.

"There's a sense of pride," says Mpho Seboni, managing director of Spencer Stuart in South Africa, one of the country's largest executive-recruiting firms. Blacks feel they are driving the economic well-being of the country, he says. "BEE is sexy, it's extremely sexy. To not be in a BEE deal, it's like, what are you doing with your life? To be in a company that is not actively driving economic transformation, driving affirmative-action appointments, driving equity transactions between black and white investors, is the same as being a dinosaur in the dark ages."

Black job candidates now regularly ask Seboni whether a company is sincere about transformation. "Half the time they've done their homework and they know that the company has only one senior general manager who's female and only two who

are black out of 15, so they'll ask, 'What's going on here?' People will look to see if the companies have diversity subcommittees of the board, and if there isn't one, they'll ask how to ... address these challenges at board level."

But South Africa's rapid transformation doesn't merely level the playing field; it tilts it. Employers are instructed to favor black and female job candidates as positions become available. At Lithotech Afric Mail, a document-processing company in a suburb outside of



The General Motors Foundation builds pilot housing projects like this one around the country. The program counts toward GM's social responsibility spending and helps the government keep its campaign promise to provide homes. The 300-plus families in Sakhasonke Village, above, live in their homes for free. After eight years, they are given the deed to sell, keep, or use as collateral.

age government or corporate fleets.

"More and more you find that the person who is in charge of buying the vehicle might end up being a black and he's going to ask for certain criteria to be met and he's going to enforce it," says Ben Pillay,

empowerment in South Africa hardly needs to be spelled out, but it is anyway. Government-sponsored billboards strewn alongside freeways and soaring above airport parking lots shout: "Want growth? You need black empowerment."

### **Black Baas, White Fright**

Next to equity, the biggest challenge facing U.S. multinationals lies in transforming management. Guidelines finalized late last year set targets that 40 percent of top managers and half of executive board members should be black, and half

Johannesburg, Operation Director Ian Sinclair stands in the center of a busy warehouse and sweeps an arm around 30 or so employees operating whirring machines. Apart from a visitor, he is the only white man in the room.

"There should be about 10 percent whites here to really represent the country," says Sinclair, a South African native of Scottish and English descent. "I could possibly do whatever I like, but to keep the peace, you know ..." Unions are powerful in South Africa, and the right to strike is guaranteed by the national constitution.

Two of Sinclair's adult children have left the country, he says, one to New Zealand and the other to London. "I have two more at home but I'm not sure for how much longer," he says. He makes a circle out of his thumb and forefinger and, speaking loudly over the roar of equipment, says that, for whites, "the opportunities are zero."

Lawrence Mlotshwa, then-group executive, human resources for Absa, dismisses the notion that whites are losing out.

"It's absolute nonsense," he says. "Truly. In my organization, we recruit 80 percent black people, but on closer look, those people are employed at lower levels. In senior levels, despite the fact that we have an employment-equity policy, we still employ white

they ought to be concerned because in the past six months, they had recruited 10 whites and no blacks. "We have pressure everywhere to be diverse ... and the decision lies with you to bring in black people and women," he told them. "But you are

outright racism, employers say. Conflicts express themselves as alternative styles of management. Blacks prefer more consultation than whites, which may be perceived as slow decision making, says Mlotshwa. Blacks complain that



actually taking away that decision from yourself. Somebody's going to have to do it for you."

Nationally, black representation grew 8.2 percent at senior-management ranks between 2001 and 2003, while female representation increased 4.6 percent, according to the Commission for Employment Equity. At the highest levels of top management, however, black repre-

Eric Shipalana and Chirfi Guindo, head of human resources and CEO, respectively, at Merck Sharp and Dohme (MSD). The company gives black graduates a salary, benefits and a car for a year (at a cost of \$170,000 per person) while they train to become salespeople. Since launching the program in 2003, MSD has enlisted 32 trainees, bringing the percentage of blacks in its sales force to 50 percent by 2007.

whites raise their voices when they speak to them and imitate their accents. Leaders must be on the lookout for "malicious compliance," where managers privately opposed to diversity sabotage the women or blacks who work for them, says Merck's Shipalana.

"These are people who have been brought up in separate communities; they didn't know each other, they have been told different stories about each other," says Shipalana. "When I grew up, when my parents wanted to make me quiet, they would say, 'Keep quiet,

**"BEE is sexy, it's extremely sexy. To not be in a BEE deal, it's like, 'What are you doing with your life?'"**

*Mpho Seboni, Spencer Stuart (South Africa)*

males. If you are white and you're good, you still get employed."

Still, BEE carries a sting. Mlotshwa recently was asked to address a team of white males who were concerned about their future in the company. Mlotshwa told them

sensation actually slid 1.3 percent over the same period, and female representation slowed to 2.2 percent.

### **The South African Style**

Conflicts between employees of different races rarely take the form of

the white person is coming, the white person is going to eat you up.' Those things are still in the minds of some of the managers."

South African managers face a landmine of language and ethnic divisions. Afrikaners, white descendants of Dutch settlers who speak a language unique to South Africa called Afrikaans, historically have been less affluent and educated than descendants of British settlers, and some feel that English-speakers don't let them forget it. Chinese labored in goldmines alongside blacks and were classified as such during apartheid, whereas better-educated Japanese immigrants were classified as whites. Violent rivalries between Zulu and Xhosa tribes continue to shape the politics of the African National Congress.

Even within a single ethnicity, ethnic status may be artificially divided. Iranians who lived in South Africa prior to 1994 are classified as black, but those who arrived later are classified as white and, therefore, are not preferred in hiring.

The tools for coping with these fractures resemble corporate U.S. methods, with some key differences. Instead of affinity groups that celebrate difference and separate employees by race, gender or other factors (as apartheid did), South African employees are encouraged to discover what they have in common.

"People want the same things," says Mlotshwa. "People want to be treated with respect and dignity."

At the heart of South Africa's approach is *ubuntu*, an ancient Zulu spiritual concept roughly translated as "humanity through others." It is a belief that a bond connects all people, so one is only human by treating others humanely. *Ubuntu* encourages collaborative problem solving, compassion toward others and respect for the community.

African children were being raised with this caring ethos long before the West discovered diversity management. As blacks move into leadership roles in business, *ubuntu* may transform South African capitalism just as Nelson Mandela and Desmond Tutu transformed governance.

That's already happening, some say. Transactions are friendlier,

for multinationals that should lay to rest some of the worries over the equity-transfer requirement.

Multinationals will be allowed to meet the requirement by alternative means. For instance, financing of black entrepreneurs, a route taken by Citigroup, is viewed positively. Large employers may also argue for an exemption by providing enough



handshakes last longer, even airport customs agents are chattier, and new values are edging out old styles.

"People are still trying to profit, that part will never go away," says Spencer Stuart's Seboni. "But it's less authoritarian and more inclusive. That's why the balanced scorecard has had such resonance, because it's about balance, it's not about the individual pursuit of one objective, it's about collective achievement on a broad range of fronts ... You're still a capitalist, but you make your money by contributing to the social good."

### 'Do Their Bit'

In late 2005, the Department of Trade and Industry (DTI) released long-awaited codes of good practice

"BEE is one of the top five strategy priorities of the bank today," says Zdenek Turek, CEO, sub-Saharan Africa, Citigroup country officer, South Africa. "It is getting intense scrutiny by myself, by my management team and also, frankly, by my supervising fellows."

jobs to help the government meet its objective of halving unemployment by 2014.

"People want to come to South Africa to make as much money as they can and expect us to provide the right kind of political and economic climate for them to thrive," says Polo Radebe, acting chief director of BEE in the DTI. "They also have to do their bit."

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