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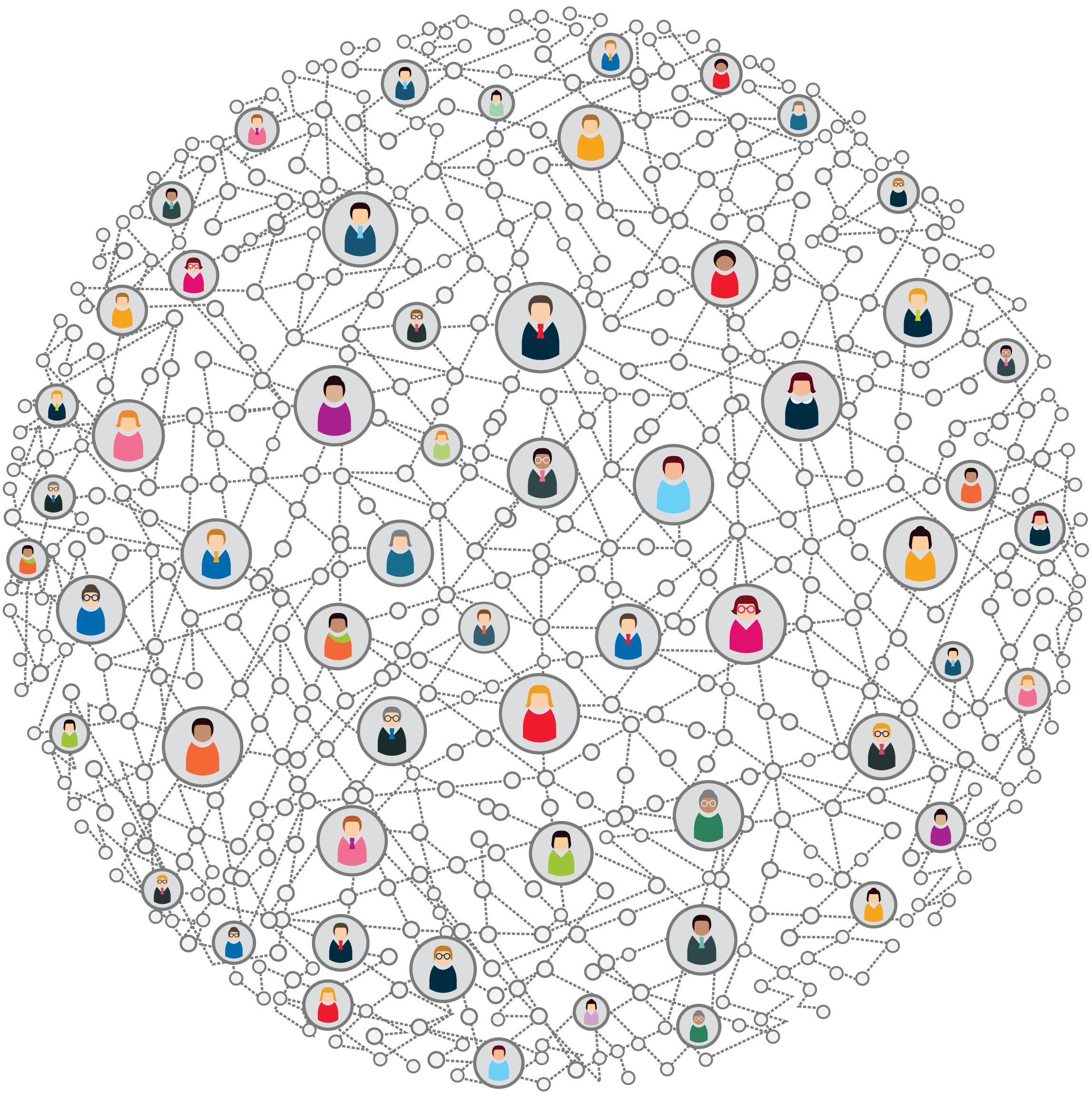

The right mind-set: Approaching diversity and inclusion in South Africa

Value Beyond Compliance series

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Contents

Introduction

Diversity and inclusion (D&I) is on top of many organisations' agendas,[1] in both private and public sectors across the world. D&I is particularly important in South Africa, where the legacy of exclusion is still prevalent. To address this in the workplace, the South African government has designed legislation prescribing targets that are largely based on race and gender. The most prominent transformation legislation is South Africa's Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice.[2] However, progress remains inadequate with many organisations struggling to diversify their workforces.

This report demonstrates the scale of, and potential reasons for, the diversity gap in South African companies, while highlighting that D&I can support business growth and performance. This, however, requires viewing diversity as an investment opportunity that drives *value beyond compliance,*[3] i.e. one that aligns economic performance with social progress.
The report, furthermore, outlines the importance of having the right mindset and leadership alongside a systemic approach to drive the needed culture change, and thus ensure meaningful D&I.

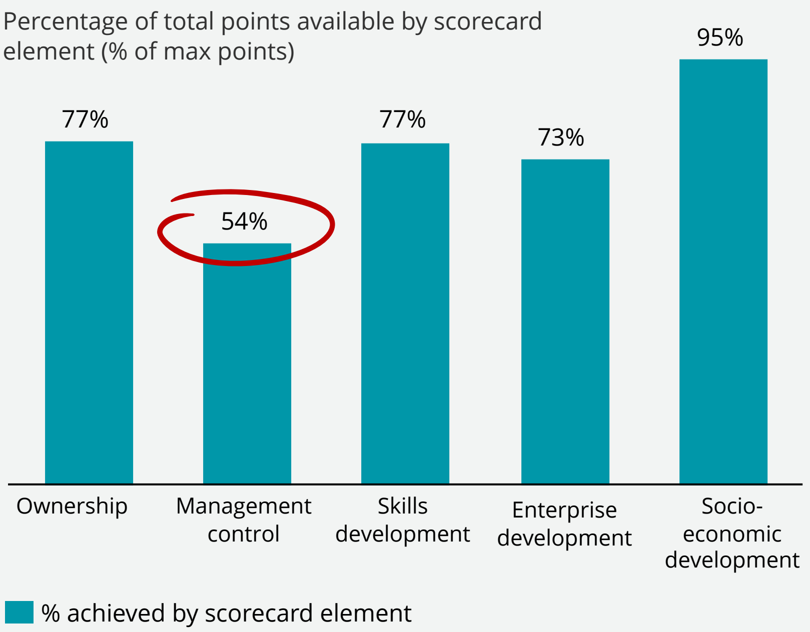
The South African context and diversity gap

The B-BBEE Codes consist out of five core elements, each aiming to drive inclusive growth. The elements are ownership; management control (which includes employment equity, and is seen as a measure of workplace diversity); skills development; enterprise development; and lastly, socio-economic development. A company achieves a transformation level according to their scoring on these elements.

Despite around 60% of companies achieving a compliant status in 2016/17, the pace of workplace diversity has been slow. Out of 26 255 researched South African companies, merely 11% of top management was Black African whereas around 62% was White.[4] Of the 277 Johannesburg Stock Exchange (JSE) listed companies in 2017, only 19.1% of directors and 29.5% of executive managers were women. In addition, 45 of the 277 listed companies had no female directors on their boards.[5] The gap in senior management is therefore sizable and a pressing issue for South Africa's major companies.

End-2017 B-BBEE scorecards for 100 of the largest JSE-listed companies paints an equally discouraging picture.[6] These companies secured only 54% of available points in the management control element of the scorecard[7] – by far the worst performing of the five elements (Figure 1). Therefore, despite attaining B-BBEE compliant scorecards, companies may be choosing to address 'easier-to-obtain' points to ensure compliance, while neglecting to address the diversity of their workplaces.

Figure 1. B-BBEE scores

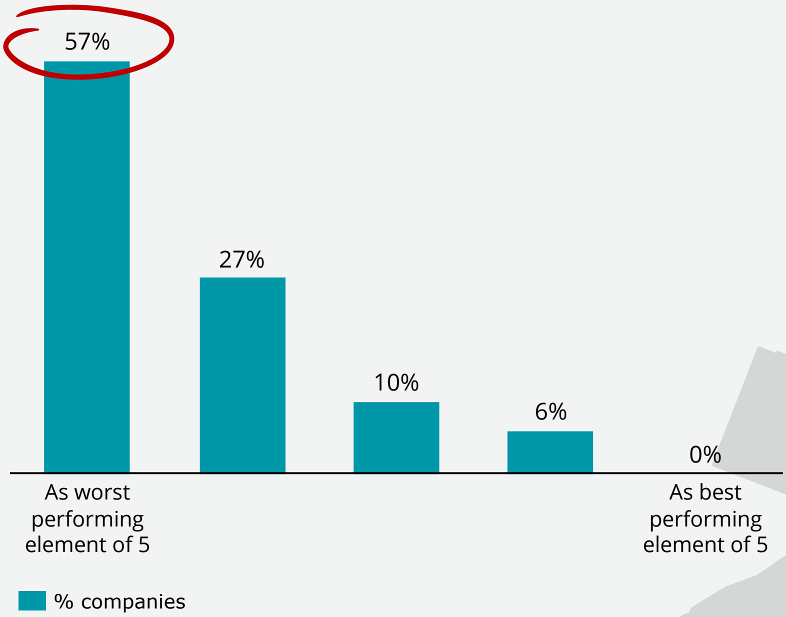


Source: Deloitte Africa research

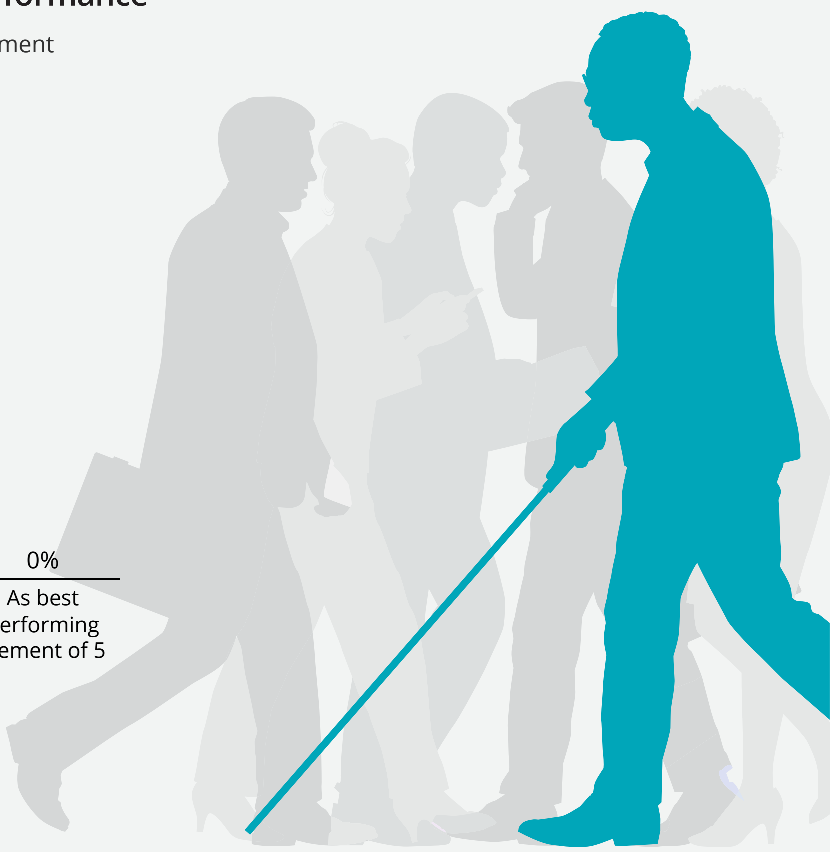
For nearly two-thirds of the sample, management control (i.e. the measure of workplace diversity) was the worst performing of the five elements. For a further quarter of the companies, it is the second-worst performing element (Figure 2). There are two probable explanations for the poor performance. Either companies are struggling with workplace diversity, or they are choosing to focus on other elements despite the relatively high weight of the management control element in the scorecard.

Figure 2. Management control element performance

Percentage of companies and relative rating of the management control element (% of total companies)



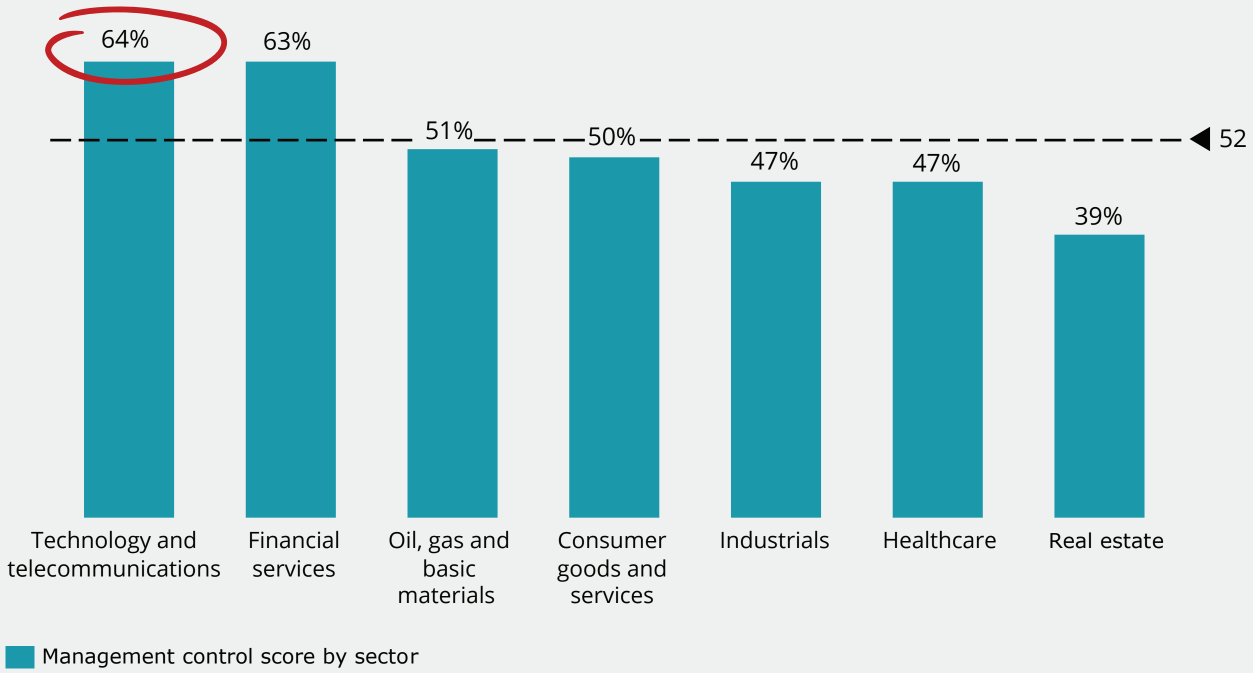
Source: Deloitte Africa research



At a sectoral level, some sectors show more progress than others. Technology and telecommunications companies and financial services are making the greatest progress in management control, whereas real estate is the worst performing sector (Figure 3). Of course there are exceptions of companies within some sectors. Nevertheless, the variation highlights that some companies are making more progress than others, indicating that change is possible with the right leadership and strategy.

Figure 3. Management control by sector

Percentage of total points available by scorecard element, and sector (% of max points)



Source: Deloitte Africa research

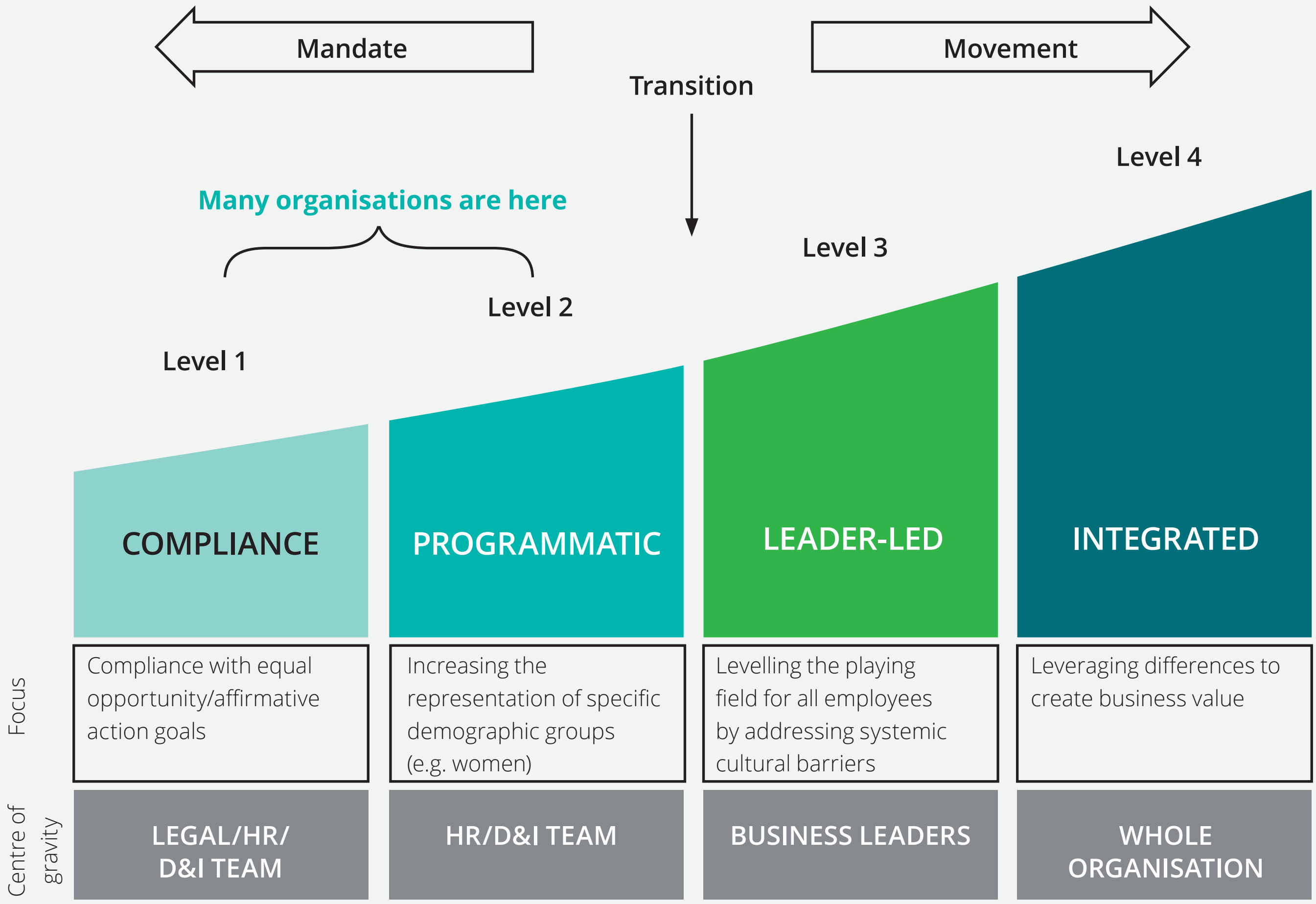
The sample of top 100 companies score relatively well on ownership and socio-economic development (Figure 1). Ownership is typically the element that gains most public attention and is therefore often prioritised by businesses. Socio-economic development already aligns with principles of corporate social responsibility and is typically the element with the fewest number of available points. Unlike these elements, management control requires long-term interventions. Companies often treat D&I as an additional "cost of doing business" and therefore tend to focus on elements that can be addressed relatively quickly or with transactional ease. This, though, does not create the sustainable structural changes needed in the South African workforce.

D&I is good for business

D&I is an important subject in boardrooms across the world. In 2019, global chief executive officers (CEOs) rated the "impact on society, including income inequality, diversity and the environment" as the most important challenge to overcome for success, as per Deloitte's 2019 *Global Human Capital Trends* report.[8] Likewise, almost 70% of the 10 000 global leaders surveyed in the 2017 edition of the same report, and 80% of South African leaders, cited D&I as "important" or "urgent/very important" to business (up from 59% and 70% in 2014, respectively).[9]

Nevertheless, Deloitte research indicates that many companies still underestimate the change required. D&I approaches are often compliance or programmatic focussed, characterised by tick-box and grassroots exercises, which result in limited progress beyond mere awareness. Cultural change only starts to become more substantial when leadership buy-in appears, and is further enhanced by fully integrating D&I into the organisation including staff behaviour and business processes (Figure 4). Cultural change is difficult, and requires more effort than many leaders anticipate.[10]

Figure 4. The Deloitte D&I maturity model



Source: Deloitte, 2018

In South Africa, the discussion on D&I is often characterised as more administrative and tends to be separated from its strategic advantage. South African companies would benefit from viewing D&I through a *value beyond compliance* lens. This goes beyond just achieving mandated targets and requires a shift away from a compliance-driven approach (which views D&I as an additional cost) towards seeing it as a strategic enabler (which views D&I as an investment into business-critical assets).

Value beyond compliance

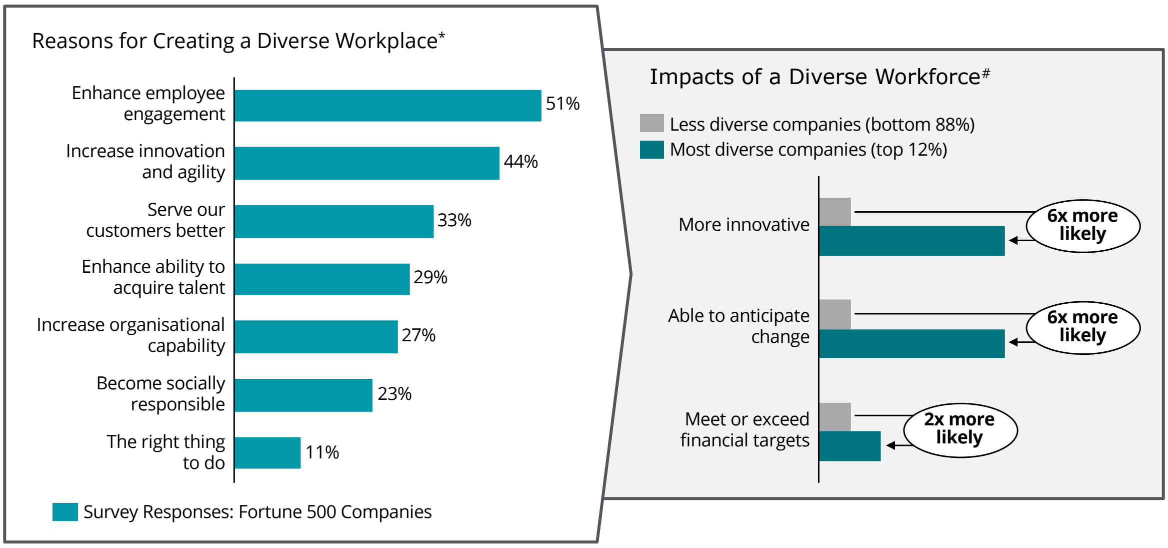
The old paradigm of doing the bare minimum is no longer sufficient. People, globally, are increasingly disillusioned with business profit at the expense of society. Although governments have attempted to balance company profits with domestic prosperity (leading to increased corporate social responsibility spend), high levels of unemployment, poverty and wealth inequality remain ubiquitous.

A change is needed. Companies should innovate their strategies to utilise social development as a strategic enabler for enhancing business excellence. *Value beyond compliance* aims to drive this fundamental synergy by developing and implementing strategies to align economic growth with social progress.

After all, D&I is good for business. Deloitte research highlights that the most diverse and inclusive companies are six times more likely to innovate, six times more likely to anticipate change, and twice as likely to meet or exceed financial targets (Figure 5). The Thomson Reuters *Diversity and Inclusion Total Return Index* (an index of the 100 best performers for D&I) consistently outperforms the general *Global Total Return Index*.[11] The superior performance of the index is attributable to a number of factors: attracting and retaining top talent, possessing a workforce that better reflects and understands the diversity of the market, and building a culture of inclusion that embraces new ideas.

In addition, US companies highlighted that they did not necessarily promote D&I because it was "the right thing to do" but rather because it improved employee engagement, increased innovation and led to better customer service (Figure 5).[12] In South Africa, diversity may be a critical licence to operate but it also presents an opportunity for companies, in a low-growth market, to outperform.

Figure 5. The Importance of diversity



*Note: *Based on 1 000 research-based resources, 200 case studies, and 70 in-depth industry studies;*
#Based on a survey of 245 global organisations and more than 70 client interviews.
Sources: Bersin by Deloitte, 2014; and Bersin by Deloitte, 2017

Falling at the first hurdle: buy-in at the top

If diversity is good for business, then why can it be so difficult to achieve? In Deloitte Africa's experience, succeeding with any workplace D&I programme requires committed leadership at the very top. Without such leadership, good intentions will fail beyond a planning phase. Our experience has identified five profiles of leadership that prevent any meaningful transformation going beyond boardroom talk (Table 1).

Table 1. Leadership profiles

Profile	Likely to hear...	Characteristics and causes
Political paralysis	"It's a very difficult topic to address" "What about our white employees?"	• Conflict avoidance because of assumed sensitivities • Assumption that D&I is a zero-sum game between winners and losers • Fear of division amongst executive committee and management • A head-in-the-sand approach to maintain unity
Transformation fatigue	"It's 2019 and not much has changed" "It's so difficult to change the mind-set in this place"	• Low morale from failed attempts • Pessimism about the economic and political outlook • Difficulty in pinpointing the underlying or systemic challenges
Compliance exercise	"Let's make sure we get the points we need" "This is HR's problem"	• Diversity is seen as a tick-box exercise • No buy-in, accountability or attention at the top • Limited investment – not a business problem therefore requires no investment • The bare minimum is carried out
Corporate antibodies	"The way we've done things is just fine" "There just aren't enough talented people in the market"	• Individuals controlling their spheres of influence • Fear that change will result in poor performance • Excuses made for why change is not possible
Strategy by best practice	"Let's do what our competitors are doing" "Let's do as much as we can"	• Looks to "best practice" case studies that may have worked elsewhere, rather than addressing the particular barriers and opportunities of the organisation • Lacks focus and takes a scattergun approach

Source: Deloitte Africa research

The profiles depicted above are common, and typically result in inertia and/or poor outcomes. These poor outcomes in turn, risk being interpreted as evidence for how difficult D&I is to achieve, repeating the cycle again. A shift in mind-set at the top is therefore critical for breaking the cycle. CEOs in particular must take ownership and enforce accountability at all levels to close the gap between what is said and the actual impact made. Achieving results is never easy and requires commitment, focus and robust evidence to make decisions.

Principles in approaching D&I

Even where leadership buy-in exists, companies require a more systematic approach in driving D&I. Many employment equity plans and diversity strategies are rushed. They are often done without due consideration of the dynamics of the company, nor do they align with or support the broader business strategy.

In addressing D&I, it is often beneficial to apply business strategy principles that treat diversity and inclusion the same way as an investment decision or a corporate strategy (Table 2). There are seven critical principles that assist in breaking the inertia cycle:

Align value drivers
It is critical that a D&I strategy is aligned and embedded into the organisation's broader strategy, and should clearly articulate how it positively impacts the company's primary value drivers and metrics, which will vary across companies and sectors.

Use facts and data
A data-driven and evidence-based approach is important not only in making decisions, but also to gain buy-in. Data can also be enhanced by using analytics to support the case for change and pinpoint underlying challenges.

Be focused
It is critical to have a targeted approach in understanding and driving D&I, with focussed resources. Be deliberate on where to invest and where not to invest – a scattergun approach rarely works.

Understand your "customer" (i.e. your talent pool)
Always engage the "market", understand their "buying criteria" and their "barriers to purchase". This means understanding your desired talent pool, their needs and their views of the current employee value proposition (EVP).

Develop the right product
Develop an EVP that meets the specific needs of your desired talent pool and continually innovate based on data, feedback and an awareness of the changing market dynamics.

Tailor-make the solution
There is no one-size-fits-all and you may consciously wish to make different choices from competitors, and utilise your individual competitive advantages in acquiring, upskilling and retaining talent.

Ensure accountability
Track performance and hold people to account for delivering results. Tracking, ownership and evaluation mechanisms need to be in place as in any strategy implementation.

These principles will assist businesses in asking difficult questions such as "how do I segment my workforce?", "what are the supply and demand dynamics of the labour market?", "do I have a winning value proposition to compete in the labour market?", and "how will a truly transformed workplace generate shareholder value?".

Table 2. Linking D&I to corporate strategy

Strategic choices	Sub-choices	Considerations for D&I
What are your objectives?	Purpose and objectives (financial and non-financial)	• Clarity on your company's aspirations and shared purpose • Establishing D&I as a strategic goal
Where do we play?	Customer segments and geographies	• Identifying emerging customer segments that offer new sources of growth • Ensuring leadership and front line staff reflect priority customer segments
	Value chain	• Seeking opportunities to forward and backward integrate by acquiring/investing into black-owned businesses
	Channel	• Building an organisational understanding of customer buying behaviours and channels
How do we win?	Value proposition	• Strengthening brand perception by the market • Scoring well on the B-BBEE scorecard (especially for business-to-business organisations) • Innovating in product development by encouraging a diversity of ideas and perspectives
	Profit model	• Right-sizing the company • Accessing government incentives in support of D&I
What capabilities do we need?	Core capabilities	• Developing future skills requirements • Deploying skills development funds to build strategic internal capability • Strengthening the employee value proposition to retain key skills and people
How do we configure?	Operating model	• Outsourcing non-core capabilities • Optimising the operating structure
	Key performance indicators	• Ensuring accountability for both financial and non-financial outcomes • Reporting and budgeting processes

Source: Deloitte Africa research based on Monitor Deloitte's Cascading Choices framework

Conclusion

Management control has, at its core, the principles of diversity and inclusion. However, the narrative is often dominated by a tick-box mind-set that prioritises the attainment of short-term compliance targets over business value. These are not necessarily trade-offs. A critical success factor of any D&I programme is to view transformation through a *value beyond compliance* lens and therefore acknowledge D&I as a potential source of competitive advantage.

The right mind-set, leadership and a systematic approach can drive the needed culture change, and thus authentic D&I. Business strategy principles can assist in understanding the complexities of driving workplace D&I. Companies need to be clear on where they can disproportionately invest to make disproportionate impact, while ensuring an equitable and high-performing workforce that delivers superior shareholder value.

Endnotes

[1] As mentioned in Fucci & Cooper, "**Diversity** refers to the presence of people who, as a group, have a wide range of characteristics, seen and unseen, which they were born or have acquired. These characteristics may include their gender identity, race or ethnicity [...]. **Inclusion** refers to the practice of making all members of an organisation feel welcomed and giving them equal opportunity to connect, belong, and grow—to contribute to the organisation, advance their skill sets and careers, and feel comfortable and confident being their authentic selves." Fucci M. and Cooper T. (2019). *The inclusion imperative for boards.* Deloitte Insights. Available [Online]: ***https://www2.deloitte.com/insights/us/en/topics/value-of-diversity-and-inclusion/redefining-board-responsibilities-to-support-organizational-inclusion.html***

[2] The Department of Trade and Industry (the dti) developed the B-BBEE Codes of Good Practice to regulate and promote transformation across South African industries. There are also other legislation that address D&I such as the Constitution of the Republic of South Africa, individual industry policies (e.g. Mining Charter), the latest iteration of the King Report on Governance of South Africa (King IV), and the Employment Equity Act.

[3] ***Value beyond compliance*** is about the fundamental synergy between business performance and social progress in creating shared value. See Deloitte Africa. (2019). *Value Beyond Compliance: A new paradigm to create shared value for mines, communities and government.* Deloitte Africa. Available [Online]: ***https://www2.deloitte.com/za/en/pages/energy-and-resources/articles/value-beyond-compliance-mining.html***

[4] Commission for Employment Equity. (2017). *Annual Report 2016-2017.* Available [Online]: ***https://blackbusinesscouncil.org/wp-content/uploads/2017/05/CEE-Report-2017.pdf***

[5] Businesswomen's Association of South Africa. (2017). *BWASA South African Women in Leadership Census 2017.* Available [Online]: ***https://bwasa.co.za/wp-content/uploads/2018/04/2017-BWASA-CENSUS-report.pdf***

[6] Note about methodology: The B-BBEE scorecards for 100 of the largest JSE companies across sectors were gathered using the company websites, the Beagle database, or from companies. Not all scorecards of the largest 100 were available and therefore alternatives were selected, all companies are in the top 150 of the JSE by market cap as of September 2018. These were the most complete set of scorecards publically available. Given the variation in sector codes, for each element the total points achieved was calculated as a percentage of total possible points. Bonus points were not included in the total possible points. Industry sector classifications are as per the JSE definition.

[7] For those scorecards still containing management control and employment equity as separate line items these scores were combined, similarly for scorecards containing separate scores for preferential procurement and enterprise development. By 2018 most companies were reporting a combined management control score.

[8] Deloitte Insights. (2019). *2019 Deloitte Global Human Capital Trends. Leading the social enterprise: Reinvent with a human focus.* Deloitte Insights. Available [Online]: ***https://www2.deloitte.com/ro/en/pages/human-capital/articles/2019-deloitte-global-human-capital-trends.html***

[9] Deloitte. (2017). 2017 *Deloitte Global Human Capital Trends for South Africa. The rise of the social enterprise.* Deloitte. Available [Online]: ***https://www2.deloitte.com/content/dam/Deloitte/za/Documents/human-capital/za_2017-Human-capital-trends_7_13%20 March2017.pdf;*** Deloitte. (2014). *2014 Deloitte Global Human Capital Trends. Engaging the 21st-century workforce.* Deloitte Insights. Available [Online]: ***https://www2.deloitte.com/content/dam/Deloitte/ar/Documents/human-capital/arg_hc_global-human-capital-trends-2014_09062014%20(1).pdf***; Deloitte. *(2014). South Africa 2014 Deloitte Global Human Capital Trends. Engaging the 21st-century workforce.* Deloitte Insights. Available [Online]: ***https://www2.deloitte.com/content/dam/Deloitte/global/Documents/HumanCapital/dttl-2014-Human%20Capital%20Trends%20South%20Africa.pdf***

[10] Deloitte. (2018). *The Diversity and Inclusion Revolution: Eight Powerful Truths.* Deloitte Review (22).

[11] Thomson Reuters. (2018). *Diversity and inclusion index.* Available [Online]: ***https://financial.thomsonreuters.com/content/dam/openweb/documents/pdf/financial/diversity-and-inclusion-index.pdf***

[12] Bersin by Deloitte. (2014). *The Diversity and Inclusion Benchmarking Report.* Deloitte. Bersin by Deloitte. (2017). *Building an Inclusive Culture.* Deloitte.

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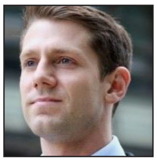

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