

Wholesale&Retail

LEADERSHIP CHAIR

Collaboration opens the window to a world of opportunities



Socio-economic Developmental Strategies as Retail Performance Indicators: A Balanced Scorecard Approach A SUMMARY

It was identified in recent studies that retailers, within the South African milieu, have the potential to add socio-economic value, with job creation and cause-related marketing implications.

INTRODUCTION

Background

The South African National Development Plan (NDP) describes 'three core developmental priorities:

1. Employment through economic growth
2. Education and skills development
3. Development and transformation

It was identified in recent studies that retailers, within the South African milieu, have the potential to add socio-economic value, with job creation and cause-related marketing implications.

This has led to ongoing debate between retailers and government, about 'benchmarking' and 'balancing', as well as the development of scorecards for sustainable socio-economic development .

This is illustrated in Figure 1 by the national 'cycle of development' performance scorecard paradigm.

Figure 1

Different Sectors Working Together



Rationale for study

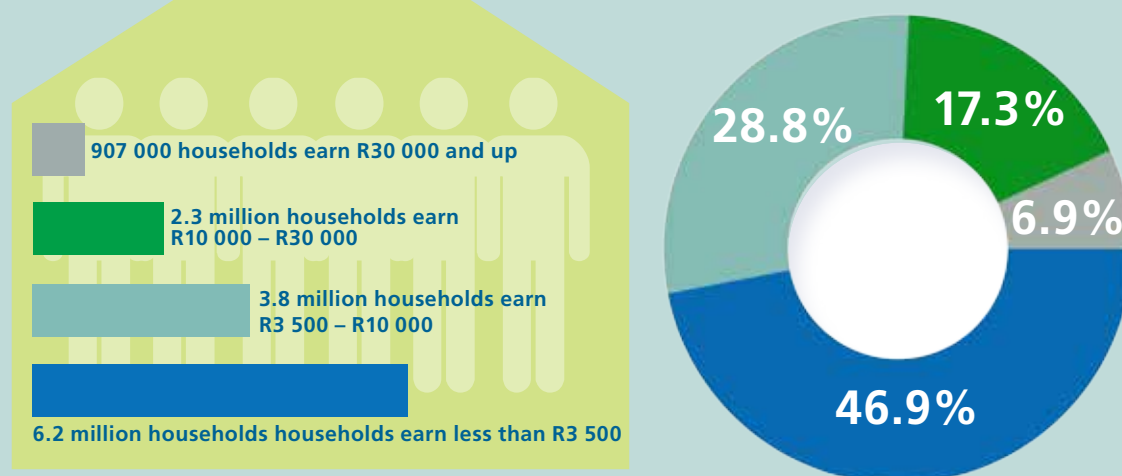
- The retail industry is a major player in the South African economy: Fourth largest contributor to Gross Domestic Product
- 30 000 tax-registered retail operations
- Employs approximately 22% of the country's workforce

These figures must be seen in the context of South Africa's rapidly changing socio-economic environment:

- The birth, heralded by apartheid's demise, of a new middle class. This has resulted in the reconfiguration of retailers' scorecard strategies, community marketing efforts and staff profiles.
- 65 percent of retail workers are employed by corporates. To meet the state's objective of stimulating SME growth, targeted public-private sector action is required.
- Household spending is likely to remain at present levels of growth, due to a rapidly growing, urbanised workforce, with its burgeoning spending power.
- The inequality existing between different South African groupings, which puts the brakes on potential future growth prospects



GROSS MONTHLY HOUSEHOLD INCOME IN SOUTH AFRICA, 2011



Source: IES 2010/11

Note: Income has been adjusted where regular expenditure exceeds income

- By 2030, more than 70% of South Africa's population will live and work in cities and towns and do their shopping in malls – with serious implications for informal traders and emerging retailers.

These factors place more and more pressure on retailers, as they attempt to balance immediate financial objectives with long-term, socio-economic developmental aims.

Businesses and the state working together is nothing new. Such undertakings, however, are sorely under-represented in the retail sector and there is no official charter governing such a relationship. This study will therefore make a much-needed contribution to shared retail scorecard thinking, collaborative understanding of performance indicators and strategic implementation of developmental scorecards.

Objectives

The objective of this study, therefore, was the review and analysis of the processes underpinning the creation and administration of organisational scorecards – particularly in light of the necessity for balancing short-term financial goals with long-term socio-economic aims.

The following questions were addressed:

- Are balanced scorecard systems used by South African retailers as financial and socio-economic developmental indicators?
- What are the key pressures on, and opportunities for, retailers to include socio-economic development factors among their strategic performance indicators?
- Is there evidence of benefit to retailers and the state, in the collaborative use of scorecards to promote socio-economic development?

METHODOLOGY

A qualitative research methodology was employed in the gathering of the information. As background to the process, a review of current literature helped to strengthen understanding of the Triple Bottom Line and Balanced Scorecard paradigms.

This was followed up with an interview process, working with retail role players to gauge the sector's changing perceptions of socio-economic development strategies and their impact on business practice. Through this process, it was established that focus would be required on customer profiles, supply chains, employee engagement and customer demographics, in order to make progress on answering the questions posed.

An interview guide was developed, based on literature, with the objective of establishing whether retail businesses were using Balance Scorecard, Triple Bottom Line or similar performance management systems.

Also of concern, was whether such systems were aligned with national development goals. This was rounded off with an analysis of strategy variances in the sector and insights into socio-economic developmental thinking patterns.

To carry out the interviews, a sample of 60 retailers and regulatory stakeholders was selected.

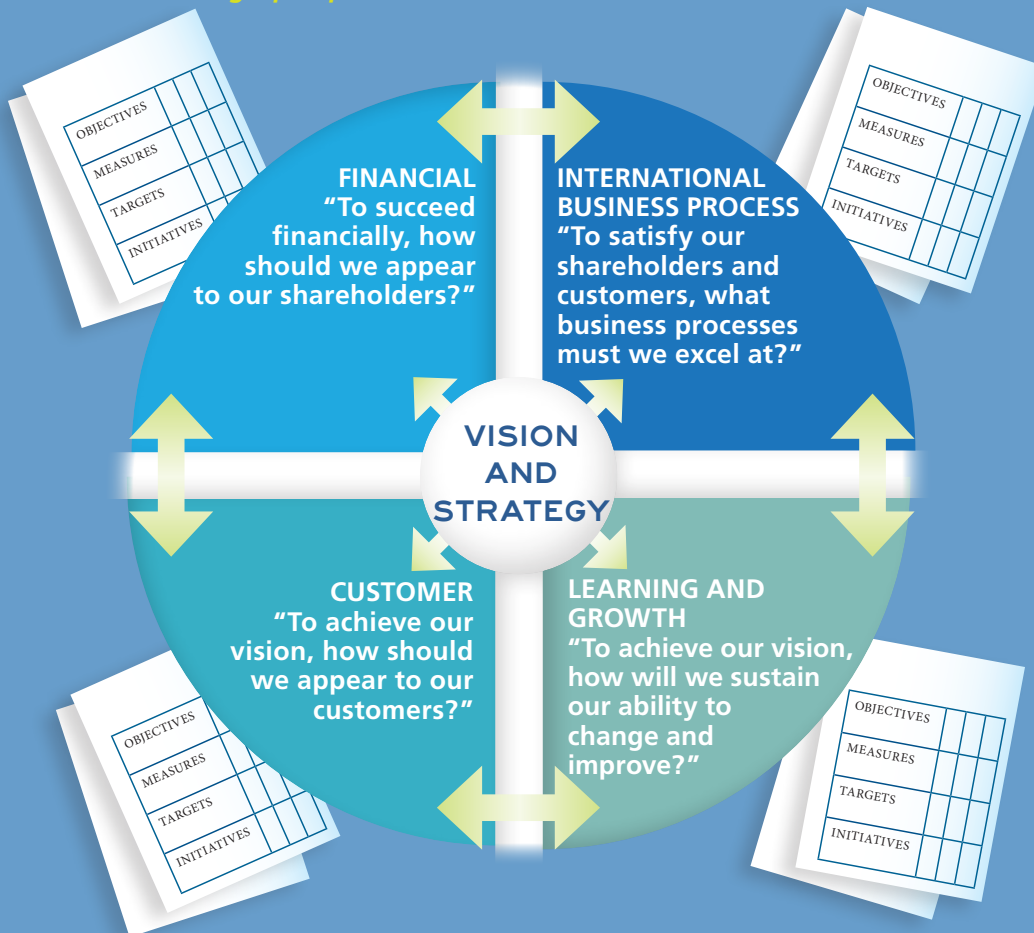
Stakeholder category	Gauteng	KwaZulu-Natal	Western Cape	TOTALS
Retail management	6	4	28	38
Retail trade and business associations	4	2	4	10
Retail sector consultants and service providers	3	2	3	8
National Planning Commission members and staff	2	1	1	4
TOTALS	15	9	36	60

LITERATURE REVIEW

A body of relevant literature was reviewed to explore the origins of balanced scorecard type systems and how they are used in retail organisations.

ORIGINS OF BALANCED SCORECARDS

Balanced scorecards evolved as a means to address a lack of alignment between existing performance indicators and strategic business processes. As time passed, they evolved into '**core strategic management systems**' referencing the four '**strategic perspectives**' as illustrated below:



Later developments saw the introduction of the **Triple Bottom Line scorecard** concept, measuring performance and sustainability indicators on three interlinked fronts:



Finally there was the development and increasing influence of the **International Integrated Reporting Council (IIRC)**; a global coalition of businesses, investors, government agencies and regulators and their '**six capitals**' framework of values:



An IIRC business performance scorecard draws on such inputs and illustrate their transformation into value-added outputs.

INTERNATIONAL RETAILERS' SCORECARD PRACTICES

Benchmark examples were examined from the following countries:



In the USA there is considerable collaboration between retailers and government. The National Retail Federation focuses on jobs, innovation and consumer value, as well as interacting regularly with government and socio-economic agencies.

From a consumer point of view, major US retail groups performed well in a national customer survey, based on a 'validated scorecard of company inspiration drivers', including ethics, competitive prices and staff engagement. Retail giant Wal-Mart has adapted a triple bottom line scorecard, with focus on community, innovation and sustainability.



Similarly, the Retail Council in Australia collaborated with government and other industry role players at the Australian National Reform Summit in 2015, in efforts to come up with common scorecards for economic and social reform.



Corporate social investment and cause-related marketing indicators are also prevalent in British retail scorecards. In the Marks and Spencer Group Strategic Report (2015) you will find:

- Financial and non-financial performance indicators.
- Indicators such as, 'improved product sustainability' and 'reduced greenhouse gas emissions impact'.
- Highlighted importance of listening to customers and understanding their needs.

What this international perspective shows, is a growing trend for retailers world-wide to focus on more than just traditional, bottom-line-oriented performance indicators. There is a desire to include factors which take sustainability and ethical considerations into account.

Scorecard practices of South African retailers

Socio-economic development applications

According to the relatively rare sources on South African balanced scorecard governance, factors which may promote, impede or pressurise sustainable business growth, socio-economic inclusivity and job creation, were found to include:

- Entrepreneurship, youth unemployment and job market entry (African Frontiers Forum, 2013; SA Board for People Practices, 2015)
- Franchising models, business reputations and community trust (Falala, 2013)

Examples of SA retailer scorecard practices

South Africa has unique socio-economic circumstances to be managed by government and retailers alike. In order to come to grips with how issues like scorecard strategy and social-conscience efforts are affected, the annual reports of 11 major retail chains were analysed.

FINDINGS FROM INTERVIEWS

Knowledge, awareness and application of performance scorecards

Interview feedback illustrated that awareness of literature dealing with performance scorecards varied according to the following criteria:

1. Management role
2. Organisational size
3. Organisational complexity
4. Presence of a culture of performance measurement

The following levels of awareness of performance scorecard practice were identified:

- High awareness (70%) – corporate retail, franchise owners/management, consultants.
- Low awareness (10%) – SME owners/ management.

Regarding whether or not respondents actually used such strategic measurement methods, considerable variation was discovered. 90% were aware of performance scorecard targets, but the majority reported them as being financial in nature, relating to the meeting of bottom line targets.

Respondents provided with an explanation of what the concept actually entailed, including the presence of community development objectives, claimed the following usage statistics. Typical comments from participants on these responses are also shown.



Pressures, opportunities and problems regarding socio-economic development

A diverse range of responses was triggered by this question, varying according to the following:

- Business size
- Organisational maturity
- Product sub-sector
- Personal perception of whether the private sector has a responsibility to act on socio-economic issues or not



Pressures

- **Broad-based black empowerment equity (BBBEE):** the most frequently quoted pressure.
- **Regulatory bureaucracy:** worries regarding the potential for the introduction of further restrictive regulatory requirements.
- **Staff transformation:** perceived pressure to transform staff demographic, especially when applied by black, middle class customer pressure groups.



Opportunities

Most respondents expressed an openness to opportunities for aligning their business efforts, and particularly their corporate social investment (CSI), with cause-related activities based in their communities. For example, a supermarket implementing a programme to promote healthy eating.



Problems

The most frequently quoted problems, which complicate the addition of socio-economic developmental aspects to business scorecards:

- **Copy cats:** competitors stealing and copying innovative ideas.
- **Time and costs:** allocation of already stretched budget and resources.
- **Resentment:** the feeling that socio-economic issues should be addressed by government, not private enterprise.

Benefits of collaborative use of balanced scorecards by business and state

Analysis of respondents' comments regarding this question:

Enhancement of collaboration

90% of corporate retail respondents confirmed improvement to inter-departmental or inter-branch collaboration, based on the shared use of organisational scorecards.

Shared sector benefits

Shared sector benefits motivate several retail sector associations to collaborate on cause-related projects, which form part of their balanced scorecard strategies.

Respondents stressed that such collaboration could only take place on socio-economic developmental projects, as such practices employed with business objectives may be labelled collusion or anti-competitive.

EXAMPLE OF PRIVATE/PUBLIC SECTORIAL COLLABORATION:



Clothing retailers collaborating with the Department of Trade and Industry in building manufacturing capacity of local textile factories – vital for both job creation and cost management.

Petroleum Retailers collaborating on the promotion of workplace health and safety campaigns, in accordance with legislated requirements.

Retail and State collaboration

Unusual, except if a particular NDP priority happens to be in sync with retail business goals. Retail businesses were almost entirely in agreement with the following ranking of NDP priorities:

Highest priority:	Improving the quality of education, skills development and innovation.
Medium priority:	Raising employment, through faster economic growth.
Lowest priority	Building the capability of the state, to play a developmental, transformative role.

DIFFERENTIATION OF SCORECARD PERSPECTIVES BY SIZE AND SUB-SECTOR

According to analysis of responses to the questions below, company size and sub-sector play a significant role in determining attitudes to these issues:

1. Use of 'multi-pronged scorecard' framework for measuring retail performance

Influencing factors: company size, organisational performance, culture and maturity.



Always (60%):
Major corporates
'It's a normal part of our business planning.'



Sometimes (20%):
Aspirant corporates
'We want to be seen to be doing the right things.'



Never (20%):
SMEs and informal traders
'Smaller retailers can't take on this additional burden.'

2. Socio-economic development strategies as part of all retail scorecards

75% agreed that all retail stakeholders should observe socio-economic transformation objectives, but were aware that SMEs and informal traders were unlikely to possess the necessary resources.

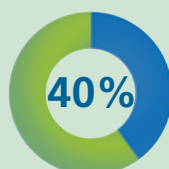


We need to work together for collective growth and success.

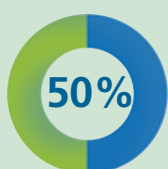
Township traders expressed their need for a shared scorecard system.

3. Readiness to collaborate in a national retail sector charter

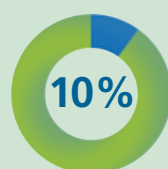
Responses ranked on the following scale:



Yes (40%):
ready for a Retail Sector Charter.
Very few respondents, mainly major corporates, were confident that this would add value. Their confidence appeared to be based on positive experiences with sector business forums.



Not sure (50%):
need time to consider.
Concerns were raised regarding what sort of value this would add. There was also a lack of trust in competitors and in the state's role as regulator.



No (10%):
we see no value in this idea.
Respondents cited a lack of time, and suspicion of regulatory processes, in denying any perceived value. Many were prepared to back the idea if their representation was through the SA SME Federation or another appropriate association.

Summary of findings

- Large retail corporations are aware of the balanced scorecard approach to measuring success. Smaller operators focus purely on financial performance, though there is awareness of the value of some non-financial goals.
- The focus is for the most part on financial issues. If other indicators play a role, staff are mostly unaware and the motivation is purely image-related.
- Problems faced in attempting to broaden the range of indicators: lack of time, additional costs, the risk of competitors copying.
- Most collaboration on social development issues is on a sector/industry level, and takes place through relevant associations to avoid accusations of collusion.
- There is very little evidence of collaboration between the state and the retail sector in the area of socio-economic developmental issues.

CONCLUSION AND RECOMMENDATIONS

Conclusions

Based on the research questions, available evidence, qualitative data and insights gained from the literature review and empirical interviews the following conclusions were drawn:

- Forms of balanced scorecard management are widely used by retail corporates, with the inclusion of non-financial indicators, as reflected in their annual reports. SME retailers are mostly unaware of balanced scorecard management and see socio-economic involvement as a financial burden that they cannot afford.
- Pressures and opportunities for socio-economic development scorecard activity are focused around BBBEE, restrictive regulatory requirements, transformation and cause-related initiatives.
- There is minimal evidence of public/private collaboration in the setting up of balanced scorecards. Retailers who, through professional associations, have had some collaboration experiences, are more open to the idea of business/state co-operation.

Implications for the retail sector

In order to activate the perceived benefits of collaboration on socio-economic matters, two approaches are recommended:



Retail stakeholder forum

Given the widespread buy-in by retailers to the idea of collaboration on balanced scorecards, and the significant problems with implementing such relationships, it is recommended that a retail stakeholder forum be established, through which such initiatives can be channelled.



Retail charter scorecard indicators for collaborative adoption

The Wholesale & Retail Leadership Chair is recommended as a source of informed input to the forum described above. Examples of scorecard indicators for a possible basis to work from: the Socio-Economic Charter for the Mining Industry; 'Six Capitals of Value Creation' framework.

Recommendations for further research

Further research into retail's role in socio-economic development is recommended as follows:

- Which socio-economic developmental needs can best be addressed by retailers?
- How are retailers addressing the socio-economic needs of their communities at regional and local level?
- How can the sector expand such activities on a national basis?

THE W&R SECTOR

W&R is the fourth largest contributor to GDP and the 30 000 tax-registered retail enterprises employ about 20% of the total economically active workforce according to Stats SA.

The recent update of the W&R Sector Education and Training Authority Sector Skills Plan: 2011-2016 says data shows that about 86% of registered enterprises in this sector are small and micro enterprises, 9.5% medium size and 4.5% large companies. Only 66% of operational retail traders are formally registered and contributing to the fiscus, suggesting there are over 100 000 informal (unregistered) traders in the sector accounting for 10% of national retail turnover.

The main employment increase has been in the informal /SMME sub-sector.

Wholesale&Retail **LEADERSHIP CHAIR**

Cape Peninsula University of Technology, Cape Town

THE WRLC

The Wholesale and Retail Leadership Chair (WRLC) at the Cape Peninsula University of Technology (CPUT) was established in 2013, based on an initiative by the Wholesale & Retail Sector Education and Training Authority (W&RSETA) to contribute towards sector research and professional qualifications development at Higher Education levels.

A national survey report entitled Priority Research Needs of the South African Wholesale and Retail Sector marked the first step taken by the WRLC towards the creation of a basis for relevant research in this dynamic business sector.

The WRLC has now completed many research projects in the sector and reports on these studies are available at <http://wrlc.org.za/research-2-2/completed-research/>



Dr W J Sewell



P Venter



Prof R Mason

The research was carried out by researchers Dr W J Sewell, Research Associate and Mr P Venter, CPUT, supported by Prof R B Mason, the Wholesale and Retail Leadership Chair, Cape Peninsula University of Technology, Cape Town

The full report is available at <http://wrlc.org.za/wp-content/uploads/2015/09/2015-16-Towards-effective-Work-Integrated-learning-in-the-South-African-Retail-SMME-Sector.pdf>

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Retail Business Management Department | Business and Management Sciences Faculty
Room 2.2 Commerce Building, Cape Town Campus
Tel 021 464 7260 | Fax 086 680 9632 | Email info@wrlc.org.za