Leadership Challenges in South Africa: A Land of Contradictions
– Trip Summary Insights Report

LCF Insights #2011-004

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In March 2011, we had the pleasure of interviewing 12 senior leaders from a broad spectrum of South African society. The executives we met included men and women of different races, leaders of conglomerates, non-governmental organizations (NGOs) and companies in a variety of industries – banking, mineral and natural resources, retail, fast-moving consumer goods (FMCG) and telecommunications. There were a number of former political leaders, as well as black entrepreneurs – including one who had set up his business in the townships under apartheid – and several white leaders with long histories of passionate struggle and commitment to the country and the region. We also interviewed vibrant young leaders facing up to the new realities of South Africa, and family business owners struggling with the issues of preparing the next generation.

All of the executives we spoke with talked of the hope for South Africa, the vast opportunity for the country to become a high growth market and economy, yet also the challenges of forging a new country and economic system. They touched on wide-ranging subjects: the mistakes of the past – and the mistakes still being made today; leaders committed to the country but not adequately equipped with the knowledge and training to deal with the challenges they face; organizations with different agendas holding back progress; and individual opportunities, reflected in the dramatic accumulation of wealth through not only personal initiative but also political connections and opportunism.

Executives talked about the urgent need to deal with poverty, the overwhelming importance of basic education, the need to develop and provide the poor with a sense of hope, and the challenges of both engaging the young generation and making it easier for the emerging middle and wealthy classes to tap into the tremendous growth opportunities in South Africa. They spoke of the need to develop a sustainable infrastructure and for sustainable resource development aimed at benefiting South Africa, rather than allowing the country to be exploited for its natural resources. Frequently the question arose of when they should learn from Western ideas and when they should try to find the African way.

We left at the end of our brief trip with a sense of the contradictions inherent in the country. We came to appreciate not only that the opportunities and challenges facing South Africa are important for the people of South Africa and the companies that operate there, but also that the way the country deals with them could have a major impact on the challenges and opportunities facing the world.

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Four insights on leadership challenges
All of the above observations are critical for understanding the challenges facing the executives we interviewed in their role as leaders, responsible for developing their organizations today and preparing them for the future. In this brief report, we share four insights on key leadership challenges that emerged during our visit:

1. The importance of corporate social investment (CSI), as opposed to corporate social responsibility (CSR).
2. The importance of “readiness,” internally and externally, to handle challenges.

3. The significant challenges of addressing the root cause of issues rather than merely treating the symptoms.

4. The amazing potential power of inspired individual leadership.

There are two important reasons for sharing these insights. The first has to do with understanding the challenges facing leaders in South Africa, or markets similar to South Africa. The second is to explore the potential lessons that leaders worldwide can draw from their South African counterparts operating in a contradictory and difficult environment.

1. It is not about CSR, but rather CSI

During our visit, many leaders spoke not of CSR but of CSI – corporate social investment. Our initial reaction was that CSI was likely just another philanthropic approach, until it began to sink in that there might be more to it than we thought. Indeed, CSI reflects the constructive relationship between business and society, which we alluded to in a recent McKinsey Quarterly article, in which we noted the importance of moving from beyond viewing CSR as either propaganda or philanthropy to mutually beneficial partnerships. In the case of South Africa, the notion of partnership is central to having the possibility to address the dramatic challenges being faced in developing the long-term potential of the market.¹

Business in South Africa is dependent on the growth of the economy and the creation of a vibrant middle class for its long-term success. If the economy grows, so will the opportunities for businesses. If the economy fails to grow, there will be significant limitations on business. If society is able to address the challenges of education and poverty, there will be more opportunities for consumers and also for potential employees. There is clearly a strong interdependence in long-term interests.

Both government and business face the same challenges of creating a stable and growing social and economic environment.

Then the argument typically goes: It is the role of government, not business, to invest in securing social and economic development. But is it? Many of the business leaders we spoke to clearly recognized that because of the extent of the challenges facing the country and the extent of government resources, and the reality of the current political situation, there would not be sufficient investment, resources, knowledge or commitment to create a stable growing economy unless business played a significant and ongoing part.

So what options do businesses and their leaders have in this situation? First, they could just exploit the existing opportunities and hope for the best in the future. They could say, “It is government’s responsibility, not ours,” and take a wait and see attitude while pursuing short-term opportunities. Second, they could diversify and focus on growth opportunities outside the country, which could provide significant possibilities for them. But with both of these approaches, the leaders could be giving up on the major long-term opportunities for themselves and for South Africa.

A third approach could involve businesses actively seeking to be part of the solution, investing in addressing the long-term challenges facing the country which is, after all, in their own interests as well. With this investment come the usual benefits of CSR activities found in other countries, including engaging employees and building social legitimacy and brand. But in addition there is the recognition of the importance of investing in South Africa to create social and economic opportunities for the future.

Many of the executives we interviewed clearly passionately believe in being part of the solution, of contributing to the development of South Africa as a core element of their strategy. There was not much discussion about the short-term impact of this investment on financial results, since it was associated with securing long-term opportunities based on a fundamental belief in the country.
Contrast this approach with what is currently found in some more “developed world” companies. On March 24, 2011, for example, the New York Times reported that the largest company in the US, General Electric, despite worldwide income of $14.2 billion, including $5.1 billion in the US, paid no US income tax. The company, it was reported, has a staff of 975 people focused on identifying and exploiting tax loopholes. Although the US has a record budget deficit and problems with funding development, education and investment in the future, the largest corporation in the US concentrated its significant resources on not paying its share of this burden.

What we observed in South Africa is that inspired leaders clearly recognize the long-term interdependence between social and economic development.

“...in sub-Saharan Africa, there are huge amounts of undeveloped arable land available and plenty of water. We use less than 5% of our fresh water. The rest just goes into the sea.”

We need to be clear here that we are not talking about exploitative development projects that plunder resources to meet outside needs without concern for local conditions or what is left behind. (In this regard, we heard many comments about the “recolonization” of Africa, often by BRIC investors seeking resources for their domestic needs.) Rather, the opportunities we are referring to are associated with investments that have the potential to lead to sustainable and mutually beneficial development.

In this context, the idea of readiness has major implications for an organization. This CEO described how 90% of his organization and leadership were focused on projects to meet budgets and deliver on business plans. However, 10% of his team were actively working with communities, governments and other organizations in order to secure an external framework to provide opportunities for sustainable development. He described these opportunities as preparing for a “marathon” in terms of putting in place the chance to succeed.

| The key missing features in most of the failed projects were to do with readiness, and involved factors associated with both the mindset and approach of the investor and with ensuring the preparation of supportive local conditions. | 2 See LCF CEO Interview Series 2011-02. “LCF Interview with Peter Staude, CEO – Tongaat Hulett.” |
Preparing for such a marathon has three major internal requirements, involving:

1. **Developing leaders with a different set of skills** – skills based on understanding local conditions and players and on working constructively with the different parties to find common ground in their often conflicting interests.

2. **Changing the risk management mindset** – preventing bureaucratic short-term risk aversion from blocking the chance to pursue significant long-term opportunities. Rather than having to spend huge amounts of time trying to explain to distant headquarters the daily risks and changes taking place, it is necessary to understand and accept these risks as a normal element of the region and to spend the effort, and have the patience, to deal with these risks on the ground on an ongoing basis.

3. **Re-evaluating the ownership base** – by actively seeking out investors and owners that not only demand good short-term results but also share a passion for and commitment to the long-term opportunities. Investors/owners also have to be open to locally appropriate solutions, instead of imposing outside models and solutions.

All in all, managing readiness requires patience and persistence. This means possibly putting off investments for several years while working to develop the required local support and conditions for success.

In terms of implications for leaders outside the region, the concept of developing an organization ready for the long term also applies. The three observations of having 10% of the organization with the skills and commitment to win the marathons, having the patience and persistence to pursue and manage opportunities (and not just manage risks), and the need to seek out and find owners with a long-term commitment to the success of the business all offer lessons for managers no matter which market they are in or what type of organization they lead.

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3. **The challenge of addressing the root causes of big issues**

Following our visit to China in 2010, we shared how a leader there described the difference between Western and Chinese medicine and business: In the West, executives concentrate on treating the symptoms of issues, while in China the focus is on the root causes. The same idea came up in our discussions with South African executives in both NGOs and growing businesses.

Poverty is a well-known challenge facing Africa. In terms of alleviating this poverty in South Africa, there seems to be a classic ongoing debate on how best to provide assistance and support to the poor. Some advocated direct government grants and aid to the poor, but others dismissed this approach as futile, since it creates and supports a culture of dependence and merely passes the problems on to the next generation. Other leaders highlighted the importance of education at the basic level (K-12) to create a sense of identity and hope in the new generation and to give them the tools and chance to create their own future. This, these leaders argued, is the only way to address the issues of poverty and education at the core.

Our interviews in South Africa went beyond these never-ending high level discussions to explore the real challenges of addressing these issues at the root. Different interviews focused on the various roles government, NGOs and business all play in this regard.

We spoke with one former government official who has created a foundation to work with principals in individual (K-12) schools and to provide the knowledge and tools to eliminate the current waste in the system. Overall, the foundation focuses on providing the mindsets, ways of working and skills to tackle the root causes of poverty from the ground up, working with individual principals in schools across the country. The argument goes that unless these principals have a sense of the importance of their role and

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are given the support they need to succeed, throwing large amounts of money at the education system will not work. A long-term approach, one might say, but is there truly an effective alternative?

We spoke to another leader who was forming a grassroots business aimed at fostering creative young talent in the area of design and fashion by providing these young people with the necessary tools, as well as a structure for manufacturing their products and a showcase to expose them to wider market opportunities. The goal of the business was to give these individuals a sense of pride and opportunity, as well as giving them global exposure and creating a market for African design. These were just two grassroots efforts to address the root causes of poverty in South Africa.

In our interviews, most leaders of large South African firms also exhibited the same spirit and desire to contribute to the long-term development of South Africa. Indeed, all of the interviewees (admittedly a small and likely biased sample) clearly recognized that one of the critical challenges facing South Africa stems from the related core issues of poverty and education.

So what is the role of the government here? How is the South African government dealing with these core challenges? How are all of these dispersed efforts being coordinated and aligned to address these issues?

Although the resources, knowledge, desire and passion to look at the root causes of poor education and poverty were all there, what was missing was the element drawing the parties together to work in partnership to make a real difference.

The insight is not unique and is well known, but its stark clarity in South Africa was striking. This missing link illustrates the critical importance of looking with a fresh eye at the roles that various institutions play and of forming true partnerships as a critical enabler of progress on the core issues facing society, and as a result, business.

It is no longer sufficient to claim that government has a particular role to play and should be held accountable for doing so. Nor are NGOs, with their commitment to burning causes, able to solve the problem in isolation. Finally, business – even when it does recognize the importance of CSI – cannot address the root causes of issues alone. What was clear was the need for genuine partnership to bring together the commitment, as well as the resources and expertise, to find solutions.

The implications for leaders worldwide grappling with the major challenges facing society and business today are clear. There is a need to break down traditional assumptions about the roles of different types of organizations – businesses, NGOs, foundations, governments – and move beyond merely treating the symptoms of issues to find new ways of partnering – broadly partnering – to enhance the potential for success in tackling the root causes of major problems.

4. The amazing power of inspired individual leadership

In all of the CEO interviews, we always ask interviewees which leaders or individuals they admire and why. The purpose of this question is to understand what characteristics of admired leaders CEOs value, to look for the qualities in terms of both personal traits and impact that other leaders, often at the pinnacle of their careers, appreciate. It goes without saying that we expected to hear a great deal about Nelson Mandela during our visit to South Africa. Despite this expectation, we were taken aback by the depth of genuine respect and admiration for him from every single person we interviewed.

The end of apartheid in the early 1990s led to a period of incredible hope in South Africa. Most people we interviewed knew exactly where they were when Nelson Mandela was released from prison. Most spoke of the power of Mandela’s vision in unifying the country and creating a common sense of direction. We heard that many of the first government officials in the new era, although they lacked adequate training for the roles they were
taking on, were driven by a sense of purpose. Despite the challenges, the shared vision seemed to provide a sense of common hope and direction.

A typical quote went like this:

I think there are very few South Africans who won’t say that Nelson Mandela inspired them. I think the biggest thing about him was that he could have come out of jail and looked back and tried to avenge all the injustices that were done to him. But what he’s taught us is that you have to look ahead. He was focused on the future and what he could do to make the future better for all of us.

A common theme that came through in the interviews was the importance of the ability to forgive the past and create a shared future that can inspire, engage and challenge all, even those who may have harmed us in the past.

But beyond the stories about Nelson Mandela, in other interviews we also encountered executives with strong visions for the future. We spoke with CEOs who had created passionate visions for their organizations, many of which were closely involved in the building of South Africa and the African region. Similarly, as is to be expected, we spoke with executives focused largely on themselves and their accumulation of wealth and power. But the interesting insight in our interviews was the power of combining a compelling and passionate corporate vision with a passionate vision for the country, reflecting the interdependence between corporate and national development, neither of which can succeed without the other.

Many of the leaders we interviewed expressed a strong personal desire to positively impact South Africa and contribute in significant ways to creating its future. But at the same time, others also suggested that there is potential for a sense of common vision to be lost as different stakeholders and interest groups jostle for power and influence. As in much of the rest of the world, the battle between long-term institution-focused leaders and self-focused leaders seemed to be at the forefront in South Africa in creating the future for the region.

Looking ahead

From our brief visit, we left with a set of open questions about the current direction of South Africa. Is the country at yet another crossroads, this time either following a path to collective social and economic development or embarking on yet another round of exploitation? Can the country take advantage of inspired individual leaders to tackle the root causes of the issues it faces? Can South Africa address the concept of readiness to enable sustainable and mutually beneficial development? Or will it be reconlolized by others seeking its resources, or fall prey internally to individual greed and extreme wealth accumulation? Can business and society develop the ideal of CSI to create major opportunities for business and the South African people, to tap into the huge opportunities that exist in the region?

We believe the most important insights from our brief journey to South Africa relate to the importance of leadership in enabling, aligning and supporting business and government to work together in a period of severe contradictory pressures and opportunities. South Africa, like many regions of the world, requires significant investment in its society and social infrastructure and systems. A critical way to accomplish this is by understanding and addressing the issues of education and poverty at the root. To this end, there will need to be a long-term commitment to building readiness in all institutions, as well as committed individual and collective leadership – focusing on the future and working in partnership.

The situation in South Africa regarding business, government and society is evident in many other parts of the world. Yet leaders often continue to consider the roles of business and government as independent, instead of seeing the possibilities for greater interdependence in order to develop mutually beneficial opportunities in the long term. Society needs business and business needs society for their own long-term self-interest.

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