CHAPTER 3

STRATEGIC PERSPECTIVES ON BUSINESS PHILOSOPHIES

3.1 INTRODUCTION

In Chapter 1 it was proposed that an understanding of social development and the business landscape was required to establish the context for the study from a theoretical and literature point of view. Chapter 2 subsequently presented a literature review of the social development landscape. The business landscape globally and specifically in South Africa is changing rapidly, and business imperatives translated into social terms certainly remain a key challenge. In Chapter 3 an attempt will therefore be made to explore the dynamic drivers of change in business philosophies, management imperatives, business value proposition and some challenges facing business in general.

The business landscape could indeed be described as the more dynamic of the two. World markets, world economies, globalisation, the information age, multiplication of knowledge and a number of other drivers of world business, demonstrate the delicate interdependency of all role players in a society still characterised by capitalism or economic performance. The mere fact that the borders of business no longer exist, specifically from an intellectual and emotional perspective, further emphasises the complex nature of the global business landscape. The Prince of Wales (2001) has been quoted as saying that "in a rapidly changing world, my own view is that the globalisation of opportunity for major companies is not yet being matched by an equal globalisation of responsibility". He also remarked that, for the business community of the twenty-first century, "out of sight" was no longer "out of mind". since global communication and media operations are able to present every aspect of a company's operations directly to its consumers in stark, unflattering and immediate terms. Thus the "business of business is no longer business anymore".

In an open environment, an almost incomprehensible responsibility is placed on the business sector to fully understand the impact of their businesses not only on their customers, staff and shareholders, but also on the broader society, environment and stakeholders they deal with. Business is for the first time open to any form of criticism and stands almost defenseless to the magnitude of its impact across societies, environment and stakeholders. The recent scandals at United States based companies Enron, Worldcom and Arthur Anderson are clear evidence of the relentless nature of business and the speed at which a once thriving organisation could become obsolete in a matter of hours.

In 1926 Prime Minister Jan Smuts, in his thought-provoking book Holism and Evolution, alluded to Darwin's theory of evolution, Einstein's theory of relativity and his own insights to reach the conclusion that there is a common driving force in all creation and evolution - a golden thread for which he coined the term "holism". Holism, Smuts explained, is a fundamental tendency in nature (including human society and its institutions) to form wholes of ever-greater synergy. These wholes are characterised by increasingly complex relationships among their diverse elements, which result in progressively higher levels of intelligence and creativity. The relationships between things are therefore as important as the things themselves. Interestingly, the real creativity in nature occurs where fields overlap - where the outer edges of different wholes mingle (Visser and Sunter 2002). Organisations are constantly in interaction with all the elements in their immediate as well as not so immediate environment, and managing these interfaces is the real challenge companies in the twenty-first century will be faced with. Wise businesses will understand that they not only impact on their external environment, but that, increasingly so, the external environment impacts on them.

"The spread of markets far outpaces the ability of societies and their political systems to adjust to them, let alone to guide the course they take" (Kofi Annan, January 1999). Annan comments on the role and power of the business world, again demonstrating the potential positive and negative impact on what Sunter and Visser (2002) refer to as "Spaceship Earth". Recalling Kenneth Boulding's metaphor (1960)," we live within an insular planetary system where nothing comes in and nothing leaves." Therefore, whatever good or bad is done inside this "confined space" has a huge impact on the sustainable future of the planet. It could therefore be argued that the world of business, having major control over world markets, natural resources and people, is regarded as the biggest contribution towards a sustainable future for the planet, its people and the environment.

If, with the above explanation of the world of business in mind, one considers the position that directors of companies took on addressing issues of global concern, it is clear that very little attention was given to the matter until about ten years ago. As reported by Newbold (2002), the language of the boardroom was finance and the focus was primarily on the interests of the shareholder. Company communications were directed firstly at institutional shareholders, secondly financial analysts, next the financial press, and as a poor last, the private shareholder. The principles of shareholder democracy did not extend to include others embraced within the newly fashionable but vague nomenclature of "stakeholder", such as employees or society as a whole. Non-financial talk was incomprehensible or, if attempted in the boardroom, for the most part, dismissed as irrelevant.

According to Newbold (2002), a changing language in the boardroom only became evident during the last decade of the twentieth century. Apart from well-funded NGOs, strong consumer activism led to highly effective campaigns against multinationals; charging them with profiteering in poorer countries, of using sweated labour to produce high-margin luxury goods for Western consumption, of cynical disregard for local cultures, human rights and environmental degradation. Although some companies sought to counter the effects of these campaigns with charm offensives or public relations initiatives, an increasingly sophisticated and well-linked body of global protesters has seen off much of the corporate spin. Fortunately the language of corporate responsibility has shifted from the simplistic mantra of shareholder value to the far more complex consideration of the issue of interconnected rights of those affected by corporate behaviour.

The business landscape - specifically in South Africa with its unique social character - will soon be the focus of boardroom transformation. Apart from global drivers of change such as the WSSD, GRI and Global Compact, local drivers like the KING 2 Report on Corporate Governance, JSE/SRI INDEX and a strong civil society activism will force business to transform the way they conduct their business activities (see Chapter 2). The post-1994 era in South Africa could furthermore be regarded as a strong shaping era whereby business practice will be challenged fundamentally not only by the public sector, but also by civil society and the ordinary man in the street. In an article in Business Day (June 2002), Games proposed a strong argument in favour of the private sector's role and input in ensuring a future for Africa.

The following were suggested as ways of strengthening the role played by the private sector in South Africa:

- Greater use of public/private partnerships.
- Successful privatisation of key utilities that in most cases link the interests of the public and private sectors.
- The creation of a strong and representative pan-African business organisation to make key inputs in government policy.
- The development of strong links between the private sector and civil society, given that business has much to gain from the success of the latter's efforts to strengthen peace and democracy.
- Sharing of natural resources.
- Sharing best practices with governments, seconding skills, developing capacity and identifying wealth creation projects and ways to fund them.
- Having strong private sector representation in the African Union's peer review structures.
- Regionalisation must be strengthened, since it is the key to creating interlocking economic interests across borders.

3.2 GLOBAL FORCES OF CHANGE

In the next section of Chapter 3 perspectives will be offered on global issues related to the world of work. Michael E. Porter, co-founder of the Centre for Effective Philanthropy and voted the world's top business intellectual by the Institute for Strategic Change of the consulting firm, Accenture, said the following: "We are learning that the most effective way to address many of the world's most pressing problems is to mobilise the corporate sector where both companies and society can benefit." Therefore, it could be argued that the business world faces significant transformation, precipitated by key driving forces that are characterised by an explosion of knowledge and information.

Accenture has compiled an intriguing ranking of the top 50 living business gurus, most of whom are business school academics, consultants, journalists or business executives. Insights concerning strategic business issues were obtained from these people. Vinassa (2002) has offered a summary of some words of wisdom by a few of these gurus, and thus creates - from a philosophical perspective - the context for defining the business landscape.

> The organisation and culture of entrepreneurial firms can foster organisational learning but it can also impede learning. Entrepreneurial ventures frequently lack the kind of traditional authoritarian, hierarchical structures that inhibit collaborative learning, systems thinking, and team solutions to problems. Also, the entrepreneurial challenge often attracts individuals motivated by a strong desire to pursue their own personal visions.
> **Peter Senge**, MIT professor and author of The Fifth Discipline: The Art and Practice of the Learning Organisation.

> Technology may be the driver of a modern economy, especially of its high-tech sector, but human capital is certainly the fuel. Human capital refers to the knowledge, information, ideas, skills and health of individuals. This is the 'age of human capital' in the sense that human capital is by far the most important form of capital in modern economies.
> **Gary Becker**, winner of the 1992 Nobel Prize in Economics for his work on human capital, and an Economics and Sociology Professor at the University of Chicago.

> In the age of revolution, it's the incumbents against the insurgents, the old guard versus the vanguard, the hierarchy of experience clashing with the hierarchy of imagination.
>
> **Gary Hamel**, Chairman of the boutique consulting firm Strategos, and author of Leading the Revolution.

> I can imagine our entire school system shrivelling up. It is a $500 billion dollar enterprise. By everybody's measure, they are inefficient, ineffective and very expensive. When we built that system, it was humanising and democratic and good. By its very structure it simulated the factory. Now they continue to simulate a factory future, but the factories aren't going to be there. So what is going to happen is that these schools are going to shrink in relevance.
>
> **Alvin Toffler**, author of Future Shock and The Third Wave.

> The hype about the Internet and the hoopla over dotcom failures has obscured one simple fact: Internet initiatives have delivered huge increases in productivity and profitability to individual companies and to the US economy as a whole.
>
> **Hal Varian**, Dean of the School of Information Management and Systems at the University of California at Berkeley, and author of Information Rules: A Strategic Guide to the Network Economy.

> Groups are smarter than individuals only when they exhibit the qualities of emotional intelligence.
>
> **Daniel Goleman**, journalist and author of Emotional Intelligence.

Emanating from the above quotations is the interesting "mingle" between the human factor and the digital imperative. When adding the "borderlessness" of the world to these two factors, one realises the complexity of business and more specifically its impact on society and the environment. The digital age indeed requires a delicate trade-off between sophistication and social/ environmental decay. Digital access is still only meant for an exclusive few and considering statistics on poverty, malnutrition, HIV/AIDS and environmental decay, closing the divide becomes an imperative that the business sector will in future be held responsible for.

In an article by Moy (2002) on "altruistic capitalism", a strong argument is made out in favour of the interconnectivity of theories, facts and issues. Using the jigsaw puzzle analogy, the author argues about the benefit of comfortably fitting together the pieces of bottom-line targets, environment, behaviour and ethical /moral standards - which he refers to as a so-called "harmonious achievement". According to Moy altruistic capitalism aims to create an understanding and psychology in business that the more we adhere to sound practices in areas such as environmental sensitivity, safety procedure and ethical behaviour, the greater the corresponding result will be in increased profits. Thus, as the momentum of change increases, the call for greater cohesion (a collective effort of fitting together the jigsaw pieces) grows louder and stronger. A responsibility is however placed on the shoulders of the business sector to take the lead in this process, purely because of their physical and intellectual resources.

The following four revolutions form a fundamental baseline framework in a book Everybody's Business (2001) by David Grayson and Adrian Hodges. These revolutions explain how knowledge of the emerging management issues of ecology and environment, health and well-being, diversity and human rights, as well as knowledge of communities, can improve business performance and make the manager's job more satisfying. These revolutions also coincide with a period of anti-capitalist demonstrations and increasing concern about the unequal distribution of the benefits of trade liberalisation and globalisation. It is therefore imperative when exploring the business landscape to understand these revolutions which in themselves offer some perspectives on how to respond to the emerging risks in today's global society.

3.2.1 The revolution of technology

> The convergence of telecommunications and information technologies has created unprecedented levels of connectivity - within companies, between businesses and supply chains, between businesses and customers, and among customers (Grayson & Hodges 2001).

It is evident that people's ability to access, transmit and process information has increased dramatically. For example in 2001 the Mobile Data Association reported that 64 billion text messages were sent worldwide during the previous year - and by January 2001 the figure was a staggering 10 billion per month. Computing costs also fell substantially, while the speed of communications resulted in the only certainty - an increasing unpredictability for individuals and institutions. Allan Greenspan, Chairman of the US Federal Reserve remarked that these new innovations, which were labelled information technologies, had begun to alter the manner in which business was conducted and value created, often in ways not readily foreseeable even five years earlier (1999).

Furthermore the Internet explosion is changing the total business landscape to the extent that governments are already factoring electronic commerce into policy formulations. In China, for example, Internet growth rose from 4 million users at the end of 1999 to 17 million in September 2000. The question that remains concerns the consequences of Internet access in developing countries like South Africa, where the so-called digital divide is increasing rapidly due to the fact that a large percentage of the population does not even have access to electricity.

The "clicks and mortar" phenomenon is furthermore creating a whole new culture of conducting business. E-commerce has virtually eliminated all distance between businesses, markets and consumers. "There is only one economy and only one market" (Peter Drucker October 1999). This phenomenon has serious consequences for traditional business processes and strategies. The definition of and differentiation between brands are now suddenly threatened by new brands that may be launched on-line in a matter of minutes. This certainly could lead to confusion in consumer markets, which could ultimately provoke consumer activism (let alone labour unrest due to the rapid change in character of the world of work as well as loss of jobs in the traditional sectors of the industrialised world).

Those who survive in this new information age are faced with a non-stop 24x7x365 world of work. This places new demands on managers to respond to employee stress, specifically concerning a balance between worklife and personal life. It is usually in times like these that intrinsic values emerge and that employees start looking for meaning beyond their being utilised as a commodity - they also want to be recognised as human beings.

A further element that increases the emotional loading of the world is the fact that - due to wide scope of the media, the power of visual images and the "CNN age" - there is no hiding place. Business, governments and other institutions are subject to relentless scrutiny. The impact of business, particularly on society and the environment, is exposed on a real-time basis. Rectifying unjust behaviour also occurs in real time, which in itself highlights any mistake or transgression via a broad spectrum of electronic media and therefore has the potential of damaging image and brand value in seconds. Information has become the commodity that carries a value far bigger than any product or service and it constitutes an ever-growing proportion of the world economy. In 2001 Percy Barnevik, ex-chairman of ABB, claimed that only ten per cent of the world economy would be in manufacturing by 2010.

Natural resources that were previously not economically exploitable because of their remote location are now physically accessible. This has obviously led to further exploitation of natural resources, which has resulted in governments imposing regulations upon organisations to limit and manage their impact on the environment.

In summary the revolution of technology affects the way that business is conducted. Technology has virtually caused the world to "decrease in size", since access to anything anywhere has become immaterial. The advantages of having access to the whole world go hand in hand with a responsibility to manage such access properly, in order to ensure that the forces that rule the world, namely global businesses, do not ruin it.

3.2.2 The revolution of markets

> Since the Berlin Wall came down, an additional 3 billion people live in economies that operate on market principles, spurring a globalization of capital, knowledge and ideas. This has been further fuelled by a seemingly relentless process of privatization and liberalization (Grayson & Hodges 2001).

Governments, multilateral and bilateral organisations, corporations and non-governmental organisations are undergoing a constant re-invention. This changes the relationships and interfaces between these market players on a daily basis, resulting in a complex environment in which to live, work and play. With globalisation, liberalisation and privatisation, the flow of funds and global trade on a daily basis epitomise the spirit of a global community to some, but anarchy to others.

> It is predicted that the share of the world's market that is 'globally contestable', i.e. open to global competitors in product, service, or asset ownership markets, will rise from about $4 trillion in 1995 (one seventh of the world's economic output) to approximately $21 trillion by the end of 2001 (one half of the world's economic output) (Robert Atkinson & Randolph Court, quoted in John Weiser and Simon Zadek, Conversations with Disbelievers 2000).

The economic influence of big business in the global economy translates into the following:

- Of the world's largest economic entities, 51 are now corporations and 49 are countries (Top 2000: The Rise of Corporate Power, Institute for Policy Studies 2000).
- The world's 200 largest corporations employ less than one per cent of the world's population - yet control 25 per cent of its economic activity (Top 2000: The Rise of Corporate Power, Institute for Policy Studies 2000).

- The 500 largest transnational companies account for 70 per cent of world trade and 30 per cent of global GDP (Supplement for Prince of Wales International Business Leaders Forum, Time June 1999).
- According to the United Nations, there were 7,000 transnational companies in 1975; 25 years later, that figure had risen to 60,000.
- When BP and Amoco merged in 2000, they became the largest single economic entity in each of twenty national economies, that together account for 20 per cent of world GDP (BP Spokesperson 2000).

According to statistics reported by the World Bank, development aid is on the decline. Official aid to emerging markets, which originates in the world's seven wealthiest governments, has dropped by 29 per cent between 1992 and 1997 (Supplement for Prince of Wales International Business Leaders Forum, Time, June 1999). The animosity revealed by this trend could easily fuel activism in developing countries and put businesses in the spotlight. A business decision to open or close a factory, for example, is very likely to attract external attention and scrutiny.

As a result of globalisation, billions of dollars are spent on creating brand awareness - to the extent that corporations have taken on the same status as Hollywood celebrities. Their every move is watched, analysed and commented on. Corporate behaviour is in the global "open space" and people are increasingly beginning to fight global economic battles by focusing on one or two brand name corporations and turning them into large-scale political metaphors (Klein 1999).

The civil society sector and, more specifically, NGOs have entered into this debate. The premise from which they operate is based on a social and environmental conscience with a strong ethical inclination. Furthermore the NGO sector is still globally regarded as the most influential group when it comes to mobilising capacity to make a real difference in the lives of the most vulnerable - mostly found in developing countries and informal economies. Global spending and capitalism is closely monitored and increasingly so as a result of the recent Enron and Worldcom scandals where greed and profit have overtaken altruism and sustainable development. The informal economy (in developing countries) therefore has a major impact on brand equity, considering the substantial growth that these economies have registered as a percentage of GDP from 1989 to 1999 (Schneider 2000).

The power of brands is still regarded as the key to commercial success, hence the strong movement by organisations to protect it and build intrinsic legitimacy into it:

According to Fortune Magazine, in the twenty-first century branding will ultimately be the only unique differentiator between companies. Brand equity is now a key asset (Clifton, CEO Interbrand 1999).

Research conducted by Interbrand (1999) found that 96 per cent of Coca Cola's stock market value lies in intangibles, such as reputation, knowledge and brand. It is reported that this intangible valuation will rise to 45 per cent by 2010. Such a trend places an even stronger emphasis on the public's perception of a brand, as well as on their interpretation of the brand, the credibility of the brand and what it stands for. Market value is directly influenced by public support or rejection of a brand and in today's global environment is as easy as the "click of a mouse". There seems to be sufficient proof that financial performance is no longer the only determinant of trust in a company or brand. Brands also need to be responsive to local markets, therefore skills are needed in "glocalism": the ability to sensitise global policies, brands and corporate cultures to the needs of local markets.

Douglas Draft, Chairman and CEO of Coca Cola, remarked that "...in our recent past, we succeeded because we understood and appealed to global commonalities. In our future, we'll succeed because we will also understand and appeal to local differences. The 21st century demands nothing less" (2000).

The revolution of markets finally also explains the delicate interplay between what was traditionally viewed as incompatible sectors, namely the private, public and civil society. Not only are governments and NGOs learning the business language and skills, but they also assume certain responsibilities historically preserved only for government. This clearly demonstrates the art of stakeholder engagement and cross-sectoral capacity building, as well as the potential for "creative swiping" from one another. The global marketplace has caused an even greater "blurring of boundaries", which results in some confusion, but also creates new opportunities.

3.2.3 <u>The revolution of demographics and development</u>

"Demographic change, and its connection with the process of development, has a crucial bearing on business operations, future growth and profitability" (Grayson & Hodges 2001).

Globalisation has led to a situation in which an increasing number of companies operate in countries with limited public resources and an inadequate infrastructure. This results in significant social problems that will eventually constrain business growth or compel firms to take remedial action. Business operations are often sited in areas next to centres of population that have little income, low skills and poor prospects. Fundamentally due to a general lack of a stake in the system, these communities start questioning the concentration of wealth in the hands of what they consider to be the minority elite. Since this paradox relates directly to the connection between the well-being of business and the well-being of humanity, it elicits an outcry to eradicate poverty and insists on a crucial role to be played by business. Thus the impact of business on the development process demands consideration.

Some significant population statistics indicate that the world population stood at 2,5 billion in 1950 and has doubled in the last 50 years (*State of the World*, UN Population Fund 1998). The real challenge however lies in the developing countries where high population growth causes pressure on already stretched resources and infrastructures, for example sanitation, water, health, education and food supplies. Mortality and global ageing are also significant in so far as there is a decline in infant mortality rates and a rapid ageing of the world as life expectancy rises.

In a report by the Inter-American Development Bank (2000), it was remarked that the consumption needs of children and the elderly surpass their productive capacity, while the opposite occurs for people of intermediate ages. For any society the capacity to save and invest in physical and human capital therefore depends on the composition of its population. Consequently growth will be higher in societies that have an age composition that favours intermediate ages, and it will be less in societies that are either very young or very old.

The devastating impact of HIV/AIDS on a population of intermediate ages is furthermore significant. In countries hardest hit by the pandemic, it is already evident that the prevalence of the disease is highest among the intermediate age group. HIV/AIDS could therefore potentially wipe out the entire economically active segment of a population, and result in a situation in which thousands of children are orphaned. This would inevitably increase poverty and social decay, leaving almost no future for an emerging segment (youth) in developing countries. According to a report by the World Bank (2000) more than 34 million people are infected with HIV, of whom 90 per cent are in the developing world. In countries like Botswana, Zimbabwe and South Africa, one in every four adults is infected. This severely impacts not only on the workforce but also on economic performance.

Again the paradox emerges in the unequal distribution of wealth. The latter could (especially in developing countries) be regarded as a factor that contributes to poverty and results in increased HIV/AIDS prevalence. An interesting example in South Africa is the mining sector's capital injection into communities that have historically been severely impoverished. When new mines are started within areas surrounded by communities and townships, local people are preferably employed. This results in a sudden capital injection into the community. However, sex workers are attracted by the migrant workers who live in mining hostels and prostitution inevitably increases the impact that HIV/AIDS has on these communities. The expansion of mines into rural areas also makes it viable for many local women to practice prostitution as a way of earning a living. It therefore becomes imperative for the business sector to be aware of the impact of their business initiatives on poverty-stricken communities. Although their intentions are mostly good, more research should be done in the form of impact studies of the negative effect of including previously disadvantaged groups in the mainstream economy. Any active involvement of poor communities should therefore be preceded by baseline assessments to determine the current demographics and psychographics of a particular community. Stakeholder engagement also becomes essential to fully understand and involve all stakeholders in the business intent of the organisation.

Finally, prevailing levels of health and education have a direct impact on business. Loss of production caused by employee sickness or family illness, and the task of remedial education when skills levels are deficient, are all direct costs to business. It is therefore in the interest of the private sector to participate in improving educational levels. A number of initiatives funded by the private sector are aimed at improving general literacy levels in South Africa. A strong impact is also made on the provision of local school infrastructure through for example the building of a number of schools in partnership with the Nelson Mandela Foundation. Along with making a difference in the educational sector, job creation is increasingly becoming a key business imperative for the private sector - particularly in developing countries. The International Labour Organisation noted at the end of 2000 that as much as one-third of the world's workforce of three billion people were either unemployed or underemployed. To accommodate new entrants into the workforce and reduce the current levels of unemployment, the global economy will have to maintain its current pace to generate some 500 million jobs (Life at Work in the Information Economy, *World Employment Report* ILO 2001). In developing countries, internal job markets are on the increase, which unfortunately perpetuates poverty. Therefore, organisations that launch operations where there is a surplus of local (informal) labour have an even greater responsibility to introduce good operational practices. By not complying with the critical standards, corporations may become the target of activists seeking to expose the maltreatment of workers and any transgression of their human rights.

3.2.4 The revolution of values

"In the last century, democratic governments and large corporations commanded respect and were regarded as leaders of society. But in recent years, they have lost their gloss" (Grayson & Hodges 2001).

Trust in the government, the political process and business has declined owing to high profile scandals, corruption and an apparent lack of accountability leading to the questioning of the authority vested in organisations long regarded as the "establishment". Today's public; whether employees, consumers or members of local communities are more willing to question practices and challenge them aggressively. Values are shifting because of the way people currently believe, the standards they live by and the views they have. Business on the other hand, as the principal motor for growth and development, now finds itself firmly on the centre stage, having to cope with greater responsibilities and changing expectations regarding its conduct.

According to the Millennium Poll on Corporate Social Responsibility (Environics International Ltd 1999), people in 13 out of 23 countries think that their country should focus more on social and environmental goals than on economic goals in the first decade of the new millennium. Grayson and Hodges (2001) believe that this loss of trust is caused by a number of converging developments:

- Institutions that are slow to respond to technological and social developments, such as shifts in attitudes towards feminism and racism, may lose their relevance.
- Minorities are more assertive about their rights and the perceived abuse of those rights.
- As new information becomes available about the past lies, incompetence and corruption of many totalitarian regimes, there is a backlash against authority.
- Many of the media are internationally accessible, making it easier for individuals to search for information for themselves. Thus the old inequality between experts and the general public is greatly reduced.
- As part of globalisation, the rapid rise of a global youth culture encourages greater self-expression, with people conceiving, developing and expressing their own ideas.

With the change in value systems, concerns about the accountability of business run parallel to questioning the purpose of business and its role in society.

> Development can no longer be regarded as the responsibility of government alone. It requires partnership with the private sector, labour and NGOs. There are many ways in which the special skills and know-how of the business community can help achieve development objectives (Nelson Mandela, quoted in When good companies do bad things, Schwartz & Blair 1999).

Some global events have put the spotlight on the relationship between corporations and external groups. Decision for example over the proposed disposal of an oil storage and loading buoy by

Shell in 1995 led to a debate in the media, in the political corridors of power, and - in Europe - in the streets. The Brent Spar episode, as it became known, focused attention on the apparent shift in power from corporations to a wider stakeholder constituency. Shell was forced to change its disposal plans.

> We have listened very closely to our customers. We have listened very closely to our government and to our staff. They, after all, were the institutions we had always dealt with. Of course, we also dealt with environmentalist groups, consumer groups and so on, but we tended to let the public affairs department deal with them. They were important, but they were not as important as government, industry organisations and so on. In essence, we were somewhat slow in understanding that these groups were tending to acquire authority. Meanwhile those institutions we were used to dealing with were tending to lose authority (Cor Herkstroter, then CEO of Shell International 1996).

In a survey of the most respected companies, 750 CEOs were asked to indicate their views on the most important business challenges for companies in 2000. Ranked second was "increased pressure from stakeholder groups" (<u>World's most respected companies</u> 1999).

The following stakeholder expectations need to be studied in order to understand the business landscape from a social and environmental perspective:

- <u>Expectations from consumers</u>
  In a connected, global information environment consumers will be loyal to brands and organisations they are consistently given reason to trust.

- <u>Expectations from employees</u>
  Increasingly staff motivation is based on values rather than on financial reward. An increasing number of employees are prepared to go to court nowadays when they become dissatisfied with corporate behaviour.

- <u>Expectations from investors</u>
  As the owners of a business, the views and expectations of investors are critical. Furthermore the profile of investors is changing with the popularisation of share ownership and that is opening the gates for shareholder activism. The JSE/SRI INDEX in South Africa is proof of this.

- <u>Expectations from the government and regulators</u>

  Responding to pressure from interest groups, civil servants and governments are now expressing (often through regulatory bodies) their changed expectations of business behaviour. "The business of business is no longer business: it is becoming a sustainable business… Public private partnership as well as corporate social responsibility is both a precondition for adapting to changes and a result of a knowledge-driven society" (Rasmussen, The Copenhagen Centre 2000).

- <u>Expectations from non-governmental organisations</u>

  The diverse nature of NGOs is becoming a challenge for most companies. NGOs are well networked and can easily mobilise people with similar views or co-ordinate campaigns to persuade companies to change. Famous campaigns include animal-activists street attacks on symbols of Western capitalism and Green Peace. The mere fact that NGOs are among the most trusted institutions makes them a force to reckon with. Unfortunately South African NGOs are still relatively docile. Before 1994 they were more activist, but that changed after democratisation in 1994. The role of local NGOs is therefore currently underrated and a strong sense of development activism needs to emerge to ensure not only their recognition, but also a strong case against SA companies that are insensitive to their impact on the environment and society.

- <u>Expectations from business</u>

  To secure new contracts - and sometimes to avoid losing existing business - companies will in future have to demonstrate to their business customers that they meet certain standards of performance (e.g. ISO-9000, ISO-14001, SA-1000) in areas such as environmental or employment practices and community relations.

A complex environment leads to a situation whereby managers have to make decisions on a daily basis, often without the knowledge or tools to consider how the many complex topics thrown up by global forces of change might impact upon their work. The next section therefore deals with some of these challenges to management.

3.3 <u>MANAGEMENT IMPERATIVES</u>

The following section of Chapter 3 will attempt to contextualise management imperatives - more specifically global trends - as well as the latest thinking on strategic management within the social development arena. Views will be offered on the direct relation between strategic management and the development agenda, while attention will be given to the extent to which social imperatives have been integrated into mainstream business strategy and global trends on management practices. Finally the question of how to facilitate such integration will be discussed.

In an article entitled "The Businessman of the Century" the following remark was made:

> The Businessman of the Century was the builder of an industry that transformed the very land we live on, the first to create a mass market as well as the means to satisfy it, as great an entrepreneur as we've ever seen. He was a provincial and a curmudgeon; a man with all the prejudices of his time, who had as well the kind of genius that endures. He is Henry Ford.
> (Steward et al., Fortune Magazine: November 1999).

Another quote from the book Information Rules by Shapiro and Varian (1999) reads as follows:

> As the century closed, the world became smaller. The public rapidly gained access to new and dramatically faster communication technologies. Entrepreneurs, able to draw on unprecedented scale economies, built vast empires. Great fortunes were made. The government demanded that these powerful monopolists be held accountable under antitrust law. Every day brought forth new technological advances to which the old business models seemed no longer to apply... A prophecy for the next decade? No. You have just read a description of what happened a hundred years ago when the twentieth-century industrial giants emerged. Using the infrastructure of the emerging electricity and telephone networks, these industrialists transformed the U.S. economy, just as today's Silicon Valley entrepreneurs are drawing on computer and communications infrastructure to transform the world's economy.

3.3.1 Introduction

In the Institute of Directors' Strategy Letter (August 2002), Tony Manning, a leading authority on business strategy, refers to the world as a very dangerous place. He touches upon a few reasons for this statement, for example fears of terrorism, a dangerous impasse in the Middle East, tension between India and Pakistan, the implosion of Latin American economies, "lack of visibility" for many businesses and continuing job cuts. He does however point out that the big issue in 2002 is corporate behaviour, as it can be viewed as a "can of worms" that threatens not just short-term confidence, but the very foundations on which capitalist society rests.

Under the over-arching theme of corporate governance, three specific issues are making headlines, namely leadership, board performance and accounting practices. Shocking failures in all three have combined to make a poisonous brew. Many business leaders, such as those of Enron and Worldcom have behaved appallingly. They have promoted idiotic strategies, involved their firms in hair-brained schemes, and treated their people and the society at large with callous disdain. If 2000 is remembered for the bursting of the technological bubble, and 2001 as the first year of the war against terror, 2002 will go down as the turning point for leadership.

Manning (2002) strongly argues that the South African business sector needs to get the "basics" in order first. Operational issues are the obvious ones to start with. A number of macrofactors have however become critically important, and may in the long run make or break a business. They too, must be seen as basic requirements for doing business in this country.

<u>Table 3.1 Categories of basic business in South Africa</u> (Source: Manning 2000)

OPERATIONAL	MACROFACTORS
• Market/Customer definition • Offering (value proposition) • Delivery system (business model) • Execution • Costs	• HIV/AIDS • Transformation (Employment Equity) • Black Economic Empowerment • Affirmative Procurement • Safety, health, environment

In the previously referred to <u>Strategy Letter</u>, Manning (2002) also argues that the birth of the African Union has been greeted with scepticism. After all, the continent is riven by conflict, plagued by corruption and ravaged by unemployment, poverty and disease. Governments have a key role to play in the upliftment of Africa, but it is predictable that they will fail in many of their efforts on account of lack of executive capacity. "Delivery" will be their Achilles heel, specifically if one considers the current shortage of about 500 000 managers. The situation is further unlikely to improve, considering the vast prevalence of HIV/AIDS (twenty to twenty-four per cent infection of the workforce by 2012). The management deficit could therefore be considered as the No. 1 crisis facing South Africa. Cultivating and developing leaders becomes imperative and corporate South Africa has the responsibility to partner with civil society and government to build capacity and empower the people to ensure a much broader base of influence and skills transfer. Already it becomes clear that the nature of business extends far wider than the predetermined environment as defined by the executive management, the shareholders and the chosen target market.

Globally the business landscape also requires that leaders understand their fundamental role in society and the environment. According to Hill (2001) society increasingly believes that business should not leave a legacy of environmental and social damage for our successors to sort out. Whilst most people would personally subscribe to this concept, one of the largest challenges is applying the principle of sustainable development to business strategy. The danger of not engaging in this agenda according to Hill (2001) is that society could place increasing costs on unsustainable business practices, and customers may choose not to purchase associated products and services, resulting in reduced reputation, decreasing shareholder value and low ratings on corporate citizenship.

3.3.2 Leadership vs management

Warren Bennis and Burt Nanus, in their best-selling work entitled Leaders (1985), points out that whereas managing means "to bring about, to accomplish, to have charge of or responsibility for, to conduct", leading is "influencing, guiding in direction, course, action, opinion". Some guru's point out that leadership is like "conducting an orchestra or herding cats. It demands empathy, soul, love and sensitivity." They borrow ideas from chaos theory and the "new science" and admire Robert K. Greenleaf's idea of "servant leadership" (Manning 2002).

Tony Manning expresses certain strong views in his latest book Discovering the essence of leadership (August: 2002). He argues that leadership is not the product of a simple formula. "Every age throws up a few golden people who seem to have arrived on the world stage at just the right moment." Jack Welch credits his mother with preparing him to be a leader, Disney Chairman and CEO, Michael Eisher thanks the head of his high school. He expresses the opinion that leadership is in part instinct, part skill. "It's something you're born with and that you learn. It is an amalgamation of logic and luck, power and compassion, teaching and learning, reflection and action." Manning (2002) has therefore decided, within the South African context and by incorporating global thoughts, to offer the following very simple definition of leadership:

> **The achievement of a specific purpose through others.**
> The key words are achievements (results) ... purpose (for a reason) ... through others (by empowering and inspiring them).

This view according to Manning (2002) makes three things clear:

- "It's not enough to merely have the title of chairman, CEO, vice-president, general manager, or whatever. You're accountable and you're measured by what you *do*, not what you *say*.

- You need to be able to explain your intentions, and they must make enough sense for others to want to support them.
- This is not a solo performance. What matters is your ability to unleash the potential in others, align their efforts, and keep them enthused over time."

Placing the definition of leadership in the developmental context it is important to realise that even in this "virtual" age, the edges of most organisations are quite clear. Firms have to be not merely mindful of outsiders, but clear about the value, influence, risks, and threats inherent in being part of an extended "ecosystem". They have to understand what's needed to manage a widening array of players with many different agendas, and therefore have to be proactive and systematic in balancing these agendas. Manning (2002) states that one's strategic conversation affects opinion both inside and outside the organisation. "Manage it well, and you can win shareholders' votes; manage it poorly and you might lose by a landslide." The growing trend towards holding leaders accountable for "triple bottom line", which balances economic profit with social and environmental responsibility, further emphasises the complex management / leadership landscape.

3.3.3 Developmental update and implications for the business strategy

In his inaugural lecture Professor Anton Ferreira, Director of the Graduate School of Business Leadership, University of South Africa (September 2000) gave an overview of strategy and the new competitive landscape. The following notes are extracts from his speech and they offer a clear overview of strategy within the business landscape.

- Definition

  The conscious application of the concept *strategy* to business situations is about a century old and, while literally hundreds of definitions exist, the essence of the term is perhaps best captured by Chandler (1962) Strategy can be defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out those goals. From a practical point of view, a distinction is generally made between corporate strategy and business strategy (Andrews 1987: 13). Corporate strategy addresses the question: What business to be in? Business strategy, on the other hand, refers to ways of competing over rivals and how to sustain such an advantage once achieved.

- A new competitive landscape

  In his speech, Ferreira touched upon two waves of change: the first roughly between the years 1980 and 1994, and the second from 1994 to the present and beyond.

(i) **The first wave of change: 1980-1994**

According to Ferreira (2000), the competitive landscape has been brought about by three developments. Firstly, the phenomenal growth in the development and application of new information and communication technologies has facilitated convergence, globalisation and the dispersion and fragmentation of corporations. Secondly, and linked to the first, has been the shift towards competition on the basis of knowledge and skills rather than physical assets. More and more company executives today face the dilemma that their most valuable assets, not at all reflected in balance sheets, leave their premises at the end of a working day on two legs - unprotected and unguarded. Thirdly, the diffusion of management and business ideas and their implementation in firms across the globe, particularly by international management consulting groups, have resulted in an emphasis on operational efficiency and catch-up games.

Implications for business strategy

A key implication of the new competitive landscape has been the realisation that strategy making can no longer be purely a top-down, pre-planned exercise. Today, with opportunities being hurled at companies from all sorts of directions and in unpredictable ways, the first corporate strategic task should be to create an organisational mindset capable of seeing and grasping opportunities, thus enabling the organisation to discover and create its own destination. The new competitive landscape has underscored the dependence of strategy on the external context. Different environments require different strategic responses and today, more than ever before, there needs to be a deep understanding of the relationship between the turbulence of the external environment and the choice of strategy (Ferreira 2000).

(ii) **The second wave of change: 1994 and beyond**

The second wave of change has principally been brought about by the Internet and the current e-business revolution. Given the fact that organisations are currently finding themselves in the 'eye of the hurricane', with violent winds blowing from all directions, it is very difficult to predict what is going to happen. Probably the most visible trend has been the explosive growth in services brought about by this wave of change. In less than five years, the Internet has provided

24-hour, instantaneous and interactive access to products and services from all over the world. A second trend has been the emergence of new competitors who challenge established industry leaders on the basis of totally new business models. Another observable trend has been the ability of new information technologies to demolish brands and businesses that have been established for decades and even centuries.

Implications for business strategy

The trends identified have important implications for business strategy. Whilst the first wave of change highlighted imitation as a serious threat to sustainability, the second wave underscores the threat of *substitution*. The legacy of past success and a strong corporate culture can easily blind executives to changes in the competitive landscape that do not fit their mental models.

As a first step, it is essential for companies to understand and accept that every business is an information business. What is new is that the connectivity brought about by new information technologies is now causing this glue to melt. Armed with this insight, business strategists have to analyse, in a much more fine-grained manner, the value chains of their companies and ensure that they focus only on those elements where they can add an appropriate value. All the rest must be outsourced. In other words, companies have to deconstruct their own value chains in a proactive way, or else it will be done for them. A further implication is the need for a strategist to understand the importance of bandwagon or network effects and to build partnerships with companies whose products complement those on offer by the firm. As the formidable Microsoft/Intel alliance has shown, customers value the size of a network; the more people use Windows as an operating system, the more people want to use it. The ability to develop and capture demand early on is critical in the new economy (Ferreira 2000).

Freedman (2001) mentions 12 key drivers of an ingrained strategic culture. These drivers are: basic beliefs and values; strategic thinking patterns by everyone; an enabling organisational structure; integrated management processes and systems supporting the business strategy; focused education, training and development; strategic goal setting and appraisal; reward systems linked to strategic achievement; the shaping of myths, stories and legends in the organisation; reflecting external manifestations, for example PR, branding, image, etc.; support of the strategic direction; frequent communication on all aspects of the strategy; behavioural modification and change to reflect the strategic direction. Making corporate social responsibility part of the organisational culture therefore becomes an imperative, specifically if strategic coherence is a driving force for integrating social development with core business strategies.

3.3.4 Principles of strategy

Osborne and Cowen (2002) argue strongly in favour of a "believer" mentality. They are of the opinion that if everyone believes in the vision of the business and in its ability to be successful, reaching the strategic objectives occurs almost spontaneously. Again, if an organisation's performance indicators are in coherence with social performance indicators, a high performance culture in itself will probably fuel an even closer integration between these two philosophies. This study will therefore attempt to redefine the determinants of a high performance company profile by integrating it with social imperatives.

South African business strategist, Tony Manning, suggests the following ten South African principles of strategy (August 2002):

- "If you don't make a difference, you don't matter." Value to the customer, community, staff, and other stakeholders becomes imperative.
- "You can't make a difference to everyone." Choose your customers and try and matter to them.
- "Strategy must enable your organisation to make a difference that matters to a critical mass of the right customer." You need to be the first or at least second in your market.
- "Strategy connects the purpose and values of your organisation with those of its customers and other external stakeholders." You need a deep real connection and it is evidently here that value could also be translated into social terms, making a difference in communities and stakeholders.
- "A vital goal of strategy is to create and sustain a unique community." A business heavily relies on all the members of the community to succeed and be sustainable.
- "Purpose and values provide the context in which individuals volunteer their imagination and spirit." Being part of a team or community implies shared purpose and unity. Companies need to foster this to enhance direction and support.
- "The more openly and honestly ideas are shared, the greater the level of trust will be and the more readily ideas will emerge." The level of trust could also be applied in terms of the relationship with stakeholders. Through stakeholder engagement greater participation in idea formulation could be achieved, hence a better offering to the customer.
- "When people make strategy, they feel that they matter and that they own the results." People cannot be forced to perform. This argument also applies in the social structures of

modern business. If communities feel part of the destiny of a business, greater support for the business will result.

- "Strategic management is conversation." It informs, focuses attention and effort, triggers fresh insights, lights up imagination, energises people and inspires performance. Again the importance of stakeholder engagement emanates as a critical driver of a sustainable business.
- "Your message must be compelling, clear and believable, or you won't sell it." Key to this is to neither underestimate nor overestimate the target market. Furthermore, the whole notion of trust emerges, which - in a business environment increasingly characterised by stakeholder activism - becomes a critical factor in strategic business practice.

From the above it is clear that business strategy principles no longer refer to only those in the driving seats of businesses. In fact, a fundamental understanding of stakeholder dynamics emanates as the quiet force in business strategy that could fuel sustainability or degradation.

3.3.5 Summary

In the South African Strategy Letter of August 2002, the comment was made that in the 21st century leadership will hinge, as never before, on good manners and genuine respect for others. These soft factors deliver hard results. They apply both within organisations and outside, to all the stakeholders. Suppliers, customers, government and the rest are not just legal bodies, nameplates or amorphous masses; they are made up of human beings with needs and feelings, hopes and fears. Treat these people well, and an organisation will immediately stand out as being different and more caring; treat them badly, and irreparable damage will be done.

The natural noises of political jostling or social activity in SA are normal and offer a challenging scenario for building the future on strong elements of trust and partnership. Business leaders will therefore have to embrace the secret weapon of social development by making business a sustainable contributor to the economic progress of South Africa and by shaping the future of communities, individuals and the country as a whole. According to Wayne Visser, KPMG Head of Sustainability SA (August 2002), the three challenges South African leaders will have to deal with in future will be their ability to:

- engage and consult with all stakeholders in their business landscape,
- manage enterprise-wide risk with specific emphasis on social and environmental risk, and
- clearly link business strategy with sustainability imperatives.

3.4 BUSINESS VALUE PROPOSITION

In this section an attempt will be made to contextualise the importance of social development in formulating the value proposition of an organisation. The value proposition of any company is fundamental proof of its existence. It unequivocally portrays the reason for existence and usually presents it in terms relating to the specific target market, the differentiating components of its products/ services and the competitive advantage of the product/ service, finally expressing the real value to the customer. Wiersema and Treacy (1996) report three categories of value propositions under which most organisations could be classified. They are:

- **Product leadership**

  Product innovation is the key anchor and the dominating value associated with the brand.

  Example: BMW
- **Customer intimacy**

  Strong partnership and a close relationship with the client are the key factors. Essential product characteristics usually result from close interaction with the customer. A continued customer needs analysis is also fundamental and results in product adjustments and refinements.

  Example: THE BODY SHOP
- **Operational excellence**

  Operational consistency, reliability, predictable service, product quality and "hassle free" service are but a few examples of this value proposition.

  Example: McDONALDS

Recent thoughts on value proposition suggest a new approach whereby the proposition is not only formulated on the stand-alone products /services, but rather on the creation of high value solutions by integrating various products and services (Foot et al. 2001).

This approach, which certainly is quite new to even the most progressive organisations such as IBM, is now forcing them to take some profound strategic action that will go against the grain of existing product businesses.

Foot et al. (2001) has identified three actions aimed at achieving this approach or shift:

- **Build value propositions for customer outcomes**

  In this case product developers aim their development from the start at achieving the desired outcome for a customer. The "solutions manager" needs to fully understand the customer's' needs, perceptions and "trigger points". It is widely accepted that the social needs of, for example, the average customer in South Africa are quite prominent. Addressing these needs from a solutions-based approach might therefore imply that the value proposition is focused on the social needs of the customer. It is however acknowledged that social needs are elements of the total need portfolio.

- **Include "strange bedfellows"**
  Solutions managers must become intimately linked to parties with which they had previously done little or no business, for example suppliers, distributors and customers. One could certainly add communities, government, civil society and other stakeholders to the list. In the social development arena, action could certainly be highlighted as a crucial activity that is unfortunately terribly neglected in South Africa.
- **Choose your customers**
  The discomfort for solution managers lies in having to step outside their existing networks and to develop relationships with these new parties. In South Africa, the vastness of opportunities, especially in the emerging/ mass market, is a known fact. In the banking sector, for example, quite a few attempts have been made to target this market, with no real success (O'Riordan: 2001). The risk profile and a general lack of understanding of the emerging/mass market have restrained the banking sector from actively pursuing this market. There is general consensus, however, that in pursuing this market a thorough understanding is needed of social, political and cultural imperatives. So, it will certainly be quite challenging for the solution manager to develop relationships with this market in South Africa in order to develop a value proposition. Such action is in fact, however, desperately needed.

Walters (2002) reports that some definition is needed before a value strategy can be developed. He refers to two concepts that need to be defined, namely value itself and value drivers.

Value is determined by the utility combination of the price and non-price benefits offered. A value-based competitive advantage can be established by identifying those benefits or attributes that offer vendors an opportunity to increase the attractiveness of their market offer to their target customers.

Value drivers are the attributes of a product/ service considered by a purchaser as a primary reason for selecting that product/ service, which in turn will enhance the purchaser's lifestyle.

Kotler (1997) considers value as "our premise ... that buyers will buy from the firm that they perceive to offer the highest customer delivered value". Customer value, in turn, is the bundle of benefits that customers expect from a given product/ service.

It is however important to contextualise value within the social development sphere. In doing so, one realises that in the South African context, the "bundle of benefits" referred to by Walters (2002) could also imply the social value/ benefits that the customer is interested in. For example, if an organisation realises that communities are crucial stakeholders in their service/product offering (e.g. life insurance) and they succeed in incorporating the community benefit of for example a funeral policy into the product offering, the value could be increased, thus building customer support and loyalty.

The words of Sir Ernest Oppenheimer become relevant here: "Our task as a business is to run our business in a way that we make a profit, but make a profit in a way that we help the communities."

Roddy Sparks, Chief Executive Officer of Old Mutual, made the following remark during a recent Business Round Table on Public/ Private Partnership (Sandton, South Africa, 2002):

> I think that for business to think that it could ever exist as an island apart from society has to be completely fallacious. But if you are not an island and you are part of the communities, you can only be as prosperous as the communities in which you operate; therefore it is not just an option. I think it is critical. There is no option BUT for business to engage the communities in which it operates in a socially responsible fashion.

To sum up Webster (1994) defined a value proposition as "a statement of how the firm proposes to deliver superior value to customers". The value proposition is important both internally and externally.

The following section will in slightly more detail offer perspectives on the value proposition, developed in a way that focuses specifically on value to the customer. Considering the mainstreaming of a broad base of previously disadvantaged customer groups (especially in developing countries) and their social needs and community power, it becomes imperative for the business sector to translate value into customer terms. Van der Merwe (2000) argues that traditional business thinking or the so-called conventional approach of differentiating a business on products and services, no longer will ensure competitive advantage in a highly competitive business landscape. Products and services are too easy for competitors to emulate and improve upon. Therefore value could be realised and business results be improved by focusing on the customer. Under the term customer, communities could also be a part of this stakeholder group.

3.4.1 Value to the customer

In order to maximise value to the customer, Van der Merwe (200) suggests that business strategists should attend to the following five areas:

- Transferring the power from the company to the customer

  The object here is to get ordinary individuals to think of themselves as "owners" of the business from which they receive products and services. A strong philosophy of empowerment is apparent. The customer takes control over his/ her personal destiny through utilising the particular product/ service.

- Achieving customer "lock-on"

  Customers who "lock-on", select the enterprise as their sole, dominant or first choice because of the value they receive. It is therefore neither the product that keeps competitors away, nor is it the technology; it is the customer.

- Articulating new market spaces

  This refers to the organisation's ability to define the market space(s) that the enterprise wants to occupy and in which it intends to dominate customer activity and spending. This market space is an aggregation of all the customer activity cycles in a particular segment. In a social development context, this could relate for example to the interfaces between customers and their communities (churches, societies, etc.) and how an organisation could capitalise on these activities by influencing purchasing behaviour, but most of all, creating real value in the eyes of consumers. Any value gap that might emerge would be seen by the business as an opportunity to fill these gaps in time. This not only requires an understanding of the customer him-/herself, but also of the associated social dynamics.

- The new economics

  Closely related to the previous point, the economy of skill as referred to by Van der Merwe (2002) results in an organisation's ability to use information and knowledge about the customer. What makes this skill even more daring in a developing country is to understand social dynamics and to capitalise on it in engineering the value offering. Some of the banks in South Africa that focus on the lower end of the market, have realised that financial literacy is a great concern. Offering financial products, for example a funeral policy, goes hand in hand with financial life skills training, and strengthens the relationship and improves the value to the customer.

- Building reinforcing loops into the cohesive strategy

  The customer-focused interaction loops include relationship building, knowledge-and-information acquisition, networking opportunities, increase in the numbers of players, increase in the numbers of developers, and cost savings. When all six loops are combined into one cohesive strategy together with the other vital components of customer focus, the potential is explosive. Building social and community imperatives into the value proposition requires a fundamental understanding of the customer, becoming engaged in the dynamic interplay between individual customers and society, and increasing the value to the customer and the business.

Societal values are key determinants for any organisation operating in a landscape characterised by social, environmental and development activism. Integrating these values into the value proposition becomes imperative for any organisation.

3.5 CORPORATE GOVERNANCE

In Chapter 2 some arguments and comments on corporate governance were offered. Specific attention was given to the King 2 report on corporate governance as well as other institutional initiatives, referring to the governance theme in general. In this section of Chapter 3 however, an overview on current issues relating to corporate governance will be offered through the lens and eyes of the media world in South Africa. Reference will therefore mainly be made to a few South African newspaper articles in an attempt to contextualise governance from a current perspective.

During the launch of the Global Reporting Initiative (GRI), 2002 Guidelines, Judge Mervin King commented on a question regarding formalising the GRI guidelines through regulation: "Business is about enterprise, governance is about constraint. I therefore am opposed to legislating sustainable reporting. Forces in society, like customers, development activists and other stakeholders will over time force business to report on sustainability issues" (Johannesburg Summit: August 2002).

The issue of governance is however very high on the global agenda with recent scandals such as Enron and Worldcom fuelling the whole debate. The GRI guidelines, outlining sustainability reporting (refer to Chapter 6) are a global attempt at ensuring healthy practice on economic, social and environmental principles. Governance is going to be the driving force behind global business practice. Not only is it locally and globally being institutionalized, but ordinary people are expecting credible practice with strong ethical backing and integrity from business.

Mervin King (August: 2002) during the WSSD specifically mentioned that the world is moving into an era of "value accounting". He referred to sustainability and stewardship of assets as the two drivers of value accounting. A critical prerequisite however will be the quality of information provided by businesses in disclosing their practices. Governance will therefore also be measured against an organisation's ability to create value, the way value is created hence the impact on society and environment in value creation and finally its ability to purposefully engage with stakeholders on the perceived value and benefit to all.

In a full-page advertisement by BP petroleum (Mail & Guardian: August 2002), John Brown, Group Chief Executive, publicly stated that he believes that a big oil company should provide answers, not excuses. In the same advertorial, they reported on their objectives of 1998 to cut emissions from their global operations by 10 per cent by the year 2010 - they have already met this goal eight years ahead of schedule.

In an article by Shevel (2002), three critical questions directors of a company need to ask themselves were highlighted - KING 2:

- Does the director have any conflict of interest in the matter at hand - for example family or personal interests?
- Does the director have all the facts to enable him to make a judgement?
- Is the decision in the best long-term interest of the company - rather than in the interests of the shareholders or the employers which will change over time?

Mervin King is of the opinion that the foundation for all business operations is integrity. Unfortunately, in South Africa, only one per cent of South Africa's top 100 companies produce separate reports on social, environmental or economic performance.

The many faces of corruption make it difficult to fight the unfortunate acts against good citizenship. Members of the SA parliament's multiparty justice portfolio committee met in July 2002 to hear civil society's submissions on the Prevention of Corruption Bill. This positive step could result in legislation that would offer an opportunity for a clampdown on graft in all sectors of society. Van Vuuren (2002) however argues that this portfolio committee needs to consider some areas legislation has yet to address:

- Accounting requirements are an imperative to stem corporate greed as exemplified in Enron, Worldcom and other scandals. To avoid replication in SA, review of external auditing procedures is critical. Companies are to be prohibited from making off-the-books accounts and should disclose all material contingent liabilities. Accounting omissions, facilitation and fraud are to be adequately sanctioned.
- Blacklisting firms guilty of corruption in public tender processes.
- Civil remedies for corruption allowing either the state or a member of the public to seek remedy through a civil court.
- Immunity to be granted to a person otherwise implicated in corrupt activity when full disclosure is accompanied by full disclosure prior to the commencement of investigations.

- A review mechanism accountable to parliament is the final requirement to ensure that the Prevention of Corruption Bill is an instrument which is effectively enforced.

A National Anticorruption Forum was established in 2001 with representation from civil society, business and the private sector to act as a vehicle to give feedback to parliament and to monitor corruption in general. This act will surely increase the attention on corporate accountability. The focus of the bill however will stretch further than the corporate sector thus placing government under the spotlight since the prevelance of corruption amongst senior government officials.

There seem to be interesting developments in the international scene regarding corporate governance. In a recent article in Business Day (August: 2002), it was reported that a growing number of Germany's biggest firms are joining the government in opposing US rules that make executives personally responsible for their company's bookkeeping as part of President George Bush's crackdown on corporate fraud. Car makers Daimler Chrysler and Porche already officially requested exemptions and will go so far as in putting listing of shares on hold in New York until such resolution has been obtained. This certainly intensifies the global governance debate hence a comment that was made during the Johannesburg summit (2002) to develop an internationally accepted governance framework (similar to the King 2 report on corporate governance) to deal with cross-border inconsequences especially by multinational firms.

In South Africa the governance landscape is epitomized by even more dynamic events especially the post-1994 era. The King 2 Report, Employment Equity Act, Skills Levy Act, Black Economic Empowerment, the Mining Charter and a possible Banking Charter are examples of main drivers of corporate accountability which are putting pressure on corporates in SA to perform. According to Rose (2002) all four big banks in SA have empowerment initiatives under way, although the scale of their involvement differs. Fraser and Wadula (2002) however argue that government is planning to speed up black economic empowerment by drawing up new framework legislation. This already was announced by Trade and Industry Minister Alec Erwin recently. Alec Erwin (2002) reported that the legislation will be an umbrella for empowerment charters in specific sectors such as petrochemicals, minerals and energy and tourism.

Finally, in a position paper to the Johannesburg WSSD by Friends of the Earth International (January 2002), a strong need was expressed for global accountability. Bennett (2002) argues that many governments have recognized the need to make globalisation support sustainable development. He further argues that a legal framework for corporate governance is a necessary pillar of such an approach. A number of changes, therefore are driving the demand for corporate governance:

- The growth of truly global companies means it has become more difficult for citizens and communities to seek redress where corporations are multinational (for example a multinational's legal "home" may be uncertain).
- There is a tendency for public interest constraints to be removed or relaxed in the course of removing non-tariff barriers to trade.
- The growing scale of multinationals has consolidated their power and influence while greatly increasing the distance between corporate leadership and the communities and lives that their activities affect.
- Corporations are increasingly taking control of industries and services previously run by governments, without taking on the wider public interest responsibilities governments have to address.
- The scale of corporate impacts is undiminished and those impacts are increasingly remote from both the owners and the customers of the company.

A framework for binding corporate governance would finally be:

- Introduce duties on corporations.
- Extend liability of corporations.
- Introduce rights of redress for citizens.
- Establish community rights to resources.
- Establish consistently high standards of behaviour.
- Introduce sanctions.
- Extend role of International criminal court.
- Improve monopoly controls.
- Establish an implementation mechanism.

3.6 STRATEGIC BUSINESS CHALLENGES

In the following section of Chapter 3, an overview of strategic business challenges will be offered in an attempt to further define the key drivers of the business landscape within the sustainability framework. By no means will it be argued that the following challenges are a complete set. The list of challenges rather represent the researcher's views emanating from the literature review. In a recent report, Developing Value The International Finance Corporation (IFC) highlights the business case for sustainable development. Its key finding is that many opportunities exist for businesses in emerging markets to benefit from actions that advance sustainable development (Gordon 2002). The study documents more than 240 examples from more than 60 emerging markets that show how owners and managers of businesses of all sizes and types have enjoyed success as a result of improved environmental, social or governance performance, despite some of the risks. The evidence from 176 companies shows that many emerging market businesses have been involved in areas such as social development or environmental improvements, and have achieved cost savings, revenue growth and other business benefits. "This is important because sustainability is rapidly moving up in the business agenda globally, while the business environment has become significantly more competitive and volatile" (Peter Woicke, IFC Executive Vice President 2002).

3.6.1 Organisational culture

During a presentation by Sir Mark Moody-Steward, acting Chairman of Anglo American and former Chairman of Royal Dutch Shell (August : 2002 WSSD) a strong argument was stated in favour of inculcating a culture of sustainability within organisations. Social and environmental concern should become part of the organizational culture to fuel a spirit of care in general amongst all staff members. Organisational culture however is amongst the most difficult drivers of success or failure to manage. Almost 20 years ago, In Search of Excellence by Tom Peters and Robert Waterman introduced the idea of organisational culture to managers. It transformed obscure ideas about the cultural aspects of organisations into a popular management fad. By the early 1990s, though culture's star had been eclipsed by notions such as the learning organisation and re-engineering, Tom Peters wrote Liberation Management to recant most of what he had said earlier about the beneficial effects of a strong culture. No, a decade later, the literature on organisational culture has still not fulfilled its promise of telling managers with any certainty how they can use culture to create organisations that are pleasant, passionate and profitable (Galunic & Weeks 2001).

Galunic and Weeks (2001) argue that there is no link between organisational culture and performance. Instead culture has come to be recognised as a fundamental aspect of business organisations. It cannot be seen independently of structure, incentives, technology and strategy, and must be managed in concert with them. Culture is a pattern of beliefs, behaviours, assumptions and routines, distributed across the organisation and ususally in an uneven fashion. It therefore becomes a serious challenge to harness these complex ideas, let alone try to change this into a new set of beliefs, behaviours and assumptions. When new philosophies like social and environmental issues are introduced, an even greater challenge emerges. South Africa, with its unique socio-political history, poses an even greater challenge to inculcate spefically social elements into organisational culture.

3.6.2 The "Digital Divide"

The term "digital divide" is widely used to describe the gap between those who have access to technology and information technology, and those who do not. This situation certainly leads to those who are information rich, and those who are information poor (Grayson & Hodges 2001). It is generally feared that the economic gap between developed and developing countries will be exacerbated unless the latter gain access to new technology know-how and infrastructure. The following evidence from "Life at work" in The Information Economy - World Employment Report (International Labour Organisation 2001) offers proof of this divide:

- Half of the world's population has not yet made a telephone call.
- Tokyo and Manhattan each have more telephone lines than the whole of Africa.
- Only some six per cent of the world's population use the Internet and 88 per cent live in industrialized countries.

In an article by Cushing (2001) in Computer Weekly, comments were offered on a E-Business Expo that was held in London in November 2001 and attended by 95 companies of various sizes and industry sectors. Nearly half of the companies that took part felt their attitude towards e-business is "pioneering' and they lead rather than follow the heard. There is general consensus among players in the e-business world that it's a very exciting, rewarding and inspiring field. What is disheartening however is that nowhere is there proof of introducing these exciting opportunities and a new world to the majority of people on earth who do not have access to this world. As proof of this, in the same article by Cushing, reports were offered on some key questions put to these firms for example:

- "Which of the following elements of e-business has your organization implemented or does it plan to implement in the next 12 months?"

  1st - online/ e-mail marketing

  2nd - corporate intranet/ portal

  3rd - customer relationship management
- "What is the greatest challenge to your organization's e-business plans?"

  1st - lack of money

  2nd - can't prove a return on investment

  3rd -no demand from customers/ suppliers

The two questions above do not reflect any evidence whatsoever of e-businesses' views on bridging the digital devide, let alone recognising it as a critical driver of their business strategy. A possible argument for this lack of strategy according to Toensmeier (2001), is that in general terms, e-business is evolving so rapidly that plotting a strategy just for the business alone is like surfing a huge wave - it could be the ride of your life or you could wipe out in short order. The author however refers to three points or drivers to consider when developing an e-business strategy:

- Think differently.
- Think inclusively - making sure all operations, from the front office to the shop floor, tap

into the profit potential e-business offers.

- Think big - collaborative business development across company borders

Taking the above into consideration, and looking at the phenomenal growth in the e-business world, the future of the e-business from a social perspective is in need for intervention. Miller (2001) for example reported that as of April 2001, there were nearly 103 million Internet users in US households, up almost 25 per cent from the year before, in the workplace, Internet users have reached nearly 38 million, up 21 per cent from the year before. Nearly a billion people will be using the Internet by 2005, and that is only 15 per cent of the world's population. Bridging the "digital divide" may therefore become an indicator of corporate social performance, irrespective of whether an organization is in e-business, mining, banking or any sector.

3.6.3 The "new economy"

According to Suutari (2000), there has been an unprecedented surge of entrepreneurship and new business start-ups supported by a strong flow of venture capital. These have created a legion of new millionaires and even billionaires. The new conventional wisdom has become that: "we are in a new economy where the old rules no longer apply and that we can look forward a long period of uninterrupted economic growth". The advent of this new economy is almost universally attributed to the emergence of information technology, which has transformed the basic economic structure. There have been profound effects of this, as can be described as the third industrial revolution (Suutari: 2000).

- It has created some and destroyed other industries.
- The sourcing of goods and components has become global, making geography irrelevant.
- Capital markets have become global and more efficient.
- It has increased the speed of business.

The major difference in this new economy with its predecessors is the fundamental principle of the way business is conducted. This has a direct bearing on the issue of governance, hence the social and environmental impact on the bottom line of an organization. Information is only raw material and its value arises from the use to which it is put. Immediately within the business landscape, any information needs to be placed into context that allows judgement and specifically humanitarian skills to be applied and decisions made. With the hypercompetitive business environment, a few warning signals emerge, with which, in the case of this study, special reference will be made to social change. Consumers are becoming far more conscious of their rights and activism amongst the ordinary citizen leads to a complex landscape. The greater divide between rich and poor in this new economy further fuels activity amongst the recipients of the new economy. There is an increasing outcry against globalization and the effect thereof on poverty irrespective of arguments that support economic growth and the positive impact on poverty. Reaction to the new economy no longer only originates from the political frontier but civil society in general is becoming very vocal in campaigning against the effects of this new industrial revolution.

The new economy has attained a mystique based on the assumption that " this time it's different". Suutari (2000) however argues that it is a dangerous belief for corporate strategists. This new economy will become the old economy waiting for the next transition. Finally the question could be asked to what extent the earth and societies in general will be able to cope with the negative spin-offs of the new economy. There seems to be sufficient evidence that the social and environmental impact is far greater than what was anticipated during the Rio Summit a decade ago. It was also more than once reiterated during the Johannesburg Summit (2002) that very little progress was made, hence an even stronger emphasis being placed on the role of business and its responsibility to the people and the planet.

3.6.4 <u>Globalisation and developing countries</u>

In an article by Aggarwal (1999), a strong argument is presented on the impact of globalisation on emerging markets and countries. He argues that business opportunities will decline in the traditional and familiar regions and rise in new regions. As proof of this, the following evidence is presented:

- The developed mature markets of US companies, Europe and Japan, are expected to grow only at relatively low rates and are likely to continue to have relatively restrictive policies towards outsiders.
- The pace of foreign direct investment in developing countries continues to increase and overall private capital flows to the developing countries and continues to far exceed official development aid.
- Purchasing power of theWorld Bank indicates that, for example, the Chinese economy in 1999 was bigger than Japan's and second only to the US, while the Indian economy in 1999 was the fifth largest in the world (<u>Economist</u>: 1997a). Even today these two economies are experiencing high growth rates.
- The numbers of developing world consumers earning the equivalent of $10 000 per annum already surpasses those in the US, Japan and Europe combined <u>(US News and World Report 2001)</u>.
- Asian shares of global manufacturing and exports have exceeded North American and Western European shares since the mid-1980s.
- US trade with developing countries has exceeded its trade with other developed countries

in recent years.

The impact of the above on the nature of business specifically in the developed countries is substantial. What however emerges as probably the most profound challenge is the socio-economic and socio-political variables true to developing countries. Poverty, social injustice, malnutrition and health problems in general and polarisation between rich and poor epitomises those developing countries. This immediately leads to a new set of business rules specifically for the US, European and Japanese enterprises having business operations in these developing countries. Social and environmental impact and corporate governance in general should therefore be at the top of these multinational's agendas if pursuing business ventures in these countries. One can but only reflect on the tobacco and petroleum industries' presence in Africa to then understand the development activists' outcry against multinationals abuse of societies and the environment.

In summary, globalisation has a serious impact on developing countries. The social and environmental impact could certainly be regarded as the most visible. These developed markets expanding their operations in developing countries therefore have a serious social and environmental responsibility consequently the outcry against the US "absence" during the Johannesburg Summit (2002). There are strong indications that the developing countries will increasingly be targeted by multinationals as "new markets" leading to an increasingly vocal society demanding sustainable business practices from these organisations.

3.6.5 <u>Business and the environment</u>

As referred to in Chapter 1, the study acknowledges the scope of sustainable development being society and environment; however the main focus will be placed on social development. In this section some thoughts will be offered on product design and the benefit for business and the environment.

Beard and Hartman (1997) offer four examples of innovative ideas by "ordinary employees" on how business can transform the way they interact with environment. Thus the sustainability debate is fuelled from a very creative platform.

- **"Saving paper doesn't save trees"**. That will be the case in the future. If paper isn't made solely from trees then the old well-known saying does not hold true. Body Shop for example supported a community initiative in India to make paper out of the water hyacinth, an abundant river weed.
- **A new breed of scrap merchants** is also emerging, opportunists recycling in the wake of the telecommunications growth. Deutsche Telekom for example report that they

produce about 1,5 million tons of electronic scrap per year.

- **Outdoor management development** (OMD) providers are now using the environment as both a location and a new product. By undertaking conservation projects rather than abseiling or canoeing as the basis of their skills development they actually contribute to the environment - producing an e+ effect.

Again for the above examples to start forming part of a new culture of innovation around sustainability in organisations, poses the real challenge. Staff members will have to be rewarded for their effort in positive social and environmental impact. Furthermore, emphasis is needed on the roles all employees have to play in sustainable development, allowing them time to volunteer but also inculcating a culture of volunteerism and care towards society and environment. Chapter 5 will elaborate on the role of employee community involvement.

3.6.6 Business and poverty

According to the African Institute of Corporate Citizenship (AICC: 2002) poverty is one of the largest single barriers to sustainability. Markets need to be extended and access to markets freed to ensure that the poor are not cut off from crucial resources. For effective poverty alleviation and sustained economic growth and development, there is a range of issues that need to be looked at that have a direct bearing on the role and functioning of the broader economic sector. In a survey that the AICC is currently undertaking in the SA Financial sector on sustainable banking in Africa, the following issues are reported as key drivers of the business sector's role, specifically in this case the financial sector, in poverty alleviation:

- The need for creative solutions to the external debt problem that focuses on sustainable development issues.
- The role of legislation to promote sustainable development in the finance sector.
- The promotion of appropriate socially responsible investment vehicles and products.
- The need to significantly increase the scale of existing microfinance initiatives to promote production and job creation.
- A re-evaluation of appropriate institutional forms and systems for small-medium enterprise (SME) financing.
- Appropriate financing of environmental programmes and product development.
- Capacity building to promote sustainability management in the finance sector.
- IT skills development that supports sustainability imperatives.

Although the above issues relate to the financial sector, they could easily be applied to almost any sector. What emerges is a strong sense of institutionalisation of a specific sector's role in poverty alleviation far more than individual business' attempts to make an impact on poverty.

Representative bodies for example, professional bodies, organised business, organised labour and civil society are already debating the matter at the highest level. One has to appreciate however that the whole debate on poverty has a strong political loading, hence the critical role of government in addressing the matter. The need for a systemic approach involving all stakeholders becomes crucial in order to ensure buy-in from all stakeholders specifically when policy matters emerge.

The fact however, remains, and that is that making an impact on global poverty will require large amounts of funding and capital. According to a World Bank report, released during the WSSD (2002), developing countries will require an additional U$50 billion per year to meet the millennium development goals set in 2000. That is only until 2015, a date by which they hope to reduce the number of people living on less than one dollar per day by half. Pile (2002) argues that developed countries would have to foot the bill since the World Bank's capacity as the financier as last resort would not be sufficient in future. This emphasises the role of the business sector, hence the strong outcry amongst development activists during the WSSD (2002) for the business sector to actively demonstrate commitment to poverty eradication.

3.6.7 Business and public trust

A fundamental building block of any organisation is the level of trust the external market (customers, civil society, government, suppliers, etc.) and the internal market (employees, shareholders, etc.) has in an organisation. What complicates the matter even further is when an organisation is viewed from a corporate citizenship perspective. This angle is precipitated by perceptions, pre-conceived ideas, stereotyping and a strong voice from activists challenging any attempt an organisation might pursue to become a more responsible corporate citizen. It is therefore imperative in describing the business landscape, to understand the importance of trust and more specifically the determinants of trust. The fact however, remains that if there is a break in trust in an organisation, the business is put at risk, and given a very vocal marketplace that can ruin the image and credibility of an organisation.

During a group discussion, facilitated by the University of Cambridge (WSSD: 2002) four barriers for trust and transparency were identified:

- Poor leadership, starting at the top - demonstrating sound values and building a strong reputation as a responsible corporate citizen.
- Marketing - sending out the wrong message or even worse, mixed messages. Exploiting the conscience of the market in support of own objectives.
- Lack of transparency.

- Political motives - entering the field of corporate citizenship for the wrong reasons, e.g for tendering purposes with government. Fortunately, these motives are usually recognised by the government and exposed by civil society and activists.

During the same discussion (WSSD: 2002) some suggestions were offered on critical steps in developing trust with specific focus on trust within a social development context. What clearly emerges is that central to all suggestions offered, was that of inclusion, transparency, due deliberation, recognition and reward. An organisation can therefore never spend too much time in stakeholder engagement and the interrelation between all these partners. Business suddenly is faced with a philosophy of participatory practice whereby the interrelation between an organisation, communities and other stakeholders becomes crucial. Furthermore, fundamental to creating the trust is the underlying value system within an organisation that needs to reflect the emphasis placed on openness, inclusion, participation and interrelation.

In the global arena trust is further fuelled by recent scandals such as those concerning, Enron and Worldcom.

> Because the investing public is now so large, and because employees in public companies are more aware than ever that their careers depend on the success of their companies, what might in decades past, have been a crisis behind closed doors often becomes a matter of the broadest public concern. The future belongs to men and women - in all parts of the world - who can realise that potential through the brilliance of their innovations and specifically their adherence to professional integrity.
> (Wick Simmons: Chairman and CEO - The Nazdaq Stock Market Inc 2002).

Dipiazza and Eccles (2002) agree that the Enron scandal is the proverbial last straw that broke the camel's back and that there are a number of precursor events that led to the debate on public trust. Public trust has been shaken in the institutions on which this value creation depends. These institutions share a collective responsibility for producing the information on which people of many kinds - investors, lenders, trading partners, customers and employers depend to make a wide range of economic decisions. The challenge however is to institute the necessary reforms to ensure that public trust does not disappear, and the foundation for those reforms lies in corporate reporting.

Dipiazza and Eccles (2002) suggest three key elements that create public trust in markets, and therefore, allow those markets to allocate capital efficiently. These elements are easy enough to describe but not always easy to practise.

- Spirit of transparency

  Shareholders and other stakeholders demand a much higher level of transparency. These stakeholders realise that transparency is necessary to create and protect value, but will no longer accept being left in the dark.

- Culture of accountability

  A firm commitment to accountability among direct participants in the corporate reporting supply chain is needed - hence the necessity of a strong ethos that values accountability. Investors are demanding greater accountability and consequently avoiding investments where full information is unavailable or where there are gaps in their understanding of available information.

- People of integrity

  This deals with individuals of integrity trying to "do the right thing", not what is expedient or even necessary but what is permissible. The actions of individuals, and not simply their words matter. Without personal integrity, there can be no public trust.

In a head-line article in Business Day (August: 2002) a strong argument was posed in favour of switching more of the UN AIDS funds to business. It specifically views opinions on the policy of relying on governments to tackle the pandemic. In this article, Lamont et al. reported on the abandonment of the SA government's policy on HIV/AIDS assistance by the United Nations. The UN publicly stated that it would help fund corporate initiatives to provide drugs to AIDS sufferers. This intent from the UN acknowledges that firms have the resources to find health solutions where governments and NGOs are failing. This places a heavy burden on the private sector to ensure that they maintain the level of trust between themselves and all stakeholders. Although a positive attempt from the UN to fast-track the AIDS debate into a more solution focus, the implications for the business sector are great. It is here where the elements of trust become extremely evident. Transparency, accountability and integrity will be the key drivers in ensuring that any attempt from business in making a positive impact on HIV/AIDS is viewed by all stakeholders as honest and sincere without political motives and hidden agendas. The history of SA unfortunately is accompanied by a heavy load of suspicion - consequently the spotlight falls on business to show its true colours and become a trustworthy corporate citizen.

Finally there is increasing evidence that the role of business is vital to Africa's development. According to Jay Naidoo (2002) Chairman of the Development Bank of SA, the private sector needs to be given greater incentives to play a more meaningful role in addressing the infrastructure backlog in Africa. The incentive instruments referred to, pose a challenge to the private sector to develop more ways and means, not only of supporting the development of infrastructure through public-private partnership, but also of actively promoting black economic empowerment and the further development of small, medium and micro-enterprises (Naidoo 2002). Again a fundamental principle behind this new role of business is to ensure that proper stakeholder engagement takes place, including sound relationships with all stakeholders through transparency, integrity and accountability, thereby building public trust in their activities. It is an opportunity for business to influence sustainable communities and environment, but can just as easily destroy all good intentions through being perceived as not trustworthy by key stakeholders.

3.6.8 Business and social and environmental risk

New York City in 2022; half of the 40 million people in the swarming metropolis are unemployed; the air is thick with pollution; food and water are as precious as jewels. This is the world of the future as envisaged in the sci-fi thriller, "Soylent Green" in 1973. "Now according to the World Bank, it would, it could come true unless there are dramatic and immediate changes to the way we live" (Elliot 2002). According to the World Bank, the real price will be environmental catastrophe, social breakdown and lower living standards for everyone. During the release of the World Bank report to coincide with the 2002 WSSD, Ian Johnson, Vice President of the Bank's environmentally and socially sustainable development network, the global economic growth must be achieved in a manner that preserves the future.

> It would be reckless of us to reach successfully the millennium development goals in 2015, only to be confronted by dysfunctional cities, dwindling water supplies, mere inequality and conflict and even less crop land to sustain us than we have now (Johnson 2002).

The Bank's blueprint for sustainable development states the following:

- Developing countries should act to clean up their governments, promoting participation in a democracy, inclusiveness and transparency as they build the institutions needed to manage their resources.
- Rich countries need to be less selfish by increasing aid, offering more generous debt relief, opening their markets to developing country exporters and helping to transfer technologies needed to prevent diseases, increase energy efficiency and bolster agricultural productivity.
- Civil society organisations should be encouraged to serve as a voice for the weak and powerless, and to provide independent verification of public, private and non-governmental performance.
- Private firms should be more focused on sustainability in their day-to-day activities, and have incentives to pursue profit while advancing environmental and social objectives.

Considering these four key drivers proposed by the World Bank, and given the Bank's international standing, it could be argued that in all four areas the role of the business sector is clearly stated. There seems to be insufficient proof of social risk in particular as a quantitative aspect of measuring risk exposure in general. If one only considers the financial sector as an example, the risk areas usually under assessment or management include credit risk, market risk, interest rate risk, foreign exchange risk, liquidity risk, legal and operational risk and finally hedging risk (Deloitte &Touche : Risk management disclosure survey 2000). There seems to be no evidence of reference to social and environmental risk aspects.

A much used framework globally in risk management is Enterprise-wide Risk Management (ERM). ERM as a framework manages risk and reward, group-wide. The presence of accurate measures of risk makes it possible to measure performance on a risk-adjusted basis, creating the potential to generate increased shareholder returns, and allowing risk-taking behaviour to be more closely aligned with strategic objectives (definition of ERM in the 2001 ABSA Bank Annual Report). Although the ERM framework indirectly indicates or refers to social risk as an element of the ERM framework, no specific evidence is found of social risk as a risk element in the ERM framework of the ABSA Group. The major focus in ERM still relates to issues of capital efficiency, shareholder value and investor confidence. The King 2 report and the JSE/SRI INDEX will probably fuel a stronger movement in SA towards social risk, which already on the global front is being institutionalised. Social and environmental risk is therefore viewed as a major challenge for the corporate sector.

3.6.9 Business and the World Summit on Sustainable Development: Johannesburg 2002

In an article by Monbiot (2002), an overview of the UN's expectations of the WSSD (2002) was presented. The UN referred to two kinds of outcomes. Type 1 outcomes are the agreements blustered by governments. While poorer nations have called for the rich countries to come up with the money they promised and failed to provide over 10 years ago, and to find ways of holding big business to account, the rich world has insisted that the interests of the poor and the environment take second place to free trade. Sections of the world trade agreement have simply been pasted to the draft negotiating text, ensuring that corporate freedom overrides social and environmental protection. If Type 2 outcomes realise, it could even be more devastating according to Monbiot (2002). The UN has already permitted big business to capture not just the result of the negotiations, but the process itself. In principle Type 2 outcomes are voluntary agreements negotiated by governments, business and people's organisations. In practice however, the corporations, being beter funded and more powerful than the people's groups, are running the "circus". "They propose to regulate themselves through codes of practice, which in reality amount to little more than the rebranding of destructive activities as beneficial ones"

(Monbiot 2002).

Considering the above, it could be concluded that there is concern amongst the general public and specifically development activists on the role of business, bearing in mind their muscle power and economic stance. Although in the wake of the ENRON and WORLDCOM scandals, the UN is helping companies to argue that voluntary self-auditing is an effective substitute for democratic control, uncertainty and scepticism prevails amongst the beneficiaries. Business collectively is seen as intellectuals, with the ability to manipulate almost anything. In this regard as reported by Mosala (2002), the words of Edward Gaid, a contemporary Palestinian intellectual, come to mind:

> Nothing disfigures the intellectual's' public performance as much as trimming, careful silence, patriotic bluster and retrospective and self-dramatizing apostasy. There are no rules by which intellectuals can know what to say or do; nor for the true secular intellectual are there any god's to be worshipped and looked for unwavering guidance.

Mosala (2002) poses the real problem, and that is whether a meaningful set of sustainable development indicators can emerge to support the politically suspicious national targets that are being hailed as the real success of the summit. He states a strong argument around the role SA businesses, government and civil society as well as the ordinary SA citizen should be playing post-WSSD to ensure development of local sustainable development indicators. This argument in itself strongly supports the fundamental aim of the study to develop critical indicators for corporate social performance.

Katzenellenbogen (2002) is of the opinion that public pressure in the form of civil society should be the tool to push for reaching summit targets. Corporations and governments are under pressure. A 10-year framework which attempts to cover policies and guidelines on sustainable development in itself, gives the activists reason to campaign about the subject mentioned. The prolonged battles over the key summit documents the all-important implementation plan, a guide for action for the years ahead on sustainable development, as well as what was meant to be a far more straightforward political declaration served to highlight the deep rifts between the big negotiating blocks. The challenge therefore remains, and that is for the business sector to influence and shape the future of sustainable development through integrating sustainability practices into their core business strategies and executing this integration through the principles of multisector partnership with underlying values of integrity, transparency and accountability (also see Chapter 5 on partnership strategies).

Finally in a preliminary assessment of the WSSD (2002), the following three key individuals in SA made the following comments (Business Day: September 6, 2002).

- "We have shown the world here this week that we have the capacity."
  Essop Pahad: Minister in the Presidency

- "We made an excellent deal. The summit delivered about 41 new agreements on the environment, among them, a far-reaching deal on protecting fishing stocks."
  Alec Erwin: Minister of Trade and Industries

- "The summit had lived up to the hopes of Africans, for whom development and the environment often amounted to a matter of life and death."
  President Thabo Mbeki

- "Our NGOs are non-existent in the countryside where the poor are. I feel that in the interest of democracy, in SA, the government will have to assist NGOs."
  Dr Zola Skweyiya: Minister of Social Development

3.6.10 Business commitment to corporate citizenship and sustainable development

There was a general increase, specifically during the building-up period towards the WSSD (2002) of SA companies reporting on their commitment to corporate citizenship. The extent to which this reporting took place deserves some reference in this section of Chapter 3. It became clear in analysing the reporting style and content that there is a need for some formalisation of social reporting, hence the Global Reporting Initiative guidelines, the JSE/SRI Index and Corporate Citizenship benchmarking in SA (AICC) (See Chapter 5). The needs by the business sector to more actively demonstrate their corporate social responsibility are fuelled by the media sector which is more aware of shortfalls in corporate accountability and more radical in their reporting thereof. In a recent article by Macleod (2002), two SA Companies are up for spoof "Oscars", also known as "Greenwash Academy Awards" that highlight shortfalls in their accountability. Sasol and Eskom were shortlisted to receive these awards. Shell and BP are also among the finalists spotlighted for putting more money, time and energy into slick PR campaigns aimed at promoting their eco-friendly images than for actually protecting the environment. It is further argued by NGOs like "Friends of the Earth" that it is often the world's most polluting corporations that have developed the most sophisticated techniques to communicate their message of corporate environmentalism.

It is expected that radical media campaigns will add a new and potentially very threatening element to the business landscape in future. It is however, necessary to recognise the "good" that is being done globally and locally. During the launch of the UN Global Compact in 2001, business leaders around the globe spoke of their company's' broader commitment to good corporate citizenship and sustainable development. The following quotes represent a few of them (Zadek: 2001):

- The Chairman of the Brazilian mining and smelting company, **Aracruz Celulose SA,** gave testimony of the company's commitment to sustainable development:

  "Aracruz consistently endorses the concept of sustainable development and conducts its business according to its main precepts."

- **DuPont** asserted its strategy as being "sustainable growth", which it interpreted as involving:

  "Creating shareholder and social value while reducing our footprint throughout the value chain."

- The Swiss-based financial services group, **Union Bank of Switzerland (UBS),** confirmed that:

  "UBS believes that sustainable development is an important aspect of responsible management."

- The South African state-owned utilities group, **Eskom**, was unequivocal in setting its own terms of responsibility within a sustainable development framework:

  "When viewed from a sustainable development perspective, Eskom's electrification programme is closely aligned with the three pillars of sustainable development."

- The British water and energy utilities company, **United Utilities,** states in its annual social and environmental impact report:

  "By combining our social and environmental impacts in a single report, we aim to provide a snapshot of our contribution to sustainable development and progress towards a better quality of life."

- The **Ford Motor Company,** in its most recent Corporate Citizenship Report, sets out its ambition to :

"Become a leader in corporate citizenship and a significant contributor to a sustainable world."

The following articles that were published recently in leading SA business reports and newspapers are typical examples of the commitment towards corporate citizenship amongst SA organisations. It could however be argued that these reports are in a sense "window dressing" by those who can afford buying media space. This nevertheless is a positive attempt to disclose the contributions of the business sector. These are mere examples notwithstanding the facts that there might be a large number of unreported contributions by smaller organisations that might also deserve special recognition from the broader public.

SAB tops survey on corporate citizenship" (Sunday Times : 2002). SAB and Standard Bank Investment Corporation (Stanbic) have come out tops in a survey on corporate governance, social responsibility and environmental management for the 2001/2002 financial year conducted among high-profile companies on the JSE Securities Exchange.

In a supplement titled: Corporate Citizenship Survey (April: 2002) the following articles were reported:

- "Nedcor to treat social duties as seriously as it does banking"
- "MTN banks on Africa's potential"
- "Coca-Cola aims to nourish relationships"
- "Old Mutual breaks ground with responsibility report"

In a supplement titled: Corporate Social Responsibility Survey (August: 2001) the following articles were reported:

- "Metropolitan a leader in the fight against HIV/AIDS"
- "Rand Water : Where there's water, there's a social way to conserve it"
- "Many state-owned entities have done much over the past seven years in corporate social investments" (Specific reference to Eskom, Spoornet and Transnet).

Apart from the positive report in daily and national newspapers and other magazines on corporate social responsibility initiatives, the internet is also a widely used medium. Organisations usually have a dedicated website or at least a hyperlink to a site that deals with their CSI activities. Print media however are still the most used mediums owing to their wide coverage. In the August (2002) e-mail newsletter: CSR Business Respect, a website dedicated to corporate social responsibility, reported the following examples of internet published articles:

- "Norway : McDonald criticised for McAfrica Burger"
- "Ford worries environmentalists with latest report"
- "Australia : Stock Exchange gets tough on corporate governance"
- "Japan : Boycotts begin to take toll on Nippon Meat Packers"
- "Hong Kong : Having seeing companies missing out on SRI funds"
- "South Africa : Anglo Gold top for sustainability reporting"

As example of negative publishing on CSR in a recent internet article on the CSR e-mail newsletter South Africa: Governance at the top five banks to be examined, reported that SA's five biggest banks, ABSA, First Rand, Investec, Nedcor and Standard Bank are to have their corporate governance reviewed by the SA Reserve Bank to see if they comply with banking legislation, the KING committee's code of corporate governance and international norms. The move follows "recent international corporate failures" and the recommendations of the KING committee (Jill Marcus: Deputy Governor SA Reserve Bank, August 2002). It could therefore be argued that market intelligence in future will imply covering a far greater front to ensure that the external flow of information is as far as possible managed and controlled to protect company reputation and to execute pro-active measures to minimise possible damage if information is not managed properly.

3.7 CONCLUSION

The aim of Chapters 2 and 3 was to create the overall context of the study, by offering a literature view of the social landscape (Chapter 2) and the business landscape (Chapter 3). Chapter 3 attempted to define the strategic business landscape and more specifically the key drivers of a rapid changing business environment. It became clear after analysing the landscape that there were strong forces of change that could pose a serious threat to organisations unwilling or not knowing how to change, and an exciting opportunity for those who were willing to embrace those challenges, transforming the way business is conducted. The mere fact that these changes are referred to as "revolutions of change", emphasises the pressure underlying the forces of change. It could therefore be accepted that the speed at which an organisation will have to adapt to an ever-changing environment in future will be far greater than ever in the past.

Chapter 3 also presented a phenomenon that will characterise the business landscape of the future. Reference is given to the notion of corporate governance and accountability. As John Donne, the English poet and preacher wrote nearly 400 years ago, "no man is an island". This philosophy has strong relevance to the future business landscape. It is also referred to as the

"CNN age" where any activity of a business, whatever good or bad, makes headline news in a matter of seconds. The information and technology enablers are the strongest fuellers of this phenomenon. Furthermore the business landscape is already characterised by stakeholders (other than the traditional shareholders, i.e. customers and staff) becoming far more vocal, expecting consultation and transparency at all levels and deserving the trust from the broader public.

A further conclusion from Chapter 3 is the impact of a changing business landscape on corporate strategy, leadership, management practice and culture. It could therefore be argued that these changes almost demand total transformation of the way business is conducted, compared with the not so distant past. This strategic approach in developing countries is even stronger due to unique socio-economic factors and the history of societal and environmental injustices. The business landscape therefore in a country like South Africa, which is epitomised by these factors, could almost be viewed as a greenfield for business transformation, hence the need for corporate social and environmental performance indicators. It will therefore be imperative for any player in the business environment to fundamentally understand that their actions have consequences. Stephen J Bodio - author of On the edge of the wild said:

> Consequences are all around us, as everything we do has a consequence. How might we grow a more sustainable society with a different kind of culture - maybe we should live with and in, not "off" or beside the land and its creatures?

Finally, considering the above, one central theme emerges which deserves as part of the conclusion, special recognition. If the business landscape is transformed, the key drivers of this transformation will be the leaders of an organisation. They will determine the focus areas, pace and cultures to mobilise everyone in striving for sustainable social and environmental business practice. The current business landscape characterised by uncertainty requires leaders with vision and a strong desire to improve their organisations, their communities and the world.

In a survey by PriceWaterhouseCoopers (PWC) (5th Annual Global CEO Survey: 2002) in conjuction with the World Economic Forum, opinions were solicited from CEOs around the world on how they viewed the world of business. The following highlights were reported:

- CEOs worldwide responded to September 11th with action. In the short term, nearly half created or revised corporate disaster recovery plans or imposed travel restrictions, and 43 per cent revised their financial forecasts downward. Looking ahead, nearly 60 per cent focus on two probabilities: continuing stagnation in the global economy and the vulnerability of global supply chains.

- More than a third of the CEOs foresee a stronger antiglobalisation movement resulting from the terrorist attacks and their aftermath.
- CEOs express deep concerns about the growing gap between rich and poor countries, the digital divide, the environmental responsibilities of industry, the social impact of corporate strategies and investments, and the crafting of a more stable global economic system.
- Corporate social responsibility ("Social reputation") is an important agenda item for today's CEOs worldwide. North American CEOs are most confident of their companies' social reputations and Asia-Pacific CEOs least confident.
- Nearly 70 per cent of CEOs say that corporate social responsibilities are "vital" to profitability. Even in the current economic climate, it will remain a high priority for 60 per cent of CEOs globally.
- More transparency is coming, but the results are hardly universal. Whereas roughly 80 per cent of Asia-Pacific CEOs expect to provide additional financial and non-financial information, only about one-third of Central and South American CEOs envision increased transparency.

In an interview between a representative of PWC and Nitin Desai,Under-Secretary-General for Economic and Social Affairs, United Nations (2002) the following significant question and response were obtained:

> PWC: "What is driving change among corporations and corporate leaders?"
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> Mr Desai: Corporations realise that their success depends on what happens in the marketplace - and on much else as well. It depends on the morale, commitment, and loyalty of the workforce. It depends on the loyalty of the customer base, and it depends on the public reputation you command. All of this contributes to the long-term success of the corporation. Corporate leaders recognise this, and they are becoming far more sensitive to the concerns of these other groups. A large corporation is simply a microcosm of society. If environmental awareness is growing in society, if a sense of social responsibility is growing in society, these things will be reflected in the workforce.
>
> These new norms will also have to be reflected in the corporation's thinking process. Corporations recognise that their policies, their codes cannot be defined simply in terms of immediate success in the marketplace. Shareholder value is important. But in the longer run, they also have to worry about the workforce and

the needs of society.

Leadership therefore remains the driving force behind integrating social and environmental imperatives into core business strategies. The next chapter will focus on the logical result of combining the social and business landscape: Corporate Citizenship. A critical analysis of Corporate Citizenship will be presented.