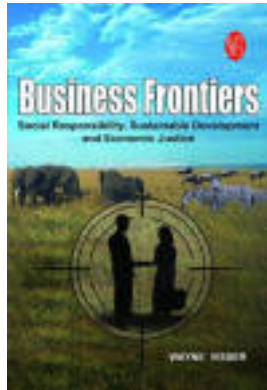


## **Business Frontiers:**

### **Social Responsibility, Sustainable Development and Economic Justice**

*By Wayne Visser (ICFAI Books, 2005)*



## **~ 15 CORPORATE SUSTAINABILITY ~**

### **A Ten Year South African Review**

What have ten years of democracy meant for the corporate sustainability agenda? This chapter looks back at what have been the main catalysts for change since 1994, the trends where substantial progress has been made and the key areas where companies still lag international best practice.

#### ***Catalysts for Change***

##### *Legislative Reform*

The wave of legislative reform initiated by the post-apartheid government fundamentally changed the landscape of corporate sustainability. Between 1994 and 2004, approximately 60 entirely new or substantively revised statutes were introduced which had direct implications for corporate management of safety, health, environment, socio-economic development, labour, governance and ethics issues. Some of these, such as employment equity and black economic empowerment, reflected the aspirations of the ANC's pre-election Reconstruction and Development Programme (RDP) agenda, while others, like sustainable development and corporate governance, strongly echoed international trends.

##### *Globalisation*

At the same time, South Africa's re-entry onto the international staged forced many companies to raise their sustainability standards to meet global market expectations. As a direct result, there was a substantial increase in environmental management certification and sustainability reporting, as companies like BHP Billiton, Anglo American and Old

Mutual, which became Fortune 500 companies, and SABMiller, Lonmin and Dimension Data, which became FTSE 250 companies, quickly upped their game to conform to the corporate governance requirements of the New York and London stock exchanges and the corporate sustainability requirements of various social and environmental investment indexes.

### *Stakeholder Activism*

Newly empowered by the law and supported by international NGOs, South African civil society also became visibly more active in challenging companies on the basis of the public's social and environmental constitutional rights. Cases in which companies became the target of such stakeholder activism included the likes of Thor Chemicals, AECI, Caltex, Iscor, WasteTech-Enviroserv, Sasol Mining, Cape plc, Gencor, Anglo American, De Beers and GlaxoSmithKline. Not surprisingly, there has been a parallel trend among companies of improved public transparency, increased stakeholder involvement and active pursuit of public-private partnerships.

### *Codification*

Given these pressures to demonstrate their corporate sustainability, South African companies have followed the international trend of codification, i.e. adopting standards and guidelines as a form of voluntary self-regulation on social, ethical and environmental issues. The codes which have had the most impact include ISO 14001 (for environmental management), the King Code (for corporate governance) and the Global Reporting Initiative (for sustainability reporting), while the influence of other frameworks like those on social accountability (e.g. AA 1000, SA 8000) and general corporate citizenship (e.g. the Global Compact, the OECD Guidelines for Multinationals) have been more limited.

### *Trends*

Over the last decade, corporate sustainability has steadily broadened from an initial focus on philanthropy and environmental management towards including health, safety, labour, community and broader socio-economic issues. By the time Trialogue surveyed the top companies in 2004, 100% regarded corporate citizenship (reflecting the contemporary broad definition of corporate sustainability) as a priority, with 52% giving absolute priority status and 32% high priority.

### *Corporate Philanthropy*

Triologue estimates that the total expenditure on corporate social investment (CSI) in South Africa for the 2003 financial year amounted to R2.35 billion, 6.8% higher than in 2002. Based on the total CSI budget of a sample of 100 leading corporate grantmakers, the average CSI budget per company in 2003 was R13 million. In terms of the priority issues, education funding made up 39% of CSI spend in 2003, up from 35% in 2000, while

spending on health (including HIV/Aids) was around 10% in 2003, a similar proportion to support for job creation initiatives. Other areas, in order of declining budget proportion are training, social development, arts and culture, community and rural development, environment, sports development, safety and security and housing.

#### *Environmental Management*

Research surveys conducted by KPMG and the Industrial Environmental Forum among South Africa's top 200 companies in 1997 showed that 76% regarded the environment as a strategic priority, with 84% agreeing that the significance of environmental issues for the company would increase over the next 5 years. These attitudes have been borne out by the trend of ISO 14001. To begin with, in 1996 when the South African Bureau of Standards (SABS) launched the standard, they were the only ones to offer local certification services. Today, SABS remains the largest certifier, with 245 ISO 14001 and 28 OHSAS 18001 certifications by September 2004, but the list of competitors with a national presence now includes BSI, BVQI, Dekra, KPMG, NQA, PWC, SGS and TUV.

#### *Socially Responsible Investment (SRI)*

As well as spawning the SRI movement in the 1980s through the anti-apartheid disinvestment phenomenon, since 1992, South Africa has introduced more than 20 SRI funds nationally. Based on these funds, according to research by the African Institute of Corporate Citizenship, the size of the South African SRI market was approximately R18.6 billion, or 1.55% of the total investment market, in 2001. In addition, in 2002 South African legal and consulting firm Edward Nathan & Friedland launched a JSE Top 40 South African Sustainability Index, and in May 2004 the Johannesburg Securities Exchange launched its own tradable SRI Index with 51 companies, the first of its kind in an emerging market.

#### *Sustainability Reporting*

The data compiled from KPMG's annual sustainability reporting surveys since 1997 and presented in the table below gives a good impression of the development of corporate sustainability reporting as a trend in South Africa. As of 9 September 2004, there were only 24 South African companies listed on the Global Reporting Initiative's (GRI) website as having declared their use of their Sustainability Reporting Guidelines. However, Trialogue's research in among the top 200 companies in 2004 shows that more than 40% claim to already be using the Guidelines (with almost 15% claiming full use/participation and nearly 30% partial use/participation), while a further 50% claim that they intend to use them in future. Despite this clear progress, indications from KPMG's triennial international sustainability reporting surveys suggest that South Africa still lags global trends.

**Conclusion**

In some areas of corporate citizenship, such as legislation, corporate governance, stakeholder consultation and SRI, South Africa might even claim some measure global leadership, whereas in other aspects, such as levels of sustainability reporting, stakeholder capacity and regulatory enforcement, clearly significant progress is still required.

**Tables**

*Sustainability reporting trends by the top 100 companies in South Africa*

	1997	1998	1999	2000	2001	2002
Disclosure in Annual financial reports						
Environment	48%	49%	52%*	55%	49%	68%
Health & safety (including HIV/AIDS)	-	-	-	52%	40%	81%
Social / community investment	-	-	-	60%	45%	75%
Code of ethics / code of conduct	-	-	-	84%	87%	77%
Human capital development / training	-	-	-	81%	-	78%
Sustainability issues	-	-	-	57%	-	85%
Separate public reports						
Environmental, social or sustainability reports	-	-	-	10%	16%	20%

\* top 100 industrials

*Sustainability index participation of internationally listed South African companies*

	BitC Environment Index 2003 (Rankings)	BitC Corporate Responsibility Index 2003 (Rankings)	FTSE4Good Global Index (as at 26/8/2004)	Dow Jones Sustainability Index (as at 30/6/2004)
Anglo American	116	57	-	Participant
BHP Billiton	3	20	Participant	Participant
Lonmin	100	47	Participant	-
Old Mutual	172	-	Participant	-
SABMiller	151	-	Participant	-
Sasol	-	-	-	*

\* Sasol participates annually in the DJSI but did not make the list of selected companies as at 30 June 2004

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**Source:**

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