

# Corporate citizenship around the world: *what happens in South Africa?*

The meaning and status of corporate citizenship (CC) in South Africa has been influenced by the country's history of inequality and injustice. In the broadest sense, CC refers to the role of business in society and it entails the contribution of business to sustainable development.

In South Africa, corporate citizenship is also called corporate social responsibility (CSR) and corporate social investment (CSI). Though various names are associated with different approaches and practices, CC, CSR and CSI are often used interchangeably in South Africa.

This reflects the changing nature of CC in South Africa. Today, the ideal role of business in South Africa is to use its capabilities to constructively contribute to the country's socio-economic development through reciprocal engagement with stakeholders.

However, historically CC has not always been conceptualised in this way. In addition, the current meaning and status of CC is impacted by systemic issues undermining sustainable development. Companies have to deal with domestic challenges such as the need for affirmative action and black economic empowerment, spiraling economic crimes such as fraud and money laundering as well as the reality of AIDS and poverty on the continent.

The purpose of this article – as part of a series of several taking the subject around the globe – is to describe the meaning, nature and mediators of CC in South Africa by presenting an assessment of the historical and contemporary role of business in society and the implication hereof for the nature of CC; and an assessment of current contextual challenges, and the associated drivers that shape the unique form of CC.

This assessment relies for a number of its sources and arguments on Hamann. Based on these assessments recommendations for strategising CC in South African

operations will be made.

## **The progression of corporate citizenship: from exclusive to mutual development**

In South Africa the development and transformation for corporate citizenship is closely related to the country's socio-political and economic history. This contextual history has influenced the relationship between business, societal stakeholders and government. One might argue that corporate responsibility has developed in various other nation states in a similar juxtaposition of business in relation to stakeholders.

However, in South Africa the relationship between business and its non-financial stakeholders (all stakeholders except investors) has varied from non-involvement to a contemporary relationship characterised by purposeful engagement for mutual gain. This relationship has been mediated by the legacy of colonialism and apartheid as big businesses were implicated in that history – hypocritically both as co-conspirator and beneficiary of apartheid, and as critical agent against apartheid.

The relationship analogy is therefore useful to understand the role of business in South Africa and how corporate citizenship has evolved. Table 1 provides an illustration of the progression of the relationship between business and its non-fi-

nancial stakeholders and the consequent focus of corporate citizenship.

This developmental typology highlights the relational dynamics between business and non-financial stakeholders and how it has determined the meaning and practice of corporate citizenship.

In the following section this typology will be explained by focusing on the nature of the relationship between business and its stakeholders; socio-political and economic factors and how the relationship evolved over time.

### *Non-involvement: early industrialisation and the rise of apartheid*

Retrospectively, it is hard to imagine that there was a time that there was little interaction between business and its non-financial stakeholders. However, South Africa's business sector was developed on the Anglo Saxon business principle of maximising shareholder value with the expectation that this would benefit society as a whole (i.e. the hidden hand effect of the market).

This liberal economic doctrine catapulted South Africa's early economy from subsistence agriculture and small industry into a world-class natural resource extraction and export economy. The big mining companies which were mainly owned and operated by British colonialists needed cheap, relatively unskilled labour for the mining of deep, low grade ores.

This requirement perpetuated the state's racist policies, including taxation of rural blacks in order to force them into wage labour and the establishment of a rigorous system of migrant labour. The role of business in apartheid is contentious as some argue that business had introduced the migrant labour system, single sex hostels, work place segregation, the racial division of labour and racially discriminatory salaries.

The oppressive and discriminating



strategies initiated particularly by mining companies benefited only the white minority. It was acknowledged by the Truth and Reconciliation Commission that these exclusionary practices instituted by businesses ultimately informed the nationalist state's apartheid policies.

As these policies remained relatively unchanged during the 20<sup>th</sup> century, rural South Africa was progressively impoverished, the society was racially segregated, and dissent and discontent with the apartheid government grew.

#### *Ad-hoc involvement: business' role in the liberalisation movement*

On the contrary, towards the late 1970s and early 1980s business started to take a lead role in lobbying against apartheid policies mostly because business was operating under pressure due to increased political tension, violence and economic sanctions.

Some big South African companies such as Anglo America and Rembrandt started to adopt an ad-hoc social responsibility. Hereby, business tried to ameliorate some of the worst elements of the apartheid state through various initiatives. The Urban Foundation was a collective business effort aimed at stabilising conditions in the urban black townships by providing private sector support to urban development issues.

Individually some business leaders in South Africa lobbied for a faster pace by government in programmes aimed at improving black housing, education and job training. Others were advocating for the removal of laws that discriminated against non-whites in the cities where they work.

Against this background it is argued that business was instrumental in the downfall of apartheid. The type of relationship with non-financial stakeholders was therefore clearly informed and driven by business interests, emotions and 'doing good' in a context of socio-political and economic injustice.

However, the relationship between business and society did not develop beyond this paternalism. Assumptions were made about what was the best for non-financial stakeholders as any intervention at that stage was perceived as better than nothing.

Hypocrisy, business enlightened self-interest and associated feelings of doing good prevailed because a contribution was made to a good cause – negating the damaging effects of the apartheid policy, whilst business and trade partners benefited from it.

At the height of the political tribulations in the late 1970's the five biggest investors in the South Africa economy were Great Britain (40%), the US (20%), West Germany (10%), Switzerland and France (each 5%). In 1979 the US sold \$1,5 bil-



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lion worth of goods to South Africa and imported \$1,9 billion worth of South African products mostly minerals that were vital to US military and industrial needs.

On the other hand, South Africa was dependent on industrialised countries for capital flows and high technology – computers, scientific instruments, nuclear energy, etc. Though economic sanctions were debated since the 1960s they were never mandatory. It was only in the late 1970s that trade sanctions were formalised. Because of the dependency on trade relations and foreign capital flows the trade sanctions placed the business sector under enormous pressure to push towards the elimination of apartheid.

US companies with the biggest investments in South Africa included Ford, General Motors, Mobil and Caltex Oil. These firms in addition to smaller operations and other international corporations came under attack from consumers and investors in home countries to disinvest in South Africa and/or not to follow business practices under apartheid norms.

These early examples of consumer and investor activism were instrumental in the development of the Sullivan Principles that provided guidance to American corporate operations in South Africa. The Sullivan Principles was a statement of fair employment practices that included:

- equal pay for equal work for blacks and whites,
- non-segregation in the work place,
- training programmes to advance blacks,

- improved housing, transportation, schools and health care.

Through the Sullivan Principles corporate responsibility in South Africa was formalised and operated as efforts to improve social standards within core business activities and by “constructive engagement” with civil society and state interests. Alperson describes the Sullivan Principles as a “turning point” in the “vocabulary” of corporate responsibility in South Africa. yet, the Sullivan Principles were also met with considerable resistance or criticism which emphasised that only a few corporations effectively adopted the principles.

A prominent concern was that the principles were meant to accommodate the mounting pressures to disinvest, thus preventing more significant pressure being exerted on the apartheid government. Though the Sullivan Principles made an impact in the employment practices during apartheid, it only affected the black employees who were employed in American corporations which represented just 1% of the economically active black population.

They failed to address central problems of apartheid such as universal suffrage. The impact of both local and international business' advocacy against apartheid must therefore be seen as complementary to civil society liberalisation movements. Hereby the anti-apartheid movement represents one of the biggest and most successful business-civil society partnerships.



*As part of the feature on corporate citizenship various the actions in a number of countries which should be interest to South Africa will be run. We start with a summary of the position in South Africa which was co-authored by the author of this article.*

As a result of these developments, businesses' relationships and involvement in society ranged from ad hoc to regular, orderly and co-ordinated intervention. Irrespective of the paternalistic nature of the relationship, the involvement proved valuable because a great degree of monetary (through philanthropy) and moral support was generated.

However, this type of relationship was threatened by the continuous need for giving and engagement due to the bottomless pit of social demands, needs and political challenges. The feelings of wellbeing associated with giving and engagement were soon replaced with resentment – and this resulted in a mixture of frustration and anger or the desire to withdraw to the point of non-involvement.

*Systematic involvement: strategising the role of business in the new South Africa*

Towards the end of apartheid and during the early years of transition the business community realised it could not be everything to everyone. In addition, business was also critically aware that there were very few guarantees about the post-apartheid government's policy on the nature of the market economy.

"Business was somewhat nervous of any substantial or radical economic change. It realised that it had to accommodate new priorities, but there was some uncertainty as to how far it would need to transform."

From the late 1980s onward organised business delegations were in negotiations with ANC leadership in exile in order to establish common ground. After democratisation, business was satisfied by the continuity of fiscal and financial governance. As a result, the relationship between business and society became more pur-

poseful with clearer parameters.

A much more systematic and strategic approach to stakeholder relationships was developing. Philanthropic initiatives were facilitated through planning, budgeting and screening of applications. The systematic nature of the relationship presented a turning point in corporate responsibility because the ad hoc, hit and miss approach was being replaced with strategic philanthropy.

Business was at ease with this relationship because it was in the position to make clear and rational decisions that were usually closely related to corporate interests such as social investments in education and community development.

*Pre-systemic involvement: the role of business in nation building*

Post-apartheid policy mandated business participation in nation building and the reconstruction and development of the new South Africa. The philosophical approach underpinning post apartheid policy of social development entailed integrated economic and social policies and pluralism. This meant that business as a distinct sector in society, together with civil society organisations and government was encouraged and mandated to contribute to the country's development.

The emerging relationship between business and non-financial stakeholders was referred to as corporate social investment (CSI). It became the dominant interpretation of corporate social responsibility in South Africa and it served as a foundation for public relations, marketing and advertising.

Emphasis was placed on nation building, education and health projects either nationally or in the communities surrounding company operations. Business

recognised and legitimised this responsibility as a good investment. CSI necessitated a "win-win scenario in which returns could be identified whilst meeting community needs."

"But, the problem was that there was no measure of what the social return would be because it was not an integral part of the business." This is evident in the fact there is little comparable accountability of CSI expenditures among companies.

Nonetheless, the CSI movement represented an extension of businesses' responsibility of compliance to the law, paying tax and providing employment by investing in the community and the future of South Africa. Hereby, South African business reoriented the traditional CSR definition in terms of the well known corporate responsibility pyramid model of Carroll.

Hamann explains: "According to Carroll, CSR encompasses the economic, legal, ethical and discretionary – or philanthropic – expectations that society has of organisations and the economic and legal responsibilities are described in terms of what is required, the ethical ones as what is expected and the philanthropic ones as what is desired.

Visser argues that Carroll's model requires substantial revision if adapted to the (South) African context, suggesting that the dominant interpretation of CSR in terms of philanthropic activities means that discretionary aspects of CSR are often more important even than the legal and ethical ones.

This, he argues, is because the socio-economic development needs in many parts of Africa are "so great that philanthropy is an expected norm" and also because CSR in general "is still in an early stage of maturity." In contrast, legal responsibilities are seen to represent "far less of a pressure for good conduct" because the legal infrastructure is often poorly developed and "many African countries are also behind the developed world in terms of incorporating human rights and other issues relevant to CSR into their legislation."

*Systemic involvement: integrating corporate responsibility towards achieving mutualism*

Now, 14 years after democratisation, the CSI relationship is increasingly perceived as limited as it lacks integrity and participation that leads to empowerment (a fundamental principle of democracy).

Differentiation between what is important to the corporation and the real needs of the community are often very vague. And, even though CSI initiatives have no doubt been making important development contributions, they are not integrated or aligned to core business.

In addressing the lack of integrity and participation, businesses committed to corporate citizenship in South Africa are increasingly realising that a systemic approach to the role and position of business in society helps them to better actualise their responsibilities to both financial and non-financial stakeholders.

A systemic approach implies that business and society are mutually interdependent. Business is defined in relation to its stakeholders and hereby the corporation is seen as an integrated part of and stakeholder in society. This type of involvement is distinguished by a level of interaction and participation that is characterised by engagement.

And, it is based upon the inclusive stakeholder approach to corporate governance. As this relationship is emerging the ability to share decision making and non-financial stakeholders' influence on business strategy is very limited.

Consequently, the trust that is developing through engagement is progressively being threatened. Unfortunately, various non-financial stakeholders are either withdrawing from consultations with business as their inputs are ignored or stakeholders only provide input and feedback that are favourably received by business.

Few businesses are slowly overcoming this paternalistic tendency of unilateral decision making by constructively engaging with stakeholders and upholding mutual decision making that results in empowerment and advancement of all parties involved.

Hamann and De Jongh describe this as a shift from social investment to sustainable development and collaborative governance. This relationship is typically directed at development. Emphasis is on shared aims and the process of engagement, of which the benefits are sometimes more enduring than specific outcomes.

This type of involvement is very similar to systemic involvement, however, it is characterised by distinct collaboration. Skills are transferred through collaboration and knowledge exchange brings about knowledge generation and empowerment.

The ultimate move away from paternalism is to be able to think of "empowering people as equals within the business environment and for all to realise their interdependencies and common membership of the community," according to O'Brien.

Hereby, "the scale of analysis and engagement has increased from the level of the individual company to the value chain and the broader governance framework. This has required a different mode of engagement whereby pro-active companies seek to support collaborative governance initiatives that entail a shift in responsibility for policy making, implementation and the provision of social goods and serv-

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The consequence of this integrated leadership and ownership process is growth and development of all the parties involved. Other benefits are greater development impact particularly in sectors related to business interest such as educa-

tion and employment generation. Also, goals of organisational capacity are more likely to be achieved. It is also becoming evident that "civil society organisations (CSOs) and businesses reap mutual benefits from collaboration" although CSOs still tend to shoulder more of the costs.

In summary, the meaning and nature of corporate citizenship has evolved against the background of the country's socio-political and economic realities.

The role and position of business within this context could be described as a double-edged sword: the philanthropic gestures and political maneuvers characteristic of the Urban Foundation, though contributing no doubt to social development and perhaps a softening of the harshest elements of the apartheid government's policies, occurred side by side with continued exploitation of black labour as well as low occupational health, safety, and environmental standards.

Today, in post-apartheid South Africa the role of business is defined from a pluralist approach within a social developmental policy framework. Business is seen as an important stakeholder in society and, in addition to philanthropic social investment activities, business should in collaboration with government and civil society work together towards the country's social and economic development.

Though it is important to understand how corporate citizenship has developed in South Africa, it is also necessary to recognise the current socio-economic reali-

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ties and how these impact business operations.

For example, the state facilitates corporate citizenship through various government led interventions to address these socio-economic challenges. By recognising the contextual challenges, the need for empowerment and collaborative corporate citizenship become much clearer.

The most influential socio-economic and environmental issues affecting business in post-apartheid South Africa are:

- the HIV and AIDS pandemic,
- the need for transformation and redress of past imbalances,
- skills shortage and job creation,
- crime and environmental concerns relating in particular to energy efficiency.

The social nature of the majority of these issues is closely related to poverty eradication and the country's need for sustainable socio-economic development – conceptualised as social development. Social development refers to the economic, social and political wellbeing of all people, groups, communities and societies.

Wellbeing is conceptualised in broad terms, contrary to the traditional notions of welfare which is indicative of psychosocial wellbeing only. The aim of social development is to achieve economic and social goals preferable through integrative policy means.

From a social development perspective collaboration is more than just a means to an end; it is an end in itself because of the inherent social and human capital benefits. Partnership or collaboration between sectors (i.e., public-private partnerships) is therefore used more frequently as a strategy to achieve integrative goals (Pretorius, 2000).

Social development issues in South Africa are interrelated and impact the economy and business directly and indirectly. The remainder of this section briefly illustrates the scope of the socio-economic challenges, the impact on business and the role of business.

#### *HIV and AIDS*

South Africa is currently at the epicentre of the AIDS pandemic and the disease is affecting all aspects of South African society. Prevalence rates have increased from 0,7% in 1990 to 27,9% in 2003 (Department of Health 2004). Poverty is regarded as an important co-factor in the likelihood of infection because of resulting behavioural and biological factors.

The response of corporate South Africa to HIV/AIDS has been slow, partial and erratic. Frequently, the response of companies to HIV/AIDS has been driven from 'below' by middle and low level managers rather than as a strategic issue by top management. It is widely acknowledged that the HIV/AIDS epidemic will significantly impact South African business in

terms of markets, investor confidence and work forces and the skills they embody.

It goes without saying that in addition to responding to how HIV/AIDS could affect operations and profitability, the disease has become an important area and driver of CC.

#### *Skills development and job creation*

Job creation and skills development are a major national development objective to address poverty and to develop the economy. However, up till the late 1990s enterprise training was at historic lows.

This was hampering the social development goals of government and straining economic growth. The Skills Development Levies Act of 1999 sought to correct this by creating a national levy system applicable to all enterprises based on taxing 1% of payroll expenditure.

Important to note in this regard is the fact that, while government now levied 1% of payroll, the King Commission's recommendations on corporate governance in South Africa suggested that enterprises invest 4% of payroll expenditure on training. In this context, government's levy can in fact be considered as crowding out enterprise's own training initiatives.

The logic here though is that public provision of these services is necessary to correct the market failures associated with historically poor levels of investment by enterprises in personnel training. The high priority of skills development has been a significant driver of most CC practices.

#### *Crime*

Crime impacts business both directly and indirectly. Directly by the theft of property and money and corruption and indirectly through reduced business confidence, loss of investment, immigration and the steady erosion of the foundations upon which the economy is built.

Businesses mostly seek to support government's efforts by complementing its resources with entrepreneurial, managerial and technological skills. Businesses also collaborate with civil society in various initiatives to combat crime.

Though businesses' participation is voluntary, crime prevention efforts by business are numerous and internationally acclaimed.

#### *Transformation and black economic empowerment*

The need for transformation and reconciliation of past imbalances in society are mainly facilitated through employment equity, affirmative action and Broad Based Black Economic Empowerment.

Of the three initiatives, BBBEE is most comprehensive as it also entails employment equity and affirmative action. Government encourages black economic empowerment transactions as the main ve-

hicle through which the aims of BBBEE should be achieved.

The purpose of BBBEE is the empowerment of excluded groups such as women, workers, youth, people with disabilities and people living in rural areas, through the adoption of diverse, but integrated socio-economic strategies. In this way 'real' empowerment needs to be promoted.

The extent to which BBBEE empowers the broader community is still of key concern. In a recent investigation of the extent of community empowerment through BBBEE transactions it was concluded that: While BEE has the potential to contribute to the deracialisation of ownership of the South African economy, the analysis of the BEE deals concluded from 2004 to 2006 only marginally included those who are disempowered and excluded from full economic and social participation in the society.

The two groups who gained the greatest access to the deals were employees and women. These groups are not homogenous and it is more than likely that managers and women owned companies benefited more than lower level workers and poor, rural women and women with disabilities including those in low paid employment. People with disabilities and youth also benefited to a lesser extent. In this respect the deals fell short of the intentions of the BBBEE legislation.

In BEE transactions the emphasis is mainly placed on increasing corporate ownership by the black majority population that was excluded from economic gains during apartheid. BEE transactions are private placements of equity with black empowerment groups by firms primarily owned by white South Africans.

Most foreign investors are concerned about the market performance of these BEE transactions. However, in a recent study it was found "that on average, the announcement of a BEE transaction is associated with a significant positive increase of almost 2% in the market value of equity of the announcing firm ...

"[Secondly], the positive abnormal returns associate with BEE transactions are significantly positively correlated with the proportion of the firm's equity acquired by the BEE group...

"Additionally [it was found that] the average BEE transaction is completed at a significant discount (of almost 10%) from the market price of equity for the participating firm."

Debates and negotiations between the government, business and other role players has been ongoing for some time, however, it was only recently that it was more conclusively defined by means of a 'balanced scorecard.' This scorecard defines the parameters and requirements of BBBEE. ■