

P O L I C Y B R I E F

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Addressing fragmented Broad-Based Black Economic Empowerment (B-BBEE) through shared value creation

Key message

Leveraging the Enterprise and Supplier Development (ESD) and Socio-Economic Development (SED) Codes of Good Practice, as outlined in B-BBEE policy, presents an opportunity to support growth and market access for informal enterprises by aligning the policy with a shared value creation (SVC) framework. Through this approach, B-BBEE implementation can achieve its core objectives by mobilising resources and fostering partnerships that enable inclusive economic growth. Currently, the policy does not make provision for the inclusion of informal firms as candidates for enterprise and supplier development or as beneficiaries of socio-economic initiatives. Expanding B-BBEE's impact beyond large, formal firms affords a broader constituency of enterprise structures to participate in initiatives aimed at supporting local business growth. Additionally, encouraging collaboration between large firms and informal micro-enterprises promotes local development and presents supplier localisation opportunities for firms seeking to reduce their logistical costs and environmental impact. By reframing ESD and SED Codes of Good Practice within B-BBEE policy to align with SVC, these initiatives can more effectively target the inclusion of both formal and informal micro-enterprises to extend the reach and impact of the policy.

The challenge: Leveraging B-BBEE to promote the adoption of SVC strategies for inclusive development

Although the aim of B-BBEE is to promote economic transformation and foster inclusive growth in South Africa, recent reports have indicated inconsistencies in its fragmented implementation within the formal sector. One possible explanation could be that formal firms have struggled to strategically align the policy's objectives with economic value at the firm level. Therefore, the SVC's proposed perspective centred on the mutual pursuit of social and economic value, offers an innovative approach to implement and interpret the ESD and SED Codes of B-BBEE policy. This approach seeks to address fragmented implementation while highlighting economic and social value for informal firms and the communities in which they operate, ultimately fostering inclusive growth. The purpose of this brief is to propose leveraging existing policy instruments to align more effectively with policy objectives and national development goals, while addressing the barriers to the growth of informal enterprises.

The framework of shared value creation

Shared value creation (SVC) is a business strategy framed to mutually create social and economic value. Developed

by Harvard university professors, Michael Porter and Mark Kramer, SVC is intended as an approach that enhances firm competitiveness while improving social and economic conditions in the communities within which it operates (see Figure 1). Businesses that have successfully adopted SVC in South Africa, notably Discovery, Unilever and Shoprite, demonstrate enhanced competitive advantage while improving social, environmental and economic conditions. Porter and Kramer¹ identify three mutually inclusive pathways for creating shared value: reconceiving products and markets, redefining value chain productivity and enabling local cluster development.

Pathway 1: reconceiving products and markets

The first pathway invites firms to identify all the 'needs, benefits, and harms'² (Porter and Kramer, 2011, p. 68) that are potentially embedded in their products. This evaluation is not intended to be static, but dynamically integrated with technological, social and economic changes that lead to the discovery of new avenues for product and market innovation. The pathway includes an exploration of underserved markets that could be accessed by 'redesigned products or different distribution methods'³ (Porter and Kramer, 2011).

Pathway 2: redefining value chain productivity

The second pathway is a provocation for firms to evaluate their use of energy, resources, logistics and procurement. By assessing the efficiency of their resource use, firms are encouraged to replace short-term cost reductions with more sustainable practices that increase productivity in the longer term. For example, value chain localisation not only reduces logistical costs and carbon emissions but promotes the growth and establishment of local suppliers.

Pathway 3: enabling local cluster development

The third and final pathway for creating shared value is to enable the development of local clusters. This pathway invites firms to examine the local environment within which they are located to identify any organisations that can support their businesses. These include potential suppliers, service providers, educational institutions and trade associations. Cluster development grows local economies, improves logistical efficiency and leads to infrastructure development.

In the South African context, SVC can be integrated into B-BBEE policy by aligning the ESD and SED Codes of Good Practice with these pathways to drive economic inclusion and transformation more effectively.

Figure 1: The competitive strategy of shared value creation



Source: Shared Value Initiative Hong Kong: <https://sharedvaluehk.org/what-is-creating-shared-value/>.

Accessed 11 March 2025

Enacted in 2003, the Act aims to drive economic transformation and inclusive growth in South Africa. The B-BBEE Codes of Good Practice and the scorecard provide the framework for implementing this policy, focusing on various elements, including Ownership, Management Control, Employment Equity, Skills Development and Preferential Procurement, including Enterprise and Supplier Development (ESD) and Socio-Economic Development (SED). ESD and SED are key components of these codes. The policy was revised in 2014 to enhance policy implementation and promote entrepreneurial growth.

Addressing the fragmented policy implementation of B-BBEE

Despite the policy being revised in 2014, ESD remains one of the lowest-performing elements of the B-BBEE indices⁴ (B-BBEE, 2022). According to a report produced by the B-BBEE Commission in 2022, companies are implementing ESD in a fragmented manner, failing to align it strategically with business and societal objectives. Fragmented implementation of the ESD and SED Codes of B-BBEE undermines the policy's potential to drive inclusive growth and economic transformation. A report by the National Treasury⁵ highlighted how this fragmentation and strategic misalignment reduces the effectiveness of the policy to promote sustainable initiatives, failing to contribute to inclusive economic growth. (Acemoglu, Gelb and Robinson, 2007)

To address these challenges, the SVC framework offers clear pathways for firms to:

- explore accessing local markets informed by collaborative partnerships with locally embedded businesses and organisations
- identify local businesses that align with their supply chain needs
- extend mentorship and technical assistance to include micro-enterprises to ensure long-term sustainability.

The evidence and insights: shared value in South Africa, formal firm incentives and reciprocity as a shared value catalyst in informal firms

Shared value creation (SVC) adoption in South Africa

South African companies⁶, such as Discovery, Unilever, and Pick n Pay, have communicated their successful integration of SVC strategies into their business models (Kotze and Hofmeyr, 2022). Discovery rewards its clients with reduced premiums based on their health, driving and financial behaviour (Discovery Ltd, n.d.). Their model improves individual health, road safety, and responsible financial management. Unilever South Africa has adopted SVC with its sustainable sourcing initiatives to support small businesses by offering access to its supply chain and promoting regenerative agriculture (Unilever South Africa, 2024). Their approach reduces logistical costs and environmental impact while providing businesses with opportunities to improve and grow. Lastly, Pick n Pay has framed its supplier development programme as a SVC initiative by providing support to

small-scale suppliers (Pick n Pay Stores Ltd, 2019). Their initiative has led to enhanced business competitiveness while benefiting small businesses and local economies. These cases demonstrate how SVC can drive business success while promoting inclusive economic development in South Africa.

Incentivising formal firms to engage with micro-enterprises: integrating SVC in ESD and SED

If formal firms approach ESD and SED as isolated rather than integrated strategies, it could result in missed opportunities to support micro-enterprises effectively, limiting the development of sustainable supply chains and reducing socio-economic impact. To address this issue, this policy brief proposes an alternative approach to B-BBEE by integrating SVC into the policy's ESD and SED Codes of Good Practice. For SVC to be integrated within B-BBEE, the policy should provide formal firms with clear incentives to aid its adoption. Some examples include enhancing scorecard points for using micro- or informal businesses as suppliers, localising value chains that reduce environmental impact, hence operational costs, and establishing collaboration with local organisations that enhance reputation.

Stakeholder engagement and strong social networks enable formal firms to create shared value (Van Rheede, 2023). This approach, as opposed to corporate philanthropy, offers a more authentic way for firms to contribute socially while improving their brand reputation with consumers (Van Rheede, 2023). Previous research has also identified that formal firms demonstrate a particular weakness in community engagement (Azmat, Ferdous and Couchman, 2015; Font, Guix and Bonila-Priego, 2016). For instance, a study on the competitiveness of small farms and innovative food supply chains demonstrates how formal agricultural firms were able to shorten their supply chains while effectively supporting small-scale farmers by establishing locally embedded food hubs as intermediaries to create shared value (Berti and Mulligan, 2016). Therefore, partnering with micro or informal firms allows formal firms to leverage their existing localised networks. Partnering with these firms can enable SVC by engaging with a broader range of stakeholders, which can serve as intermediaries between local communities and formal firms.

How informal businesses catalyse SVC

Recent research conducted by the HSRC's Centre for Science, Technology, and Innovation Indicators (CeSTII) and findings from the author's doctoral study on SVC in emerging economies show how micro- and informal businesses serve as catalysts of SVC (Van Rheede, 2023). The research indicates how these businesses organically engage in shared value practices by reinvesting in their local communities through employment, sharing knowledge, and customising products based on local needs. According to the survey conducted by CeSTII(2021) in 2019, more than a third (39,0%) of informal businesses in Sweetwaters, KwaZulu-Natal, served local customers, with more than half (55,7%) using local businesses as suppliers. The study reported an average of 2,2 employees per business, with more than half (52,1%) of the respondents indicating that they had acquired skills in the business. The CeSTII findings suggest that integrating micro- and informal firms into B-BBEE policy can address the policy's current fragmented implementation and contribute to economic transformation.

SVC in informal businesses: the role of empowering narratives

Empowering narratives refer to the stories that business owners construct from previous experiences that shape their future behaviour in empowering ways. According to the author's doctoral study, these narratives generate a

reciprocal pattern of SVC (Van Rheede, 2023). For instance, business owners who received financial or technical resources from their local networks were more likely to demonstrate empowering narratives of contributing to their local community through job creation and sharing knowledge and skills to grow the local economy. The reciprocal nature of SVC in informal businesses is depicted in Figure 2.

Table 1 shows examples from the author's doctoral study demonstrating how the role of empowering narratives leads to reciprocal SVC.

Figure 2: Shared value reciprocity



Source: Author's own

Table 1: How the role of empowering narratives leads to reciprocal SVC

SVC outcome	Narrative	Quote	Resource received	Reinvestment in the community
Adapting to local customer's needs	Resilience	"I had to fight for survival."	Equipment	Adds products to sell during service offering
	Learning aptitude	"I still completed my studies and graduated."	Financial	Offers a unique service
	Knowledge sharing	"I realised it was easy when you share knowledge you have with others."	Personal motivation	Teaches others
Localised employment creation	Resource sharing	"We need to support others to succeed."	Business asset	Teaches/Helps others
		"That made the difference."	Personal motivation	Asks a friend to join the business
	Resilience	"I decided to be stronger and work hard every day."	Business asset	Teaches/Helps others
		"Work hard with great determination."	Equipment	Hires and trains local artisans
		"I decided that I will persevere and not lose hope."	Personal motivation	Asks a friend to join the business
	Resourcefulness	"I decided to stop looking for a job and create jobs."	Knowledge and skills	Hires and trains a store manager
Localised employment creation	Resourcefulness	"It helps having someone in your corner pushing you to succeed."	Business advice	Trains others
	Knowledge sharing	"I used the skills that I learnt while helping a friend."	Knowledge and skills	Establishes a youth group to share knowledge
	Learning aptitude	"He had his own business and taught me the skills."	Knowledge and skills	Trains others

Policy implications for strengthening B-BBEE through SVC

Despite the policy's goal of fostering inclusive economic growth, the current B-BBEE ESD and SED Codes of Good Practice exclude informal and micro-enterprises. This exclusion limits the policy's potential to drive economic transformation. To address this gap, B-BBEE should recognise and integrate informal and micro-enterprises as key contributors to local economies.

Implication 1: Revising B-BBEE to include informal businesses

- **Policy adjustment:** Amend the B-BBEE Codes of Good Practice to explicitly recognise informal businesses and micro-entrepreneurs as eligible participants under ESD and SED initiatives.
- **Implementation mechanism:** Introduce a structured approach for formal firms to engage with informal businesses, providing technical and financial incentives to foster their integration into formal value chains.

Implication 2: Introduce incentives for adoption of SVC

- **Scorecard adjustment:** Firms that integrate shared value principles and initiatives, such as sourcing from micro-enterprises or supporting supplier development clusters, should receive additional B-BBEE scorecard points.
- **Tax and procurement benefits:** Government could offer tax incentives or preferential procurement status for businesses that demonstrate active partnerships with informal enterprises.

Implication 3: Strengthening business benefits and economic growth

- **Logistics cost reduction:** Encouraging supplier localisation through local informal and micro-enterprise partnerships can lower logistics expenditure while improving environmental sustainability.
- **Market expansion and economic inclusion:** A more integrated supply chain involving local micro- and informal businesses can enhance market access for both small and larger firms, fostering economic stability.

Implication 4: Concrete steps for policy implication

- **Legislative amendments:** The Department of Trade, Industry and Competition (DTIC) could revise the ESD and SED Codes of Good Practice criteria within the B-BBEE policy framework.
- **Stakeholder collaboration:** Government, corporates, and entrepreneurship support organisations (ESO) could establish multi-sector partnerships to facilitate knowledge sharing and capability building for micro- and informal businesses.
- **Monitoring and evaluation:** An impact measurement framework could track how SVC adoption under B-BBEE contributes to inclusive growth, ensuring continuous refinement of the policy.

Integrating SVC within B-BBEE policy, particularly its ESD and SED Codes of Good Practice provides an opportunity to move beyond fragmented implementation towards more impactful and sustainable economic transformation. By leveraging partnerships, aligning business strategies with community needs and institutionalising narratives of reciprocity, firms can unlock sustainable value for business and society.

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