



**ETHICAL SUPPLIER**  
THE ETHICS COALITION FOR BUSINESS

**NBI**

National Business Initiative



THE ETHICAL SUPPLIER

# UNDERSTANDING THE SOUTH AFRICAN SMME ECOSYSTEM THROUGH AN ETHICAL LENS

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# FOREWORD

The **National Business Initiative (NBI)** is committed to fostering a more ethical private sector by partnering with member companies and key stakeholders to address capacity-building gaps and drive behavioural change, particularly through initiatives such as the **Building Trust and Accountability (BTACC) Pathway**.

The NBI's work is vital in aligning the private sector with national anti-corruption strategies, ensuring that businesses operate within a framework of good governance and ethical conduct. By promoting ethical leadership and corporate responsibility, the NBI is helping to restore public trust in institutions, enhance investor confidence and create a more conducive environment for sustainable economic growth. The organisation's commitment to fighting corruption and fostering ethical leadership demonstrates the importance of collaborative efforts in addressing the systemic issues that have long hindered South Africa's progress.

The **Building Trust and Accountability Pathway** supports **Responsible Business** by highlighting that business cannot operate in isolation and equally cannot thrive in a failing society. This workstream understands the framing for business integrity and the key levers that facilitate building trust and accountability in corporate South Africa through three (3) critical areas:

1. **Capacity Building:** We have developed an online training course to strengthen ethical fitness to combat corruption.
2. **Dialogue:** We aim to deepen the dialogue on trust and ethics as a critical contribution to strengthening business' role in society.
3. **Thought Leadership:** We conduct in-depth research and analysis to gain a deeper understanding of how to strengthen governance.

**The Ethics Coalition for Business (EC4B): The Ethical Supplier project**, led by the NBI, focuses on building trust, strengthening ethical business practices and promoting diversity within supply chains. This initiative aims to enhance Small, Medium and Micro Enterprises (SMMEs) participation in ethical procurement, fostering accountability, combatting corruption and driving economic inclusion in South Africa. The research methodology is designed around three (3) key objectives. First, it aims to map the SMMEs operating environment, evaluating how SMMEs engage with customers, corporate buyers and government entities in procurement. Secondly, it seeks to understand SMME perspectives on ethical business practices, moving beyond assumptions of unethical behaviour to explore how ethics, sustainability and compliance are integrated into daily operations. Finally, the study focuses on bridging knowledge gaps, identifying barriers to SMME participation in ethical procurement and exploring capacity-building solutions.

The goal of the Ethics Coalition for Business: Ethical Supplier project is to research and contextualise the South African SMME landscape, assess the effectiveness of SMMEs in adhering to ethical and sustainability guidelines and develop a "Tips and Tales" guide and e-learning/digital platform as a form of capacity building for SMMEs.



We also seek to collaborate with the private sector and government to explore ways of collectively fostering an enabling environment for the identified key components of the South African economy.

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# INTRODUCTION

## 2.1 UNPACKING CORRUPTION AND ETHICS: NAVIGATING SOUTH AFRICA'S COMPLEX LANDSCAPE

During apartheid, corruption was embedded in the state, where secrecy, patronage<sup>1</sup> and lack of accountability were used to maintain control and suppress opposition. This created a governance culture where public resources were often misallocated and institutions served a select few rather than the broader population.<sup>2</sup> The transition to democracy in 1994 did not erase these systemic issues; rather, they evolved in new forms, affecting public service delivery, economic growth, social justice and exacerbating existing inequalities.<sup>3</sup>

Corruption remains a widespread issue, hindering economic growth, weakening public institutions and diminishing confidence in governance. It further exacerbates inequality especially when it deters service delivery and infringes on human rights in cases where it serves as a hindrance. From state capture and tender fraud to bribery and nepotism, unethical practices have had a profound impact on the country's socio-economic landscape. The UN estimates that corruption and illicit financial flows cost the global economy about \$3.6 trillion (R66 Billion) annually<sup>4</sup>. Another estimate suggests that corruption alone costs at least \$2.6 trillion (R48.1 trillion), which is about 5% of global GDP<sup>5</sup>. These staggering figures highlight the pervasive nature of corruption and its far-reaching consequences. Throughout the years, several high-profile scandals have further shaped the country's socio-economic landscape, exposing the depth of systemic corruption and its devastating impact on public trust and development from both the private and public sectors.



### 2009 - 2018 **STATE CAPTURE**

Under Jacob Zuma's presidency (2009-2018), the Gupta family influenced state decisions, costing an estimated R250 billion (US\$17 billion) and reversing economic gains from the Mandela-Mbeki eras.



### 2019 **THE STEINHOFF SCANDAL**

("Steinhoff") was South Africa's biggest corporate fraud, led by CEO Markus Jooste. In 2017, Steinhoff admitted to accounting irregularities wiping R200 billion off the JSE, slashing Christo Wiese's wealth and hurting millions of pensioners. Despite liquidation, prosecutions have been slow, highlighting South Africa's ongoing struggle against state capture.



### 2019 **BOSASA BRIBES**

The Bosasa Bribery Scandal revealed how Bosasa secured contracts through bribery. Whistleblower Angelo Agrizzi exposed payments to officials, including ANC politicians.



### 2020 **COVID-19 PPE CORRUPTION**

The Gauteng Health COVID-19 PPE contract scandal involved over R257 million in irregularly awarded contracts for personal protective equipment (PPE). Investigations revealed inflated prices and mismanagement, with links to companies connected to government officials. The scandal sparked public outrage, exposing widespread corruption and procurement flaws within South Africa's health sector.



### 2021 **DIGITAL VIBES SCANDAL**

The Digital Vibes Scandal involved a R150 million contract awarded to associates of Minister Zweli Mkhize for COVID-19 communications. Funds were misused, benefiting Mkhize's family. The scandal led to his 2021 resignation, but prosecutions are slow, highlighting South Africa's ongoing issues with government corruption and misuse of funds.

Figure 1: Timeline of high-profile Corruption cases in the Private Sector and Public Sector in South Africa in the last eight (8) years (2009 to 2021)





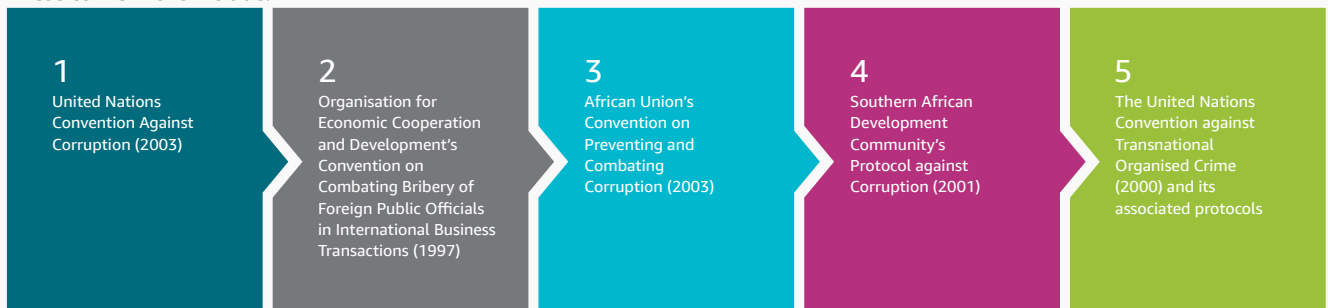
The culture of corruption in South Africa reflects a continuum from apartheid to modern state capture and cases of corporate corruption, exacerbated by policy exploitation and institutional weaknesses. While robust ethical frameworks and legislation exist, their effectiveness hinges on political will, systemic reforms, behaviour, ethical awareness and the embedding of ethical behaviour across the different pillars of society from SMMEs, the private sector and the government. However, before we shed light on the programme, it's important that we outline the legislation that speaks to ethics and anti-corruption.

Ethics in the business sector is constitutionally mandated under **Section 195** of the constitution<sup>6</sup> emphasising accountability, transparency and equitability:

- **Public Service Act (1994):** Enforces professional ethics and misconduct procedures.
- **Batho Pele Principles:** Prioritise citizen-centric governance.
- **Prevention and Combating of Corrupt Activities Act (2004):** Provides enforcement of measures to prevent and combat corruption in both public and private sectors.

After the period of state capture, the **National Anti-Corruption Strategy (NACS)** was established, along with its foundational and strategic pillars, forming part of a broader strategy that addresses the wider context of anti-corruption. South Africa is a signatory to various international conventions and treaties that commit the country to implementing a range of interventions aimed at reducing corruption.

These conventions include:



To effectively fulfil its obligations under these conventions, South Africa must take a holistic approach to combating corruption and understanding that it is a systemic issue with multiple interconnected variables. Corruption, which affects both public and private sectors, must be viewed from various perspectives to identify the root causes and create well-considered solutions. The NACS must ensure that these solutions are comprehensive, involving collaboration across sectors to address the societal, economic and institutional challenges corruption creates.

While the legislative framework can address the criminal aspects of corrupt practices, it is essential to go beyond this and examine the broader injustices stemming from social inequalities and exclusion. These complexities shape the behaviours and culture of organisations in Corporate South Africa. To drive tangible change, there must be stronger collaboration between these sectors to instil ethical behaviour and promote anti-corruption initiatives within organisational cultures.

This intersection of ethics and systemic inequality underscores the need for a collective effort across all economic pillars to foster an ethical culture and environment that not only deters corruption but also promotes inclusive growth.

<sup>1</sup> Corruption, We have to acknowledge its centuries old resistance by Corruption Watch: <https://www.corruptionwatch.org.za/corruption-a-centuries-old-tradition-that-we-have-to-acknowledge/>

<sup>2</sup> Defining Patronage: the power to control appointments to office or the right to privileges.

<sup>3</sup> <https://www.cadtm.org/Corporate-Corruption-of-South-African-Politics-and-Economics>

<sup>4</sup> Curbing trillion-dollar cost of corruption 'more important than ever' says Secretary-General article: <https://thecommonwealth.org/news/curbing-trillion-dollar-cost-corruption-more-important-ever-commonwealth>

<sup>5</sup> Opening Special Session on Corruption, General Assembly Adopts Political Declaration with Road Maps to Help Countries Tackle Bribery, Money-Laundering, Abuse of Power: <https://press.un.org/en/2021/ga12329.doc.htm>

<sup>6</sup> Section 195 of the constitution: <https://www.justice.gov.za/constitution/chp10.html>

## 2.2 PILLARS OF AN ETHICAL ECONOMY: THE PRIVATE SECTOR, SMMEs AND GOVERNMENT

The private sector, especially SMMEs and government are the backbone of the economy. The private sector is the largest employer, with about 73.3% of employees working in this sector, making it crucial for job creation and economic stability <sup>7</sup>. The government plays a pivotal role in setting policies and investing in infrastructure. It is also responsible for creating the regulatory framework that guides economic activities, ensures public safety and promotes social welfare. SMMEs contribute significantly to GDP, accounting for about 34% of South Africa's economic output and providing approximately 60% of employment. These entities are vital for driving economic growth, reducing unemployment and fostering innovation, as highlighted by the National Development Plan (NDP), a key South African government policy document that outlines plans to create one million new SMMEs by 2030 to further boost job creation <sup>8</sup>.



Both the private sector and government rely on each other to uphold ethical standards, with SMMEs playing a crucial role in both sectors. The private sector leads by example through transparency, fairness, and corporate social responsibility, building trust with consumers and investors, which supports long-term success. The government enforces these ethical practices through legislation and accountability, setting a standard for both public and private sectors to follow.

SMMEs are often at the forefront of ethical challenges, not because they are the problem, but due to the challenging environments in which they operate, including systemic bottlenecks. Despite these challenges, SMMEs can thrive by embracing principles such as fair labour practices and environmental responsibility from the outset, which not only enhances their reputation but also aligns with the broader regulatory framework set by the government.

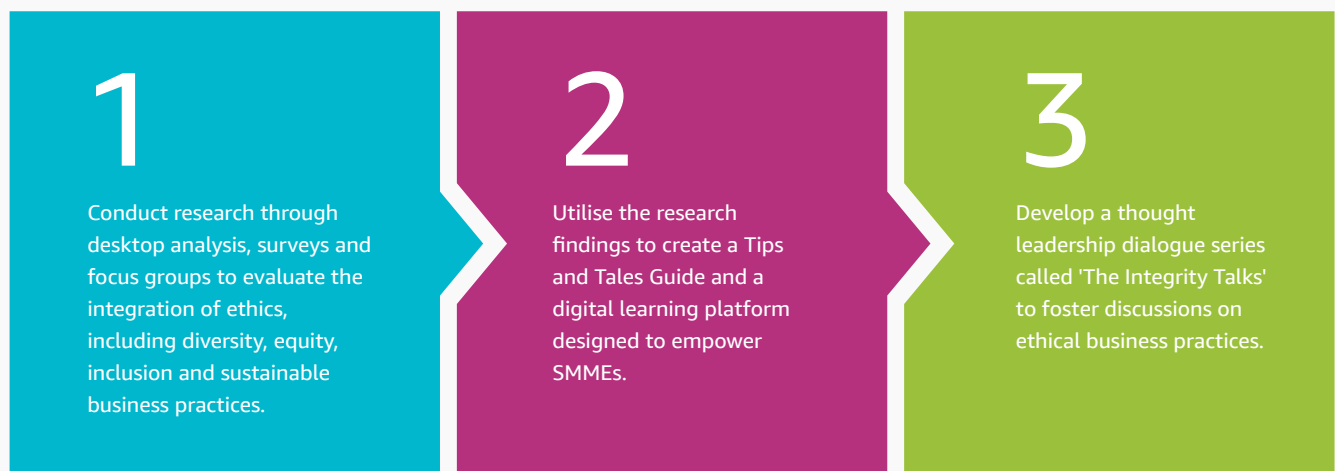
<sup>7</sup> The private sector has an important role to commit to workplace transformation in SA  
<https://www.labour.gov.za/the-private-sector-has-an-important-role-to-commit-to-workplace-transformation-in-sa>

# PROJECT APPROACH

## MAINSTREAMING ETHICS FOR SMMEs – Ethics Coalition for Business: The Ethical Supplier

Building an ethical, inclusive and sustainable business environment requires a strategic and collaborative approach -one that supports both large corporations and the SMMEs within their value chains. Through the Ethics Coalition for Business (EC4B): Ethical Supplier project, the NBI seeks to embed ethical practices across the business ecosystem by strengthening accountability, building trust, and supporting the capacity of SMMEs to operate with integrity. This approach recognises that mainstreaming ethics is not only a matter of compliance but a critical enabler of long-term value creation and social transformation. By focusing on multistakeholder engagement—including the private sector, SMMEs and government—the project aims to strengthen ethical awareness and implementation. This will be achieved through research, capacity building, dialogue and access to practical tools designed to support ethical decision-making and business growth.

Through the initiative, the NBI is working to promote trust, uphold ethical standards and strengthen the role of business in society. Ethical business practices, along with a diverse and principled value chain, are key to fostering accountability, combating corruption and driving economic growth. The Project Implementation plan looks at three (3) phases of action:



The project takes a **two-pronged approach** to mainstream ethics, firstly activating leadership and the private sector's commitment to mainstreaming ethics in both their internal business strategies and operations but also looking at where SMMEs are in their understanding of ethical practice given that they form part of business' supply-chain or procurement processes/activities.

In engaging with various stakeholders and SMMEs, the approach was guided by four (4) key objectives:

- Understand the role of the private sector in understanding the importance of mainstreaming ethics and creating an enabling environment.
- To understand the environment in which SMMEs operate, including their interactions with customers, the private sector and government.
- To recognise that SMMEs are not inherently unethical but to explore their awareness and application of ethical and sustainable business practices in their daily operations.
- To identify and address knowledge gaps through targeted capacity-building efforts.

To achieve these objectives, it was essential to adopt a deliberate approach in developing clearly defined indicators that highlight potential areas for implementing ethical guidelines for both SMME's, the private sector as well as government but also shape the curriculum for the **Tips and Tales Guide** and **Ethical Supplier Digital Platform** for SMME capacity building.

<sup>8</sup> <https://www.sun.ac.za/english/Lists/news/DispForm.aspx?ID=10014>

### 3.1 RESEARCH INDICATORS RELATED TO MAINSTREAMING ETHICS

The development of the impact areas research and indicators is directly aligned with the national agenda to combat unethical behavior and corruption. This alignment is guided by the **National Anti – Corruption Strategy (NACS)**, upheld by the six (6) strategic pillars and objectives, namely: **Pillar 1** - Citizen Participation, **Pillar 2** - Ethical Leadership, **Pillar 3** – Professional and skilled employees , **Pillar 4** - Transparent and accountable governance systems , **Pillar 5** - a culture of reporting and whistleblowing and **Pillar 6** - Protection of sectors most vulnerable to corruption and aims to support the private sector in prioritising active citizenship, institutional capacity building and multi-stakeholder partnerships, particularly through the **GIZ Transparency, Integrity and Accountability Programme (TIP)**. These efforts are designed to foster a culture of integrity and accountability within both the public and private sectors.

The research identified four (4) key impact areas that are critical to fostering integrity and transparency within the private sector, representing strategic priorities aimed at strengthening ethical practices within businesses and supply chains while contributing to broader national efforts to combat corruption.

#### FOUR COALITION IMPACT AREAS SUPPORTING NACS AND TIP

The Ethical Supplier Supports the broader national drive on unethical conduct and corruption



**Figure 2: FOUR COALITION IMPACT AREAS SUPPORTING NACS AND TIP**

Upon realisation the four (4) key impact areas are broad and do not provide the depth and insights that will help shape out the desired level of capacity building. The guiding questions for understanding ethics within the South African Context led to the development of two (2) key questions: 1) "What makes an ethical supplier within the South African Context?" and 2) "What are the perceived areas of unethical behaviour and corruption?". These two (2) questions refined and expanded the pre-define four (4) indicators, to six (6) revised indicators. The revised indicators for the Ethical Supplier project are:

- Compliance, Registration and Authentication
- Procurement
- Diversity, Equity and Inclusion (DEI)
- Whistleblowing
- Sustainability
- Knowledge Management

Each indicator explores a critical area of ethical conduct, with a specific focus on how SMMEs navigate the policy landscape, access opportunities and integrate ethics into their operations.

**Compliance, Registration and Authentication:** To what extent does the current compliance, registration and authentication system and process, create an enabling environment for SMMEs to conduct their business in an ethical manner?

Research and understanding of the intersection between policies, legislation, laws and initiatives as perceived and implemented by SMMEs, with a focus on compliance and practical application.



**Public Procurement:** To what extent are tender and bidding opportunities from the government fair, accessible and open to all types and sizes of SMMEs?

This indicator was developed from both the premises of:

- a. Assessing the depth, scale and scope of bottlenecks in the public procurement system faced by industry partners is crucial for diversifying supply chains and ensuring an ethical procurement process.
- b. Advocating for enabling legislation, processes and practices that promote gender and social inclusion at all stages of vendor management: pre-tender, during tender and post-tender.

**Diversity, Equity and Inclusion:** To what extent are SMMEs that are led or owned by marginalised social groups (e.g., black, women, youth, people with disabilities, LGBTQ+, senior citizen, etc.) able to acquire contracts without being discriminated against?

Diversity and inclusion are closely tied to whether SMMEs have established targets within their inclusion frameworks for marginalised groups. Additionally, this indicator reflects whether SMMEs measure and report on diversity and inclusion within their organisations.

**Whistleblowing:** To what extent are SMMEs prepared to confront corrupt business practices through whistleblowing?

Whistleblowing is one of the effective ways of curbing malpractice and all forms of corruption within organisations. It is essential to interrogate whether SMMEs have policies and frameworks to deal with corruption as well as their legal duty to have a disclosure procedure in place.

**Sustainability:** To what extent are SMMEs aware of the importance of responsible sourcing practices (ethical sourcing of labour and raw materials)?

This highlights the importance of SMMEs considering the environmental and social impact of their products or services at every stage, including input material sourcing, production, storage, transportation and final delivery.

**Knowledge Management:** How can SMMEs bridge the gap in information and knowledge systems to strengthen market entry and business sustainability?

Bridging gaps in information and knowledge systems for SMMEs - particularly on market entry and sustainability - is a research area focused on assessing whether SMMEs are adequately informed about key legislative requirements. This includes compliance guidelines mandated by law, risk management practices and ethical reporting obligations. The aim is to explore how these knowledge gaps impact their ability to enter markets and sustain their operations over time. While the topic addresses critical areas within the SMME landscape, it currently lacks a clearly defined research question - potentially because certain portions of these issues are already partially covered by existing indicators. This indicates that the research remains in a formative stage, with its scope and direction to be refined through further investigation and stakeholder engagement. As such, it will not be elaborated on further in this document.

## 3.2 DISCLAIMER

*Disclaimer: The comments and perspectives shared in this report are based on the views and experiences of SMME participants who took part in the focus group discussions. These insights reflect their perceptions of various organisations, regulatory bodies and municipalities as expressed during the sessions. They do not represent the official views, opinions, or positions of the National Business Initiative (NBI). While every effort has been made to accurately capture and present participant feedback, NBI does not endorse or validate any specific claims made by respondents regarding particular institutions or entities.*





## FINDINGS FROM SMME AND STAKEHOLDER ENGAGEMENT

As stated above, we believe that by working together - NBI member companies and our key strategic partners across various sectors in South Africa - we can effectively tackle critical social, economic and governance challenges. Our mission is to rethink and redefine governance while fostering a stronger relationship between business and society - one that is rooted in ethics, responsibility, trust and long-term sustainability. To do this, we would need to engage with the private sector to gain an understanding of their role in mainstreaming ethics and integrity within the internal business operations and their value chains.

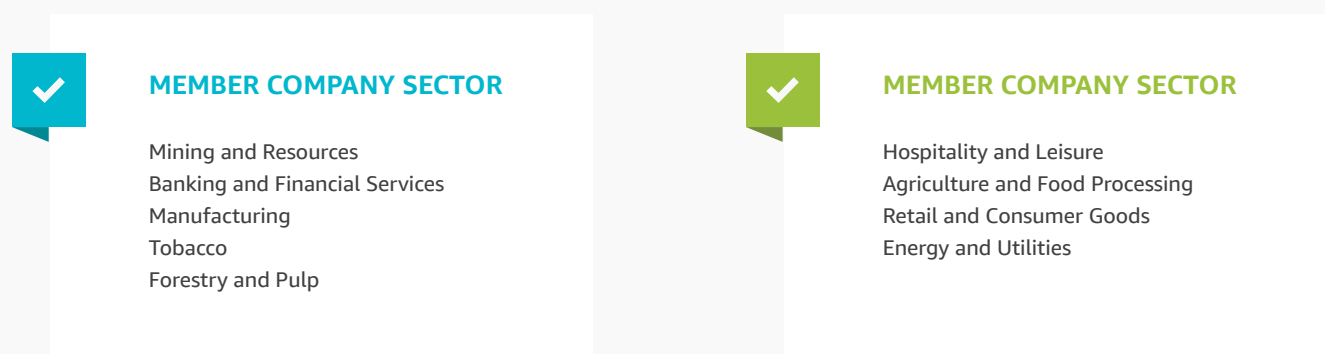
### 4.1 ROUNDTABLE DISCUSSION WITH KEY NBI MEMBER COMPANIES

The NBI hosted an online roundtable discussion with our member companies in different sectors and industries to sensitise them on the project but also gain an understanding of the following:

- Exposure to the concept of Diversity, Inclusion and Ethics within supply chain management (per industry)
- What are some of the specific challenges experienced in diversifying the supply chain? (per industry)
- Do you report on Ethics in the Supply chain in your industry? If yes, please specify?

The findings of the **Roundtable Discussion** reflected the following:

Diagram: Sectors represented in discussion



### Insights from Roundtable Discussions on Industry-Specific Exposure to Diversity, Equity, Inclusion and Ethics in Supply Chain Management

- Some companies emphasise responsible sourcing, ensuring diversity and ethical practices such as forced labour prevention and promoting supplier diversity, particularly by including community-based suppliers from disadvantaged areas.
- Several organisations integrate ethics into their business strategy, ensuring that diversity and inclusion are not just compliance requirements but core aspects of their operations.
- Ethical manufacturing and production are priorities for others, with a focus on community protection and environmental safety to ensure that local communities are not exploited in the process.

### Challenges in Diversifying the Supply Chain:

- A recurring challenge is the gap between legislation and practical implementation. While advanced laws exist, some companies have highlighted that grey areas in the legislation are often exploited, making it harder to enforce ethical practices.
- In certain sectors, the challenge lies in ensuring ethical manufacturing, particularly when it comes to preventing exploitation within local communities where operations are based.
- Other companies face challenges in ensuring inclusivity and equity within their supply chains, especially with small businesses and underserved communities.

### Reporting on Ethics in the Supply Chain:

- Some companies use procurement spending as a tool to promote ethics, reporting on the impact of ethical practices through their supplier network.
- Certain organisations have developed systems, such as scoring mechanisms, to evaluate suppliers on ethical standards, with a particular focus on human rights and forced labour.
- A few companies formalise the integration of ethics in their business strategy and reporting, ensuring that diversity and inclusion are tracked and reported as part of their corporate sustainability efforts.
- There is a call for more clarity in reporting mechanisms related to ethical practices, especially when there is a lack of enforcement or clarity around existing legal frameworks.

### Next Steps:

- Companies focused on community-based supplier diversity plans to scale responsible sourcing practices and expand them globally.
- Organisations that have developed supplier scoring systems intend to refine and expand these systems, focusing on enhancing ethical standards across regions.
- Companies integrating ethics into their strategies will continue to transform their supply chains to embed diversity and inclusion at every level of their procurement process.
- Some are focusing on addressing gaps in legislation to improve clarity and enforcement around ethical compliance.
- Others will continue to prioritise community protection and environmental responsibility as key elements of their supply chain management efforts.

To bridge the insights from the roundtable discussions and the focus group or survey process, we recognised the need to deepen our understanding of the ethical challenges faced by small businesses, particularly in relation to compliance, procurement and sustainability. While the roundtable highlighted the efforts of larger companies in promoting diversity, ethics and responsible sourcing, the focus group and survey provided valuable perspectives from SMMEs, which are often disproportionately impacted by systemic challenges and inefficiencies.



## 4.2 FOCUS GROUP AND SURVEY FEEDBACK

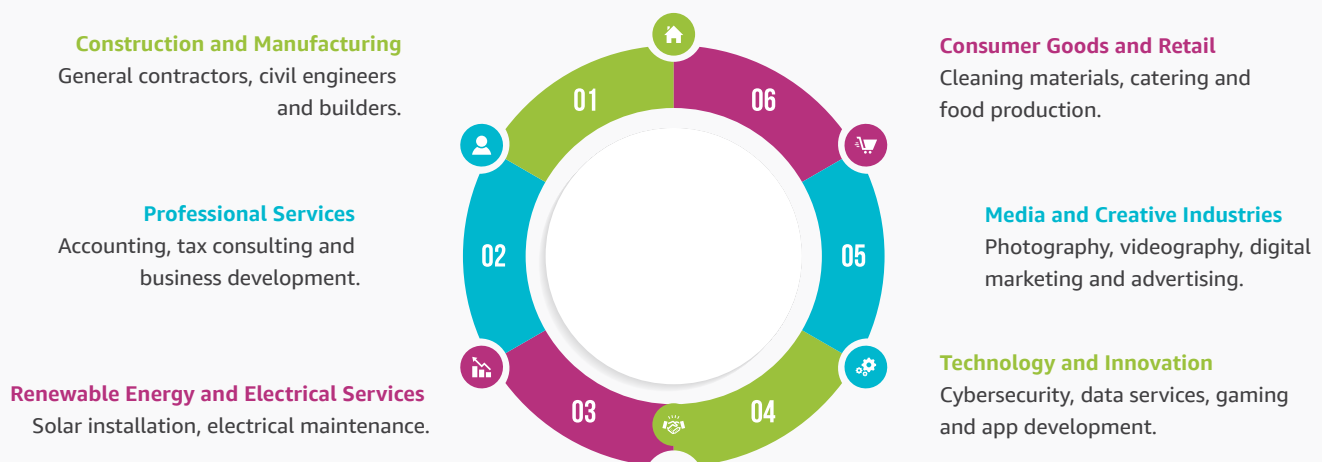
In an effort to gain a deeper and more nuanced understanding of the ethical landscape within South Africa's SMME sector, we undertook a comprehensive focus group and survey process to assess the key challenges faced by small businesses in relation to compliance, registration, procurement, whistleblowing, diversity and inclusion and sustainability. This served as a crucial platform to capture the lived experiences, perspectives and challenges faced by SMMEs in navigating compliance, ethical procurement, diversity, equity, inclusion, whistleblowing and sustainability. Recognising that these businesses are essential to economic growth, yet disproportionately impacted by systemic inefficiencies and ethical dilemmas, the research sought to bridge the gap between policy frameworks and the realities of day-to-day business operations.

This research was conducted through two primary data collection methods:

1. **Survey Responses** – A total of **33 SMMEs participated** in an online survey facilitated through JotForm, in collaboration with the **Economic Inclusion SMMEs under the Installation Repair and Maintenance (IRM) project** and the **Business Unity South Africa (BUSA) SMME Sub-Committee**, which contributed an additional 15 responses.
2. **Focus Groups** – In-person focus group sessions were held at Gert Sibande TVET College (Mpumalanga), Tshwane North TVET College (Gauteng), Ekurhuleni West TVET College (Gauteng) and the Mandeni - Kwenza Okusha Business Incubator (Kwa-Zulu-Natal) providing insights from 27 SMMEs across multiple industries.

### 4.2.1 Sample Size and Sector Representation

The survey and focus groups captured a diverse range of SMMEs from different industries



### 4.2.2 Demographics and Locations of Research

The research primarily focused on SMMEs operating in Gauteng and Mpumalanga, with limited participation from businesses in KwaZulu-Natal. Key demographics included:

- **79% of surveyed businesses had been in operation for less than six years**, indicating a high representation of startups and emerging enterprises.
- **82% of businesses employed between 0–5 staff members**, emphasising the predominance of micro-enterprises.
- **Racial and gender breakdown: 73% of respondents were male and 27% were female**, with **88% of participants identifying as Black, 6% Coloured and 6% Indian**.
- A significant portion of respondents were **B-BBEE Level 1 businesses**, reflecting high participation from historically disadvantaged entrepreneurs.

This broad representation provided real-world insights into the systemic and operational challenges that hinder SMMEs from conducting business ethically. The following sections present integrated findings from both the survey and focus groups, capturing recurring themes and barriers across all indicators.

Through structured discussions and targeted surveys, participants shared insights on the complexities of compliance, highlighting bureaucratic red tape, financial constraints and the unintended consequences of rigid procurement policies. Similarly, concerns around fair competition, access to public and private sector procurement opportunities and the perceived risks of whistleblowing underscored the pressing need for stronger institutional support.

The findings from these engagements not only reinforced the interconnected nature of the five indicators but also revealed critical gaps in knowledge, access to resources and policy alignment. These insights provide a compelling case for more inclusive policy interventions, capacity-building initiatives and stronger multi-stakeholder collaboration to drive ethical business transformation in South Africa.



Building on these insights, the research expanded on the five key thematic areas, addressed below, that encapsulate the systemic and practical challenges facing SMMEs in their pursuit of ethical business practices. These thematic areas or focal points emerged as cross-cutting issues that influence the effectiveness of ethical integration across the supply chain. Each theme reflects the lived experiences of SMMEs through focus group discussions and survey insights that highlight where targeted interventions, clearer policy direction and collaborative support can enable a more ethical and inclusive business environment.

### 4.3 COMPLIANCE, REGISTRATION AND AUTHENTICATION

Understanding the barriers and enablers within compliance, registration and authentication is crucial for ensuring that SMMEs can operate ethically and competitively in South Africa's economy. As the entry point to formal business participation, these processes determine whether small enterprises can access opportunities, navigate procurement systems and meet legal requirements. This section explores how SMMEs experience compliance frameworks, the challenges they face and the extent to which these systems support or hinder ethical business practices.

The primary question guiding this section is:

**To what extent does the current Compliance, Registration and Authentication system create an enabling environment for SMMEs to conduct business in an ethical manner?**

This question is crucial in evaluating whether existing regulatory frameworks, legal requirements and registration processes support or hinder SMMEs in their pursuit of ethical business practices. It also examines the accessibility, cost and complexity of compliance measures and how they affect the ability of small businesses to participate fairly in the economy.

#### 4.3.1 Focus Group Discussion Areas

To gain a deeper understanding of these issues, focus group participants were asked a series of structured questions to unpack their experiences, challenges and perspectives on compliance. The discussions explored:

- **Experiences with compliance, registration and authentication** – SMMEs shared both positive and negative experiences, providing examples and case studies from their respective industries.
- **Access to compliance-related information** – Participants reflected on how and where they access information regarding compliance.
- **Understanding of key legal and commercial aspects of compliance** – The discussion extended to the Companies Act, director duties and conflict-of-interest regulations, while also exploring SMMEs' experiences with contracts, legal liability, access to legal support and dispute resolution processes.

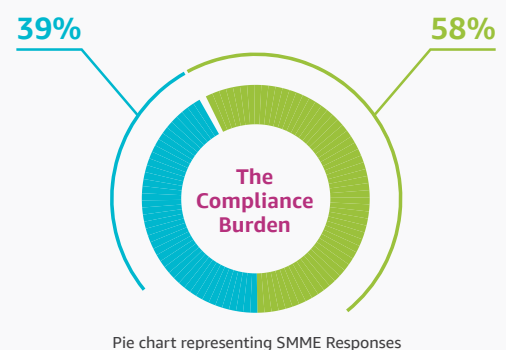
These discussions provided critical insights into the systemic issues affecting SMMEs in the compliance landscape. The following section presents the findings and analysis, integrating key challenges and common themes identified from both the survey responses and focus group discussions.

#### Understanding the System: Enabling or Hindering Ethical Business Practices?

Compliance, registration and authentication are critical pillars of ethical business operations. These processes ensure that SMMEs adhere to national regulations, legal frameworks and governance standards. However, while compliance is necessary for maintaining transparency and accountability, it can also present significant challenges for SMMEs, particularly those with limited resources. The findings from the survey and focus groups revealed key insights into the complexities of compliance, the costs associated with registration and the gaps in knowledge that hinder many SMMEs from fully engaging in ethical business practices.

#### 4.3.2 Survey Insights: The Compliance Burden

The survey data indicated a divided perception among SMMEs regarding the effectiveness of compliance legislation in supporting ethical business conduct. While **58%** of respondents agreed that existing legislation promotes ethical practices, a significant **39%** pointed to prohibitive barriers such as high compliance costs, complex regulations and bureaucratic inefficiencies. One respondent remarked, *"The compliance is very expensive and hard for us as small business owners to keep up with it."* This sentiment was echoed across various industries, with many SMMEs unaware of key legislative frameworks and the requirements needed to ensure full compliance.



### 4.3.3 Focus Group Insights

#### Complexity of Regulations: A Barrier to Entry

One of the most consistent concerns raised in the focus group discussions was the overwhelming complexity of compliance regulations. SMMEs in diverse sectors, including manufacturing, construction and professional services, highlighted the difficulty of understanding and adhering to requirements related to tax compliance, industry-specific safety standards and labour laws. Many business owners expressed frustration over the fragmented nature of compliance, where different industries have different standards, and requirements are often discovered too late, typically during tender applications or job execution.

#### Cost of Compliance: A Financial Strain on SMMEs

Compliance costs were identified as a major obstacle, particularly in industries with stringent regulatory requirements such as construction, mining and manufacturing. The high costs associated with obtaining necessary permits, certification renewals and meeting environmental and safety regulations disproportionately impact smaller businesses. One example of the cost burdens highlighted by SMMEs was the **National Home Builders Registration Council (NHBRC)** fee of R2,500, which was cited as a significant challenge for startups in the construction sector. Additionally, the requirement to obtain a letter of good standing was deemed unrealistic for businesses still in their early stages. Compliance certificate renewals were also flagged as an expensive and time-consuming process, with little to no clear guidance available to SMMEs navigating these requirements.

#### Lengthy and Inefficient Registration Processes

Registering a business and obtaining necessary permits remain major pain points for SMMEs. Delays within regulatory bodies like the **Companies and Intellectual Property Commission (CIPC)** and local municipalities slow down business initiation and growth. Many SMMEs reported waiting months to receive essential documents, with some resorting to third-party services that charge exorbitant fees to expedite the process.

#### Limited Access to Information: A Knowledge Gap in Compliance

A concerning trend that emerged from both the survey and focus groups was the lack of accessible and clear information regarding compliance requirements. Many SMMEs, especially those in cleaning, mechanical and other technical services, expressed frustration over the difficulty of obtaining accurate, up-to-date information. Platforms such as the **South African Revenue Service (SARS)** and CIPC websites were singled out as confusing and user-unfriendly, leading to mistakes in compliance applications. Respondents also noted that the **National Youth Development (NYD)** website lacks comprehensive guidance for different business models, contributing to market saturation and fierce competition among SMMEs.

#### Challenges with Digital Platforms and Online Compliance Systems

The digitalisation of compliance processes presents both opportunities and challenges for SMMEs. While online registration platforms like CIPC, SARS and the **Central Supplier Database (CSD)** were recognised for their ability to provide clear instructions and feedback, other systems, such as the **SARS online portal**, were cited as difficult to navigate. Many SMMEs reported making unintentional errors due to a lack of knowledge about the required documentation. Furthermore, limited digital literacy among older business owners and those without access to reliable internet services was highlighted as a significant barrier. One participant remarked that younger entrepreneurs may adapt more easily, but "for the elderly and those unfamiliar with digital platforms, compliance is almost impossible without external help."



## Understanding Conflict of Interest and Legal Responsibilities

Encouragingly, most SMMEs in the focus groups demonstrated an understanding of conflict-of-interest regulations and their legal obligations within their respective industries. However, there was a significant gap in knowledge regarding **director duties, employee responsibilities and contractual obligations**. Many SMMEs reported being exploited by larger companies due to a lack of legal expertise. Without adequate legal resources or knowledge, small businesses are often coerced into unfair contracts or excluded from procurement opportunities.

## Challenges with Government and Private Sector Institutions

Beyond regulatory bodies, SMMEs also face challenges in dealing with state-owned entities and private institutions. Banks were criticised for charging disproportionately high interest rates to disadvantaged SMMEs, making it harder for small businesses to access financial support. Additionally, institutions such as **Sector Education and Training Authority (SETA)** and **Quality Council For Trades and Occupations (QCTO)** were noted for their lack of transparency and rapid changes to compliance requirements, which often nullify previously valid certifications. The lack of communication between departments frequently leads to registration errors, leaving SMMEs stranded without recourse.

## The Burden of Legislative Changes and System Integration Issues

Constant changes in legislation further complicate compliance for SMMEs. Regulations imposed by bodies such as Quality Council for Trades and Occupations (QCTO) and Sector Education and Training Authority (SETA) often invalidate previously accepted documents, forcing businesses to reapply for certifications at significant cost. Additionally, integration issues between different governmental systems create errors and delays that impact business operations. Participants noted that these issues could be resolved with better coordination between regulatory bodies and clearer communication with SMMEs.

SMMEs vary in their awareness of existing policies, acts and initiatives promoting ethical culture around compliance, registration and authentication. While some SMMEs may be well-informed and proactive in complying with relevant regulations, others may lack awareness due to limited resources, information asymmetry, or competing priorities.

## 4.4 PROCUREMENT PRACTICES

Public procurement serves as a major economic driver for SMMEs in South Africa, offering opportunities to secure contracts that can facilitate business growth and sustainability. However, the ability of SMMEs to access and compete fairly within public procurement processes is often hindered by systemic barriers, including complex bid requirements, lack of transparency, corruption and delayed payments. These challenges not only limit participation but also compromise ethical business practices within the procurement ecosystem. Understanding the realities faced by SMMEs in public procurement is crucial for designing policies and interventions that foster inclusivity, integrity and fairness in tendering and contract awarding processes.

While public procurement plays a critical role in creating opportunities for SMMEs, private sector procurement is equally important in fostering inclusive economic participation. Large corporations and industry leaders have significant purchasing power that, when leveraged responsibly, can drive sustainable business growth for small enterprises. However, SMMEs often face similar barriers in accessing private sector supply chains, including stringent compliance requirements, limited market visibility and preferential sourcing from well-established suppliers.

Addressing these challenges requires a shift toward more inclusive procurement policies that promote supplier diversity, fair competition and capacity-building initiatives for small businesses. The role of private sector stakeholders extends beyond compliance with Broad-Based Black Economic Empowerment (B-BBEE) targets; it involves actively creating procurement pathways that integrate SMMEs into corporate value chains. This includes simplifying onboarding processes, providing supplier development programmes and ensuring timely payments to improve financial stability.

A more holistic approach to procurement reform, encompassing both public and private sector actors, will ensure that SMMEs have equitable access to business opportunities, fostering economic resilience and ethical business practices across all industries. This section explores the barriers and enablers within the procurement landscape, providing insights from focus group discussions and survey responses.

The primary question guiding this section is:

**To what extent are tendering and bidding opportunities from the government fair, accessible and open to all types and sizes of SMMEs?**

This question is fundamental to evaluating whether public procurement systems foster ethical, transparent and competitive business practices. It also examines whether SMMEs, particularly historically disadvantaged and smaller businesses, are provided with an equitable chance to secure government contracts.



#### 4.4.1 Focus Group Discussion Areas

To gain a deeper understanding of procurement challenges, focus group participants engaged in structured discussions around the following areas:

- **Experiences with tendering and bidding processes** – SMMEs shared both positive and negative experiences with procurement opportunities, detailing the extent to which they felt the process was fair, transparent and accessible.
- **Access to procurement information** – Discussions explored whether businesses had adequate knowledge about available tenders, the criteria for selection and the feedback process.
- **Role of networking and insider connections** – The discussion extended to the impact of personal relationships and political affiliations in securing tenders, addressing perceptions of favouritism and corruption.
- **Impact of delayed payments on business sustainability** – Participants highlighted the financial risks associated with government contracts and the challenges of operating under delayed payment conditions.
- **Barriers faced by marginalised groups in procurement** – Discussions focused on whether black, women-led and youth-owned businesses face additional barriers in securing contracts.

These discussions provided critical insights into the systemic procurement issues affecting SMMEs and the broader implications for economic inclusion. The following section presents the findings and analysis, integrating key challenges and recurring themes identified in the focus groups and survey data.

#### Understanding Public Procurement: Enabling or Hindering Fair Participation?

Public procurement is intended to stimulate economic development, promote inclusion and create opportunities for SMMEs. However, the findings from the survey and focus groups reveal that in practice, the system is often monopolised by larger firms, plagued by corruption and inaccessible to many small businesses.

#### 4.4.2 Survey Insights: The Accessibility and Fairness Divide

The survey results revealed a divided perception among SMMEs regarding the fairness and accessibility of public procurement processes. While government tenders are intended to be open to all businesses, many respondents expressed concerns about systemic barriers that limit equal participation and transparency.

A significant **52% of respondents** disagreed that public procurement was fair and accessible, citing key challenges such as favouritism, lack of feedback and corruption. Many felt that contracts were awarded based on personal connections rather than merit, making it difficult for businesses without insider relationships to compete. Additionally, the absence of clear feedback on unsuccessful bids further reinforced the perception that tendering decisions were often predetermined and lacked accountability.

Meanwhile, **33% of respondents** acknowledged that tenders were technically open to all businesses but believed that the selection process lacked transparency. This lack of openness undermines trust in the system, as businesses are often left uncertain about how and why decisions are made. Without clear evaluation criteria or a structured way to challenge procurement outcomes, many SMMEs feel disempowered and discouraged from participating in future tenders.

Furthermore, **45% of respondents** indicated that marginalised business owners faced additional obstacles in procurement. These challenges were particularly pronounced in accessing finance and meeting compliance requirements necessary for tender applications. Many small businesses, especially those owned by women, youth and historically disadvantaged groups, struggle to secure the capital needed to fulfill tender prerequisites, such as bid bonds, upfront project costs and regulatory certifications. As a result, these businesses often lose out to larger, well-established firms that have the financial capacity to meet these requirements with ease.

Overall, the survey findings highlight a pressing need for reforms in the procurement process to improve fairness, accessibility and transparency.



#### 4.4.3 Focus Group Insights

##### Complex Bid Requirements: A Major Barrier for SMMEs

One of the most significant challenges raised in focus group discussions was the complexity of bid documentation and tender requirements. Many SMMEs, particularly startups and micro-enterprises, struggle with the sheer volume and technical nature of bid documents. Completing a tender submission often requires specialised knowledge of legal, financial and industry-specific compliance requirements, making it difficult for small businesses to participate without external assistance.

A major barrier is the requirement to provide proof of financial stability, such as audited financial statements or extensive credit histories. These conditions favour larger, well-established firms that have been operating for years, while newer businesses, which may be financially viable but lack a long credit history, find themselves excluded from the process. Similarly, tenders often require evidence of previous project experience, which puts startups at a disadvantage as they cannot demonstrate a track record despite having the necessary skills or capabilities.

Additionally, SMMEs often discover missing or unclear requirements only at the time of submission, leading to last-minute compliance hurdles. Some businesses find that they need additional certifications, tax clearance documents, or proof of industry experience that they were not initially aware of. This lack of clear communication regarding bid requirements results in wasted resources, as SMMEs invest time and money in preparing bids that ultimately do not qualify.

The cumulative effect of these challenges is that public procurement remains inaccessible to many SMMEs, particularly those that are new entrants into the market. The current system, with its intricate documentation and stringent eligibility criteria, disproportionately benefits larger firms and limits competition, making it difficult for small businesses to compete on an equal footing.

##### Corruption and Insider Networks in Procurement

A recurring theme in focus group discussions was the pervasive role of corruption, favouritism and political influence in securing tenders. Many participants expressed frustration over what they perceive as a procurement system that is already rigged before the bidding process even begins.

Numerous SMMEs reported that tenders are often pre-determined, with contracts awarded to companies with political connections or long-standing relationships with procurement officials. Some businesses described situations where they met all the necessary requirements, submitted competitive bids and still lost out to firms with established insider connections. The perception that tenders are awarded based on influence rather than merit erodes trust in the procurement system and discourages genuine competition.

Another alarming issue raised was the expectation to pay "protection fees" or bribes to gain access to procurement opportunities. Some SMMEs stated that officials or intermediaries openly demand payments in exchange for favourable consideration in tender evaluations. This practice excludes ethical businesses that refuse to engage in bribery, further entrenching the dominance of a select few firms over government contracts.

Many participants described the procurement system as being controlled by "Mafias" or "Vultures", where a small group of businesses monopolise tenders, often by rotating contracts among themselves. The result is a closed ecosystem where new or independent businesses struggle to break in, no matter how qualified they may be.

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One SMME participant captured the frustration of many when they stated:

**You can submit the perfect bid, but if you don't have the right connections, it won't even be considered.**

This widespread perception of systemic unfairness discourages businesses from operating ethically. Instead of focusing on innovation and service quality, many feel forced to navigate unethical channels just to survive. Without strict enforcement of anti-corruption measures and greater transparency in procurement decisions, SMMEs will continue to face barriers that limit fair participation.

## Delayed Payments and Their Impact on SMMEs

Securing a government contract does not always guarantee financial stability for SMMEs. Many businesses that successfully obtain tenders struggle with delayed payments from government departments, which severely affect their operations.

This issue is exacerbated by inconsistent compliance with the **Public Finance Management Act (PFMA)**, which mandates a 30-day payment window for government entities. Despite this legislation, many buyers, including government bodies, fail to honour this timeline, undermining the financial stability of SMMEs. In fact, late payments significantly hinder the growth of SMMEs in South Africa, particularly in the construction sector, which plays a critical role in job creation and GDP growth.

A common complaint from focus group participants was that government invoices take months to be processed, leaving small businesses with unpaid bills and operational disruptions. Unlike larger corporations that can absorb delayed payments, SMMEs often lack the financial reserves to sustain themselves while waiting for government funds. The delays create cash flow shortages, making it difficult to pay suppliers, cover employee salaries and reinvest in the business.

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One entrepreneur highlighted the reality of delayed payments by stating:

**Government contracts sound great until you realise you'll be waiting six months for payment, while your business is bleeding cash.**

The lack of strict enforcement on payment timelines means that many government entities fail to prioritise timely payments to SMMEs. This has serious implications, as it forces small businesses into debt cycles, dependence on high-interest loans, or even closure due to financial strain. Without clear penalties for late payments and a more efficient invoice processing system, SMMEs will continue to bear the financial burden of government inefficiencies.

## Limited Access to Procurement Information

Another critical issue raised was the lack of a centralised and transparent platform for accessing procurement opportunities. Many SMMEs struggle to find relevant tenders, and even when they do, they often lack clear guidance on how to apply.

Many participants rely on word-of-mouth or informal networks to learn about available tenders, which creates a disadvantage for businesses that are not connected to these circles. While government tender websites exist, they are often difficult to navigate, incomplete, or outdated, making it challenging for businesses to access up-to-date procurement information.

A particularly frustrating issue for SMMEs is the lack of feedback after unsuccessful bids. Many businesses submit applications but receive no explanation for rejection, making it difficult for them to improve future submissions. The absence of a structured, transparent feedback system prevents businesses from learning and growing within the procurement space.

Without an accessible and user-friendly system to centralise tender opportunities and provide detailed feedback to applicants, many SMMEs will continue to miss out on government contracts, not due to a lack of ability but due to an information gap.

## Challenges for Marginalised Groups in Procurement

Women-owned, youth-led and historically disadvantaged businesses face additional barriers in public procurement, making it even more difficult for them to secure government contracts.

One of the biggest challenges raised was access to finance. Many marginalised business owners struggle to obtain the capital needed to meet financial prerequisites for tenders, such as bid bonds, insurance guarantees, or upfront project costs. Without financial backing, even well-qualified businesses fail to meet basic tender requirements.

Additionally, some SMMEs reported being overlooked for contracts despite meeting all requirements, with tenders often awarded to politically connected companies. This further entrenches existing inequalities and limits opportunities for truly competitive businesses. These challenges highlight the need for targeted interventions, such as financial assistance programmes, mentorship, diversity of decision-makers and dedicated procurement allocations for marginalised businesses.

Female entrepreneurs, in particular, highlighted discrimination in securing business funding, which further limits their ability to compete for procurement opportunities. Some reported that banks' view women-led businesses as high-risk, making it harder for them to access the financial support necessary to sustain tender obligations.

These challenges highlight the need for targeted interventions, such as financial assistance programmes, mentorship, diversity of decision-makers and dedicated procurement allocations for marginalised businesses.

### Key Takeaway

The findings from the focus groups and survey indicate that while public procurement is intended to be inclusive, in reality, it remains a highly challenging space for SMMEs. Several barriers, including complex tender requirements, corruption, delayed payments and limited access to information, hinder small businesses from participating fairly.

Ethical procurement is not only about compliance but also about fairness, inclusivity and the integrity of processes that determine who gets access to opportunities. Promoting enabling legislation, processes and practices that are responsive to gender and social inclusion at all stages of vendor management, pre-tender, during tender and post-tender, are essential for the success and sustainability of SMMEs.

## 4.5 WHISTLEBLOWING

Whistleblowing plays a critical role in promoting ethical business practices, ensuring transparency and holding both corporations and government institutions accountable for misconduct. In the South African business landscape, particularly within public procurement and supplier diversity, whistleblowing serves as an essential mechanism for preventing corruption, fraud and unethical business dealings. However, despite its importance, many SMMEs struggle to report unethical behaviour due to fear of retaliation, lack of trust in reporting mechanisms and limited knowledge about their legal protections.

This section explores the challenges SMMEs face in whistleblowing, their level of awareness and willingness to report unethical practices, and whether the current reporting systems provide sufficient protection and support for those who expose corruption.

The primary question guiding this section is:

### To what extent do current whistleblowing mechanisms empower and protect SMMEs in reporting unethical business practices?

This question explores whether SMMEs feel safe reporting corruption and unethical practices, and the effectiveness of existing whistleblowing channels. It assesses the trust, security and protection offered by these mechanisms, as well as the impact of fear of retaliation on reporting. The findings highlight gaps in awareness, trust and protection, revealing that many SMMEs avoid reporting misconduct due to risks such as exclusion, financial loss, or personal threats and prefer silence over challenging unethical practices.

#### 4.5.1 Focus Group Discussion Areas

To gain a deeper understanding of the challenges and perceptions surrounding whistleblowing, focus group participants engaged in structured discussions on:

- **Whistleblowing Experiences and Trust:** SMMEs' past experiences with reporting unethical behavior and their trust in the effectiveness and security of whistleblowing channels.
- **Fear of Retaliation and Barriers to Reporting:** Risks, negative consequences and factors preventing SMMEs from reporting unethical practices.
- **Awareness of Protections and Legal Rights:** Knowledge of whistleblower protections under the Protected Disclosures Act and related laws.
- **Suggestions for Improvement:** Ideas to make whistleblowing more accessible, safe and effective for small businesses.

Based on these discussion areas, the focus group and survey provided valuable insights into the challenges and perceptions surrounding whistleblowing among SMMEs. The following key findings highlight the barriers to reporting unethical practices, the level of trust in existing mechanisms, and the improvements needed to ensure safer and more effective whistleblowing for small businesses.

#### 4.5.2 Survey Insights

A significant challenge faced by whistleblowers is the fear of retaliation and business exclusion. Many SMMEs, particularly those reliant on government tenders or corporate procurement contracts, fear being blacklisted, losing business opportunities or facing threats from those implicated in corruption. Several focus group participants shared that they had witnessed cases where whistleblowers were targeted, intimidated, or financially ruined after exposing unethical practices. In some cases, businesses that refused to participate in corrupt dealings, such as paying "protection fees" to secure tenders, were sidelined from future procurement opportunities. The survey findings reinforced these concerns, with over **60% of respondents** stating they would not report corruption, even if they had evidence, due to the risk of victimisation. Without robust legal safeguards and active enforcement, whistleblowers remain vulnerable, leading to a culture of silence that allows unethical business practices to persist.

### 4.5.3 Focus Group Insights

#### Barriers to Whistleblowing in SMMEs: Fear, Distrust and Weak Protections

Whistleblowing remains a high-risk activity for SMMEs, with many business owners fearing severe consequences for exposing unethical behaviour. While it is intended to promote ethical business practices, transparency and accountability, the current reporting systems, legal protections and enforcement mechanisms remain weak, making it difficult for small businesses to safely report misconduct. Findings from the survey and focus groups highlighted key structural barriers that discourage whistleblowing, including fear of retaliation, lack of trust in reporting mechanisms, limited awareness of legal protections and the complexity of reporting procedures.

In addition to fear, a widespread lack of trust in existing reporting mechanisms discourages whistleblowing. Many SMMEs do not believe that complaints filed through official channels will lead to meaningful action, as previous cases have shown delayed investigations, lack of follow-up or a failure to hold perpetrators accountable. Some participants noted that government anti-corruption bodies and corporate ethics hotlines often appear performative rather than effective, with reports being dismissed or deprioritised. Furthermore, concerns over anonymity persist, as whistleblowers worry that reporting mechanisms may not fully protect their identities, exposing them to professional and financial retaliation. The lack of trust in these systems creates a major disincentive for SMMEs to report misconduct, reinforcing unethical practices across industries.

#### Limited Awareness of Legal Protections: A Barrier to Whistleblowing in SMMEs

Another major barrier is the limited awareness of legal protections for whistleblowers. South Africa's [Protected Disclosures Act \(PDA\)](#) is meant to safeguard individuals who expose wrongdoing, but many SMMEs are either unaware of this legislation or do not trust that it will protect them. Survey findings indicated that over **50% of respondents** were unaware of their legal rights as whistleblowers, while focus group participants expressed uncertainty over where to report corruption and whether the law could effectively shield them from retaliation. Many business owners lack access to legal support and resources, making it difficult for them to navigate the whistleblowing process. Without stronger education, outreach and enforcement of whistleblower protections, small businesses will continue to avoid reporting misconduct, allowing corruption to flourish unchecked.

#### Complex and Inefficient Reporting Processes: A Deterrent to Whistleblowing in SMMEs

The complexity and inefficiency of reporting processes further discourage whistleblowing among SMMEs. Many business owners struggle to identify the correct channels for reporting unethical behaviour, and those who do file complaints often experience long delays, bureaucratic inefficiencies or an outright lack of response. The lack of coordination between government anti-corruption agencies, procurement bodies and corporate compliance departments makes reporting a confusing and frustrating process for small business owners. Several SMMEs noted that even when cases are reported, investigations often take months or years, leaving whistleblowers vulnerable in the meantime. In some instances, those accused of unethical behaviour have resources to counteract allegations legally, while small businesses lack the financial means to defend themselves. This further discourages reporting because whistleblowers fear being drawn into lengthy and costly legal battles.

#### Absence of Whistleblower Support Structures: A Critical Gap for SMMEs

The absence of whistleblower support structures leaves small businesses without protection or recourse when they experience retaliation. Unlike large corporations that may have legal teams or internal compliance departments to handle whistleblowing cases, SMMEs often operate with minimal resources and cannot afford legal fees or security measures if they face threats. Many focus group participants highlighted the need for dedicated whistleblower support services, such as legal aid, financial compensation for lost business opportunities and psychological support for those experiencing intimidation or harassment. Without these safeguards, SMMEs remain vulnerable and reluctant to challenge unethical business practices.

Overall, the survey and focus group findings reveal that whistleblowing in South Africa remains an unsafe and unreliable process for SMMEs. The fear of retaliation, lack of trust in reporting mechanisms, limited awareness of legal protections and inefficiencies in reporting systems all contribute to a culture where unethical behaviour goes unchallenged. Addressing these structural barriers requires stronger legal enforcement, greater transparency in reporting processes and dedicated support structures for whistleblowers. Without these reforms, whistleblowing will remain a high-risk activity and unethical business practices will continue to thrive - undermining fair competition and economic integrity.



## 4.6 SUSTAINABILITY

The link between the environment, society and the economy is vital to the entire supply and value chain, from production to product delivery. For SMMEs, this means considering the environmental and human impact of their products or services throughout the supply chain, from raw material sourcing to production, storage and delivery. Sustainable procurement involves factoring in environmental, social and ethical aspects in purchasing and production decisions. While it may not always be a top priority for SMMEs, factors like consumer demand for ethical products, regulatory pressures and long-term economic benefits can encourage them to adopt these practices. By doing so, SMMEs can reduce their environmental footprint and contribute to a more responsible value chain.

The primary question guiding this section is:

**To what extent are SMMEs that are led or owned by marginalised social groups (e.g., black, women, youth, people with disabilities, LGBTQ+, etc.) able to acquire contracts without being discriminated against?**

### 4.6.1 To gain a deeper understanding of the challenges and perceptions around Sustainability, focus group participants engaged in structured discussions on:

- **Systemic and structural barriers:** Discriminatory procurement processes, power imbalances in client relationships and limited access to funding create significant obstacles for marginalised SMMEs in securing contracts and competing fairly.
- **Knowledge and capacity gaps:** Many SMMEs face challenges in understanding and implementing sustainability practices, including labour law compliance and broader fair labour standards beyond wages.
- **External pressures and incentives:** Corporate and government clients often drive ethical sourcing practices through contractual requirements, while regulatory frameworks and shifting consumer preferences act as motivators—despite sustainability not being a core priority for many SMMEs.

The following section explores the systemic challenges, capacity constraints and external pressures that shape SMMEs experiences, highlighting the structural inequalities that often limit their ability to engage in sustainable procurement and compete on equal footing.

### 4.6.2 Survey Insights:

The survey findings reveal that **42%** of SMMEs strongly agree, and another **42%** agree, that they are transparent about their sourcing practices, indicating a general awareness of responsible sourcing. However, additional comments highlight that many SMMEs feel external pressure from corporate and government clients to adhere to ethical business practices. This suggests that the push for ethical sourcing may stem from contractual obligations or regulatory requirements tied to engagements with these entities. Despite this awareness, there appears to be a gap in SMMEs understanding of sustainability practices. Many respondents expressed challenges and a lack of experience in implementing sustainability initiatives within their businesses, indicating that while they are aware of the need for ethical sourcing, they face difficulties in aligning their operations with broader sustainability goals.

### 4.6.3 Focus Group Insights

#### Power Imbalances in Client-SMME Relationships

SMMEs recognise modern slavery as an abuse of power that extends beyond employer-employee relationships to include their interactions with clients. This suggests that while they acknowledge power imbalances, they also experience exploitative practices when negotiating contracts.

#### Exploitative Nature of Short-Term Contracts

Many SMMEs view short-term contracts from large corporations as exploitative, reinforcing their lack of stability and bargaining power. These contracts limit their ability to grow and sustain their businesses.

#### Financial Constraints and Limited Access to Funding

Limited access to funding makes it difficult for SMMEs to balance business sustainability with human rights obligations. Many SMMEs struggle with understanding how to integrate financial viability with ethical labour practices.

#### Challenges in Compliance with Labour Laws

Compliance with labour laws is hindered by financial constraints, as many SMMEs prioritise completing tasks over regulatory adherence. This raises concerns about labour rights and fair treatment within their operations.

#### Narrow Understanding of Fair Labour Practices

The emphasis on “fair labour” being primarily linked to compensation, rather than broader working conditions, highlights a gap in awareness of comprehensive labour rights. This limited perspective may impact the well-being of employees.

### Systemic Barriers in Procurement Processes

Systemic biases in procurement, financial constraints and limited knowledge make it difficult for marginalised SMMEs to secure contracts on fair terms. These challenges reinforce inequality in business opportunities.

### Need for Inclusive Policies and Capacity Building

Addressing these barriers requires more inclusive procurement policies, increased financial support and targeted capacity-building initiatives. These efforts would empower marginalised SMMEs with the resources and knowledge needed to operate sustainably and equitably.

The findings from both the survey and focus group discussions underscore the interconnected challenges faced by marginalised SMMEs in adopting sustainable practices and accessing procurement opportunities. While there is awareness of responsible sourcing, many SMMEs struggle with implementation due to systemic barriers, limited capacity and financial constraints. External drivers such as client and regulatory expectations can promote ethical practices, but without inclusive procurement policies and targeted support, structural inequities will persist. Advancing sustainability in the value chain requires both enabling SMMEs through capacity building and reforming procurement systems to ensure equitable access. Supporting these enterprises is critical to fostering a more inclusive, sustainable and resilient economy.

## 4.7 DIVERSITY, EQUITY AND INCLUSION

Diversity, Equity and Inclusion (DEI) are essential for fostering an ethical, inclusive and sustainable business environment. In South Africa, historical inequalities and systemic barriers continue to affect the ability of marginalised entrepreneurs to access procurement opportunities. While legislative frameworks such as **B-BBEE** aim to address these disparities, many SMMEs led by black, women, youth, LGBTQ+, elderly and disabled entrepreneurs continue to face discrimination, financial exclusion and limited access to business growth opportunities.

This section explores the barriers and enablers within the DEI landscape, examining how SMMEs experience inclusivity within procurement systems, the challenges they face and the extent to which existing policies support or hinder equitable business participation.

The primary question guiding this section is:

**To what extent are SMMEs that are led or owned by marginalised social groups (e.g., black, women, youth, people with disabilities, elderly, LGBTQ+, etc.) able to acquire contracts without being discriminated against?**

This question is crucial in evaluating whether government procurement processes actively promote DEI or whether systemic barriers continue to disadvantage historically excluded groups. It also examines the effectiveness of policy interventions, the financial and structural obstacles marginalised businesses face, and how these factors affect their ability to compete fairly in the economy.

### 4.7.1 Focus Group Discussion Areas

To gain a deeper understanding of the challenges and opportunities in promoting DEI in procurement, focus group participants engaged in structured discussions around the following themes:

- **DEI in Business Strategy** – Do SMMEs actively implement diversity policies or do financial survival concerns take priority?
- **Workplace Accessibility** – Are SMMEs equipped to accommodate disabled entrepreneurs and employees or are cost and awareness barriers preventing inclusivity?
- **Attitudes Toward DEI** – Is diversity seen as a business advantage or a compliance burden and what support is needed to help SMMEs integrate DEI effectively?

These discussions provided critical insights into how SMMEs perceive and implement DEI, the barriers to workplace accessibility and whether diversity is seen as a business advantage or a compliance burden, highlighting opportunities to enhance inclusivity in procurement and business operations. The focus groups and survey provided critical insights into how marginalised SMMEs experience DEI in the business environment, particularly in procurement, contract acquisition and workplace inclusivity. While policies exist to promote transformation, many SMMEs led by women, youth, black entrepreneurs, disabled individuals and other marginalised groups continue to face systemic barriers that limit their access to opportunities. These barriers include discrimination in procurement, exclusion from financial support, lack of workplace adaptations for disabled individuals and informal networks that favour established businesses.

#### 4.7.2 Survey Insights

A major challenge identified was the limited access to procurement opportunities for marginalised businesses. Although tender processes appear open to all, **45% of** survey respondents reported experiencing discrimination when trying to secure contracts, while only **24%** believed that corporates actively engage marginalised businesses. Many SMMEs felt that success in procurement is often dependent on personal relationships and political connections rather than fair competition. Women-led businesses, in particular, struggled to secure contracts, with many female entrepreneurs stating that financial institutions and procurement officers tend to favour male-owned enterprises, especially in industries such as construction, engineering and manufacturing. Similarly, youth-led businesses found it difficult to break into supplier networks, as established companies dominate procurement contracts, limiting opportunities for new market entrants. Entrepreneurs with disabilities also expressed frustration over the lack of workplace accessibility considerations in procurement decisions, further excluding them from meaningful participation.

#### 4.7.3 Focus Group Insights

##### **Diversity vs. Survival: The DEI Dilemma for SMMEs**

Despite the increasing awareness of DEI, many SMMEs do not actively prioritise diversity initiatives in their business strategies. The survey and focus group discussions revealed that while small business owners acknowledge the value of DEI, they often prioritise financial stability and operational efficiency over structured DEI policies. Many respondents stated that they hire employees based solely on skills rather than diversity considerations and that formal DEI strategies are often seen as more relevant for large corporations with dedicated compliance teams. Some business owners expressed uncertainty about how to integrate DEI into their operations, noting that there are limited resources, training and business incentives available to guide SMMEs in adopting inclusive hiring and supplier diversity policies.

##### **Addressing Workplace Accessibility Challenges for People with Disabilities**

Another critical issue raised was the lack of workplace accessibility for people with disabilities. Many businesses lacked necessary infrastructure such as ramps, accessible rest stations and assistive technologies, making it difficult for disabled entrepreneurs and employees to operate effectively. Several respondents admitted that they had never considered workplace adaptations, largely due to a lack of awareness, financial constraints or misconceptions about the feasibility of hiring disabled employees. In industries such as construction, retail and manufacturing, there remains a perception that accommodating disabled employees is difficult or impractical, leading to fewer opportunities for disabled entrepreneurs to establish businesses or compete in supplier chains.

##### **Financial Exclusion: A Major Barrier to DEI for Marginalised Entrepreneurs**

Financial exclusion emerged as one of the biggest barriers to DEI in business, particularly for women, youth and disabled entrepreneurs. Many respondents highlighted that traditional banks and financial institutions remain reluctant to fund small businesses led by marginalised groups, making it difficult for these entrepreneurs to expand or even sustain their operations. Women entrepreneurs reported facing additional scrutiny when applying for loans, often being asked to provide more extensive business plans and collateral compared to their male counterparts. Youth-led businesses also struggled to access funding, as banks frequently require financial histories, credit scores and collateral that many young entrepreneurs lack. Disabled entrepreneurs, in particular, expressed frustration at the absence of specialised funding programmes to support accessibility improvements in their businesses. A recurring sentiment from participants was that "our banking system doesn't cater to SMMEs," emphasising the deep-seated financial barriers that prevent marginalised entrepreneurs from accessing capital and expanding their businesses.

##### **Informal Business Networks: Gatekeeping Access for Marginalised Entrepreneurs**

Another recurring theme was the existence of informal business networks that act as gatekeepers, limiting access for marginalised entrepreneurs. Many respondents stated that even when they met all eligibility and compliance requirements, they still struggled to secure contracts because tenders were often awarded to businesses with pre-existing industry relationships. The perception that "who you know matters more than your business credentials" was common, particularly among young and first-time entrepreneurs. Women-led businesses and black entrepreneurs in male-dominated industries also faced additional challenges in building networks and gaining credibility. Without structured mentorship and supplier inclusion programmes, many marginalised businesses are unable to penetrate existing supply chains and compete on an equal footing.

The focus group and survey findings confirm that while DEI awareness is growing, systemic barriers in procurement, finance and workplace inclusivity continue to limit opportunities for marginalised SMMEs. The next section explores strategic recommendations to address these barriers, strengthen supplier diversity and create a more inclusive and equitable business landscape for small enterprises in South Africa.

### Common Ethical Loopholes Hindering DEI in SMMEs

The integration of DEI into SMMEs ethical frameworks is essential for fostering fair and inclusive business practices. While SMMEs face challenges in implementing DEI due to resource constraints, lack of awareness and informal structures, overcoming these barriers requires proactive interventions, ethical commitment and structural reforms. Ethical loopholes in DEI implementation often stem from oversight rather than deliberate exclusion, underscoring the need for education, policy development and leadership accountability. By embedding DEI into ethical business practices, SMMEs can contribute to a more equitable and sustainable economic environment while enhancing their own resilience and market competitiveness.

|    |   |
|----|---|
| 1. | Limited Resources   |
| 2. | Lack of Awareness and Blind Spots                         |
| 3. | Informal Organisational Structures                        |
| 4. | Homogeneity in Leadership and Bias                        |
| 5. | Limited Access to Talent and Restrictive Hiring Practices |
| 6. | Unconscious Bias  |
| 7. | Regulatory Compliance                                     |

## SUMMARY OF KEY FINDINGS

This analysis of compliance, public procurement, sustainability, DEI and whistleblowing within the SMME sector highlights the structural barriers these businesses face. While policies exist to promote ethical business practices, transparency and inclusivity - practical implementation often falls short due to inefficiencies, financial constraints and systemic discrimination. The findings underscore the need for reforms to bridge the gap between policy intentions and real-world challenges.

### 5.1 ACROSS ALL INDICATORS

#### Compliance, Registration and Authentication: A Double-Edged Sword

Compliance serves as both an enabler and a barrier to formal business participation. On the one hand, adherence to regulatory frameworks ensures ethical business operations, transparency and accountability. However, for many SMMEs, compliance requirements are overly complex, costly and time-consuming - effectively hindering their ability to compete in the formal economy.

One of the most significant challenges is the complexity of regulatory requirements, particularly for small businesses without legal or administrative expertise. Many SMMEs struggle to navigate the tax registration process, industry-specific compliance mandates and procurement prerequisites. Regulations vary across industries, making it difficult for businesses to fully understand their obligations. This often results in non-compliance, not due to intentional wrongdoing but because of a lack of access to clear and up-to-date information. The high financial burden associated with compliance is another major obstacle. Registration fees, certification renewals and obtaining necessary permits require significant investment, which can be crippling for new and small businesses. The National Home Builders Registration Council (NHBRC) fee of R2,500 was cited as a particularly heavy burden for startups, and the requirement to obtain a letter of good standing was described as unrealistic for businesses still in their early stages.

In addition to financial barriers, lengthy and inefficient registration processes further frustrate SMMEs. Many business owners report excessive delays in obtaining essential documents from regulatory bodies such as the Companies and Intellectual Property Commission (CIPC) and local municipalities. These bureaucratic inefficiencies often force entrepreneurs to seek third-party services that charge exorbitant fees to expedite the process, adding to their financial strain. Moreover, access to compliance-related information remains a major challenge. Many SMMEs struggle to find reliable guidance on regulatory obligations, with government websites such as the South African Revenue Service (SARS) and CIPC often described as confusing and user-unfriendly. This knowledge gap leads to costly mistakes, delays and missed opportunities.



## Public Procurement: An Unequal Playing Field

Public procurement serves as a significant economic opportunity for SMMEs, yet many small businesses struggle to compete fairly, due to structural biases, corruption and financial constraints. Government tenders, which should be an avenue for inclusive growth, often favour large and well-established firms, leaving smaller players marginalised.

A major barrier to fair participation in procurement is the complexity of bid requirements. Many SMMEs, especially first-time bidders, find the documentation and eligibility criteria overly technical and difficult to complete without external assistance. Financial prerequisites such as audited financial statements, credit histories and bid bonds create an uneven playing field, as they disproportionately favour businesses with long operational histories and financial stability. Additionally, tenders often require proof of previous project experience, which makes it difficult for newer businesses—no matter how qualified—to break into the system.

Corruption and nepotism are also pervasive issues within public procurement. Many SMMEs believe that tenders are awarded based on political connections rather than merit, making it nearly impossible for businesses without insider relationships to secure contracts. Several participants reported experiences where they met all the necessary criteria, submitted competitive bids, yet still lost out to firms with established ties to procurement officials. In some instances, businesses were openly asked for "protection fees" or bribes in exchange for consideration in the tendering process. This erodes trust in the procurement system and discourages ethical business practices.

Another significant challenge is the issue of delayed payments. Despite legal provisions such as the Public Finance Management Act (PFMA), which mandates that government entities pay suppliers within 30 days, many SMMEs report waiting months for payment. Unlike large corporations that can absorb late payments, SMMEs often operate on tight cash flow margins, meaning that payment delays can lead to business failure. Some entrepreneurs reported having to take high-interest loans just to stay afloat while waiting for government invoices to be processed.

## Sustainability: Balancing Ethics and Business Viability

Sustainability in business practices is increasingly important, yet many SMMEs struggle to align their operations with ethical sourcing, labour rights and environmental responsibility due to financial constraints and other pressures. While businesses recognise the long-term benefits of sustainability, immediate survival often takes precedence over ethical considerations.

A key challenge in sustainability is the exploitative nature of short-term contracts issued by large corporations. Many SMMEs receive contracts that provide little financial stability, making it difficult to invest in long-term sustainability initiatives. Furthermore, limited access to funding restricts SMMEs ability to implement environmentally friendly practices, such as sustainable sourcing or waste reduction. Some business owners reported that compliance with sustainability standards was seen as an additional financial burden rather than an investment.

Another challenge is the narrow understanding of fair labour practices. While many SMMEs believe they uphold ethical labour standards, their focus is often limited to wages, overlooking broader considerations such as working conditions, employee rights and benefits. Many businesses struggle to balance profitability with labour law compliance, particularly when financial resources are scarce.

## Diversity, Equity and Inclusion: Structural Barriers to Participation

While South Africa has policies aimed at promoting diversity and inclusion, marginalised entrepreneurs including women, youth, and people with disabilities - continue to face barriers in accessing procurement opportunities, financial support and business networks. One of the most pressing issues is financial exclusion. Many banks and financial institutions remain hesitant to fund businesses led by marginalised groups, with female entrepreneurs in particular facing additional scrutiny when applying for loans. Youth-led businesses struggle due to a lack of credit history, while disabled entrepreneurs face a lack of specialised financing programmes for accessibility improvements.

Additionally, procurement processes remain biased in favour of well-connected businesses. Informal business networks act as gatekeepers, making it difficult for first-time entrepreneurs to enter the system, even when they meet all the requirements.

## Whistleblowing: Fear and Retaliation in Reporting Corruption

Despite being a critical mechanism for ensuring ethical business practices, whistleblowing remains a high-risk activity for SMMEs. Fear of retaliation, lack of trust in reporting mechanisms and limited legal awareness prevent businesses from exposing corruption.

Many SMMEs fear being blacklisted or losing business opportunities if they report misconduct. Moreover, a lack of trust in government anti-corruption agencies and corporate ethics hotlines discourages reporting, as past experiences have shown little accountability.

## 5.2 COMMON THEMES ACROSS KEY FINDINGS

A recurring theme throughout the findings is the systemic barriers that hinder SMMEs from fully participating in the formal economy. Across compliance, procurement, DEI, whistleblowing and sustainability, small businesses consistently face bureaucratic inefficiencies, financial constraints and a lack of transparency in regulatory and procurement processes. The complexity and cost of compliance create an environment where many businesses struggle to meet legal requirements, limiting their ability to grow and access opportunities. In procurement, favouritism, corruption and delayed payments were common concerns, with many SMMEs feeling excluded from government tenders due to stringent bid requirements and the dominance of well-connected firms.

Similarly, marginalised entrepreneurs, including women, youth and people with disabilities, continue to face additional challenges in securing contracts and financial support, raising concerns about the effectiveness of existing DEI policies. The reluctance to report unethical behaviour due to fear of retaliation underscores the lack of trust in whistleblowing mechanisms, further entrenching corruption and unfair business practices. Meanwhile, sustainability remains a secondary concern for many SMMEs, as financial survival often takes precedence over ethical labour and environmental considerations.

Despite these challenges, the findings also highlight a strong willingness among SMMEs to operate ethically if given the right support structures. Simplified compliance processes, transparent procurement systems, accessible financing, stronger whistleblower protections and incentives for sustainable business practices were widely suggested by participants as necessary interventions. These overlapping challenges and solutions indicate that a more coordinated, inclusive and ethical business environment is needed to ensure that SMMEs can thrive and contribute meaningfully to economic growth.

## 5.3 BRIDGING THE GAP BETWEEN POLICY AND PRACTICE

While South Africa has progressive regulations intended to support ethical business practices and inclusivity, practical implementation remains inconsistent. Addressing the systemic challenges facing SMMEs requires structural reforms, financial support and stronger enforcement mechanisms to create a more ethical, transparent and inclusive business environment.



# RECOMMENDATIONS FOR STRENGTHENING ETHICAL BUSINESS PRACTICES FOR SMMEs

Small, Medium, and Micro Enterprises (SMMEs) are vital to South Africa's economy but face challenges including regulatory complexity, limited financial access and lack of transparency in procurement. Issues such as weak DEI practices, poor whistleblower protections and insufficient sustainability support further hinder their growth and resilience. Based on insights from surveys and focus groups, targeted recommendations have been developed to promote ethical business practices, streamline compliance and create a more inclusive and supportive environment for SMMEs. These recommendations are:

## 1. Strengthening Compliance and Reducing Bureaucratic Barriers

- Simplify compliance processes with clear and industry-specific guidelines.
- Provide government subsidies or financial assistance for certification costs.
- Introduce training programmes and helpdesks for digital compliance platforms (e.g., SARS, CIPC).
- Improve efficiency in business registration and document processing.
- Offer accessible legal advisory services to protect SMMEs from unfair contract terms.
- Enhance coordination among regulatory bodies (SETA, QCTO, SARS, municipal offices) to reduce inconsistencies.

## 2. Creating a Fair and Transparent Public Procurement System

- Simplify tender processes by reducing unnecessary paperwork and introducing sector-specific guidelines.
- Publish clear tender evaluation criteria and provide constructive feedback to unsuccessful bidders.
- Implement anonymous whistleblowing mechanisms to report procurement fraud.
- Enforce strict penalties for delayed government payments beyond the 30-day period.
- Develop a central digital platform for real-time government tender listings.

## 3. Advancing DEI in Business and Procurement

- Establish dedicated funding programmes and low-interest loans for marginalised business owners.
- Ensure transparency in procurement decisions with public disclosure of awarded tenders.
- Expand mentorship and capacity-building programs to support underrepresented entrepreneurs.
- Diversify procurement committees to promote fair evaluation processes.
- Enforce minimum participation targets for marginalised businesses in procurement.

## 4. Strengthening Whistleblowing Mechanisms

- Strengthen legal protections to prevent retaliation against whistleblowers.
- Enforce stricter penalties for companies and government agencies that retaliate.
- Establish independent and anonymous reporting hotlines and digital platforms.
- Provide public updates on whistleblowing cases to build trust in the system.
- Launch awareness campaigns, workshops and legal advisory services on whistleblower rights.
- Simplify the reporting process to ensure accessibility and swift case resolution.

## 5. Embedding Sustainability in Business and Procurement

- Introduce financial incentives (grants, tax breaks and funding) for responsible business practices.
- Hold corporations accountable for sustainable supply chains.
- Provide education and training on sustainable business models.
- Position sustainability as a driver of long-term business growth.

The recommendations outlined above directly reflect the concerns and solutions proposed by SMME respondents during the focus group sessions. These small businesses are the backbone of the economy and ensuring their success requires targeted reforms in compliance, procurement, DEI, whistleblowing and sustainability. By implementing these measures, South Africa can create a business environment that is more ethical, transparent and inclusive - ultimately fostering long-term economic growth and integrity.

# BUILDING BLOCKS OF AN ETHICAL ECONOMY

## Role of the Private Sector and Government in Mainstreaming Ethics in the Business Environment

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Companies with strong ethical supply chain practices experience less operational disruptions and lower risks, ultimately leading to a more sustainable and resilient business model.<sup>9</sup>

The private sector and government's role in mainstreaming ethics is multifaceted—it involves leading by example, collaborating with stakeholders, building capacity, advocating for systemic reforms and promoting inclusivity. Ultimately, creating an environment where SMMEs thrive.

### 7.1 The Role of the Private Sector in Promoting Ethical Business Practices

Beyond government intervention, the crucial role that private sector institutions can play in fostering ethical business environments. Corporate Enterprise and Supplier Development (ESD) programmes should be leveraged to promote accountability and fairness within supply chains. It is also recommended that large businesses offer training on compliance, ethical risk management and sustainability to help SMMEs operate more ethically. Another key suggestion is to encourage private sector institutions to implement supplier diversity initiatives, prioritising procurement contracts for businesses owned by women, youth and people with disabilities.

As a **Call to Action**, we believe that mainstreaming ethics should go beyond mere compliance, requiring a more intentional approach to the development of SMMEs. It is imperative to establish anti-corruption frameworks within corporate supply chains, supported by clear policies and effective whistleblowing mechanisms. Additionally, participants emphasised the importance of reinforcing existing anti-corruption frameworks and structures within corporate supply chains to support and align with national anti-corruption objectives and strategic pillars. They also advocated for responsible sourcing practices and sustainability education as key components of ESD programmes to ensure the mainstreaming of ethical business practices across industries.

The use of practical tools such as the **Ethical Supplier: Tips and Tales Guide** and the **Ethical Supplier: Digital Platform** to form part of their capacity building with in their respective ESD Programs. Over and above these platforms the NBI has an **Ethical Leadership and Anti-Corruption** Course that serves to capacitate SMMEs, business leaders, managers and employees to better understand the essence of corruption and the importance of eradicating corruption within their day-to-day practices.

<sup>9</sup> Ethical Supply Chain Practices in Corporate Social Responsibility (Article) <https://vorecol.com/blogs/blog-ethical-supply-chain-practices-in-corporate-social-responsibility-9323>





## 7.2 THE ROLE OF THE GOVERNMENT IN PROMOTING ETHICAL BUSINESS PRACTICES

Governments play a crucial role in fostering ethical business practices through various strategies and regulations. Here are some keyways governments can promote ethical business conduct:

### 1. Legislation and Regulation <sup>10</sup>

Governments enforce, strengthen and implement laws that prevent unethical business conduct more intentionally, such as anti-corruption and consumer protection laws. Establishing regulatory frameworks that encourage ethical practices, for example, requiring companies to have ethics committees or codes of conduct. And potentially having an Ethics Training Certificate as part of the BBBEE Score card points.

### 2. Promoting Ethical Standards

Governments can set ethical standards for businesses, especially in sectors like public procurement, where clear guidelines are essential. Offering incentives for businesses that adhere to high ethical standards, such as tax breaks or public recognition <sup>11</sup>.

### 3. Prioritising Education and Training

Governments can support or mandate business ethics training programmes to educate entrepreneurs and employees about ethical practices. Conducting public awareness campaigns to highlight the importance of ethical business practices both within and outside the public sector. The cultural shift needs to happen within the business community, fostering an environment where ethical decision-making is valued and integrated into everyday operations. By investing in continuous education and training, businesses can ensure that ethical practices become deeply ingrained in their organisational culture, leading to long-term sustainability and trust with stakeholders.

### 4. Convening Power and Trade Agreements for State Entities

Governments can leverage their convening power to bring stakeholders together, fostering dialogue and consensus on ethical business practices. Additionally, they can integrate ethical standards into trade agreements, ensuring that international business activities align with globally accepted ethical norms.

### 5. Accountability Mechanisms Both Within the Public Sector and Outside the Public Sector

Whistleblower Protections: Implementing whistleblower protection laws to encourage reporting of unethical practices. Conducting investigations and imposing penalties on businesses that engage in unethical practices - a strong recommendation is that these cases be publicised and made accessible to the public.

<sup>10</sup> [https://www.apec.org/docs/default-source/publications/2020/8/government-strategies-to-encourage-ethical-business-conduct/220\\_sme\\_government-strategies-to-encourage-ethical-business-conduct.pdf?sfvrsn=3e3ded79\\_1](https://www.apec.org/docs/default-source/publications/2020/8/government-strategies-to-encourage-ethical-business-conduct/220_sme_government-strategies-to-encourage-ethical-business-conduct.pdf?sfvrsn=3e3ded79_1)

<sup>11</sup> Government Strategies to Encourage Ethical Business Conduct: <https://klprinciples.apec.org/initiatives/government-strategies/>







## CONCLUSION

Corruption and unethical practices remain deeply entrenched challenges in South Africa, with roots extending back to the apartheid era and evolving into new forms in the democratic era. These issues have far-reaching implications, hindering economic growth, weakening public institutions and exacerbating social inequalities. Despite the existence of robust legislative frameworks and international commitments, the effectiveness of anti-corruption efforts depends heavily on systemic reforms, political will and collaboration across all sectors of society.

The private sector, SMMEs and government are critical stakeholders in building an ethical economy. By fostering transparency, accountability and inclusivity within their operations and interactions, these entities can drive meaningful change. **The Ethics Coalition for Business (EC4B): Ethical Supplier** project highlights the importance of equipping SMMEs with tools, knowledge and capacity to integrate ethical practices into their operations. This approach not only enhances their competitiveness but also aligns with broader national and global anti-corruption strategies.

In conclusion, addressing corruption and promoting ethical behaviour requires a multi-faceted approach that includes strengthening institutional capacity, fostering ethical leadership and encouraging active citizenship. By working together—across sectors and through the NBI's Ethical Supplier project—South Africa can create a more just, equitable and sustainable socio-economic landscape. The journey toward an ethical economy is complex but essential for restoring public trust, ensuring fair service delivery and achieving long-term national development goals.

# ANNEXURE A

## PRIVATE SECTOR ROUNDTABLE BREAKAWAY GROUP QUESTIONS

### MENTIMETER 1

QUESTION 1: Name and Surname

QUESTION 2: Company and Unit/Department within Company

BREAKAWAY ROOM – Questions

1. Share with us your exposure to the concept of Diversity, Inclusion and Ethics within supply chain management (per industry)
2. What are some of the specific challenges you have experienced in diversifying the supply chain? (per industry)
3. Do you report on Ethics in the Supply chain in your industry? (y/n) if yes please specify?

# ANNEXURE B

## SMME FOCUS GROUP QUESTIONS

### 1. Compliance, Registration and Authentication

**Key Performance Question:** To what extent does the current Compliance, Registration and Authentication system and process create an enabling environment for SMMEs to conduct their business in an ethical manner.

- What has your experience been so far when it comes to registration, authentication and compliance requirements? (What has been positive and what has been negative about your experience? Give examples.)
- How did you access this information? (Which government websites and industry body websites provide information, awareness and training on the interpretation of legislation, compliance and requirements for supply chain registration?)
- Understanding of Companies Act, Director Duties and Conflict of Interest: Legal/Contracts: (What has been your experience with the following legal/commercial aspects: Completing contract, legal liability, access to legal support, affordability, legal recourse regarding deliverables and payments).
- What can be improved to make the supply chain and compliance environment enabling for SMMEs of all sizes?

### 2. Public Procurement

**Key Performance Question:** To what extent are tendering and bidding opportunities from government fair, accessible and open to all types and sizes of SMMEs.

- What feedback would you like to receive once you have submitted a tender bid?
- What platform would work efficiently for you to submit tenders, receive award notifications and related updates?
- What process would you consider fair and objective when submitting tender bids?
- Have you approached or been approached by someone (external to your company) to assist you with the bidding process, and, if so, why, what form does that assistance take (what did it cost, etc)?
- How would you like to be informed of your failure to meet the requirements of a bid in a public or private procurement process?
- Do you expect successful bids to be communicated publicly? if so, why? (What does this do to promote ethical business practice and reduce corruption?)

### 3. Whistleblowing

**Key Performance Question:** To what extent are SMMEs prepared to confront corrupt business practices through whistleblowing?

- Do you know what “gratification” means in terms of a corrupt activity?
- Do you know what to do if you/an employee has already fallen prey to an irregular payment/gratification and how to solve it?
- As an SMME do you think there is a financial or reputational risk to whistleblowing?
- What challenges do you face as an SMME regarding perceptions of trust in both private and public entities? Does it have a direct effect/impact on how you conduct business? What is your understanding of a Politically Exposed Person and Prominent Influential Person?

### 4. Diversity, Equity and Inclusion

**Key Performance Question:** To what extent are SMMEs that are led/owned by marginalised social groups (e.g., black, women, youth, people with disabilities, LGBTQ+, elderly, etc.) able to acquire contracts without being discriminated against.

- Has it been your experience that RFQ's or private tenders are equally open and accessible to marginalised social groups?
- What has your experience been in tendering for bids as a woman/disabled/LGBTQI +/elderly etc.?
- Have you ever failed to receive a tender because of your social group/marginalised position and if so, what steps did you take to resolve this?
- Are you aware of the legislative provisions dealing with such groupings?

### 5. Sustainability

**Key Performance Question:** To what extent are SMMEs aware of the importance of responsible sourcing practices (ethical sourcing of labour and raw materials).

- What is your understanding of what modern slavery is?
- What do you think are the linkages between corruption and modern slavery, and how do you think this drives gender-based violations?
- How does your company adhere to fair labour practices and does the supply-chain you are part of operate in line with fair labour practice?



# ANNEXURE C

## SMME SURVEY QUESTIONS

### SURVEY QUESTIONS

(please mark your responses with an X in one column only; provide comments where you feel it is necessary)

| NO.  | QUESTION   | STRONGLY<br>AGREE | AGREE | DISAGREE | COMMENT |
|--|--|-------------------|-------|----------|---------|
| <b>A. Compliance, Registration and Authentication</b><br>Key Performance Question: To what extent does the current Compliance, Registration and Authentication system and process, create an enabling environment for SMMEs to conduct their business in an ethical manner |  |                   |       |          |         |
| 1.   | The current legislation for registration, authentication and compliance supports SMMEs to start up, grow and sustain our business. |                   |       |          |         |
| 2.   | Are you confident in your ability to navigate and adhere to regulatory compliance standards?                                       |                   |       |          |         |
| 3.   | Contracting terms and conditions are generally vague and/ or strict. (This hinders us from doing business ethically).              |                   |       |          |         |
| 4.   | SMMEs require good and affordable legal support.   |                   |       |          |         |
| <b>B. Public Procurement</b><br>Key Performance Question: To what extent are tendering and bidding opportunities from government fair, accessible and open to all types and sizes of SMMEs   |  |                   |       |          |         |
| 5.   | Procurement processes are open and transparent. (If you disagree, please share your experiences in the comments section).          |                   |       |          |         |
| 6.   | Procurement decisions are usually influenced by personal relationships or external pressures (political influence).                |                   |       |          |         |
| <b>C. Whistleblowing</b><br>Key Performance Question: To what extent are SMMEs prepared to confront corrupt business practices through whistleblowing  |  |                   |       |          |         |
| 8.   | As a supplier to big business or government, we receive training on the Protected Disclosures Amendment Act 5 of 2017.             |                   |       |          |         |
| 9.   | Our employees are informed about their rights and protection as whistleblowers.  |                   |       |          |         |
| 10.  | Unfair and irregular requests from companies and governments open SMMEs up to corrupt practices.                                   |                   |       |          |         |
| 11.  | Our internal policies safeguard us from engaging in unethical business practices.  |                   |       |          |         |
| 12.  | We have an anti-corruption policy in place.  |                   |       |          |         |
| 13.  | We have a tip-off 'hotline' in place to report corruption.   |                   |       |          |         |



| NO. | QUESTION | STRONGLY<br>AGREE | AGREE | DISAGREE | COMMENT |
|-----|----------|-------------------|-------|----------|---------|
|-----|----------|-------------------|-------|----------|---------|

#### D. Diversity, Equity and Inclusion

Key Performance Question: to what extent are SMMEs that are led/owned by marginalised social groups (e.g., black, women, youth, people with disabilities, LGBTQ+, elderly, etc.) able to acquire contracts without being discriminated against

|     |  |  |  |  |  |
|-----|--|--|--|--|--|
| 14. | Big business actively seeks to engage with diverse suppliers (minority owned and women owned SMMEs) beyond BBBEE requirements.   |  |  |  |  |
| 15. | Government and corporate institutions make the environment enabling for SMMEs to access the mainstream economy.  |  |  |  |  |
| 16. | Financial institutions (e.g., banks and insurance companies) discriminate against SMMEs led by diverse social groups (e.g., black, women, youth, people with disabilities, LGBTQ+, elderly, etc.). If you agree, please provide a brief example in the comments section. |  |  |  |  |

#### E. Sustainability

Key Performance Question: To what extent are SMMEs aware of the importance of responsible sourcing practices (ethical sourcing of labour and raw materials)

|     |   |  |  |  |  |
|-----|---|--|--|--|--|
| 17. | We are transparent about our supply chain practices, including sourcing and labour conditions.  |  |  |  |  |
| 18. | We regularly participate in recycling programs or initiatives.  |  |  |  |  |
| 19. | Our financiers and funding sources are aligned with our sustainability goals.   |  |  |  |  |
| 20. | Corporates and government do not care if our service to them is provided ethically or not- they are mainly interested in the lowest rate. |  |  |  |  |





# ACKNOWLEDGEMENT

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Thank you all for your unwavering dedication and partnership.



The **National Business Initiative (NBI)** is a voluntary coalition of local and multinational companies committed to sustainable growth and development in South Africa.

Established in 1995 and launched by former President Nelson Mandela, the NBI works to promote responsible business practice, support socio-economic transformation and address the key challenges facing South Africa, including:

- Environmental sustainability
- Inequality and inclusivity
- Unemployment and skills development
- Local government capacity building

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The National Business Initiative is a voluntary coalition of South African and multinational companies, working towards sustainable growth and development in South Africa and the shaping of a sustainable future through responsible business action. Since our inception in 1995, the NBI has made a distinct impact in the spheres of housing delivery, crime prevention, local economic development, public sector capacity building, further education and training, schooling, public private partnerships, energy efficiency and climate change. The NBI is a global network partner of the World Business Council for Sustainable Development (WBCSD) and an implementation partner of We Mean Business, the CEO Water Mandate and CDP.

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