Corporate Citizenship:
Is South Africa World Class?

By Wayne Visser

At the 2003 World Economic Forum, a global CEO survey on corporate citizenship was launched, representing companies with headquarters in 16 countries (including South Africa) and covering 18 industries. The report of findings identified ten key messages for engaging successfully with the corporate citizenship agenda. In this article, I use these ten messages as a framework for questioning South Africa's progress in the corporate citizenship field. I also subjectively score South Africa on each issue, based on their relative global performance.

The Power of Personal Leadership

The global CEO survey highlighted the important role of the chief executive as a champion of corporate values and a consensus builder on issues of corporate citizenship. Who are South Africa's corporate citizenship executive champions? Who has taken it upon themselves to be an active campaigner for business' contribution to society? South Africa certainly had such leaders in the past. For example, Pick 'n Pay Chairman, Raymond Ackerman, was one of the 50 global executives that formed the Business Council for Sustainable Development and issued its report entitled Changing Course: A Global Business Perspective on Development and the Environment to the 1992 Earth Summit.

But who has taken over the mantle? There certainly seems to be several contenders from the Anglo American stable: Perhaps someone like 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 Chairman of Anglo's Chairman's Fund, Clem Sunter, who has championed both the HIV/Aids and sustainable development causes? Or do we look to Anglo's Chairman, Sir Mark Moody Stuart, who managed Shell's difficult transition towards embracing sustainability?

Who are the others? South Africa needs business leaders who are vocal champions for corporate citizenship. I am not referring to CEOs who simply embrace the rhetoric in their annual reports, but to individuals who are personally committed to the cause of social upliftment and ecological protection – leaders who lead the corporate citizenship movement from the front, with passion. We all need something to believe in, and our corporate leaders are in the unique position of being able to create a vision of how we can make a difference in South Africa. Who will stand up and be counted?

My score for South Africa: 5/10

Strength in Collective Action

The global CEO survey stresses that although personal leadership matters, there is also strength in collective leadership, especially when it comes to addressing public policy issues, industry-wide concerns, national development challenges, or global issues that are beyond the remit or capacity of any one company, but vital to long term commercial success. What is South Africa's track record of collective action? This seems to me to be one of the areas in which South Africa has excelled, and may be regarded as truly world class (Fourie & Eloff 2005).

We can look back as far back as the Urban Foundation, which was established by business in the 1980s with a strong housing focus, to begin dealing with the reality of African urbanisation within a system of apartheid influx control. Then, during the democratisation process, the Consultative Business Movement played a key role in bringing players together across the political spectrum and ultimately acted as secretariat to the Convention for a Democratic South Africa (CODESA)

negotiations process. They also established the Business Election Fund which aimed to support voter education in the lead up to the first democratic election.

In a post-apartheid South Africa, collective business involvement has increased, rather than faded, with examples including Business Against Crime, the Business Trust, and the National Business Initiative. The South African private sector has also played a leadership role in international corporate citizenship initiatives, such as the development of the International Standards Organisation's (ISO) 14000 series on environmental management, 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

A Growing Link With Corporate Governance

The global CEO survey emphasises the importance of linking the corporate citizenship agenda with the trend towards improved corporate governance. Failure to do this will result in social, environmental and ethical issues remaining marginal in business, rather than being prioritised as board level concerns. In South Africa, there are two sides to this story. On the positive side, the 1992 and 2002 King Reports on Corporate Governance in South Africa have both led the world in their inclusion of corporate citizenship issues. For example, the 1992 King Report was the first global corporate governance code to talk about "stakeholders" and to stress the importance of business accountability beyond the interests of shareholders. Similarly, the 2002 King Report (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.

Although adoption of the code remains voluntary, the Johannesburg Securities Exchange (JSE) has subsequently made King II a listing requirement. In terms of compliance, South Africa's large companies seems to have responded well. For instance, KPMG's 2004 survey of the 154 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, research of the JSE top-200 companies by Trialogue in 2004 revealed that nearly 60% claim to have already fully adopted the requirements of King II, while more than 90% claim they will fully comply in the future.

While this progress is undoubtedly 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 mechanisms), ethics training and senior management responsibility for ethics remained poor. The question is whether corporate governance practices have since filtered down to the broad mass of medium and small sized companies in South Africa. In this respect, Transparency International's (TI) Corruption Perception Index, where South Africa was ranked 44th in 2004, gives some cause for concern. Similarly, South Africa only scores 3.8 on TI's 2004 Global Corruption Barometer (where 1 is not at all corrupt and 5 is extremely corrupt).

My score for South Africa: 8/10

A Challenge for Companies Everywhere

The global CEO survey made the key point that corporate citizenship is not just an issue for progressive companies in developed countries, but a critical success factor in emerging economies. The question here is to what extent South African companies have engaged with corporate citizenship in its relevant local context, rather than simply adopting Western models.

Here, the results are mixed. South Africa undoubtedly has an impressive track record of philanthropy aimed at addressing the most pressing needs of our communities, as the annual Corporate Social Investment (CSI) Handbook produced by Trialogue testifies. For example, CSI in South Africa for the 2003 financial year amounted to R2.35 billion, 6.8% higher than in 2002,

prioritising issues like education, health (including HIV/Aids) and job creation initiatives. And there are clearly leaders who understand that corporate citizenship is something more fundamental that a Western concept of voluntary, such as Rick Menell, CEO of Anglovaal, who was cited in the global CEO survey as saying that it as imperative to "promote social equity as one of the pillars for a stable investment environment in South Africa".

However, my sense is that corporate leaders are still far more likely to be familiar with their company's performance in terms of global benchmarks like ISO 14001, the Global Reporting Initiative and the Dow Jones Sustainability Index than more regionally relevant measures. For instance, how many South African companies can articulate their corporate citizenship indicators in terms of the eight core goals of the UN's Millennium Development Goals1? And how many have explicit strategies for promoting the Bottom of the Pyramid business model of serving society's poor? (Prahalad 2004). South Africa remains the fifth-worst country in the world in terms of economic disparity, and at least some the responsibility for this must lie with business's failure to adequately address the most pressing socio-economic priorities of our society.

My score for South Africa: 7/10

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 corporate citizenship activities. Other factors included, in order of perceived importance, employee motivation, competitiveness and market positioning, license to operate, risk management, operational efficiency, access to capital and learning and innovation. PwC's 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.

However, in South Africa, companies have generally failed to make the link between financial performance and corporate citizenship activities. Only 38% of South Africa's top-300 companies in a 2004 survey by Trialogue claimed that corporate citizenship "makes good business sense". Furthermore, there is a consistent lack of social and environmental accounting information produced by South Africa's top companies, 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 that has been 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 involved, the business case for tackling HIV/Aids has been confirmed by sophisticated actuarial-type models.

The second exception is South Africa's entry into the socially responsible investment (SRI) arena. Since 1992, South Africa has introduced more than 20 SRI funds nationally 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. In a significant development, in May 2004, the JSE launched its own tradable SRI Index, the first of its kind in an emerging market based on the triple bottom line approach of 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 for corporate citizenship hypothesis.

My score for South Africa: 6/10

Employees and Government as Key Drivers

When asked which stakeholder groups create the most pressures and/or incentives for their corporate citizenship activities, the global CEO survey found that employees and government bodies were most often cited. As a result of the country's recent history, South Africa is probably the epitome of this dual-driver approach. South Africa's legislative reform process post-1994 and strong

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[1] http://www.developmentgoals.org/

labour movement has given corporate 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 corporate citizenship related issue. This reflects the drive by government, and business's response, to have all the major industry sectors commit themselves to legally binding improvements by way of empowerment charters.

Questions remain about government's capacity to enforce the progressive legislation it has enacted in South Africa, and the whether the strong regulatory approach will damage investor confidence. In a 2004 Trialogue 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 corporate citizenship if it is going to be sustainable in the long term.

My score for South Africa: 8/10

Critical Issues on the Agenda

The global CEO survey highlights four key corporate citizenship areas in which companies need to be 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). South African companies seem to be engaged on all of these fronts, as Figure 1 below illustrates. The 2004 CSI Handbook provides further evidence, noting that education funding made up 39% of CSI spend in 2003, up from 35% in 2000, while spending on health (including HIV/Aids) was up to around 10% in 2003, a similar proportion to support for job creation initiatives.

Figure 1: Corporate citizenship issues most frequently reported in South Africa (KPMG, 2004)
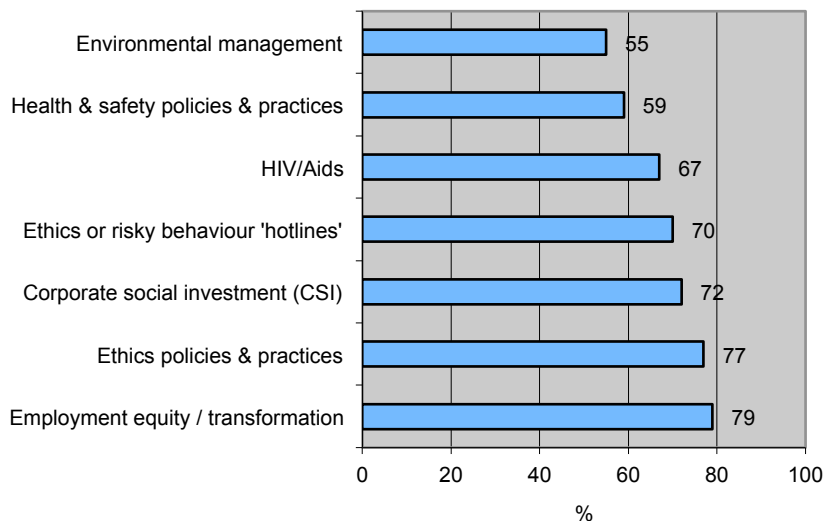
Of course, reporting on issues is not the same as effectively tackling them on the ground. However, if we take HIV/Aids as an example, the rhetoric does appear to be backed by substantive action and results. For instance, a survey by UNAIDS of 8 719 business executives in 104 countries on HIV/Aids notes 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. The survey cites Anglo American as a global benchmark for implementing extensive voluntary counseling

and testing for HIV infection, coupled with antiretroviral therapy for employees. The result is that over 90% of the 2 200 Anglo American employees who have accessed and remained on treatment are well and have returned to normal work.

My score for South Africa: 9/10

A Major Emphasis on Internal Processes

The global CEOs placed major emphasis on embedding corporate citizenship into the company's strategy and operations, highlighting the communication of values internally and the establishment of performance measures as ways to do this. South African companies have also begun to focus on internal processes. ISO 14001 can be used as an example. Since 1996 when the standard was launched, the South African Bureau of Standards (SABS) has issued more than 245 certifications, and it now faces competition from numerous other certification companies.

Trialogue's survey of the JSE top-300 companies also confirms good progress on embedding corporate citizenship through formalised structures and processes. For example, more than 75% have 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.

But even introducing policies and responsibilities is not proof of corporate citizenship performance. For instance, despite the emphasis on employment equity over the past decade, women in South Africa, who make up 52% of the adult population and 41% of the working population, still only constitute 15% of all executive managers and 7% of all directors. Ultimately, embedding can only be said to have worked if policies result in improved practices.

My score for South Africa: 7/10

Engagement With 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 a Social and Environmental Impact Assessment.

It is also encouraging to see that the judiciary is prepared to enforce this consultative principle. For example, when in 1999 a 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 to prevent a coal strip-mine in close proximity to the Vaal River, the judgement rested on the lack of consultation with stakeholders prior to a mining license being issued.

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 programs. 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

Reporting Publicly With Verification

The global CEO survey found that 48% of the participating companies produce a separate corporate social responsibility or sustainable development report. South Africa is not without 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. A number of these reports are world-class,

and were included by SustainAbility in their global top 50 benchmarked sustainability reports, including for example those by Anglo American, BHP Billiton, SABMiller, MTN Group and Sasol.

Further confirmation that South Africa has some top reporters comes from the Global Reporting Initiative (GRI). Anglo Platinum and SABMiller were among the 49 companies cited on 1 December 2004 to have fully complied with the GRI's Sustainability Reporting Guidelines and 25 of the 603 companies who have applied the Guidelines are South African. In fact, South Africa ranks 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.

However, to put the level of reporting into perspective, Africa and the Middle East only account for 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.

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 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

Conclusion

It is clear from this brief article that South Africa is actively engaging with the corporate citizenship debate. In some areas, such as collective business action, corporate governance, government alignment, prioritisation of critical issues and stakeholder engagement, South African companies could justifiably claim to be world class and perhaps even global leaders in some instances. In other areas, like personal leadership, embedding corporate citizenship, measuring the business case, sustainability reporting and tracking poverty alleviation impacts, there are still significant improvements that can be made.

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