

Feature Article



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The report, Responding to the Leadership Challenge: Findings of a CEO Survey on Global Corporate Citizenship, was commissioned by the World Economic Forum's Global Corporate Citizenship Initiative in partnership with The Prince of Wales International Business Leadership Forum, 2003.

The report was based on CEO responses from companies across 18 industries in 16 countries, including: Australia, Brazil, Chile, Egypt, France, Germany, India, the Netherlands, Norway, the Philippines, Saudi Arabia, South Africa, Switzerland, UK and USA.

ARE WE WORLD CLASS IN CITIZENSHIP: How do South African companies measure up?

It is clear that South Africa's leading companies are engaging with the citizenship debate, but just how progressive are our practices? Based on his international research and experience, Wayne Visser looks at a number of corporate citizenship issues and assesses how South Africa stacks up relative to global best-practice.

PEOPLE OFTEN ASK ME HOW SOUTH AFRICA'S CORPORATE CITIZENSHIP PRACTICES COMPARE relative to best-practice in other countries. How mature are we as a country and as companies? In which areas do we lead and lag?

At the 2003 World Economic Forum, a global CEO survey on corporate citizenship was launched, which identified ten key messages that companies must embrace if they are to engage successfully with the corporate citizenship agenda. The ten messages provide a useful framework for considering these questions, and I have used them to subjectively score South Africa on each issue, based on my perception of our companies' relative global performance.

1 The power of personal leadership

The global CEO survey highlighted how important the chief executive's role is in championing corporate values and building consensus on issues of citizenship. Who are South Africa's executive champions of citizenship and sustainability? Which ones have taken it upon themselves to campaign actively for business' contribution to society?

South Africa certainly had such leaders in the past. Think, for example, of Pick 'n Pay Chairman, Raymond Ackerman, who was one of the 50 global executives that formed the Business Council for Sustainable Development and issued a report to the 1992 Earth Summit entitled Changing Course: A Global Business Perspective on Development and the Environment.

Who has taken over the mantle? There are several contenders in the Anglo American stable: Perhaps Michael Spicer, former Executive Director: Corporate Affairs and Executive Vice President of Anglo American plc, and now Chief Executive of the South Africa Foundation? He has taken high profile positions on corporate citizenship issues and seems to embody a heartfelt commitment. Or the tireless efforts of Clem Sunter, Chairman of Anglo's Chairman's Fund, who has championed both the HIV/Aids and sustainable development causes? Or do we look to Anglo's Chairman, Sir Mark Moody Stuart, who previously managed Shell's difficult transition toward embracing sustainability?

But where are the others? South Africa needs business leaders who are vocal champions for corporate citizenship – not CEOs who merely embrace the rhetoric in their annual reports, but leaders with passion and allegiance to the citizenship cause; individuals personally committed to uplifting our people and protecting the environment. Who will stand up and be counted?

My score for South Africa: 5/10

2 Strength in collective action

A key issue stressed in the global CEO survey was that although personal leadership is critical, collective business leadership is also vital – particularly to address public policy issues, industry-wide concerns, national development challenges and global issues that are beyond the remit or capacity of individual companies (but are nevertheless vital for long term commercial success). What is South Africa's track record of collective action?

To me, our country is truly world class here. Look as far back as the 1980s: business established the Urban Foundation, focusing on housing to begin dealing with the reality of African urbanisation within a system of apartheid influx control. Then, the Consultative Business Movement played a key role during our democratisation process, bringing together players across the political spectrum and ultimately acting as secretariat to the Convention for a Democratic South Africa (CODESA) negotiations. It also established the Business Election Fund, which supported voter education in the lead-up to the first democratic election.

And in post-apartheid South Africa, collective business commitment has increased, rather than faded: think of Business Against Crime, the Business Trust, and the National Business Initiative. The private sector has also played a leadership role in international corporate citizenship initiatives, such as the development of the ISO 14000 series; the United Nations' Environment Program's (UNEP) Cleaner Production activities; the Minerals, Mining and Sustainable Development (MMSD) Initiative; the Kimberly Process in the diamond mining sector; the Global Reporting Initiative (especially the HIV/Aids reporting guidelines); and the Global Business Coalition on HIV/Aids.

My score for South Africa: 9/10

3 Linking citizenship to corporate governance

The global CEO survey also emphasised how important it is to link citizenship with corporate governance. If we fail to do this, social, environmental and ethical issues will remain on the business periphery, rather than becoming board-level priorities.

Here, South Africa's report card has two sides. On the positive side, the 1992 and 2002 King reports on corporate governance in South Africa were world-leading in their inclusion of citizenship issues. For example, the 1992 King report was the first corporate governance code to talk about 'stakeholders' and to stress the importance of business accountability beyond the interests of shareholders. Similarly, the 2002 version (King II) was the first to include a section on 'integrated sustainability reporting' – covering social, transformation, ethical, safety, health and environmental management policies and practices. And although companies are not compelled to adopt the code, the Johannesburg Securities Exchange (JSE) has made aspects of King II a listing requirement.

While this progress undoubtedly gives cause for optimism, there remains a "but". A South African business ethics survey by KPMG in 2001 cautioned that, although a basic ethics infrastructure was in place at many companies (such as codes of conduct and whistleblower

FACTS AND FIGURES

Complying with King II's requirements

KPMG's 2004 Survey of Integrated Sustainability Reporting in South Africa (covering 154 of the companies listed on the JSE's All Share Index) showed that 65% now report annually on sustainability-related issues and 77% reference some form of internal code of ethics. Similarly, Trialogue's 2004 research for the inaugural edition of The Good Corporate Citizen (covering 100 of the JSE top-300 companies) revealed that nearly 60% claimed to have already adopted the requirements of King II fully, while more than 90% claim they would comply fully in the future.

Transparency International's (TI) Corruption Perception Index ranked South Africa only 44th in 2004, and South Africa scores only 3.8 on TI's 2004 Global Corruption Barometer (where 1 is not at all corrupt and 5 is extremely corrupt).

The 2004 edition of The CSI Handbook estimated corporate CSI-spend at R2.35 billion for the 2003 financial year (6.8% higher than in 2002), prioritising education, health (including HIV/Aids) and job creation.

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Global goals for sustainable development

The Millennium Development Goals commit the international community to an expanded vision of development, one that vigorously promotes human development as the key to sustaining social and economic progress in all countries, and recognises the importance of creating a global partnership for development. The goals have become commonly accepted as a framework for measuring development progress. Eight goals have been set, and rather than being a woolly wish-list, each has a number of specific indicators and quantifiable targets against which progress is measured.

- 1 – Eradicate extreme poverty and hunger
 - 2 – Achieve universal primary education
 - 3 – Promote gender equality and empower women
 - 4 – Reduce child mortality
 - 5 – Improve maternal health
 - 6 – Combat HIV/Aids, malaria, and other diseases
 - 7 – Ensure environmental sustainability
 - 8 – Develop a global partnership for development
- (Source: www.developmentgoals.org)

PricewaterhouseCoopers' 5th Global CEO Survey in 2002 similarly found that 70% of 1,161 CEOs across 33 countries agreed that corporate social responsibility is vital to the profitability of any company.

mechanisms), ethics training and senior management responsibility for ethics remained poor. What is more, it is a moot point whether corporate governance practices have since filtered down to the mass of medium- and small-sized companies in South Africa.

My score for South Africa: 8/10

4 A challenge for companies everywhere

Another key point made in the global CEO survey was that citizenship is not merely an issue for progressive companies in developed countries, but an important success factor in emerging economies too. The question here is to what extent South African companies engage with citizenship in its relevant local context, rather than simply adopting Western models.

Again, the results are mixed. South Africa undoubtedly has an impressive track record of philanthropy aimed at addressing the most pressing needs of our communities. And many of our leaders understand that responsible citizenship requires more than the Western concept of voluntary philanthropy. For example, the global CEO survey cited Rick Menell (CEO of Anglovaal) as saying that it is imperative for us to "promote social equity as one of the pillars for a stable investment environment in South Africa".

However, my sense is that our corporate leaders are still more likely to gauge their company's performance against global benchmarks – like ISO 14001, the Global Reporting Initiative and the Dow Jones Sustainability Index – rather than more regionally relevant measures. For instance, how many South African companies can articulate their citizenship indicators in terms of the eight core aspirations of the UN's Millennium Development Goals? And how many have explicit strategies to promote the so-called 'bottom of the pyramid' business model for serving society's poor? (As advocated, for example, in C K Prahalad's book *The Fortune at the Bottom of the Pyramid*.) South Africa remains the fifth-worst country in the world in terms of economic disparity, and at least some of the responsibility for this must lie with business' failure to address the most pressing socio-economic priorities of our society adequately.

My score for South Africa: 7/10

5 Making the 'business case'

Nearly 80% of the global CEOs surveyed listed "managing reputation and brand equity" as the most important driver of the business case for their citizenship activities. Others, in order of perceived importance, were employee motivation, competitiveness and market positioning, license to operate, risk management, operational efficiency, access to capital and learning and innovation.

However, in South Africa, companies have generally failed to make the link between financial performance and citizenship activities. In Trialogue's 2004 survey, only 38% of South Africa's top-300 companies claimed that citizenship "makes good business sense". And by and large, reporting by South Africa's top companies consistently lacks information



on social and environmental accounting – as KPMG’s annual sustainability reporting surveys have demonstrated since 1998.

There are two exceptions to this general malaise regarding the business case for corporate citizenship in South Africa. The first is the work done on the economic costs of the HIV/Aids pandemic. As economists, accountants and health professionals have begun to get to grips with the variables, they have confirmed the business case for tackling HIV/Aids, using sophisticated actuarial-type models.

The second is South Africa’s entry into the socially responsible investment (SRI) arena. Since 1992, South Africa has introduced more than 20 SRI funds, which track companies’ social, ethical and environmental performance. According to research by the African Institute of Corporate Citizenship, the size of the South African SRI market in 2001 was approximately R18.6 billion, or 1.55% of the total investment market. And another significant development was the 2004 launch of the JSE SRI Index – the first of its kind in an emerging market, based on environmental, social and economic sustainability, underscored by good corporate governance. It will be interesting to see whether SRI data in the coming years supports the business case hypothesis for the citizenship.

My score for South Africa: 6/10

6 Employees and government as key drivers

When asked which stakeholder groups create the most pressure and/or incentive for their citizenship activities, the global CEO survey found that employees and government bodies were most often cited.

As a result of our country’s recent history, South Africa is probably the epitome of this dual-driver approach. Our legislative reform process post-1994 and strong labour movement has given citizenship issues such as poverty reduction, economic empowerment and sustainable development a much higher priority than they ever had before.

The catalytic effect of the government-labour alliance could be seen in a 1997 survey by KPMG in which 83% of South Africa’s top 150 companies cited government policy/legislation as the most significant pressure for greater environmental responsibility. More recently, the focus has shifted to employment equity and black economic empowerment issues, with around 80% of South Africa’s JSE All Share Index companies discussing these issues in their public reports – more than any other citizenship-related issue. This reflects government’s drive, and business’ response, for all major industry sectors to make legally binding commitments through their empowerment charters.

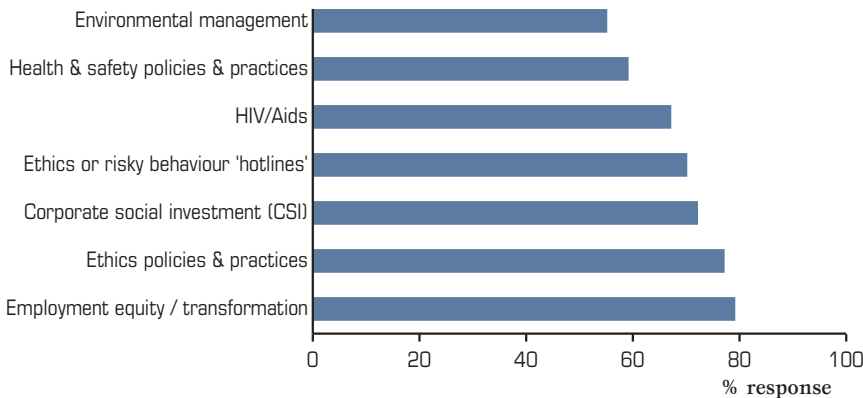
Questions remain about government’s capacity to enforce its progressive legislation, and whether the strong regulatory approach will damage investor confidence. In Trialogue’s 2004 survey of the JSE top-300 companies, only 10% cited “abiding by laws and regulations” as their one principle motivation for pursuing corporate citizenship. It is therefore clear that pressure by government and employees will need to be balanced by other business case incentives for citizenship if it is to be sustainable in the long term.

My score for South Africa: 8/10

7 Prioritising critical issues

The global CEO survey highlighted four key areas in which companies need to be particularly active, namely: corporate governance and ethics; responsibility for people (diversity and worker safety); responsibility for environmental impacts; and broader contribution to development (capacity building, access and education).

Corporate citizenship issues most frequently reported in South Africa



Source: KPMG 2004 Survey of Integrated Sustainability Reporting in South Africa

Selected CSI spending by development sector, 2004

| Development sector | % of CSI-spend | R millions |
|------------------------|----------------|------------|
| Education | 36% | 864m |
| Health (incl HIV/Aids) | 12% | 288m |
| Training | 10% | 240m |
| Job creation | 10% | 240m |

Source: The CSI Handbook, 7th edition

South African companies seem to be engaged on all of these fronts, as the figure alongside illustrates. Of course, reporting on issues is not the same as effectively tackling them on the ground.

However, the rhetoric does appear to be supported by substantive action and results. Trialogue’s annual survey on CSI spending suggests concrete action in some of these areas, as demonstrated in the table alongside.

And a survey on HIV/Aids³, covering 8,719 business executives in 104 countries, noted that in areas where the prevalence of HIV/Aids is above 20%, such as in southern

Africa and central Africa, 72% of companies now have formal and informal policies to tackle the disease. (Survey by the World Economic Forum, United Nations agency UNAIDS and Harvard School of Public Health). The survey cited Anglo American as a global benchmark for implementing extensive voluntary counseling and testing for HIV infection, coupled with antiretroviral therapy for employees.

My score for South Africa: 9/10

8 Embedding citizenship and emphasising internal processes

The global CEOs stressed that corporate citizenship must be embedded into the company’s strategy and operations by communicating appropriate values internally and using suitable performance measures.

South African companies have also begun to focus on internal processes. By way of example, since the ISO 14001 standard was launched (1996), the South African Bureau of Standards (SABS) had issued more than 245 certifications by September 2004, and it now faces competition from numerous other certification agencies.

Triologue’s 2004 survey of the JSE top-300 also confirmed good progress on embedding corporate citizenship through formalised structures and processes. For example, more than 75% of respondents has a company policy and a responsible manager for each of the following elements of corporate citizenship: governance, employees, skills and training, workplace equity, health & safety, HIV/Aids, social investment, employee relations and environmental impact. Ultimately though, embedding can only be said to have worked if policies lead to better practices.

My score for South Africa: 7/10



9 Engaging external stakeholders

The global CEO survey identified effective communication, consultation and collaboration with external stakeholders as one of the keys to successful corporate citizenship.

South Africa is fortunate in having institutionalised a strong culture of public participation in the post-apartheid era. As a result, major corporate investments and projects need to show evidence of having followed a process of community consultation, for example, by completing social and environmental impact assessments.

A more proactive form of engagement with stakeholders is through various public-private partnerships. South Africa put this issue firmly on the global agenda at the World Summit on Sustainable Development in Johannesburg in 2002, with several companies showcasing world-class projects. The government has also taken the initiative of developing a Public-Private Partnerships manual. British American Tobacco and MTN are among the companies leading with comprehensive stakeholder engagement programmes. However, we have yet to see the extent to which broad corporate South Africa will embrace this form of corporate citizenship.

My score for South Africa: 8/10

10 Reporting publicly, with verification

The global CEO survey found that 48% of the participating companies produced a separate corporate social responsibility or sustainable development report.

South Africa has its leaders in this field. For instance, 22 of the 154 JSE All Share listed companies analysed by KPMG in 2004 produced a separate sustainability report, with a further 77 companies providing some level of sustainability disclosure in their annual financial reports.

However, to put the level of reporting into perspective, Africa and the Middle East account for just 2% of the world's nearly 5,000 sustainability reports issued between 1993 and 2003, according to a global survey by ACCA and CorporateRegister.com (Towards Transparency: Progress on Global Sustainability Reporting 2004).

And there are still only about 15% of South Africa's top companies producing dedicated sustainability reports, compared with 45% of the Global Fortune 250 and 28% of the top 100 companies in 11 countries surveyed by KPMG in 2002. The number of South African companies subjecting their reports to independent verification also remains extremely low, with only 9 of the 22 stand-alone reports including some form of third party assurance.

My score for South Africa: 7/10

Good progress, but some way to go yet

Certainly, South Africa is actively engaging with the corporate citizenship debate. In some areas, such as collective business action, corporate governance, government alignment, prioritising critical issues and stakeholder engagement, South African companies can justifiably claim to be world class; perhaps even global leaders in some instances. But in others, like personal leadership, embedding corporate citizenship, making the business case and sustainability reporting, we clearly have some way to go.

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Consult before you start

It is encouraging to see that the judiciary is prepared to enforce the consultative principle. For example, in 1999 judgement was passed in favour of the Save the Vaal Environment (SAVE) community organisation and against the Department of Minerals and Energy Affairs and Sasol Mining, preventing coal strip-mining in close proximity to the Vaal River. The judgement rested on the lack of consultation with stakeholders prior to a mining license being issued.

SustainAbility included the following South African company reports in its list of global top-50 best-practice sustainability reports: Anglo American, SABMiller, MTN Group and Sasol.

CITIZENSHIP IN PRACTICE

Using best-practice guidelines

Further confirmation that South Africa has some top reporters comes from the Global Reporting Initiative (GRI). As at 1 May 2005, two South African companies – Anglo Platinum and SABMiller – were among the 56 globally that reported 'in accordance with' the GRI guidelines. In total, the GRI website listed 26 South African companies (of 657 globally) as having used the GRI Guidelines in their sustainability reporting. In fact, South Africa ranked tenth among 48 countries with respect to application of the Guidelines, and also played a key role in developing the GRI's HIV/Aids reporting guidelines.