CORPORATE SOCIAL RESPONSIBILITY IN SOUTH AFRICA: FACT OR FICTION

LIESL VAN DEN ENDE

DISSERTATION

submitted in partial fulfillment of the requirements for the degree

MAGISTER COMMERCII

in

BUSINESS MANAGEMENT

in the

FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES

at

RAND AFRIKAANS UNIVERSITY

STUDY LEADER: PROF. S. KRUGER

OCTOBER 2004

ACKNOWLEDGEMENTS

I wish to thank the following people for making this dissertation possible:

My Heavenly Father – for blessing upon blessing

Rinus, my husband, who is always there, always fair, with love

My balcony people, hanging over the railing and forever cheering me on – my Dad and Mom (Theuns and Emma Botha), Jeanetta McCurdy and Janine Shapiro

Good friends and fellow students, Jan and Corlien Naude

Murray Webb – for all the information and references he kept sending

My study leader Professor Stephen Kruger

SUMMARY OF THE STUDY

Corporate Social Responsibility (CSR) is not a new issue. There has always been the need for organizations to make profits and the needs of society. CSR has been considered more intensely that ever since the early 1990s, building on a trend that had been growing since the start of the 20th century.

CSR refers to all of an organization's impacts on society and the need to deal responsibly with the impacts on each group of stakeholders. Typically these are: shareholders, customers, suppliers, employees, and the community – both local and global. Key issues will vary from sector to sector and from organization to organization.

Business is arguably the most powerful institution of our society and Ever since the publication of the second King Report on Corporate Governance for South Africa (King II) in 2002, South African corporates have sharpened their focus on their commitment to the 'triple-bottom-line', an expanded baseline for measuring a company's performance which includes, in addition to the traditional financial yardstick, an accounting of the impact of their activities on society and the environment.

It is impossible for organization's to ignore the impact of social, ethical and environmental issues on their business. The cost of neglecting these issues will be high.

Business has emerged as the dominant institution in global culture. The other institutions of society – political, educational, religious and social – have a decreasing ability to offer effective leadership. Business, by default must begin to assume responsibility for the whole.

The 'business case' for CSR is the fact that organizations are pursuing their corporate social responsibilities in response to market forces and in pursuit of shareholder value. The CSR thesis is that organizations will build shareholder value by engaging with stakeholders other than the legal owners, and by taking account of their impacts on society. It is a mistake to pose CSR and profitability as mutually exclusive; the aim is to achieve social responsibility *and* profits.

While the impact of CSR has broadened, many organizations still seem unconvinced that behaving responsibly is necessarily good for business in the hard-nosed sense of building shareholder value. This may be because research on this key topic is scanty and severely limited by a lack of hard data. But, increasingly there is evidence of positive links between social and financial performance.

CONTENTS

PAGE

1. CHAPTER ONE **8.**

INTRODUCTION

1.1 Background **8.**

1.2 Problem Statement **10.**

1.2.1 Organizations need to become more focused on Corporate Social Responsibility 10.

1.2.2 The need to manage Corporate Social Responsibility in changing social, economic and political conditions 12.

1.2.3 A critical analyses of Corporate Social Responsibility in South Africa 12.

1.3 Purpose of the research **13.**

1.4 Research methodology **14.**

1.5 Restrictions to which the study is subjected **16.**

1.6 Division of the study **17.**

2. CHAPTER TWO **19.**

MACRO OVERVIEW OF CORPORATE SOCIAL RESPONSIBILITY

2.1 Introduction **19.**

2.2 Macro Overview **19.**

2.2.1 Business Defined 20.

2.2.2 Society Defined 21.

2.2.3 Corporate Social responsibility Defined 23.

2.3 A Fundamental Shift **28.**
2.4 Contrasting views **31.**
2.4.1 Major arguments supporting CSR 33.
2.4.2 Major arguments against CSR 34.
2.4.3 Conclusions about organizations performing CSR activities 35.
2.5 Key Developments **35.**
2.6 Business Importance **38.**
2.7 Global Sullivan Principles **42.**
2.7.1 The Principles 43.
2.8 Conclusion **45.**

3. CHAPTER THREE **47.**

THE ORGANIZATION AND CHANGE

3.1 Introduction **47.**
3.2 First Wave **48.**
3.3 Second Wave **49.**
3.4 Third Wave **51.**
3.5 Fourth Wave **53.**
3.6 Global Stewardship **56.**
3.7 The Learning Organization **61.**
3.8 Conclusion **63.**

4. CHAPTER FOUR **65.**

ASPECTS OF CORPORATE SOCIAL RESPONSIBILITY

4.1 Introduction **65.**
4.2 A Range of Terminology **65.**
4.2.1 Sustainable Development 66.
4.2.2 Sustainability 66.
4.2.3 The-Triple-Bottom-Line (TBL) 66.
4.2.4 Corporate Citizenship 67.
4.2.5 Corporate Social Responsibility (CSR) 67.
4.2.6 Corporate Social Investment (CSI) 68.
4.3 Corporate Social Investment **68.**
4.3.1 The Business of Corporate Social Investment 69.
4.3.2 Key Drivers 71.
4.3.3 Current Status 73.
4.3.4 Making CSI Stick 76.
4.4 Corporate Citizenship **78.**
4.4.1 Legislation 81.
4.4.2 Managing Citizenship 83.
4.4.3 Practicing Citizenship 84.
4.5 Conclusion **87.**

5. CHAPTER FIVE **89.**

CORPORATE SOCIAL RESPONSIBILITY IN SOUTH AFRICA

5.1 Introduction **89.**

5.2 The emergence of Corporate Social Responsibility in South Africa **90.**
5.3 The King Reports **95.**
5.4 Socially Responsible Investment **98.**
5.4.1 Socially Responsible Investment in South Africa 98.
5.4.2 Johannesburg Securities Exchange 99.
5.4.3 Socially Responsible Investment Index 102.
5.4.4 Socially Responsible Investment Funds 105.
5.5 Conclusion **109.**

6. CHAPTER SIX **110.**

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Summary **110.**
6.2 Conclusions **112.**
6.3 Recommendations **114.**

7. LIST OF REFERENCES **116.**

"Just as a large company seeks to conserve its assets and its future survival by reinvesting part of its profits, so it should seek to conserve and improve the social environment in which it does business, in the hope that it will be able to continue to do business in the future, preferably in a better environment than it has at present."
~ H. Oppenheimer, 30 January 1987 ~

LIST OF FIGURES

Chapter 2

Figure 2.1	The Pyramid of CSR	25.
Figure 2.2	Balancing the Work Environment	29.

LIST OF TABLES

Chapter 3

Table 3.1	Second to Third Wave – Dimensions of Corporate Control	51.
Table 3.2	Third to Fourth Wave – Dimensions of Corporate Structure	53.

Chapter 4

Table 4.1	Formal precedents of good citizenship	82.

Chapter 5

Table 5.1	Constituents of the JSE SRI Index (in alphabetical order)	104.
Table 5.2	Socially Responsible Investment criteria used by the Community Growth fund	107.

LIST OF GRAPHS

Chapter 4

Graph 4.1	CSI spending in South Africa	76.

Chapter 5

Graph 5.1	The difference between traditional financial indicators and CSR indicators	94.

CHAPTER ONE

1. INTRODUCTION

1.1 Background

Up to and throughout the 1930s the business world was regarded as a valuable social institution, because it helped to realize society's aims regarding material welfare and a rising standard of living. Since then most Western communities have come to believe that a high standard of living in the midst of a deteriorating physical environment and inadequate social progress does not make sense. For this reason the business world is under pressure to reconsider its role in society, especially with regard to the following factors: social responsibility, business ethics, affirmative action, environmental damage and consumerism.

The focus of this paper is on the social responsibility of organizations, specifically in the South African context, comparing it to the international status and evaluating the development of CSR in South African companies. This is a concept that originated in media revelations of malpractices by businesses and the resultant insistence of society on restricting such malpractices through regulation.

Social responsibility is a broad term highlighting the need for responsibility in many divergent spheres of business, for example, poor working conditions, dumping of hazardous waste, or investment firms that abuse people's savings to enrich themselves. The crux of social responsibility is, however, the insistence of the community that business should in every respect be a "good corporate citizen", one that produces profit for its owners and investors but simultaneously markets safe products, combats pollution, respects the rights of employees and consumers and assists the disadvantaged. In short, businesses are expected to promote the interests of society.

A variety of terms are used - sometimes interchangeably - to talk about corporate social responsibility (CSR): business ethics, corporate citizenship, corporate accountability, and sustainability. CSR means addressing the legal, ethical, commercial and other expectations society has for business, and making decisions that fairly balance the claims of all key stakeholders. In its simplest terms it is: "what you do, how you do it, and when and what you say."

In this sense, CSR is viewed as a comprehensive set of policies, practices and programs that are integrated into business operations, supply chains, and decision-making processes throughout the company - wherever the company does business - and includes responsibility for current and past actions as well as future impacts. The issues that represent a company's CSR focus vary by business, by size, by sector and even by geographic region. In its broadest categories, CSR typically includes issues related to: business ethics, community investment, environment, governance, human rights, marketplace and workplace.

The field of corporate social responsibility has grown exponentially in the last decade. More companies than ever before are engaged in serious efforts to define and integrate CSR into all aspects of their business, with their experiences being bolstered by a growing body of evidence that CSR has a positive impact on business economic performance. New voluntary CSR standards and performance measurement tools continue to proliferate amidst the ongoing debate about whether and how to formalize legal CSR requirements for companies.

Stakeholders - including shareholders, analysts, regulators, activists, labor unions, employees, community organizations, and the news media - are asking companies to be accountable not only for their own performance but for the performance of their entire supply chain, and for an ever-changing set of CSR issues. All of this is taking place against the backdrop of an ever more complex global economy with continuing economic, social and environmental inequities.

1.2 Problem Statement

1.2.1Organizations need to become more focused on CSR

Corporate social responsibility is a vital issue in contemporary debate. New social trends and theories support the emergence of a socio-economically balanced corporation. According to Hall (1996:63), referring to business organizations, this means redefining “the rules of the economic game in order to move from a situation of wasteful consumption and pollution to one of conservation, and from one of privilege and protectionism to one of fair and equitable changes open to all”. In the past business has had to concern itself primarily with the economic results of its decisions. Today, business must also consider and weigh the legal, ethical, moral, and social impact and repercussions of each of its decisions.

CSR refers to all of an organization’s impacts on society and the need to deal responsibly with the impacts on each group of stakeholders. Typically these are: shareholders, customers, suppliers, employees, and the community (both local and global). Key issues will vary from sector to sector and organization to organization, but this approach usually embraces the following major issues:

- Human rights,
- Labor conditions,
- Environmental impacts of products and/or services from creation to disposal,
- Impacts of operations on local communities’
- Impacts of products or services on customers (Hopkins & Cowe, 2004:6)

1.2.2 The need to manage corporate social responsibility in changing social, economic and political conditions

The notion of a corporation's moral responsibilities to its stakeholders and society is a central theme in the broader corporate social responsibility literature. The question of whether and to what extent corporations bear societal responsibility beyond that of a narrow-purpose economic institution has been debated. Management theorists have made a strong and continuing case that corporate roles and responsibilities include both economic and social domains and that the two domains can be successfully merged (Hall, 1996:63).

1.2.3 A critical analysis of corporate social responsibility within the South African context

Ever since the 2002 World Summit on Sustainable Development in Johannesburg, the quest for sustainability has captured South Africa's corporate imagination, pointing to a plethora of social and environmental considerations many of us had previously overlooked. In the same year the "King II" corporate governance recommendations grabbed local business headlines and have since altered the country's chief executives to a wider compass of corporate responsibility than was previously their custom (Freemantle & Rockey, 2004:viii).

Transformation imperatives place additional onerous obligations on SA businesses, imposing a paradigm shift in corporate attitudes and business practices.

Organizations face the unique challenge of transforming from within – in order to provide equal opportunity for all, to reflect the country's demography, and to renovate South Africa's economic and societal landscape. In a globalising world the corporate sector confronts many additional challenges that are loosely described as "sustainability".

This means South African organizations need to demonstrate that they are good corporate citizens and are committed to CSR by committing to a range of responsible business practices across economic, environmental and social realms. Some are doing so better than others, but many still need to understand and come to terms with this new "triple-bottom-line" approach to business (Freemantle & Rockey, 2004:ix).

1.3 Purpose of the research

The general purpose of this study is to investigate the growing corporate social awareness, both globally and more specific in South Africa. The aim of the study is therefore to establish a greater understanding of the complex corporate environment and to investigate the growing need for corporate social responsibility.

Specific objectives in gaining theoretical knowledge are:

- To identify from the literature different countries as well as different organizations perception of CSR,
- To determine how CSR is conceptualized in the literature,
- To describe different CSR strategies to achieve a positive triple-bottom-line (TBL),
- To identify key developments in CSR,
- To identify the business importance of CSR,
- To establish how companies could benefit from CSR,
- To determine the impact of the Social Responsibility Index (SRI) on South African organizations.

South African business leaders, investors, employees, governmental and community audiences are all looking for a demonstrable and verifiable impact of CSR and that means making changes that really matter.

1.4 Research methodology

At present there are two well-known and recognized approaches to research, namely qualitative paradigm and quantitative paradigm (De Vos, *et al.*, 2002:79). It was decided to make use of the qualitative paradigm, which stems from an antipositivistic, interpretative approach, is idiographic and thus holistic in nature, and aims mainly to understand social life and the meaning that people attach to every day life (De Vos, *et al.*, 2002:79).

This study is an exploratory research project to help all stakeholders concerned with, and affected by CSR to understand the requirement and importance of CSR as well as the potential solution and benefits.

This study is an exploratory research and the purpose of this study is to:

- ❖ Gain insight into the CSR phenomenon
- ❖ Diagnose the situation
- ❖ Screen alternatives
- ❖ Discover new or old solutions

Methods in this research study will differ from case studies, intervention research, secondary data analysis and participatory action research. This study will look at the experience of different organizations as well as academics on the topic of corporate social responsibility. The study will investigate the impact and potential benefits of corporate social responsibility for all stakeholders concerned.

The research methodology that will be used in this study is one of theoretical analysis of different sources. The study will aim to present a theoretical framework that facilitates the understanding of the topic. This study will look at different countries and organizations experiences and perceptions and its aim is to come to a critical conclusion.

The research methodology followed to fulfill the objectives of this study incorporates the following aspects: a literature study (to gain theoretical knowledge of the subjects), and a critical analysis of the different studies. To understand the research problem, a literature study on CSR (globally and in South Africa specifically) will be undertaken. In the literature study attention will be given to:

- A macro overview of CSR to give the big picture.
- A description of the contrasting views with regards to CSR.
- A description of the different wave stages.
- A description of corporate citizenship.
- A description of corporate social investment.
- A background description of the Global Sullivan Principals.
- Key developments in the area of CSR.
- A description of CSR in South Africa.
- A description of the King Committee's report on Corporate Governance.
- A description of the recently launched Socially Responsible Investment Index at the JSE

1.5 Restrictions to which the study is subjected

Qualitative research is subjective in nature. It leaves much of the measurement process to the discretion of the researcher (Zikmund 2003:132). The qualitative researcher is concerned with understanding rather than explanation; naturalistic observations rather than controlled measurement; and the subjective exploration of reality from the perspective of an insider as opposed to the outsider perspective that is predominant in the quantitative paradigm (De Vos, *et al.*, 2002:79).

This research study is restricted to the different research literature that is available in the literature. This study will not perform rigorous mathematical analysis.

Restriction of qualitative exploratory research is:

- The interpretation of the findings is based on judgment,
- The ability to generalize results is limited (Zikmund 2003:132).

1.6 Division of the study

The study consists of six chapters. Chapter two will consist of a macro overview of CSR. Here contrasting views, key developments in the field of CSR, the promotion of CSR, the Global Sullivan Principals of CSR as well as the business importance of corporate social responsibility will be explored.

Chapter three will look at the challenges organizations have with change. This chapter will focus on change management specifically the changes required to evolve from a first wave to a fourth wave organization and thus fully embracing the CSR of the company.

Chapter four will deal with aspects that form part of CSR such as sustainability, corporate citizenship and corporate social investment (CSI).

Chapter five will focus on CSR in South Africa. This chapter will look at the history of CSR in South Africa; explore the King II report and its influence on CSR as well as the recently launched SRI.

Chapter six is the conclusions, recommendations and a summary. This chapter will focus on the results gained through the integration of the literature studies.

CHAPTER 2

MACRO OVERVIEW OF CORPORATE SOCIAL RESPONSIBILITY

2.1 INTRODUCTION

Corporate social responsibility (CSR) is on the 'hot list' of emerging concepts, which organizations need to understand and address, as it carries potentially significant implications for business success. Every sector faces significant responsibility issues.

This chapter covers the background and presents a macro overview of social responsibility of the corporation. Contrasting views, key developments in the field of CSR, the promotion and business importance of CSR, as well as the Global Sullivan Principles will be explored.

2.2 MACRO OVERVIEW

Social responsibility is an area of concern that has existed since the early days of mankind. Cannon (1992:2) and Slabbert *et a.l* (1998:16-7) trace the origins of CSR back as far as the industrial revolution. During the early stages of the industrial revolution "a few enlightened [factory] owners introduced worker welfare funds and supported laws to regulate factory work, oversee health and safety, protect chimney sweeps from exploitation, and control working conditions for poor children".

As already stated CSR is not a new issue. There has always been a tension between the need for business to make profits and the needs of society. But the social responsibility of business has been considered more intensely than ever since the early 1990s, building on a trend that had been growing since the start of the twentieth century (Anon a, 2004; Hopkins & Cowe, 2004:6).

It is only in the last three decades, however, that great emphasis has emerged in this area. This has resulted in growing interaction between government, business and society as a whole. In the past, business has had to concern itself primarily with the economic results of its decisions; today, business must also consider and weigh the legal, ethical, moral, and social impact and repercussions of each of its decisions. CSR encompasses an array of meanings and intended applications that have undergone substantial modifications over time. To date there has been no single, commonly accepted definition of corporate social responsibility.

2.2.1 Business defined

Business is composed of the collection of private, commercially profit-orientated organizations that range in size from the single proprietor to the corporate giants and all the small and medium-sized organizations in between these two extremes. When business is defined in this way it is easy to see that business of all sizes and in all types of industries are included. However, in spite of this broad coverage of businesses, much of the emphasis of CSR is borne by the “big” organizations and “selected” industries (Anderson, 1998:4).

According to Maynard & Mehrtens (1995:17) firstly, business is arguably the most powerful institution of our society and the major force affecting world conditions, and secondly, individual business corporations will survive only if they address individual and societal needs and become more effective in their processes. Even though much emphasis is being focused on the large corporations, sight cannot be lost of the fact that many of the same problems that exist for large organizations also exist for the small and medium-sized businesses.

Slabbert *et al.* (1998:16-6) feel that every business organization should be thought of as a social enterprise whose existence and decisions can be justified only in so far as they serve the public or social purpose. This draws attention to the fact that organizations have to take the social environment in which they operate into account.

2.2.2 Society defined

Society may be defined as a grouping of people having certain common interests, manner of life, activities, purpose, values, traditions, or goals and objectives. A society can thus be composed of individuals, small groups of people such as found in a local Home Owners Association, or larger organizations such as found in a local or provincial government, or the country as a whole (Peck, 1987:29; Anderson, 1998:5).

These groups or societies can be working for the same or similar goals and objectives while some have overlapping goals and objectives, be in direct opposition to one another, or any combination thereof. Most of these groups serve their own self-interests and their power is widely decentralized. This is a pluralistic society that maximizes freedom of expression, action, and responsibility. This in turn results in a widely diversified set of loyalties to many different causes and organizations (Anderson, 1998:5; Maynard and Mehrtens, 1995:100).

Since there are so many different societies, more popularly referred to today as "stakeholders" (employees, customers, consumers, minorities, women's groups, competitors, suppliers, creditors, labor unions, charitable organizations, the press, local councils, provincial governments, financial institutions), business is buffeted on all sides to go in different directions as each group or society dictates its wishes and desires. The business is usually driven in the direction of the desires of the strongest society (Cannon, 1992:44; Maynard and Mehrtens, 1995:101; Anderson, 1998:5; Anon i, 2002).

It can be argued that CSR has partly evolved in response to consumer demands and expectations. Consumers in their purchasing behavior, increasingly require information and reassurance that their wider interests, such as environmental and social concerns, are being taken into account. Organizations are increasingly sensitive to these demands both to retain existing customers and to attract new customers (Anon f, 2002:21).

The general idea is that a better society creates a better environment for business. In this regard Slabbert *et al.* (1998:16-6 - 6-7), states that crime will decrease with the consequence that less money will be spent to protect property, and fewer taxes will have to be paid to support police services. The argument can be extended into all directions showing that a better society produces a better environment for business.

Great steps forward have been taken by organizations in bringing the stakeholder into its confidence and attempting to grant them many of their desires. Much has been done and more needs to be done, however, care must be taken that the stakeholders do not go overboard and demand from industry more than they truly need or deserve. Thus society needs to exhibit some restraint and patience in their demands on business.

2.2.3 Corporate Social Responsibility defined

From the above it is clear that CSR involves two major participants: business and society (stakeholders). The concept of social responsibility has been with us since the beginning of mankind and has slowly evolved to its present state (Slabbert et al., 1998:16-7; Wilson, 2001:1).

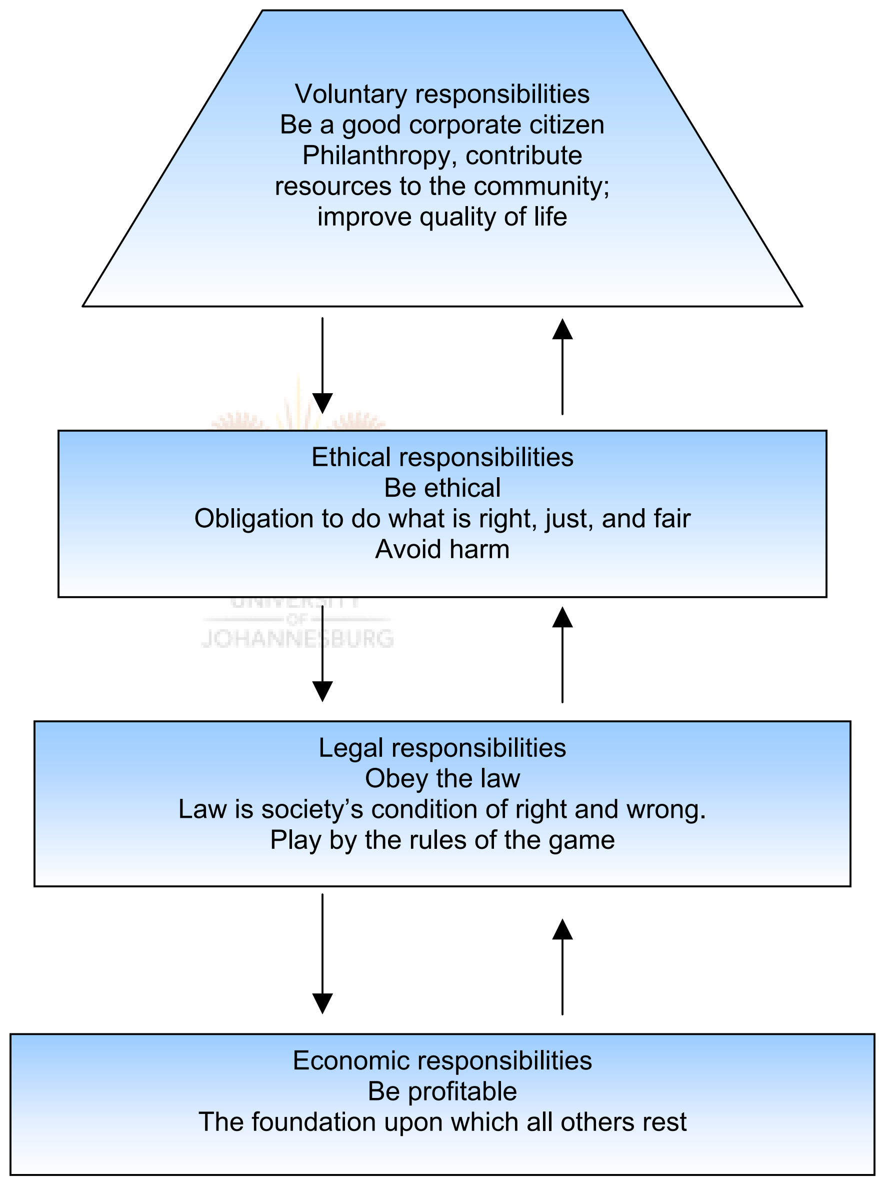
The first comprehensive approach to modern era social responsibility was ushered in during 1953 with the publication of Howard R. Bowen's book Social Responsibilities of the Businessman. Bowen felt that, public responsibility, social obligations, and business morality were synonyms for corporate social responsibility (Anderson, 1998:3).

Bateman and Snell (1999:164) defines CSR as the obligation toward society assumed by business. The socially responsible organization maximizes its positive effects on society and minimizes its negative effects. Social responsibilities can be categorized more specifically, as shown in Figure 2.1.

The economic responsibilities of business are to produce goods and services that society wants at a price that perpetuates the business, and satisfies its obligations to investors. Legal responsibilities are, at the very least, to obey local, provincial, and relevant international laws. Ethical responsibilities include meeting other societal expectations, not written as law. As such, ethics is one dimension of corporate social responsibility. Finally, voluntary responsibilities are additional behaviors and activities that society finds desirable and that the values of the business dictate.

To clarify these distinctions, one can consider economic and legal responsibilities to be those that society requires of organizations; ethical responsibilities to be expected from business; and voluntary responsibilities to be desired from business (Anderson, 1998:9; Bateman & Snell, 1999:164).

Figure 2.1 The pyramid of corporate social responsibility



Source: Adapted from: Bateman & Snell (1999:165).

According to Anderson (1998:9), Van der Merwe (2003) and Hopkins (2000), CSR implies continuing commitment by organizations to behave ethically and contribute to economic development, while improving the quality of life of the workforce and their families, as well as of the local community and society at large.

Cronje *et al.* (2000:273) feel that CSR has to do with the behavior of a business toward stakeholders such as consumers, suppliers, competitors, employees, owners or shareholders and the community at large. Being socially responsible essentially means that an organization tries to reconcile the interests of its different stakeholders with each other.

Coldwell (2003:40) state that: CSR is management's acceptance of the obligation to consider profit, customer satisfaction, and societal well being of equal value in evaluating the organizations performance. Slabbert *et al.* 's (1998:16-4) definition of CSR is: "the intelligent and objective concern for the welfare of society that restrains individual and corporate behavior from the ultimate destructive activities, no matter how immediately profitable, and leads in the direction of positive contributions to human betterment.

Business for Social Responsibility (BSR), an organization in the USA views CSR as a comprehensive set of policies, practices, and programs that are integrated into business operations, supply chains, and decision-making processes throughout the organization – wherever the company does business – and includes responsibility for current and past actions as well as future impacts (Anon b, 2003). According to BSR, the issues that represent an organization's CSR focus vary by business, by size, by sector and even by geographic region. In its broadest categories, CSR typically includes issues related to: business ethics, community investment, environment, governance, human rights, marketplace and workplace (Anon b, 2003).

The King Committee on Corporate governance (King II, 2002:12) defines CSR as follows: "A well managed company will be aware of, and respond to, social issues, placing a high priority on ethical standards. A good corporate citizen is increasingly seen as one that is non-discriminatory, non-exploitative, and responsible with regard to environmental and human rights issues. A company is likely to experience indirect economic benefits such as improved productivity and corporate reputation by taking those factors into consideration."

After all the various definitions and perceptions of CSR it seems as though CSR is a concept whereby organizations integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (Anon b, 2000; Anon d, 2002; Anon f, 2002:5; Anon i, 2002; Anon k, 2002; Mammatt *et al.*, 2004:64).

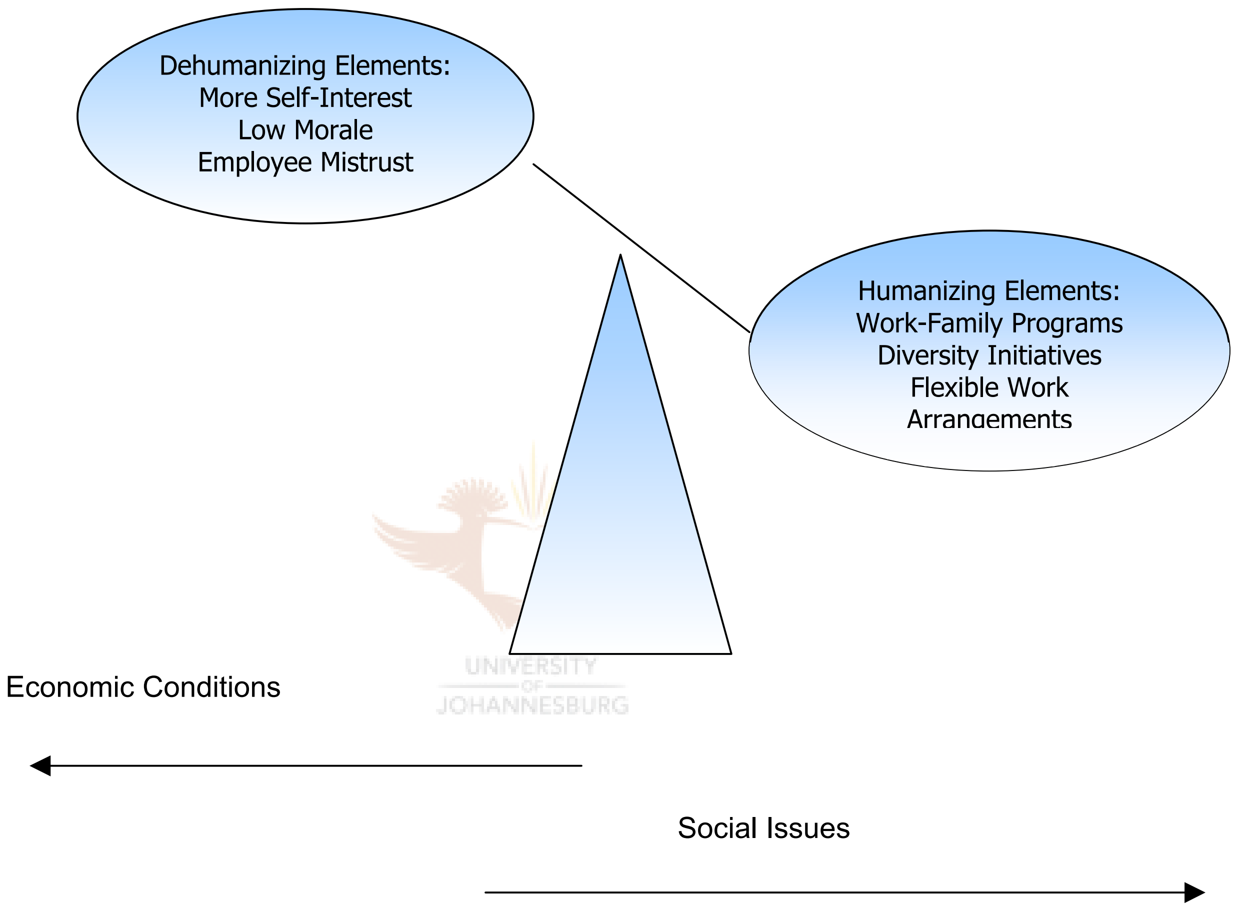
The main function of an organization is to create value through producing goods and services that society demands, thereby generating profit for its owners and shareholders as well as welfare for society, particularly through an ongoing process of job creation. However, new social and market pressures are gradually leading to a change in the values and in the horizon of business activity (Anon d, 2002; Anon f, 2002:6).

There is today a growing perception among enterprises that sustainable business success and shareholder value cannot be achieved solely through maximizing short-term profits, but instead through market-oriented yet responsible behavior. Organizations are aware that they can contribute to sustainable development by managing their operations in such a way as to enhance economic growth and increase competitiveness whilst ensuring environmental protection and promoting corporate social responsibility.

2.3 A FUNDAMENTAL SHIFT?

The notion of a corporation's moral responsibilities to its stakeholders and society is a central theme in the broader corporate social responsibility literature. The question of whether and to what extent corporations bear societal responsibility beyond that of a narrow-purpose economic institution has been debated. Management theorists have made a strong and continuing case that corporate roles and responsibilities include both economic and social domains and that the two domains can be successfully merged (Hall, 1996:63; Anderson, 1998:6). This idea is depicted in Figure 2.2.

Figure 2.2 Balancing the work environment



Source: Hall and Associates (1996:65).

Since the early 1970's Fortune has published a peer review of major corporations' ratings on key aspects of social responsibility, attesting to the importance of these dimension of business operations. Numerous nonprofit organizations provide awards and other recognitions to socially responsive businesses. There seems to be broad evidence to support the proposition that the socially responsible organization is alive and well (Cannon, 1992:27; Hall, 1996:64).

According to Hall (1996:64), a consortium of companies has been formed in the United States, called “Business for Social Responsibility”; during 1996 over six hundred companies nationwide were members. Successful “new age” businesses tend to explicitly place social responsibility first in their credos of corporate values, and most organizations acknowledge that the corporation has both social and economic roles to play. Striking the proper balance between these roles is the challenge; where the final balance will lie remains questionable.

Management thinkers over the past thirty years have tried to define an appropriate balance between economic and social roles. Many advocate the view that both are needed for corporate success. The current bipolar split – some firms opting for a pendulum swing toward economics, and others toward social values – tells us that perhaps we are no further along in resolving this problem than we were thirty years ago (Hall, 1996:65).

From the 1970s through the 1980’s, executives recognized and saw the benefits of balancing social and economic roles. During the 1990s the economic realities made it harder to maintain that balance, we have seen a pendulum swing toward a more economically defined model. The pendulum is starting to swing back again, however, toward a recognition that without social programs and integration of people's lives and respectful treatment, corporations may be "throwing the baby out with the bathwater" (Hall, 1996:65; Anderson, 1998:268).

New social trends and theories support the emergence of a socio-economically balanced corporation. For business organizations, this means redefining "the rules of the economic game in order to move from a situation of wasteful consumption and pollution to one of conservation, and from one of privilege and protectionism to one of fair and equitable changes open to all" (Hall, 1996:69).

2.4 CONTRASTING VIEWS

Should business be responsible for social concerns lying beyond its own economic well-being? Do social concerns affect a corporation's financial performance? Two basic and contrasting views about SCR are common. The first tenet of capitalism is widely associated with the early writings of Adam Smith in The Wealth of Nations and more recently with Nobel laureate and economist Milton Friedman who said it 40 years ago. "There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase profits" (Cannon, 1992:37; Anderson, 1998:3; Slabbert *et al.*, 1998:16-5; Bateman & Snell, 1999:349; Orlando, 1999; Theobald, 2002:24).

These critics argue that in a capitalistic society, economic performance is an organization's primary social responsibility. If corporations do not serve shareholders first, they will fail to serve society. Corporate decline and failure benefit no one (Anderson, 1998:3; Bateman & Snell, 1999:165; Orlando, 1999). According to Cannon (1992:38), another objection critics of CSR raise is that resources will be concentrated on "vanity" projects, to the disadvantage of more local, more needy areas.

Friedman may be right. But through out the world companies bucked the wisdom and spend money on social programs. In South Africa specifically organizations spent R2bn on social programs during 2001, a ten per cent increase on the previous year (Theobald, 2002:24; Anon d, 2003).

Advocates of corporate social responsibility argue that organizations have a wider range of responsibilities that extend beyond the production of goods and services at a profit. As members of society, organizations should actively and responsibly participate in the community and in the larger environment (Slabbert *et al.*, 1998:16-5; Bateman & Snell 1999:166; Orlando, 1999; Anon b, 2000; Tapscott & Tapscott, 2004).

One such activist is Kenneth Dayton who stated in 1975: "I maintain that business must change its priorities. We are not in business to make maximum profit for our stakeholders. We are in business for only one reason – to serve society. Profit is our reward for doing it well. If business does not serve society, society will not tolerate our profits or even our existence” (Anderson, 1998:3).

These two schools of thought depict the dilemma that businesses are in today. Organizations are being pushed, pulled, shoved, and criticized from all sides on what is proper and correct for them to do in the area of corporate social responsibility.

2.4.1 Major arguments supporting CSR

Today, to a greater extent than ever before, most people support organizations becoming involved in CSR, Some of the popular arguments for organizations supporting CSR activities are:

- It can and should improve the corporate and local image of the firm,
- It is in the stockholders best interest – by making communities a better place to live, it can entice superior and happier workers to the organization who in turn will put out better products and increase profits,
- Business is partially responsible for getting themselves in the mess they are in, so they should help to get themselves out of it,
- It will help maintain and gain customers,
- It will help prevent possible unpalatable and even destructive government regulations,

- ❖ More and more investors prefer to invest in socially responsible organizations,
- ❖ To do good in order to do well, is to convert social needs and problems into profitable business opportunities
- ❖ It is better to take some positive action than to take no action at all
- ❖ It is better to prevent the problems from occurring in the first place (Cannon, 1992:31 – 33; Anderson, 1998:10 – 11; Anon b, 2000; Theobald, 2002:24; Tapscott & Tapscott, 2004).

2.4.2 Major arguments against CSR

The major prevalent view held against business actively participating in CSR is expressed in Milton Friedman's quote at the beginning of this section. Other major arguments against an organization becoming involved in CSR activities are:

- ❖ Society will be better off if it asked businesses only to maximize their efficiencies and thus lower costs,
- ❖ It violates the policy of profit maximization, and as a result stockholders will suffer,
- ❖ It will increase the price of the end item, and as a result all purchasers of the end item will suffer,
- ❖ Most corporate executives lack the knowledge, perception, skills, and patience to deal with and solve society's problems,
- ❖ Social actions cannot be measured, so why participate in them?

- Businesses already have too much power. Increased activity in the social arena will only increase its power to remold society to their way of thinking,
- If government wants organizations to support social activities, it should give them adequate incentives to do so (Cannon, 1992:37 – 39; Anderson, 1998:11 – 12; Theobald, 2002:25).

2.4.3 Conclusions about organizations performing CSR activities

The question is not really whether an organization should become involved in CSR activities, but rather how deeply an organization should become involved in it. Every organization most certainly must obey all social responsibility-oriented laws and requirements. They must also have a minimum code of morals and ethics to which all their employees must agree and adhere. Finally, each organization must examine its physical capabilities, desires, and economic resources to determine just how far they want to go and can go in this area.

2.5 KEY DEVELOPMENTS

Once CSR involvement is determined, it must have the complete backing and support of all levels of management if it is to be satisfactorily completed and enforced. According to Anderson (1998:21) various studies have indicated that establishing and implementing a CSR program is not a simple process and requires continued top management involvement. Successful implementation of such programs takes place in three overlapping phases and can take up to eight years from inception to completion.

Phase I is the commitment phase. Top management acknowledges the organization's responsibility in a certain area, or on a certain issue, and a policy statement is generated. Phase II is the learning phase. Pertinent data are collected, analyzed, and evaluated by top and middle management. Phase III is the institutionalization phase. Responsibility for the program is transferred from the staff to the line organization. Resources are committed, performance and expectations are communicated, and evaluation is instituted (Anderson, 1998:21; Coldwell, 2001:49).

What these various studies demonstrated clearly is, for the proper implementation and participation in the areas of social responsibility, top management must continuously be active in all phases of the program.

Several factors have converged over the last decade to shape the direction of the CSR field. Some of the most notable ones include:

- **Increased stakeholder activism** – corporate accounting scandals have focused attention more than ever on organizations' commitment to ethical and socially responsible behavior. The public and various stakeholders are increasingly looking to the private sector to help with a myriad complex and pressing social economic issues.

- **More sophisticated stakeholder engagement** – on the corporate side, the debate for companies has evolved from *whether* to engage with stakeholders to *how* to engage.
- **Proliferation of codes, standards, indicators and guidelines** – new voluntary CSR standards and performance measurement tools continue to proliferate, adding to an already complex landscape. There is a growing consensus among many in the CSR community that voluntary external standards need to be consolidated and streamlined.
- **Accountability throughout the value chain** – over the past several years, the CSR agenda has been characterized in large part by the expansion of boundaries of corporate accountability. Stakeholders increasingly hold organizations accountable for the practices of their business partners throughout the entire value chain.

- **Transparency and reporting** – organizations are facing increased demands for transparency and growing expectations that they measure, report, and continuously improve their social, environmental, and economic performance.
- **Growing investor pressure and market-based incentives** – while religious and socially responsible investors have been pressuring organizations on their social, economic and environmental performance for the last thirty years, CSR is now more part of the mainstream investment scene. The last few years have seen the launch of several high-profile socially screened market instruments

(e.g. indexes like the Dow Jones Sustainability Indexes, FTSE4Good, SRI). This activity is a testament to the fact that mainstream investors increasingly view CSR as a strategic business issue.

- **Pressure to quantify CSR "Return on Investment"** – ten years after organizations began to think about CSR in its current form, companies, their employees and customers, NGO's, and public institutions increasingly expect returns on CSR investments, both for business and society. This is leading to questions about how meaningful present CSR practice is, and the answers to those questions will determine – in part – both the depth and breadth of CSR practice for the next decade. Organizations want to determine what their CSR initiatives have accomplished so they can focus scarce resources most effectively (Anon b, 2002).

2.6 BUSINESS IMPORTANCE

There is a continuing and lively debate about the "business case" for CSR. For some, it is an ethical issue. For others, it is more than sound business practice of managing risks and exploiting opportunities There are strong arguments for thinking that if an organization is actively managing its social and environmental impacts and doing it well that it is probably a good sign of a competitive sustainable business. Active stakeholder and environmental management align ever closer with the management of sources of competitive advantage and needs to be as central in corporate strategy and values (Anon b, 2000; Anon a, 2003).

There is a growing body of data – quantitative and qualitative – that demonstrates the bottom-line benefits of socially responsible corporate performance (Anon b, 2002; Anon f, 2002:6; King II, 2002:13; Anon a, 2003; Anon a, 2004).

CSR's business importance is definitely increasing. Phil Watts, group managing Director of Royal Dutch/Shell Group said a few years ago: "CSR is not a cosmetic; it must be rooted in our values. It must make a difference to the way we do our business" (Anon g, 2002).

More and more organizations are realizing what a positive effect the triple bottom line can have on it. The triple bottom line (TBL) was coined in response to business' tendency to focus on the financial (single) bottom-line when organizations measure and report on performance, the triple-bottom-line considers the social and environmental contributions an organization makes to society, alongside its more traditional economic contribution.

That is, it refers to achieving balanced and integrated economic, social, and environmental performance; it implies that social and environmental issues should not be regarded as secondary to more conventional business imperatives (Anon b, 2003; Van der Merwe, 2003; Freemantle & Rockey, 2004:7 – 8). TBL is sometimes distilled to “People, Planet, and Profit”. Triple bottom line criteria, together with performance indicators, being developed by Socially Responsible Investment funds may be applied both to the operations of organizations and their supply chains (Van der Merwe, 2003).

Some of the data that demonstrates the bottom line benefits of CSR include:

- **Improved financial performance** – in the last decade an increasing number of studies have been conducted to examine the connection between socially responsible business practices and positive financial performance. These studies have showed that overall financial performance of socially responsible corporations, are significantly better than that of the other companies.
- **Reduced operating costs** – some CSR initiatives can reduce operating costs dramatically. For example, many recycling initiatives cut waste-disposal costs and generate income by selling recycled materials. In the human resources arena, flexible scheduling and other work-life programs that result in reduced absenteeism and increased retention of employees often save organizations money through increased productivity and reduction of hiring and training costs.
- **Enhanced brand image and reputation** – customers are often drawn to brands and organizations with good reputations in CSR-related areas. An organization considered socially responsible can benefit

both from its enhanced reputation with the public as well as its reputation within the business community, increasing an organization's ability to attract capital and trading partners. A 2001 Environics International CSR Monitor survey showed that the factors most influencing public impressions of organizations were responsibility (forty nine percent); brand quality / reputation (forty percent); and business fundamentals (thirty two percent).

- **Increased productivity and quality** – company efforts to improve working conditions, lessen environmental impacts or increase employee involvement in decision-making often lead to increased productivity and reduced error rate.
- **Increased sales and customer loyalty** – a number of studies have showed a large and growing market for the products and services of organizations perceived to be socially responsible. While companies must first satisfy customers' key buying criteria – such as price, quality, availability, safety and convenience – studies also show a growing desire to buy (or not to buy) because of other value-based criteria, such as "sweat-shop free" and "child-labor-free" clothing, lower environmental impact, and absence of genetically-modified materials or ingredients (Anon b, 2002; King II, 2002:12 – 13; Anon a, 2003).

CSR has found recognition among organizations, policy makers and other stakeholders, as an important element of new and emerging forms of governance, which can help them to respond to the following fundamental changes:

- ❖ Globalization has created new opportunities for enterprises, but it also has increased their organizational complexity and the increasing extension of business activities abroad has led to new responsibilities on a global scale, particularly in developing countries.
- ❖ Consideration of image and reputation play an increasingly important role in the business competitive environment, as consumers and NGO's ask for more information about the conditions in which products and services are generated and the sustainability impact thereof, and tend to reward, with their behavior, socially and environmentally responsible firms.
- ❖ Partly as a consequence of this, financial stakeholders ask for the disclosure of information going beyond traditional financial reporting so as to allow them to better identify the success and risk factors inherent in an organization and its responsiveness to public opinion.
- ❖ As knowledge and innovation became increasingly important for competitiveness, organizations have a higher interest in retaining highly skilled and competent personnel (Anon f, 2002:6).

2.7 GLOBAL SULLIVAN PRINCIPLES

In 1977, the Reverend Leon H Sullivan launched the original Sullivan Principles, which were designed to help persuade US organizations with investments in South Africa to treat their African employees the same as they would their American counterparts. These principles were then re-launched in 1999 at the UN as the Global Sullivan Principles for Corporate Social Responsibility (Anon a, 2000; Anon b, 2002; Anon c, 2002).

According to Rev. Sullivan, (Anon, 1999; Anon b, 2002; Anon c, 2002; Fig, 2002:81; King II, 2002:246; Freemantle & Rockey, 2004:5): “The objectives of the Sullivan Principles are to support economic, social and political justice by companies where they do business; to support human rights and to encourage equal opportunity at all levels of employment, including racial and gender diversity on decision-making committees and boards; to train and advance disadvantaged workers for technical, supervisory and management opportunities; and to assist with greater tolerance and understanding among people; thereby, helping to improve the quality of life for communities, workers and children with dignity and equality.

2.7.1 The Principles

Organizations which endorses the Global Sullivan Principles must respect the law, and as a responsible member of society will need to apply these Principles with integrity consistent with the legitimate role of business. These organizations will need to develop and implement company policies, procedures, training and internal reporting structures to ensure commitment to these principles throughout the organization. It is believed that the application of these Principles will achieve greater tolerance and better understanding among people, and advance the culture of peace. Accordingly these organizations have to:

- ❖ Express their support for universal human rights and, particularly, those of their employees, the communities within which they operate, and parties with whom they do business,
- ❖ Promote equal opportunity for their employees at all levels of the company with respect to issues such as color, race, gender, age, or religious beliefs, and operate without any form of abuse,
- ❖ Respect their employees voluntary freedom of association,
- ❖ Compensate their employees to enable them to meet at least their basic needs and provide the opportunity to improve their skill and capability in order to raise their social and economic opportunities,
- ❖ Provide a safe and healthy workplace; protect human health and the environment; and promote sustainable development,
- ❖ Promote fair competition including respect for intellectual and other property rights, and not offer, pay or accept bribes,
- ❖ Work with governments and communities in which they do business to improve the quality of life in those communities – their educational, cultural, economic and social well-being – and seek to provide training and opportunities for workers from disadvantaged backgrounds,

- Promote the application of these principles by those with whom these organizations do business (Anon, 1999; Anon, 2001; King II, 2002:246 - 247).

The Global Sullivan Principles refer to the support for universal human rights, equal opportunities, respect for freedom of association, levels of employee compensation, training, health and safety, sustainable development, fair competition and working in partnership to improve quality of life. Any organization wishing to be associated with the Principles is expected to provide information, which publicly demonstrates its commitment to them. The Principles aim to be applicable to organizations of any size, operating in any part of the world.

2.8 CONCLUSION

It seems that not only do organizations have to work out how much ‘conformance’ to rules they must undertake but that they must also think about ‘performance’. It further seems that it is not enough to think about their ‘accountability’ to shareholders they must also think about their ‘responsibility’ to their stakeholders including the wider issues in the world in which they operate.

It is clear that a company cannot survive today without having a clear statement of its purpose and values, an acknowledgement of who are its stakeholders, followed by an understanding of the processes it must follow to put these into operation. In other words, organizations have to devote more and more attention to non-financial aspects to satisfy not only worldwide pressure groups but in the end, to survive at all.

What this boils down to is change - change is the one thing that is a given in today's global competitive environment. Chapter three deals with change, the various wave management phase's organizations go through, with specific attention to the fourth wave era where organizations realize there is no alternative but to implement CSR.

CHAPTER 3

THE ORGANIZATION AND CHANGE

3.1 INTRODUCTION

This chapter focuses on change to set the platform for CSR in organizations. The fourth wave era will introduce the realization that corporate social responsibility is an aspect organizations need to take note of. The Fourth Wave Organization will start looking at how it can elevate the status of corporate spending to a boardroom-level item.

Change is the one thing that is a given in today's global competitive environment. The human specie lives in a dynamic and fast changing world. For organizations to survive this new millennium they need to change smartly. To change for the sake of change is ridiculous. Organizations need to establish strategic thinking and planning of where they want to be.

Organizations need to decide what needs to change, and why this change is needed. Before change can happen there is a need to change the way people are currently thinking. Management has to understand and believe that the current situation is not ideal and that improvements are crucial.

Throughout the history of man and organization, management theories have gone through different stages. These stages are: the agricultural age, the industrial age, the information age and the global age (Debold, 1995; Van der Merwe, 2003). Each of these stages developed around the changes in the economy as well as the changes in the way it creates capital.

During the agricultural era there used to be physical capital, this changed to monetary capital during the industrial age and is currently intellectual capital in the information age. The fourth stage is the globalization age where organizations see themselves as global stewards that focus on the quality of life.

All of these stages creates its own problems and has different development tempo's. Human economic development will be investigated in this chapter with the focus on the fourth wave management.

3.2 FIRST WAVE

Originally every country experienced an agricultural era during which the community's existence was ensured through the cultivation of crops, stockbreeding and hunting. Management was simple and limited to production and survival. This period can be identified as first wave management (Cannon, 1992:2; Maynard & Mehrtens, 1995:5 – 6; Kruger, 1999:45).

3.3 SECOND WAVE

Industrialization took place thereby creating more job opportunities. As knowledge increased and development expanded, so urbanization increased, and gradually machines took over the work of humans. This lead to unemployment and the rise of labor unions, which protected the welfare of employees and exerted pressure on employers. Autocracy, bureaucracy, hierarchical structures with standardization and restraint by rules and regulations, as well as a search for order, security and stability characterized this second wave period (Cannon, 1992:2; Kruger, 1999:45).

Rigid hierarchy and a formal autocratic management style were characteristics of second wave management. Against this background managers prepared themselves for the determination of needs, planning, organizing, directing and control. Employees gradually realized that their interests differed from those of management. It became clear that management needed to recognize that good inter-personal relationships were of greater importance than machines (Kruger, 1999:46).

Meanwhile organizations continued to grow larger and control became more difficult, so that a systems approach was implemented. The organization became a collection of inter-dependent elements, which were also directly affected by the external environment. The survival and long-term achievements of the organization depended to a large extent on interaction with the external environment. Thus the organization did not exist within a vacuum but was exposed to opportunities and threats from the environment (Kruger 1999:46 – 47).

Employees gradually realized that their interests differed from those of management. It became clear that management needed to recognize that good inter-personal relationships were of greater importance than machines (Kruger, 2000:10).

The lack of focus on people created a negative impact on employees' attitude and productivity. People were motivated with the wrong incentives like promotion, salary and bonuses. During this stage there seem to be a great lack in understanding, care, commitment, communication, interaction and thoughtfulness (Debold, 1995).

According to Kruger (2000:8) the ability to change is one of the most important differences between Second and Third Wave management. This need to focus on people made space for the Third Wave. The differences between, and change from, the Second to the Third Wave is shown in Table 3.1.

Table 3.1 Second to Third Wave – dimensions of corporate control

CHARACTERISTICS	SECOND WAVE	THIRD WAVE
Domain	National and local, five to ten years in the future	International (share responsibility for welfare of local, national and global communities), decades in the future
Goals	Maximize profits	Create value
Motivation	Make money	Make money and help solve societal problems
Outlook	Self-preservation – business is a way to make a living	Co-operation – business is a way for people to grow and serve
Stakeholder	Owners of business, stockholders	Stockholders, employees, families, suppliers, customers, communities, government
Values	Profit, growth, control	Creating value, trust, learning

Source: Adapted from: Debold (1995) and Maynard & Mehrtens (1995:52).

3.4 THIRD WAVE

Alvin Toffler identified the need for third wave organizations for the first time in 1980. Toffler indicated that organizations should become multi-purposed, not just see themselves as economic entities, but become involved in ecology, politics and the social environment; indeed they should be involved in the complete spectrum of activities to which each individual is exposed.

This philosophy is especially concerned with the fact that the impact of organizations is felt over the full spectrum (pollution, bribery, poisonous products which are distributed, atomic danger, stress, shift work with its social impact, and much more) and that organizations should thus be held responsible for these phenomena.

Toffler predicted that the organizations were not prepared to accept these responsibilities and that a change in management was essential to be able to adapt to these changes. This vision displayed by Toffler, as well as the dramatic changes in the fields of technology and competition lead to the birth of the third wave organization (Maynard & Mehrtens, 1995:51 Kruger 1999:47; Hunter, 2002).

Third wave companies emerged from all institutions. The source of their strength lies in change - in the ability to transform their products and organization in response to changes in the economy, in social habits, and in customer interests. Change, the ability to change and to accept the growing pains and learning process associated with change, is therefore a pre-requisite for a company to be transformed from a second to a third wave organization. Table 3.2 shows clearly the difference as well the transformation from the Third Wave to the Fourth Wave.

Table 3.2 Third to Fourth Wave – dimensions of corporate structure

CHARACTERISTICS	THIRD WAVE	FOURTHWAVE
Authority	Begin to question external authority and retain personal focus on authority	Manifest collaborative systems where authority is fully internalized
Decision making	Become aware for the need to act with intent	Recognize the centrality of intention
Locus of control	Democratic, participatory	Consensual decision making
Mode of inquiry	Incorporates institution and non-rational processes	Moves beyond intuition to tap full range of human abilities
Relationship	See self as connected and needing to co-operate	See self as one and needing to co-create
Structure	Team value model	Community model
Values	Growing concern for balance and sustainability	Focused on integration of life and responsibility for the whole

Source: Adapted from: Debold (1995) and Maynard & Mehrtens, (1995:86).

3.5 FOURTH WAVE

It is clear that the move from Third Wave to Fourth Wave was needed to survive the human development. Humans needed to look at the big picture, to realize that that they need to be more responsible for their actions. The core value of the Fourth Wave is the focus on the integration of life and responsibility.

The vision of the Fourth Wave uses the principles of the Third Wave as building blocks. For an organization to change from Third Wave to Fourth Wave there must be a shift from international to global. The focus of a Fourth Wave organization is one of a serving organization.

The basic characteristic of a Fourth wave organization is that management thought will reflect the quality revolution and the global effectiveness of organizations and therefore in management. Fourth wave organizations shift away from business being conducted purely for profit toward a wider range of stewardship – global stewardship. Business should overtake the public sector as the basic provider of wealth and stability around the globe. The fourth wave organization wants to leave a valuable legacy for the future. Quality of life and the alignment with the natural order is part of creating wealth in the fourth wave (Debold, 1995; Kruger, 1999:56).

The corporate structure is one that emphasizes the community model where the motive is service and the focus is on the community. The new organization within the fourth wave puts priority on the ability to let people feel safe and a deep sense of trust exists. There is close integration of corporate work and family life and corporations will become lifelong learning organizations (Kruger, 1999:56).

According to Debold (1995), the fourth wave appears to be a wave of service, which will arise out of the third wave and have the ability to integrate social results with indirect economic gains. This wave should reduce unemployment, allow the remaining market-based economy to improve the quality of life, it will change the way we think and care about our neighbors, and it will demand a new vision for education and life skills training, thus a connectedness of everything.

The Third Wave's team-value model forms the basis for the development of the Fourth Wave's community organization. Examples of these features are: its democratic and participatory nature, its shared vision and its focus on customers and the community. The emphasis is on co-creation, equality and flexibility with freedom of self-expression. This tends to lead to freer communication, the absence of hierarchical organizational structures, with various management levels. The locust of authority shifts from being leaders to followers and servants.

The conclusion Maynard & Mehrtens (1995:62) come to is: that money will be replaced as a motivator, by the quest for life long learning. Organizations will draw from full human potential, which will include their intuitive capital, and the company's direction will be determined by group consensus.

One of the most significant realities of the corporate world today is change and transformation. The global world, which functions in a digital world, is characterized by rapid changes and developments in almost every sphere of the business environment. Employees and managers are required to make complex decisions in this transforming work environment.

There are no single-shot methods of changing organizations for success. Change involves introducing and sustaining multiple policies, practices, and procedures across various levels. This type of change affects the thinking and behavior of everyone in the organization, it can enhance the organization's culture and success, and it can be sustained over time (Bateman & Snell, 1999:615; Kreitner & Kinicki, 2001:658).

3.6 GLOBAL STEWARTSHIP

Business has emerged as the dominant institution in global culture. The other institutions of society – political, educational, religious, and social – have a decreasing ability to offer effective leadership (Maynard & Mehrtens, 1995:48). Business, by default must begin to assume responsibility for the whole.

According to Maynard & Mehrtens (1995:54) this has never been the purview of business. It seems as though the growing demand for responsible leadership from the business sector is shifting away from conducting business purely for profit toward providing a wider range of stewardship. This is a prime example of corporate social responsibility of organizations and the realization of the very profitable tipple-bottom-line. Ages ago Kaku (1992:5) stated that: in the world of the twenty-first century, the private sector will have both the possibility and responsibility of overtaking the public sector as the basic provider of wealth and stability around the globe.

More and more organizations on all levels of the economy are being asked to clean up their own mess. The focus is increasingly towards protecting our physical environment (Maynard & Mehrtens, 1995:48). This is emphasized by Kruger (1995:27) when he explains that there are four R's – repair, recondition, reuse, and recycling – which forms an integral part of the process of environmental rehabilitation. Organizations that are based on these four R's will flourish in the years to come.

Organizations are currently experiencing unprecedented transformation and change. While transformation relates to the processes of transforming a company from one condition to another (for example from a third wave to a fourth wave organization), change occurs on a daily basis in every department, section or job.

There are huge paradigmatic changes to go through when moving towards a fourth wave organization. Here leaders need to be visionaries, looking at the big picture and looking ahead. They will have to provide the long-term direction and the short-term anchors for their people. People are the key to organizational productivity, performance and competitiveness. It is therefore very important to find ways to engage the mind of every single employee and leverage the full value that every person has to offer, for the success of the organization and the benefit of employees.

First of all the company will have to change their goals, motivation and values (Wilson, 2001:7). An organizational mission statement – one that truly reflects the deep-shared vision and values of everyone within the organization, creates a great unity and tremendous commitment. Instead of striving to maximize profits and creating value the company must change to be responsible for the whole – i.e. service, personal fulfillment, a deep sense of trust, and a complete feeling of safety.

Stakeholders will have to include communities, the government and ecosystems and not just the usual assortment of stockholders, employees and their families, suppliers and customers. Many organizations still has a long way to go for the company to change the corporate structure to one that emphasize the community model where the motive is service and the focus is on the community!

Fourth wave organizations believe in environmental rehabilitation and they create a wellness in the workplace by emphasizing recreational centers, a non-smoking environment, drug abuse clinics, stress reduction seminars, AIDS awareness seminars, AIDS clinics and medication for employees and their families, mental heath clinics, and active support against workaholism. The game is changing. Business is being challenged to recognize and accept a new role on the global scene.

Cronje *et al.* (2000:57) rightly states that change is a difficult concept to define. Expressed simply, it is any deviation from the status quo. Business organizations, as the central components of the business environment, are naturally subjected to change. Worldwide business organizations are restructuring, outsourcing, focusing on core business and trimming the workforce. Without these major changes business organizations will not accommodate the realities of a changing external environment.

Change can never happen if certain prerequisites are not in place, or if certain basic management principals are not applied. Change can only be a success by following these principles: a shared vision, an understanding of the organization, cultural alignment, communication, experienced help where necessary, strong leadership and a total stakeholder buy-in (Kruger, 1999:62; Wilson, 2001:2; Denton & Vloeberghs, 2003:91).

Some of the basic management principles to be applied when change is implemented in an organization are:

- **Visionary management** – is a long-term goal describing what an organization wants to become. It is to manage the business in such a way that the dream is turned into reality. It is a future situation of what the business believes it can be. It is very important that the vision becomes a shared vision.
- **Total commitment** – commitment is part of getting everyone involved. Everybody in the organization must be committed to make the organization successful (Kruger, 1999:69; Wilson, 2001:2).
- **Participative management** – involving employees in various forms of decision-making. These are the systems, processes and practices in terms of which employees can participate directly or indirectly in managements' decision making. It refers to the real influencing of management decisions (Kreitner & Kinicki, 2001:357; Kruger, 1999:69).
- **Management by walking around** – refers to getting out of the office, walking around, and talking frequently and informally with employees (Bateman & Snell, 1999:522). It enables the manager to keep in touch with situations and at the same time to gather strategically valuable information (Kruger, 1999:73).
- **Time management** – it is easy to think time is controlled externally, but the truth is that everyone can manage it by following some simple steps: formulate realistic and specified goals, take action, plan carefully,

prioritize, delegate, take notes or keep a diary, learn to say no (Kruger, 1999).

- **Management by objectives** – is a management system incorporating participation in decision-making, goal setting and feedback (Kreitner & Kinicki 2001:253). It also involves a subordinate and a supervisor agreeing on specific performance goals or objectives to be reached within a given time period (Bateman & Snell 1999:349, Cronje *et al*. 2000:124).
- **Managing conflict** – a conflict free organization does not exist. Conflict can be functional to the organization, but then it must be managed (Kruger, 1999:85).
- **Managing culture** – as part of managing change in the organization it is important to take note of the importance of a climate and culture for change. When change is inevitable, the culture needs to be changed (Kruger, 1999:87 – 88). Employees have to be trained with regards to change so that they will know what is expected from them and how to act. A change can never take place over night and management can never expect employees to know how to act.

3.7 THE LEARNING ORGANIZATION

Sustainability is quite the buzzword in the ever-expanding dictionary of development jargon and many organizations are making a concerted effort to be recognized as industry leaders in this area. A look at the growing number of reports presented to the public by local companies confirms this: Corporate Social Responsibility, Corporate Citizenship, Corporate Social Investment, Sustainability, Social and Environmental reports abound.

However, the public face that companies present does not always match up to the reality of their activities. Nor will they while the underlying culture of the organization cannot support a sustainable approach to business.

The uncomfortable realities of competition, a volatile Rand, the HIV/AIDS pandemic and pressure to embrace black economic empowerment all emphasize the fact that we don't know what tomorrow will bring. An organization that is receptive to change is best placed to face the uncertain times ahead. To have any real meaning, it must form an integral aspect of corporate strategy and be ingrained in corporate culture. Getting this ethos right provides the foundation for sustainable business (Fremantle & Rockey, 2004:140).

Accepting change implies a willingness to learn. And the concept of the 'learning organization' is central to sustainability. A learning organization sets policy and formulates strategy through inclusive participation. It provides work structures that are empowering and enabling, and it promotes widespread exchange of information (Bateman & Snell, 1999:324; Cronje *et al.*, 2000:114;

Kreitner & Kinicki, 2001:676; Denton & Vloeberghs, 2003:86; Freemantle & Rockey, 2004:141).

An increasing body of evidence suggests that decentralized structures using self-managed, cross-functional teams work best – allowing collaboration, initiative and innovation. Open communication promotes discussion about strategic issues. In order to learn, organizations need to interact with their environment. Engaging with leading stakeholders ensures diverse contributions and interactions that can help those inside the organization become better informed, better prepared and more proactive (Denton & Vloeberghs, 2003:88; Freemantle & Rockey, 2004:141).

3.8 CONCLUSION

From the above discussion it is clear that change, no matter how large or small, has a cascading impact throughout the organization. Commitment starts at the top, thus the management team needs to be totally committed to change for the rest of the employees to follow suit. Management must believe in it, they must encourage it, and apply it in their day-to-day relationships with their subordinates.

The waves described in this section did not just come about, each was embedded in the tissues of society and evolved and emerged as technologies, ideas and ideals shaped the thoughts, emotions and collective will of humankind.

The fourth wave is challenging organizations to find sustainability in whatever activity it is busy with. Organizations realize more and more that it has a corporate social responsibility towards all parties that will be influenced or affected by its operations. This leads to other important aspects that go hand in hand with CSR such as Corporate Citizenship and Corporate Social Investment, which will be discussed in the next chapter.

CHAPTER FOUR

ASPECTS OF CORPORATE SOCIAL RESPONSIBILITY

4.1 INTRODUCTION

With all the hype around the King II report, the recently launched JSE Socially Responsible Investment (SRI) Index, the use of phrases such as triple-bottom-line reporting, sustainability, CSR, corporate social investment (CSI), and corporate citizenship, it is little wonder that people are confused. Due to the ongoing changes in corporations, CSR is becoming an important asset in keeping organizations competitive. In this chapter the focus will be on some of these CSR aspects.

This chapter will provide insights on what CSI and good citizenship is, and what it entails in terms of operational practice, based on one simple premise: it pays to be good. It suggests that good behavior is a path to long-term profitability, to sustainable business, to new opportunities, and to steady economic growth without need for short-term profiteering or wild fluctuations in profitability.

4.2 A RANGE OF TERMINOLOGY

Several terms are applied to concepts related to CSR, and whilst there are differences, there is also overlap between them. Some of the more common terms used, and the distinction between them, are discussed in the pages that follow.

4.2.1 Sustainable development

The term sustainable development was first coined in 1987 in the Brundtland Report, “Our Common Future” by Gro Harlem Brundtland who at the time was the Prime Minister of Norway (Anon f, 2003). The Brundtland Report, *Our Common Future*, was the first UN document to look comprehensively at issues of environment and development. It provides us with the most commonly used definition of sustainable development: “development which meets the needs of present generations without compromising the ability of future generations to meet their own needs”. In other words, the report takes a long-term view of Earth and acknowledges its resources are limited. The report highlighted tree fundamental components to sustainable development: environmental protection, economic growth and social equity (Anon c, 2000: Anon e, 2003; Anon f, 2003).

The term sustainable development refers to economic development that “meets the needs of the present without compromising the ability of future generations to meet their own needs”. It contends that an organization’s social, ethical, and environmental management practices provide a strong indication of its intent and ability to develop sustainability (Wilson, 2001:3; Bickham, 2002:34; Fig, 2002:84; Freemantle & Rockey, 2004:7).

4.2.2 Sustainability

The concept 'sustainability' derives from 'sustainable development', and measures an organizations ability to continue operating in the long-term. It therefore implies that each organization must find ways to balance the need for short-term corporate competitiveness and financial return, with the need to continue as a going concern in the long term (Freemantle & Rockey, 2004:7).

4.2.3 The Triple-Bottom-Line (TBL)

The triple bottom line (TBL) was coined in response to business' tendency to focus on the financial (single) bottom-line when organizations measure and report on performance, the triple-bottom-line considers the social and environmental contributions an organization makes to society, alongside its more traditional economic contribution. That is, it refers to achieving balanced and integrated economic, social, and environmental performance; it implies that social and environmental issues should not be regarded as secondary to more conventional business imperatives (Anon b, 2003; Van der Merwe, 2003; Freemantle & Rockey, 2004:7 – 8).

4.2.4 Corporate Citizenship

A narrow definition of citizenship might simply imply compliance with the laws of the land. But in the context of sustainable development, corporate citizenship goes much further. It considers the rights and responsibilities of organizations within a broader societal context, and is therefore concerned with the contribution a company makes through its social and environmental impacts as well as its economic contribution. Corporate citizenship can be described as a value system, a code of conduct that is applied throughout an organization (Anon e, 2002; Anon b, 2003; Rochlin, 2003; Freemantle & Rockey, 2004:8).

4.2.5 Corporate Social Responsibility (CSR)

As discussed in chapter two, the term corporate social responsibility emphasizes organizations response to economic, social and environmental considerations.

4.2.6 Corporate Social Investment (CSI)

Corporate Social Investment refers to an organization’s contributions to society and community that are extraneous to its regular business activities – whether such investment is monetary, or in the form of other corporate resources or time. While CSI might be via charitable or philanthropic giving, it increasingly serves to support business development objectives. As such, CSI is an important sub-set of corporate citizenship or CSR, but should never be interpreted as being synonymous with those terms (Anon i, 2002; Rochlin, 2003; Freemantle & Rockey, 2004:8).

4.3 CORPORTAE SOCIAL INVESTMENT

Corporate social investment (CSI) has indeed reached a crossroads. The corporate citizenship imperative and integrated sustainability reporting present a broader range of corporate social responsibility considerations. New broad-based Black Economic Empowerment legislation and the recently launched JSE SRI Index bring new and equally pressing imperatives to the fore. In one way, this dilutes the focus of CSI. But on the other hand, such issues reinforce the importance of CSI as one of the pillars of corporate social responsibility, so making it more critical to the business agenda and elevating its status in the organization (Anon f, 2002:16; Anon i, 2002; Anon d, 2003; Shone, 2003; Rockey, 2003:3).

According to Visser (2003), organizations still unapologetically worship the gods of profit, measured in terms of shareholder value. Corporations will fail to regain trust until business begins to engage in an authentic, transparent stakeholder dialogue about whether this financial growth obsession is still appropriate today, whether business's fundamental purpose needs to change to something that includes stewardship of the planet and service to the public good. It seems that unless CSI becomes part of this fundamental shift it will remain part of the trust problem, rather than the solution.

4.3.1 The business of Corporate Social Investment

Corporate spending on social causes is an age-old practice. Charities have always made a habit of looking to large business for support, and demand for support has always outstripped available funds. That much has not changed. In earlier days in South Africa, larger organizations recognized that it was important to support a broader social cause and introduced largely philanthropic CSI programs. While such efforts were commendable, many mistakes were made along the way and many corporate development initiatives achieved little (Rockey, 2003:7).

Because the business case for CSI was mostly to 'give something back' to communities or to ease the corporate conscience, it was considered a peripheral non-core business issue that did not retain the interest of the executive team and was often sidelined as irrelevant to mainstream business (Rockey, 2003:7; Freemantle & Rockey, 2004:124).

The late 1970's saw a shift in emphasis, when CSI in South Africa was boosted by American organizations operating locally. They were compelled to support the Sullivan Principles, and the business case for CSI was obvious: American companies had to spend against a pre-determined formula (up to seven percent of payroll) to justify their presence in South Africa – essentially a 'license to operate' fee (Rockey, 2003:7).

As the CSI movement matures, it has begun to enter a new era of best practice, so generating sustainable projects that make a real difference. Direct engagement with communities, public-private partnerships, and rigorous project evaluation are becoming important components of a well-run CSI program. Organizations now embark on such programs because they make business sense, generating community goodwill and improving reputation with peers, government, and the development community (Anon d, 2003; Diale, 2003; Freemantle & Rockey, 2004:124).

CSI is now part of a much broader domain that places it within the context of citizenship, empowerment, transformation, and business sustainability. CSI is an important pillar of corporate citizenship and sustainability. Not only does CSI aptly support the business case for corporate citizenship, but also, it adds considerable value as a means of supporting other corporate citizenship as well as CSR endeavors. Organizations have developed many transformational competencies through their CSI programs, which can readily be used to further the organization's citizenship agenda; the CSI program is often a very useful vehicle to reach particular stakeholder groups; and CSI is a specified component of some BEE empowerment charters (Shone, 2003; Freemantle & Rockey, 2004:125).

While profitability remains the platform on which business stand, this very platform will be weakened if growth is not accompanied by transformation.

Business is thus compelled to generate sustainable profits, but in so doing is required to address the interests of a far wider spectrum of stakeholders. In short, organizations are now asked to look closely at its ‘sphere of influence’, to mitigate negative impacts on society, and to build win-win relationships with all stakeholder groups (Anon d, 2003; Diale, 2003; Rockey, 2003:8).

4.3.2 Key drivers

CSI is a voluntary corporate effort to improve the lives of the less privileged individuals, uplift communities external to the organization, or improve the environment in which they live. There is no direct obligation, but there are pressures to sacrifice some corporate earnings in support of the broader common good. These include the following:

- ❖ Organizations recognize that benefits accrue from making the communities around their operations more stable, from closer relations with government, and from improved employee morale,
- ❖ Organizations also recognize that it can enhance their reputation and strengthen the brand. The fact that CSI spending in its entirety goes to development, enables a company to make a strong statement regarding its attitude to societal upliftment,
- ❖ Government and large corporates increasingly ask suppliers to list their CSI activities in tender documents and vendor profiles, which encourages organizations to develop such a program if they want to stand any chance of winning the business,

- Industry charters and the JSE's new SRI Index ask organizations to list specific information related to their CSI activities,
- An organization's CSI program can be leveraged and can play a highly complementary role to support other corporate citizenship objectives, particularly those relating to practices such as enterprise development and preferential procurement,
- Peer pressure and the well-publicized activities of competitors prompt some to develop such programs (Freemantle & Rockey, 2004:125 – 126).

4.3.3 Current status

In the greater scheme of things, corporate South Africa's R2.35 billion annual contributions to community and society through its CSI programs are but a drop in the ocean of development need. What is more, much of the funding does not achieve maximum impact because of the many challenges faced, or because organizations have not integrated CSI activities with their core business or with other corporate transformation or citizenship objectives (Theobald, 2002:24; Freemantle & Rockey, 2004:128).

That said however, some organizations are achieving far greater impact by applying their expertise, becoming strategically involved in projects, or leveraging other skills through considered partnerships. Some are also aligning their CSI programs with other parts of the business, thereby making CSI a more useful strategy for the organization.

The future will indeed see more organizations treating CSI as integral to the greater corporate citizenship, CSR, and sustainability agenda, thereby elevating it to a more strategic level. As a result it will move from the periphery of business to becoming more aligned with everyday business practice. This will ensure that the developmental effort is concentrated within the organization's sphere of influence, and will ultimately achieve more for development and for the organization itself (Freemantle & Rockey, 2004:128).

CSI is becoming more strategic. In the past decade, corporate South Africa has begun to replace the nonprofit organizations (NPOs) as the major distributor of social funds. As this has happened, corporate spending has become more tactical and more calculate. It seems as though organizations are looking at how they can elevate the status of social spending to a boardroom-level item.

Research done by Trialogue – a Cape Town-based social investment, development and corporate citizenship company – during 2002, has found that forty five percent of CSI budgets are determined with the active involvement of the CEO. The reasons are wide-ranging. Firstly, South African organizations have come to understand that they need to widen their consumer base (Theobald, 2002:24).

Secondly, government's empowerment efforts have put pressure on organizations to meet employment equity targets. In many industries this is not possible, given the skill shortage. Organizations that cannot find black professional employees in the marketplace are investing in skills development (Theobald, 2002:24).

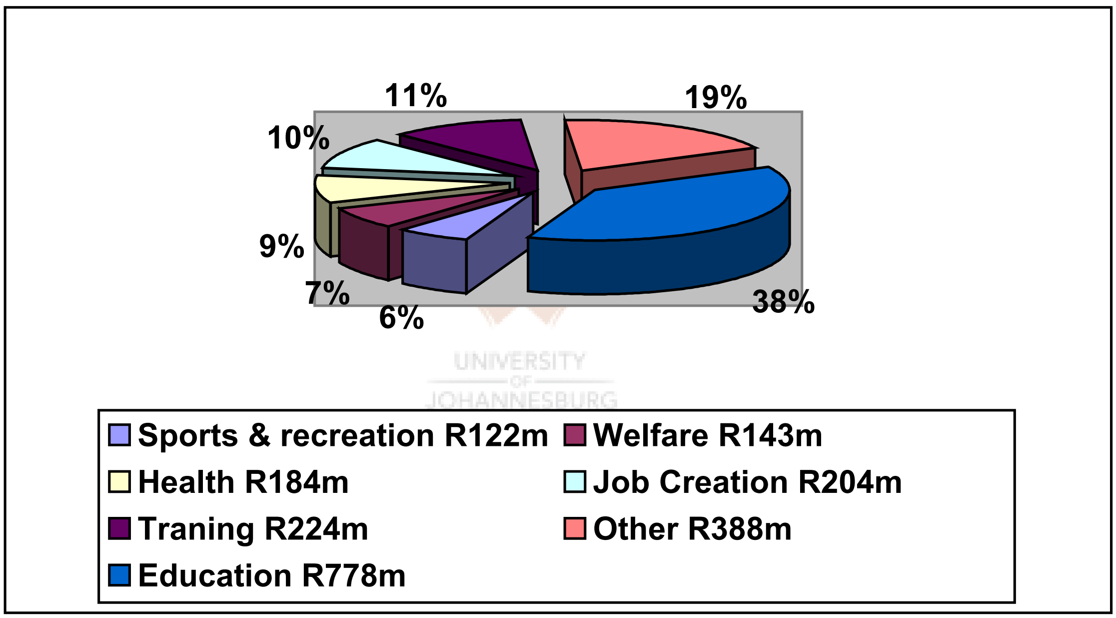
Thirdly, people are waking up to fact that we are all connected and we need an economic battery where every cell in the battery is alive and awake. There are those who will say that CSI is guilt money that is being wasted. But the organizations that are getting it right will be able to start measuring that and show they are really making a difference (Theobald, 2002:25).

Fourthly, investors are taking a closer look at corporate governance. The King II report on corporate governance, the standard for South African companies, highlights an organization's responsibility to aid social transformation. CSR has become a prerequisite to attracting investment (Theobald, 2002:25).

Fifthly, consumers, particularly in Europe, are increasingly lobbying organizations on environmental and social issues. Many of these campaigns have hit revenue lines. Because skills are the heart of the matter, the lion's share of spend with regards to CSI in South Africa (thirty eight percent) is on education as can be seen in graph 4.1 (Fig, 2002:85; Theobald, 2002:25).

Education still seems to be the main beneficiary of social spending. However, spending priorities are changing and being redirected towards the areas of HIV/AIDS, as well as crime.

Graph 4.1 CSI spending in South Africa



Source: Fig (2002:85) and Theobald (2002:25)

4.3.4 Making Corporate Social Investment stick

Significant recent developments herald a new dawn for CSI in South Africa. The Broad-Based Black Economic Empowerment Bill, industry charters and transformation scorecards in the financial, mining, petroleum and other industry sectors, and the recently launched JSE Socially Responsible Investment (SRI) Index all render CSI part of a broader transformation imperative.

In so doing, they all elevate the importance of CSI on many a boardroom agenda. Such changes require organizations and practitioners to respond with greater professionalism and better business alignment for their CSI programs. It is felt that CSI is an important link to an organization's corporate citizenship stance as it often informs the way an organization behaves.

It seems as though it is no longer business as usual – the imperative of corporate social investment (CSI) and responsibility has changed the way business has to operate. It is impossible for organizations to ignore the impact of social, ethical and environmental issues on their businesses. The cost of neglecting these issues is high (Visser, 2003).

It is important that CSI be positioned as a part of the transformation agenda, as an element of CSR and corporate citizenship, and as integral to the organization's sustainability reporting. In this way it will be recognized for the contribution it makes to the overall corporate effort. Leading companies have already begun adopting this approach, moving beyond compliance to best practice and its attendant benefits. In pursuing this line, the business case for CSI becomes embedded within the broader sustainability agenda. Yet this broader agenda should rely extensively on CSI activities: for engaging with communities; for enhancing reputation; for building employee morale; and for demonstrating goodwill to government (Rockey, 2003:9).

Organizations have been spending large amounts of money on CSI, but only recently have they looked at what it can do for them in terms of their reputation and sustainability. Organizations are accounting better for their spending. CSI, essentially, is being taken a lot more seriously; Organizations are sharing more, instead of working alone, and tapping into meaningful partnerships to maximize resources and impact. CSI is good for business precisely because it potentially provides a stronger platform for economic growth. And so CSI must be a win-win strategy through which the organizations commitment to society benefits all.

CSI should not be seen as 'just the right thing to do'. It is not merely motivated by society's template of expectations, neither is it simply about complying with prescriptions. CSI should be viewed as a professional discipline that contributes to the sustainability of organization's business, a win-win approach that contributes to the organization's bottom line. CSI will enhance the organizations reputation with government, community and customers. Critically, it should be about an organization's ethical motivation to make a difference.

4.4 CORPORATE CITIZENSHIP

We all know what a good citizen is: someone who gains the respect of the community and society because she or he has high ethical values and adheres to the laws of the land; shows consideration for others; has a high regard for nature and the environment; and makes a sound contribution to society and community.

Merven King, chairperson of the King Committee (Freemantle & Rockey, 2004:3) stated a while ago: “Companies today affect all aspects of our lives. They in fact link us to the communities in which we live and create mutual rights and obligations in society to the extent that a company is as much a citizen as an individual.”

Just as society represents the sum of individual interactions, so the economy comprises companies and other organizations all interacting and competing with one another for the use of land, natural resources, labor and capital – societal goods that pass into the custodianship of companies. For their contribution to society they accrue rights, but for the privilege of using societal and natural resources, they also incur obligations (Anon e, 2002; Rochlin, 2003; Freemantle & Rockey, 2004:2).

Organizations are all being called on to change their ways – not only by laws and precedents, but also, by customers and stakeholders, including an everforceful phalanx of interest groups. Organizations need to regain the moral high ground in the eyes of a broad range of stakeholders, and it has become clear that to do so is to re-examine the way society and individuals perceive their operations; the way they behave toward society and the environment (Anon e, 2002; Freemantle & Rockey, 2004:4).

It seems as though an ever growing list of organizations agree with the statement made by P. W. Watts, the chairman of Royal Dutch / Shell group: Corporate Citizenship is not a luxury, especially in these difficult times. It's a sensible part of good business (Freemantle & Rockey, 2004:10).

Ludman (2003) confirms this when she said that corporate citizenship is about the way we do business, incorporating everyday business activities, it is not an add-on; it is part of the DNA of the organization.

Some organizations seem to think they can climb abroad the citizenship bandwagon merely by repackaging themselves in sustainability language and reporting, whilst in reality carrying on as before. Rather, what organizations need to be doing is re-inventing them. It requires a paradigm shift in the way executives and employees think about their business, and about the way they do business. They can only do so by demonstrating, unequivocally, that they have the interests of broader society and the environment at heart in conducting their operations.

The focus on corporate citizenship demands that CSI takes a more holistic and integrated approach to sustainable development than has been the case. Critical issues posing severe threats to development, such as HIV/AIDS, land redistribution, government capacity to manage development processes, housing and access to credit and education, highlight the reality that undertaking business in South Africa demands a new approach to corporate social responsibility (Anon b, 2003).

The traditional idea that a philanthropic business foundation will suffice, as a company strategy, is rapidly being displaced. Corporate citizenship is about the integration of strategies into the core business in a way that complements both national and civil society, while adding value simultaneously to shareholders and stakeholders (Anon b, 2003; Rochlin, 2003).

4.4.1 Legislation

There is no shortage of international and local precedent for good corporate citizenship. Internationally, there are a plethora of organizations, conventions, accords, standards, and guidelines working towards responsible business practices and consensus on CSR. In South Africa, our acclaimed Constitution and Bill of Rights entrench human rights and fair labor practices.

Table 4.1 Formal precedents for good citizenship

	International	Local
Prescribed law, conventions and standards	❖ Universal declaration of Human Rights ❖ International labor Organization Standards ❖ ISO 900 ❖ ISO14000	❖ SA Constitution & Bill of Rights ❖ Basic Conditions of Employment Act ❖ Labor Relations Act ❖ Occupational Health & Safety Act ❖ National Water Act ❖ Directors Fiduciary Duties ❖ Mineral & Petroleum Resources Development Act
Guidelines	❖ Global Reporting Initiative ❖ Sigma Guidelines ❖ Dow Jones Sustainability Index ❖ FTSE4GOOD Index ❖ AA 1000 Series ❖ SA 8000 Series ❖ Global Compact	❖ King II ❖ JSE Listing Requirements ❖ JSE SRI Index
Transformation initiatives	❖ 'Region-specific' initiatives	❖ Broad-based BEE Act ❖ Employment Equity Act ❖ Skills Development Act ❖ Industry Charters

Source: Freemantle & Rockey (2004:20).

Existing laws govern regular business procedures and prescribe some human resource and environmental practices, while more contemporary legislation relates specifically to certain aspects of sustainability and environmental or social stewardship. There is also an emerging set of local rules driving the transformation agenda and a wealth of judicial precedent, common law, and director fiduciary duties. Many of the rules, standards, and guidelines overlap, and table 4.1 provides some context, listing a selection of the more entrenched and important initiatives (Anon f, 2002:6; Blowfield & Saffer, 2002:32; Freemantle & Rockey, 2004:19).

Rules are one thing, enforcement quite another, and getting organizations to understand the rationale and accept that they should abide by them, yet another. Some of the South African laws, particularly those relating to transformation, are enabling rather than being prescriptive. The surfeit of standards, guidelines and self-negotiated charters forces organizations to make decisions about what to adopt and what not. Organizations are therefore sometimes faced with choosing which of the 'rules' should be implemented (Freemantle & Rockey, 2004:20).

4.3.2 Managing Citizenship

These days, engaging with a range of company stakeholders is not only a necessary part of good citizenship, it is also good business practice – identifying problems, seeking solutions, providing mutual benefit and contributing to the process of being a 'learning organization'. The challenge is to identify the organization's relevant stakeholder groups, to define and understand the nature of the relationship with each, and to find the most appropriate ways of interacting with each group (Anon e, 2002; Mtshotshisa, 2003; Freemantle & Rockey, 2004:140).

Advocates of corporate citizenship contend that very little can be achieved without dedicated operational and management structures, and without widespread support for citizenship throughout the organization. After all, citizenship requires coordination of many activities across a wide range of citizenship dimensions, which is difficult to achieve if it is subordinated as part of a broader portfolio of responsibilities (Anon e, 2002).

Corporate citizenship should be seen as a value system and a way of doing business that considers broader issues and a wider range of stakeholders in the quest for long-term sustainability and profitability. As, such it cannot be isolated within a single division or department, but must be inculcated throughout the organization. To this end, it is critical that the executive management team endorses corporate citizenship, and that policy is translated into practice through management directives (Ludman, 2003; Freemantle & Rockey, 2004:143).

4.4.3 Practicing Citizenship

Many organizations already adopt responsible business practices across some of the many dimensions found in business. There are those noted for their responsible governance procedures, others, for their progressive human resource management practices, and some for their careful consideration of the environment, or their commitment to community and society. But corporate citizenship as a business ethos requires more than standalone commitment across one or a number of operational practices (Anon e, 2002; Anon b, 2003; Mtshotshisa, 2003; Rochlin, 2003; Freemantle & Rockey, 2004:162).

At the outset, one needs to be clear that corporate citizenship is essentially a value system; that embracing it requires a different corporate mindset and a whole new approach to doing business, not a way of doing the same things differently.

There are a number of important principles to bear in mind before heading down the road to good corporate citizenship:

- **It is not just about the report** – very often organizations equate good corporate citizenship with fancy sustainability reports – believing that they are one and the same thing; that delving into what the organization does once a year and coming up with a comprehensive report is, of itself, evidence of good citizenship. Inherently, this is the wrong way about. It is like declaring that an organization that produces an annual financial report is necessarily financially sound. The fact that an organization chose to put out a sustainability report does not in itself, turn the organization into a good corporate citizen. An organization's citizenship, sustainability or social report should be a documented output of what is going on inherently in the business. It should be treated merely as a communication output that demonstrates the profound internal commitment to good corporate citizenship business practices.

- **It is a holistic way of doing business** – good corporate citizenship does not necessarily mean that current business practices no longer apply. Rather, it requires an organization to assess business risks and identify opportunities across a broader social and environmental context. In all likelihood, this will inform a holistic review of business responsibilities and practices as currently performed. The basic point of departure should be to recognize that by taking account of the interests of a wider group of affected parties, and by optimizing benefits for a wider range of stakeholders, the organization becomes more sustainable in the longer term.
- **It is a journey of continual improvement** – good corporate citizenship is an ongoing development passage, requiring commitment to a new way of corporate life that does not come packaged with a conveniently defined itinerary or destination. The crux is to commit – to start the journey – which is non-negotiable for any organization recognizing that it needs to manage a broader spectrum of business risks whilst simultaneously pursuing good citizenship status. Thereafter, the speed at which the organization decides to travel will depend on individual circumstances.
- **All businesses are affected** – organizations are confronted with many difficult issues. The circumstances that affect the sustainability of each

business are shaped by the peculiarities of individual organizations – the sector in which the organization operates, the type and particular style of operation, the geographical location, and the business' relationship with a range of third parties. How the organization embrace these from the point of view of corporate citizenship ethos and practices, and reports on these issues, will be informed by such peculiarities. Whatever the case, the principle of materiality is paramount – that is, an organization's practices and reporting should be driven by those issues that are relevant, significant and pertinent to the broad spectrum of stakeholders identified as important to the organization. Such materiality should necessarily be informed, or even defined, by the various stakeholder groups that the business operations affect (Freemantle & Rockey, 2004:162 – 165).

What is a reality is that good corporate citizenship should not only be a reaction to the fear of exposure for wrongdoing. Good organizations, as good individual citizens, appreciate how important it is to contribute to a more stable and prosperous society. And importantly, those that respond to this global sentiment are setting themselves up to benefit from the growth in consumer consciousness; those ignoring the trend are likely to be forced into corrective action at some future point, when the cost to the organization will be substantially greater.

4.4 CONCLUSION

The terms used in this chapter are by no means precise, and it is up to corporate entities themselves to extract a meaning of CSR, CSI, corporate citizenship and sustainability that is pertinent to their own organization, to outline the extent of their engagement around these issues, and to pursue their business objectives along sustainable lines.

In our transforming society, organizations are engaging in a new ballgame. The rules of the game are changing and the terms of engagement are shifting. Organizations need to challenge convention, embrace innovation, and convert challenge to opportunity. This approach should apply as much to CSR, CSI, and corporate citizenship as to core business operations.

Aiming for short-term profit at the expense of long-term growth would be totally shortsighted, as organizations cannot grow their operations sustainably while the very fabric of society is under threat.

The next chapter will focus on South Africa - the emergence of CSR in South Africa, the impact of the King reports on organizations, the development of socially responsible investment as well as the recently launched JSEs SRI Index.

CHAPTER FIVE

CSR IN SA

5.1 INTRODUCTION

Nearly ninety five million people are added to the world population each year. This overpopulation growth is placing pressure on the environment and resources. Ethnic, religious, and political conflicts rack every corner of the earth. Global warming, the depletion of the ozone layer, the extinction of fauna and flora and HIV/AIDS further threaten Planet Earth.

These dilemmas affect South Africa as much as any other country. What are the most important issues? Do organizations feel the need to involve them in the need for social and environmental upliftment at all? What do they spend their money on?

In the light of the political, economic, social and environmental problems currently experienced in South Africa, it is not surprising that growing demands are imposed on all institutions of society. Business is especially expected to contribute, to a great extent, to solving these problems. The best way for organizations to confront these problems is by instituting a CSR program throughout the organization

In this chapter the focus will be on CSR in South Africa. This will include a look at the emergence of CSR in South Africa, the impact of the King reports on organizations, the development of socially responsible investment as well as the recently launched JSEs Socially Responsible Investment Index.

5.2 THE EMERGENCE OF CORPORATE SOCIAL RESPONSIBILITY IN SOUTH AFRICA

Concepts of CSR are in flux – underpinned by the emerging network of international codes and the growing expectations of accountability. But what is clear is that responsibility has to lie at the heart of the way in which organizations do business rather than just the enlightened way in which they distribute profits.

In South Africa different forms of CSR have been evident for many years. The nature and content given to these programs were fundamentally shaped by apartheid. However, since the transition in the 1990's, and South Africa's reintegration into a global economy, new dynamics have come to the fore.

The foundation for CSR programs in South Africa was laid in the 1970s. In 1972 Meyer Feldberg delivered his inaugural lecture as the first professor of business administration at the University of Cape Town on "business profits and social responsibility". Feldberg argued that business functions by public consent and its basic purpose are to serve constructively the needs of society – to all satisfaction of society (Slabbert *et al.*, 1998:16-8; Fig, 2002:81).

According to Feldberg (Slabbert *et al.*, 1998:16-8), size, complexity, permanence and technology have all conspired to force modern business to become more socially responsible. Organizations are being asked to assume broader responsibility to society than ever before and to serve a wider range of human values (Slabbert *et al.*, 1998:16-8).

A development of the 1970s, which contributed maybe more concretely to the proliferation of CSR programs in South Africa was the sanctions drive against the South African government. Of crucial importance was the Sullivan Principles, which multinational business organizations who did not disinvest had to adhere to. The creation of the Sullivan Principles can be seen as a 'turning point' in terms of the "vocabulary" of CSR in South Africa (Slabbert *et al.*, 1998:16-9; Fig, 2002:81; Denton & Vloeberghs, 2003:84).

From the 1970s to the mid- 1980s organizations started to set up charitable trusts, partly to accommodate expanded community investment, but also for tax purposes. Tertiary institutions were the main beneficiaries of these funds. Attempts were also made to establish more formal networks between organizations involved in social responsibility in the 1980s, but these did not succeed (Slabbert *et al.*, 1998:16-9).

The 1990s marked not only a new environment for business with the advent of a new political dispensation, but also a stronger trend towards expanded CSR and CSI programs. The setting up of the Joint Education Trust (JET) by fifteen companies, trade unions, political parties and other interest groups in 1991 marked the growing prominence of the trend (Slabbert *et al.*, 1998:16-8; Fig, 2002:81; Denton & Vloeberghs, 2003:84). Graph 4.1 gives an indication of the type of programs supported by CSI contributions during the 2001/2002 financial-year.

Following the 1994 elections, the new government embarked on a program of legislative reform (Fig, 2002:82). The language of the Reconstruction and Development Program (RDP) was used by organizations to describe their CSR programs. By 1996 the RDP was sidelined in favor of the Growth, Employment and Redistribution strategy (GEAR) (Spicer, 2002:47; Denton & Vloeberghs, 2003:84).

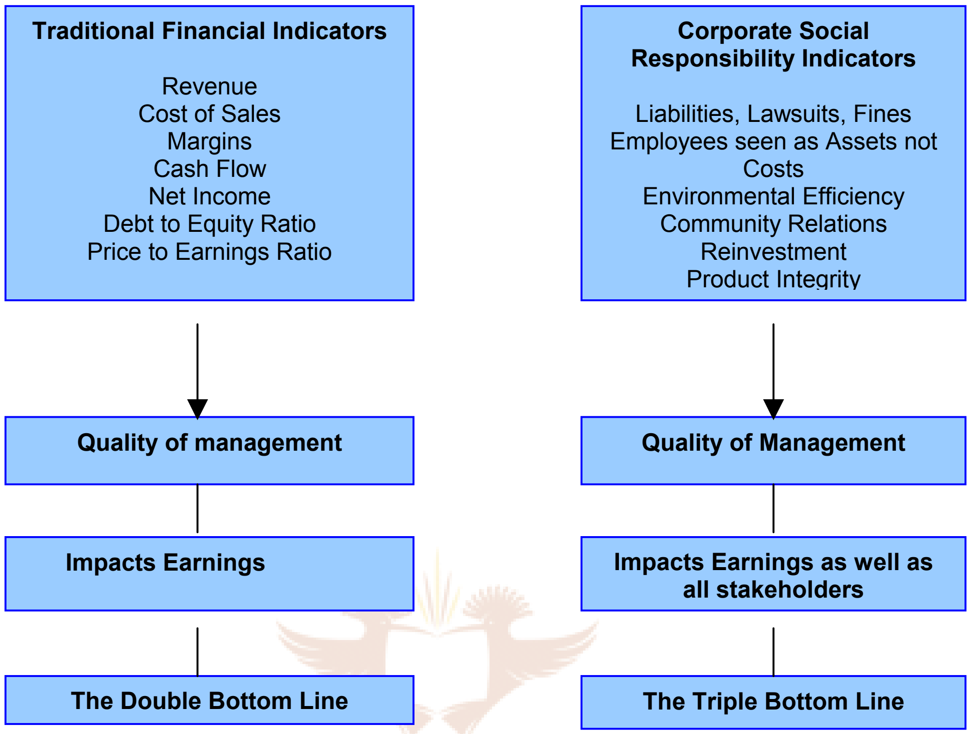
As time went on government turned directly to business to help compensate for its diminishing capacity in numerous fields. This lead to government appeals to business to help bankroll the fight against crime, inner city development, the fight against HIV/AIDS, tourism promotion and many more (Fig, 2002:82 – 83; Newton-King, 2003). Business in South Africa is becoming increasingly involved in the solution of the social problems of the country, and manager's face growing demands concerning the corporate social responsibility of the private sector.

In South Africa CSR refers to operating an organization in a manner that takes responsibility for the social and environmental impact of the organization. It involves developing policies and practices that integrate responsible practices into daily business operations.

CSR can be measured by performance indicators, including: reduced operating costs, enhanced brand image, increased sales and productivity employee retention, and reduced regulatory costs and oversight (Anon j, 2002; Anon k, 2002; Newton-King, 2003). Graph 5.1 indicates the difference between traditional financial indicators and that of CSR indicators.

CSR is an issue that is working its way into many policy debates and corporate agendas. A recent survey by PriceWaterhouseCoopers of 140 chief executives found that eighty five percent of them believe that CSR will be even more important to their business model in five years than it is today (Anon a, 2004).

Graph 5.1 The difference between traditional financial indicators and CSR indicators



Source: Adapted from: Anon k (2002).

In an increasingly globalised world, South Africa has to compete for investment funding against many other emerging markets. Research show that international investors often prefer to invest in companies that can demonstrate high standards of corporate governance as well as clear policies and initiatives for CSR and protection of the environment (Kemp, 2002; Brady, 2004).

5.3 THE KING REPORTS

The King Committee on Corporate Governance was formed in 1992, under the auspices of the Institute of Directors, to consider corporate governance, of increasing interest around the world, in the context of South Africa. This coincided with profound social and political transformation at the time with the dawning of democracy and the re-admission of South Africa into the community of nations and the world economy (King II, 2002:7).

In 1994 the King Report on Corporate Governance (King I) was published by the King Committee on Corporate Governance, headed by former High Court judge, Mervyn King S.C. King I, incorporating a Code of Corporate Practice and Conduct, was the first of its kind in the country and was aimed at promoting the highest standards of corporate governance in South Africa (Anon a, 2002; Payne, 2002; Mtshotshisa, 2003).

King I advocated an integrated approach to the good governance in the interests of a wider range of stakeholders. Although ground braking at the time, the evolving global economic environment together with recent legislative developments, have necessitated that King I be updated.

The King Report on Corporate Governance for South Africa (2002) sets out a wide range of recommendations to encourage organizations to act ethically and to promote the highest standards of corporate governance – not only as these relate to organizations' financial affairs, but also recognizing the increasing importance of non-financial social and environmental issues, and considering these issues in the specific context of this country (Anon a, 2002; Payne, 2002; Mtshotshisa, 2003; Freemantle & Rockey, 2004:21 – 22; Newton-King & Le Roux, 2004).

Even by developed country standards, King II is progressive and goes beyond financial and regulatory concerns to include recommendations on a range broader stakeholder interests. As a result, it has attracted wide international acclaim, particularly for its far-reaching approaches to governance, its comprehensive recommendations on integrated sustainability reporting, and its approach to country-specific transformation issues in South Africa (Payne, 2002; Freemantle & Rockey, 2004:22; Mammatt *et al*, 2004:62).

Ever since the publication of the King II report South African organizations have sharpened their focus on their commitment to the 'triple-bottom-line', as an expanded baseline for measuring an organization's performance, which includes in addition to the traditional financial yardstick, an accounting of the impact of their activities on society and the environment (Anon a, 2002; Kemp, 2002; Brady, 2004; Newton-King & Le Roux, 2004).

King II is a very comprehensive document setting out guidelines and minimum standards. It has, however, not been enacted into law and should therefore not be used as a checklist for compliance or non-compliance. Governance is about principles applied in the most appropriate way for a specific organization. Disclosing its application as completely and transparently as possible is critical for all stakeholders in enabling them to make informed decisions (Mtshotshisa, 2003; Mammatt *et al.*, 2004:69).

According to Payne (2002) the King II Report should be seen as a "living document" that may require to be updated from time to time by the King Committee to ensure the currency of its recommended principles of corporate practices and conduct.

CSR has been put center stage by the King II report with its emphasis on the economic, social, and environmental added value of organizations – the triple-bottom-line. King II's importance, however, is more than raising the profile of CSR: it is one of the first attempts by an African nation to define responsibility for itself (Blowfield & Saffer, 2002:32).

5.4 SOCIALLY RESPONSIBLE INVESTMENT

Internationally, major corporations and investors have moved beyond conscience-based social responsibility to a more holistic view that focuses on the broader sustainable development agenda. This allows investors in the sustainability and ethical indices on the New York and London stock exchanges to see a clear link between responsible organizations and positive investment returns. With the recent launch of the Johannesburg Securities Exchange's SRI Index, this broader approach will become increasingly apparent here too – as listed companies that want to be recognized as good citizens figure out what criteria they need to consider in order to qualify for the index (Freemantle & Rockey, 2004:139; Wessels, 2004).

5.4.1 Socially Responsible Investment in South Africa

The concept of socially responsible investment (SRI) is still in its infancy in South Africa. According to Wessels (2004), SRI can play a vital role in the redistribution of wealth and also as a mechanism that can provide financial facilities to a large portion of the South African population who lack these services at present. There are currently very few SRI funds available, but the concept of SRI is expected to grow as investors realize that returns easily measure up to those funds that do not take SRI into account.

It is reported that in 2002, the estimated SRI expenditure in South Africa was R2.2 billion – marking an increase from the previous year's R2.04 billion. This represents more than one percent of the pretax profits of every listed company in South Africa. On top of that organizations gave an estimated R1.1 billion in kind, and R880 million worth of staff time (Theobald, 2002:24; Diale, 2003).

Research show that corporate South Africa is giving, but gone are the days of an arm's-length handout to whoever knocks at the door. The last few years have seen an increasing awareness of and need to measure sustainable business practices. In South Africa, in particular, the King II Report urges organizations to embrace the triple-bottom-line as a method of doing business (Anon, c, 2004; Brady, 2004; Newton-King & Le Roux, 2004).

5.4.2 Johannesburg Securities Exchange

The Johannesburg Stock Exchange, now re-branded the JSE Securities Exchange South Africa (JSE), was founded in 1887, after the nine farms that made up the Witwatersrand goldfields, the richest of their kind in the world at the time, were proclaimed public diggings. The JSE is the largest exchange on the African continent, and the market capitalization in August 2002 was US$ 1.6 trillion. It is currently the fifteenth largest exchange internationally with five hundred and one listed companies (Anon h, 2002; Newton-King, 2002; Ludman, 2003; Anon b, 2004).

On 19 May this year the JSE Securities Exchange South Africa made public its first Socially Responsible Investment Index (SRI Index) for listed companies – a triple-first achievement, as it is the first index of its kind in an emerging market and also the first in the world launched by a stock exchange. The SRI Index started trading live from Thursday, 20 May 2004 (Diale, 2003; Brady, 2004; Newton-King & Le roux, 2004).

The JSE has been working with people across society's spectrum to create the SRI Index as a means of helping to focus the debate in addition to recognizing the tremendous efforts already made by South African organizations. Organizations need to satisfy key rules of the index before being granted permission to list. These include a commitment to three core pillars: environmental sustainability, positive stakeholder relationships, and upholding and supporting universal human rights. Thus organizations will have to realize that not only are the shareholders relevant, but industry players perceptions are very important. All the companies in the FTSE/JSE All Share Index were invited to participate on a voluntary basis. Of the seventy-four that participated fifty-one met all the criteria (Anon c, 2003; Ludman, 2003; Brady, 2004; Wessels, 2004).

The SRI Index will be used as a benchmark for investors to measure an organization's performance on a CSR level (Anon c, 2003). Besides providing potential investors with a practical tool for assessing South African organizations, the JSE believes the SRI Index will encourage more organizations to have them benchmarked in this way (Brady, 2004).

Nicky Newton-King, deputy CEO of the JSE confirmed that the JSE hopes with the launch of the index to encourage organizations to embrace best practices and be accountable on a social responsibility level, while simultaneously providing a vehicle for investors to start gaining confidence in local firms. It aims to reflect best practice in CSR, highlight those listed organizations with good CSR records, measure share price performance of these organizations, meet the CSR needs of the investment community and provide a basis for such financial products (Anon c, 2003; Wessels, 2004).

The JSE is ideally positioned to provide a neutral platform, which investors could look at as a benchmark index to view a group's social responsibility records and financial performance. The JSE recognizes that to enjoy economic benefits of business and deliver long-term shareholder value, South African organizations must demonstrate socially responsible practices. Presently investors are seeking out organizations with good CSR records, leading to a rise in socially responsible investment and SRI funds. The index therefore provides an objective and accepted method of measuring the CSR performance of listed organizations to enable the SRI to happen (Anon c, 2003; Diale, 2003).

5.4.3 Socially Responsible Investment Index

The idea of the South African SRI Index came at a time when investors and industry stakeholders were grappling to deal with the collapse of various big companies locally and overseas (Anon c, 2003).

Globalization means that investors can choose where they want to trade. In South Africa we need to fight for every cent of an investment dollar to come and remain in this country. All South African organizations will need to embrace global standards if they want to benefit from increased investment (Denton & Vloeberghs, 2003:84; Anon c, 2004).

The index contains three pillars to represent the triple-bottom-line, set in a "foundation" of solid corporate governance. Participating organizations had to meet minimum criteria in each of the three pillars for participation in the index, and received rankings on this. An outline of environmental sustainability notes that: Africa has a rich and critical resource base, which needs to be wisely used if it is to provide any sustainable support to the development of South Africa and its people (Ludman, 2003).

For the economic sustainability pillar the JSE decided that though financial performance is an aspect of economic sustainability, it is not necessarily a reflection of long-term growth. The social sustainability pillar requires organizations to move beyond engaging with only shareholders and maintain relationships with a wide range of stakeholders, including staff and the community. As for corporate governance, the foundation, its fundamental concepts are fairness, accountability, responsibility and transparency (Ludman, 2003).

The purpose of the SRI Index is that of a benchmark index. It is based on the FTSE4GOOD, but is customized to reflect the complex nature of social responsibility in South Africa. It was decided to construct an SRI Index and not an ethical index, this means that an ethical screen does not apply and organizations in certain lines of business are not excluded. The index will aim to:

- Reflect best practice in CSR
- Highlight those organizations with good CSR records
- Measure share price performance of these organizations
- Provide the basis for financial SRI products (Newton-King, 2002; Ludman, 2003).

Analysts hailed the launch of the Social Responsible Investment Index on the JSE as a positive move. Being on the index improves organization's standing in the eyes of the socially conscious investor. It is also expected to contribute to the economic development of the country (Anon c, 2004).

All the companies in the FTSE/JSE All Share Index were invited to participate in the process, which lead to the JSE SRI Index on a voluntary basis. Seventy-four listed companies participated and fifty-one companies met the criteria (Anon c, 2004; Newton-King & Le roux, 2004). Their names appear in alphabetical order in table 5.1.

Table 5.1 Constituents of the JSE SRI Index (in alphabetical order)

ABSA Group Ltd	Iscor Ltd
African Bank Investments Ltd	Johnnic Communications Ltd
African Oxygen Ltd	Kumba Resources Ltd
African Rainbow Minerals Ltd	Liberty International plc
Alexander Forbes Ltd	Massmart Holdings Ltd
Allied Electronics Corporation Ltd	Medi-Clinic Corporation Ltd
Allied Technologies Ltd	MTN Group Ltd
Amalgamated Beverages Industries Ltd	Murray and Roberts Holdings Ltd
Anglo American Platinum Corporation Ltd	Nampak Ltd
Anglo American plc	Nedcor Ltd
Anglogold Ashanti Ltd	Network Healthcare Holdings Ltd
Aveng Ltd	Northam Platinum Ltd
AVI Ltd	Old Mutual plc
Barloworld Ltd	Pick ‘n Pay Holdings Ltd
BHP Billiton plc	Pretoria Portland Cement Company Ltd
The Bidvest Group Ltd	Remgro Ltd
City Lodge Hotels Ltd	SABMiller plc
Dimension Data Holdings Ltd	Sappi Ltd
Edgars Consolidated Stores Ltd	Sasol Ltd
FirstRand Ltd	South African Chrome and Alloys Ltd
Gold Fields Ltd	Standard Bank Group Ltd
Gold Reef Casino Resorts Ltd	Telkom SA Ltd
Harmony Gold Mining Company Ltd	The Tongaat-Hulett Group Ltd
Illovo Sugar Ltd	Venfin Ltd
Impala Platinum Holdings Ltd	Woolworths Holdings Ltd
Investec Ltd	

Source: Newton-King & Le Roux (2004).

A notable aspect of the SRI Index is that seventeen of the constituents are part of the JSE's MidCap Index and three are part of the SmallCap Index, which reflects the fact that sustainability is a business issue for organizations of all sizes (Newton-King & Le Roux, 2004).

This is a Proudly South African Index. It is something that will show what South African organizations are doing in this area. It is also a way to praise them for what they do as opposed to criticizing them for what they are not doing.

5.4.4 Socially Responsible Investment Funds

As long ago as 1995 it was pointed out in various literature that a new trend was emerging in South Africa namely 'socially responsible investment". Globally the idea of socially responsible investment (SRI) is not novel. Already in the 1920's, certain religious groups in the United States protested against the investment in certain "sin stocks". This refers to shares in companies involved, amongst other things, in the liquor and tobacco trade. Initially there was a lot of skepticism around the notion of socially responsible investment, but by the 1980s a number were performing very well and their popularity grew. In 1988, two 'ethical' funds ranked among the top ten in the US – out of 1 470 altogether (Slabbert *et al.*, 1998:16-13).

During 1992, the Community Growth Fund was set up in South Africa as a socially responsible investment fund. A trade union consortium manages the fund. Certain set criteria are used in the screening process. Table 5.2 provides an exposition of these fourteen criteria (Slabbert *et al*, 1998:16-13; Thomas, 2002).

Table 5.2 Socially responsible investment: criteria used by the Community Growth Fund

Jobs	14
Industrial relations	14
Conditions of employment	13
Training	7
Equal opportunity for women	7
Health and safety	6
Product	5
Privatization	5
Profit retention	5
Affirmative action	5
Location	4
Environment	4
Worker participation	4
Disclosure	4
Political profile	2
Social spending	1
Total	100 points

Source: Slabbert *et al.* (1998:16-13) and Thomas (2002).

Cromwell Mashengete, the manager of the Community Growth Fund, is of the opinion that funds such as the Community Growth are outperforming or equaling the performance of conventional funds in the US and UK as well as locally. And these funds are growing in size and importance (Thomas, 2002).

By the end of 2002 the South African SRI market has grown to 21 funds with some R19 billion under management, or one point six percent of the R1.2 trillion under professional management (Thomas, 2002). The Community Growth Fund recorded average annual growth of fourteen percent over a ten year period, in line with the all-share index's fourteen percent and better than the thirteen percent average return of Domestic General Equity funds. Futuregrowth Pure Fund has reported equally good performance figures. Over one, three and five years it has been in the top three of sixty-one funds in the General Equity sector. The fund was during 2002 number one over five years (Thomas, 2002).

According to Derrick Msibi, executive director of Old Mutual Asset Management, investors in the UK and US have a clear understanding of the benefits of socially responsible investment. Frans Mahlangu (principal officer of the Mineworkers Provident Fund) echoed his views, when he confirmed that this style of investing has proved it can deliver good, sustainable returns (Thomas, 2002), In South Africa on the other hand it had a lukewarm reception. Retirement fund trustees and fund managers cannot understand the imperative to invest in “good causes”, particularly when “the social returns are murky at best and some carry the scars from previous attempts” (Thomas, 2002).

In what companies do such funds choose to invest? According to Mashengete screening methods comprise two types: negative screening where the mandate is not to invest in certain industries, or positive screening, which means investing in organizations that display, for example, good safety records, pollution control and the like (Thomas, 2002).

The wider universe of corporate governance practices has been shown to contribute to enhanced financial performance. As examples, good environmental management reduces the risk of litigation and replacement costs, and can ease entry into global markets; enlightened empowerment policies can improve access to government contracts while treatment and education programs targeting HIV/AIDS is increasingly being shown to be optimal business decision. All these factors, as well as extensive empirical evidence, confirm that CSR and financial performance go hand in hand.

Proponents of CSR and SRI hold the opinion that in a society such as South Africa, with its high level of poverty, inequality, and social problems arising from these material conditions – of which violent crime is a good example –

organizations have a crucial role to play in securing an equitable environment in which to conduct business in.

5.5 CONCLUSION

Business in South Africa is becoming increasingly involved in the solution of the social, economic and environmental problems of the country, and organizations face growing demands concerning the corporate social responsibility of the private sector.

Organizations had to significantly improve corporate governance and CSR in South Africa through the King reports. They also had to show their major investors that CSR makes ‘good business sense’. Ultimately, organizations stand and fall through their ability to generate profits. Unviable business can do no good. The argument is that is mistaken to pose CSR and profitability as mutually exclusive. The aim is to achieve social responsibility *and* profits.

Fortunately many South African corporations have realized that they need to take a wider view of their role. This involves not only the protection of the corporate reputation – a significant intangible asset for most organizations – but also effective management of its CSR and a view of the organization as a corporate citizen. Organizations have to plan their businesses with a view to their impacts on society and on their relations with key stakeholders.

CSR is neither a fad nor an optional extra. The interest in it is reflective of a deeper change in the relationship between organizations and their stakeholders. Faith in the benefits of profits to consumers has halved since the seventies, as a viable basics of a relationship, that faith has been replaced by a desire to see organizations acting as active and responsible citizens. Healthy business requires a healthy community, and should be contributing to its creation and maintenance.

Along with its political transition, South Africa has undergone economic liberalization. Its corporations have become global players and as such have to take global standards, codes, and customer preferences into account. Consumers and NPO's are increasingly exercising their watchdog roles, while investors increase their demands for more ethical and socially responsible corporate practices. All these factors will be shown to play a part in shifting corporate behavior.

In the next chapter a summary and conclusion will be made. Some recommendations for the future will be made.

CHAPTER SIX

SUMMARRY, CONCLUSIONS AND RECOMMENDATIONS

6.1 SUMMARY

No single text on a topic as complex, wide-ranging and dynamic as corporate social responsibility can cover all issues or satisfy all needs. This paper presents a glimpse of the history and background as well as the present day status of what the area of corporate social responsibility is all about.

CSR is a vital issue in contemporary debate. Much of its currency comes from the scale and influence of the modern corporation. Few issues in business have excited more interest recently than the emerging topic of CSR. In particular, the responsibilities of corporations to their communities are under intense scrutiny. This reflects the growing awareness of the impact of their actions on the environment and the disadvantaged as well as the changing relationship between organizations and communities.

It was argued that organizations operate with societies on the basis of an implicit or explicit contract, which imposes the creation of duties and responsibilities. These extend far beyond the economic functions attributed by writers like Norman Friedman. These obligations change over time. In some areas, vast improvements have been made; in other areas it appears that the remedy has been worse. Only by continued and improved effort and cooperation on the part of government, business and society can meaningful progress be made. Finally, vast progress has been made in many areas of CSR; however, further progress is needed. In some cases a step backward may be more beneficial than two steps in the direction now headed.

In today's business climate, where organizations compete globally for customers as well as talent, where reputation is as important as financial outcome, and where social and environmental risks have become key business dynamics, organizations (by implication, their directors and managers) are increasingly being called to account – by a broader range of stakeholders – across a far wider spectrum of the organization's activities and operations.

In order to demonstrate their commitment to CSR, organizations therefore need to look afresh at their policies, practices, and presentations. Organizations can no longer afford to outsource their conscience to a corporate foundation or community development department. Increasingly, CSR is being seen as a core part of the overall business and a direct responsibility of the board, which needs to be managed accordingly.

6.2 CONCLUSIONS

The intention of this paper was not to argue for a specific approach to CSR, nor to argue for or against any CSR program. Rather, it is an attempt to provide an exposition of some of the perspectives on this form of corporate involvement and to provide an overview of the historical and social forces that gave rise to the relevance of an analysis of the subject.

The emerging international discourse surrounding CSR has been invigorated and informed by that of sustainable development. CSR calls for an organization to respond not only to its shareholders but also to other stakeholders (employees, customers, affected communities, and the public) on issues such as human rights, employee welfare and climate change. Most significantly, whereas CSI or philanthropy has to do with how a certain amount of profits are spent on worthy causes, CSR is primarily about how those profits are made in the first place.

Proponents of corporate social responsibility, corporate citizenship, and corporate investment hold the opinion that in a society such as South Africa, with its high level of poverty, inequality, and social problems arising from these material conditions, organizations have a crucial role to play in securing an equitable and stable environment in which to conduct business in.

CSR refers to all of an organization's impacts on society and the need to deal responsibly with the impacts on each group of stakeholders. Typically these are: shareholders, customers, suppliers, employees, and the community (both local and global). Key issues will vary from sector to sector and organization to organization, but this approach usually embraces the following major issues:

- ❖ Human rights,
- ❖ Labor conditions,
- ❖ Environmental impacts of products and/or services from creation to disposal,
- ❖ Impacts of operations on local communities'
- ❖ Impacts of products or services on customers.

6.3 RECOMMENDATIONS

Agree with it, disagree with it, like it, or dislike it, CSR is here to stay and everyone must live with it. This does not mean that if there are parts of it with which one is not in full agreement that one should not try to do something to correct or modify it. Government, business and society are going to have to work together more closely in the future if reasonable standards and progress are to be made in this area.

Corporate Social Responsibility is an important topic and one, which every organization in South Africa should recognize as crucial to them. In today's business environment, it is not enough to take matters for granted and assume that we are somehow protected from an eventuality. Accordingly, organizations will need to take steps to formalize CSR guidelines to be applied throughout the company. In other words organizations have to devote more and more attention to non-financial aspects to satisfy not only worldwide pressure groups but in the end, to survive at all.

CSR should not be done because it is merely the right thing to do. It should be done because it is being business-like to do it – inasmuch as it is being strategically business-like to practice employment equity in the here and now of South Africa.

Donations and charity are the easy part of CSR. Most people are happy to play benefactor, not least if it is someone else's money. Real corporate social responsibility is not about philanthropy. It is much broader and much more demanding of management. It depends on the adoption in an organization of a set of shared values. Corporate culture cannot be imposed but should be carefully nurtured from within. This is at the heart of the CSR implementation process.

All of us should take time to think about the ramifications of our organization's social contracts – with our employees, with the communities where we have a presence, and with society at large. The question is: are we comfortable that the balance our company is striking between economic and social roles and responsibilities is appropriate and in line with our organizational values? Do we feel comfortable that we know the viewpoints of all our stakeholders on all these issues?

7. LIST OF REFERENCES

Anderson, J. W. (1998). Corporate Social Responsibility – Guidelines for Top Management. Connecticut: Greenwood Press Inc.

Anon. (1999). The Global Sullivan Principles. http://www.mallenbaker.net [Date accessed: 29 Augustus 2004]

Anon, a. (2000). Global Corporate Sullivan principles Launched at UN. http://www.uscib.org [Date accessed: 29 August 2004]

Anon, b. (2000). Corporate Social Responsibility – a draft international framework. http://www.dti.gov.uk [Date accessed: 13 April 2004]

Anon, c. (2000). Brundtland Report. http://www.ace.mmu.ac.uk [Date accessed: 1 October 2004]

Anon. (2001). The Global Sullivan Principles. http://www.cebcglobal.org [Date accessed: 29 August 2004]

Anon, a. (2002). King Report on Corporate Governance for South Africa 2002 – What it means to you. http://www.cliffdecker.co.za [Date accessed: 3 September 2004]

Anon, b. (2002) Overview of Corporate Social Responsibility. http://www.bsr.org [Date accessed: 2 December 2003]

Anon, c. (2002). The Global Sullivan Principles of Corporate Social responsibility. http://www.mallenbaker.net [Date accessed: 29 August 2004]

Anon, d. (2002). Corporate Social Responsibility. http://www.europa.eu.int [Date accessed: 12 May 2004]

Anon, e. (2002) The Small Business Network – Community Business Program. http://www.bc.edu [Date accessed: 19 March 2004]

Anon, f. (2002). Corporate Social Responsibility: a business contribution to sustainable development. http://www.eu.int [Date accessed: 29 August 2004]

Anon, g. (2002). A Framework: Corporate Social Responsibility Diamond. http://www.worldbank.org [Date accessed: 19 March 2004]

Anon, h. (2002). Launch of draft FTSE/JSE SRI Index – Philosophy and Criteria. http://www.jse.co.za [Date accessed: 2 December 2003]

Anon, i. (2002). Building Bridges. http://www.icb.org.za [Date accessed: 19 March 2004]

Anon, j. (2002). Social Responsibility: Helping South Africa prepare for its future. http://www.mbendi.com [Date accessed: 14 February 2004]

Anon, k. (2002). Promoting Corporate Social Responsibility. http://www.asyousow.org [Date accessed: 14 February 2004]

Anon, a. (2003) Public Wants Business to be Socially Responsible. http://www.bc.edu [Date accessed: 12 May 2004]

Anon, b. (2003). A New Approach to Social Responsibility. http://www.bday.co.za [Date accessed: 4 June 2004]

Anon, c. (2003). King Approves New JSE Initiative. http://www.bday.co.za [Date accessed: 26 February 2004]

Anon, d. (2003). A Pillar of Corporate Citizenship. http://www.suntimes.co.za [Date accessed: 29 August 2004]

Anon, e. (2003). Sustainable Development. http://www.undp.org.za [Date accessed: 1 October 2004]

Anon, f (2003). Origins of Sustainable Development. http://www.econ4env.co.za [Date accessed: 1 October 2004]

Anon, a. (2004). ISO CSR Standards. http://www.iisd.org [Date accessed: 29 August 2004]

Anon, b. (2004) Investors Unmoved by Social Responsibility. http://www.bday.co.za [Date accessed: 29 August 2004]

Anon, c. (2004). Advent of Responsible Business in South Africa with the Introduction of Social Responsibility Index. http://www.futuregrowth.co.za [Date accessed: 27 May 2004]

Bateman, T. S. & Snell, S. A. (1999). Management – Building Competitive Advantage. 4th Edition. Boston: Irvin McGraw-Hill

Bickham, E. (2002). Corporate Responsibility. Optima, 48(1), 32 – 51

Blowfield, M. & Saffer, A. (2002). Corporate Responsibility. Professional Management Review, July 2002

Brady, M. (2004). A Measure of Corporate Citizenship. http://www.mg.co.za [Date accessed: 29 August 2004]

Cannon, T. (1992). Corporate Responsibility. London: Pitman Publishing

Coldwell, D. A. L. (2001). Perceptions and Expectations of Corporate Social Responsibility: Theoretical Issues and Empirical Findings. SA Journal of Business Management, 32(1), 49 – 55

Cronje, G. J. de J., du Toit, G. S. & Motlatla, M. D. C. (2000). Introduction to Business Management. Cape Town: Oxford University Press

Debold, B. (1995). Fourth Wave Concept Overview. http://www.worldtrans.org [Date accessed: 6 September 2004]

Denton, M. & Vloeberghs, D. (2003). Leadership Challenges for Organizations in the New South Africa. Leadership and Organizational Development Journal, 24(2), 84 – 94

De Vos, A. S., Strydom, H., Fouche, C. B., & Delport, C. S. L. (2002). Research at Grasroots: for the social sciences and human services professions. 2nd Edition. Pretoria: Van Schaik

Diale, T. (2003). Re-looking at Corporate Social Investment in South Africa. http://m1.mny.co.za [Date accessed: 31 August 2004]

Fig, D. (2002). Corporate Social and Environmental Responsibility. SA Labor Bulletin, 26(2), 81 - 85

Freemantle, A. & Rockey, N. (2004). The Good Corporate Citizen: pursuing sustainable business in South Africa. Cape Town: Trialogue

Hall, D.T. (1996). The Career is Dead – Long Live the Career – a relational approach to careers. San Francisco: Jossey-Bass Publishers

Hopkins, M. (2000). Corporate Social Responsibility – the big picture. http://www.mhcinternational.com [Date accessed: 19 March 2004]

Hopkins, M. & Cowe, R. (2004). Corporate Social Responsibility: is there a business case? Teach Accounting, Issue 4, August 2004.

Hunter, D. (2002). Managing in the Third Wave. http://www.ssr-personnel.com [Date accessed: 6 September 2004]

Kaku, R. (1992). Perestroika in Japan. New York: New American Library

Kemp, S. (2002). King II in a Nutshell. http://m1mny.co.za [Date accessed: 3 September 2004]

King Committee on Corporate Governance. (2002). King Report on Corporate Governance for South Africa. Parktown: Institute of Directors in South Africa

Kreitner, R. & Kinicki, A. (2001). Organizational Behavior. 5th edition. Boston: Irwin McGraw-Hill

Kruger, S. (1995). New Management Thinking into the 21st century – Liberation management Philosophy. Business Management, RAU

Kruger, S. (1999). Change Dynamics. Business Management, RAU

Kruger, S. (2000). Liberation Management Philosophy – Riding the Waves of Change with South African Business into the 21st Century. Handout notes, RAU

Ludman, B. (2003). Corporate Social Responsibility – the four point system Financial Mail, 31 October 2003. http://free.financialmail.co.za [Date accessed: 29 August 2004]

Mammatt, J., Du Plessis, D. & Everingham, G. (2004). The Company Directors Handbook. Ape Town: Creda Communications

Maynard, H. B. & Mehrtens, S. E. (1995). The Fourth Wave Business in the 21st Century. San Francisco: Berrett-Koehler Publishers

Mtshotshisa, N. (2003). Corporate Governance and Corporate Citizenship. http://www.bmfonline.co.za [Date accessed: 29 August 2004]

Newton-King, N. & Le Roux, C. (2004). Launch of JSE Socially Responsible Investment Index. http://www.jse.co.za [Date accessed: 4 June 2004]

Newton-King, N. (2003). Corporate Social Responsibility – an exchange's view. http://www.gibs.co.za [Date accessed: 27 May 2004]

Orlando, J. (1999). The Fourth Wave – the ethics of corporate downsizing. http://www.facstaff.bucknell.edu [Date accessed: 6 September 2004]

Payne, N. (2002). Leadership with Integrity. http://www.accountancysa.org.za [Date accessed: 18July 2004]

Peck, M. 1987. The Different Drum – community making and peace. New York: Simon & Schuster

Rochlin, S. (2003). Corporate Citizenship is coming – are you ready? http://www.bc.edu [Date accessed: 3 April 2004]

Rockey, V. (2003). The CSI Handbook – a comprehensive reference guide to corporate social investment in South Africa. 6th Edition. Cape Town: Trialogue

Shone, H. (2003). Anglo Tops in Social Investment. http://www.suntimes.co.za [Date accessed: 31 August 2004]

Slabbert, J. A., Prinsloo, J. J., Swanepoel, B. J. & Backer, W. (1998). Managing Employment Relations in South Africa. Cape Town: Butterworths Publishers

Spicer, M. (2002). The Business Trust – Big Business makes a big impact. Optima, 48(1), 47 – 51

Tapscott, D. & Tapscott, A. W. (2003). A New Way Forward – Transparency and Values http://www.bc.edu [Date accessed: 19 March 2004]

Theobald, S. (2002). Future Wealth. Financial Mail, 168(11), 24 – 26

Thomas, J. (2002). Profits and Ethics Make Powerful Partners. http://www.suntimes.co.za [Date accessed: 27 May 2004]

Van der Merwe, C. (2003). Ready for the Third Wave? http://www.rjr.rau.ac.za [Date accessed: 6 September 2004]

Visser, W. (2003). Things Will Never be the Same Again. http://www.suntimes.co.za [Date accessed: 29 August 2004]

Wessels, V. (2004). Seeds Have Been Planted for Socially Responsible Investment. http://www.businessreport.co.za [Date accessed: 27 May 2004]

Wilson, R. (2001). Corporate Social Responsibility – putting the words into action http://www.natural-resources.org [Date accessed: 13 April 2004]

Zikmund, W. G. (2003). Business Research Methods. 7th Edition. Ohio: Thompson Learning