CORPORATE SOCIAL RESPONSIBILITY:
APPLYING SUSTAINABILITY PRINCIPLES IN
STAKEHOLDER ENGAGEMENT

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Abstract

There is a strong ethical case to redress poverty and inequality in South Africa. The South African corporate sector has been called upon to take responsibility for the ways their operations impact societies. There has been considerable change in the way the corporate sector concerns themselves with applying sustainability principles to the ways in which they conduct their business specifically in their social interactions with stakeholders. This sees the South African corporate sector investing millions to support sustainable community development and social programs. The total corporate social responsibility (CSR) expenditure in South Africa was estimated to amount to R8.2 billion in 2013/2014 (Trialogue, 2014). Although major South African and multinational companies have had ample opportunity to express and communicate their views on the potential of CSR, the voices of communities continue to be thwarted and stifled when they should logically lie at the heart of effective change management interventions. Business has the obligation, and also the resources, to make a contribution to communities in which they operate. This article investigates the South African business sectors involvement in stakeholder engagement and describes two cases of major South African companies and their increased value for a stakeholder governance model.

Keywords: Corporate Social Responsibility, Sustainability, Triple Bottom Line, Legislation, Change Management Interventions, Community.

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1. INTRODUCTION

The corporate social responsibility (CSR) agenda has been a part of the global debate on socio-economic development for many decades and countless claims have been made that CSR can contribute towards more inclusive development and the alleviation of poverty (Siyobi 2015:1). This has seen business become morally obliged to protect and improve society, because this provides them with their license to operate (Campbell, 2012:141).

Siyobi (2015:2) further iterates that the link between business ethics and social obligations has grown over recent decades, although corporate social responsibility is a fairly recent concept. Fundamentally, CSR was shaped by earlier debates regarding the role of business in society. CSR as a concept has since been moulded into taking development, the environment and human rights into greater consideration.

According to Carroll (1991 in D’Amato, Henderson & Florence, 2009), a firm’s pyramid of CSR starts with economic responsibilities and continues with legal, ethical, and discretionary responsibilities respectively. However, what was ethical or even discretionary in Carroll’s model is becoming increasingly necessary today because of the changing environment within which businesses operate and because the ethical responsibilities are more likely to stand on a par with economic and legal responsibilities as foundational for business success. CSR has become an important concept of matching corporate operations with societal values and ethical behaviour has become a prerequisite for strategic CSR. A company’s ethical behaviour is the mirror image of its culture, a shared set of values and guiding principles deeply ingrained throughout the business (Paine, 1994).

This article sets out to describe how the practice of CSR extends corporate obligations to include multiple stakeholders and will later highlight some of the elements of successful corporate social community investment and development programmes in South Africa.

1.1. Global trends for CSR development

CSR commitment is reflected in the number of articles focused on the need for corporations to take an active role in poverty reduction efforts. The increasing number of corporate scandals, such as Exxon, Enron and Nestle (De Beer & Rensburg, 2012:212) among others have made external stakeholders become increasingly demanding for transparency and responsible organisational behaviour (Freeman et al, 2010:115). This has therefore put pressure on organisations to operate ethically. The global financial crisis has ensured that business should be expected to not only self-regulate by complying with legislative requirements, but to also act in a morally and
ethically defensible way by considering stakeholders whose interests are affected by the organisation (Eccles & Krzus, 2010; KPMG, 2010; Cavico & Mujtaba, 2014). Parallel to this, South African private sector organisations have been called upon to contribute to sustainability issues and development, by governments and international bodies such as the World Business Council for Sustainable Development (WBCSD) and the United Nations Global Compact among others (UNECA & AU, 2010:124).

1.2. Corporate Social Responsibility development in South Africa

South Africa is an emerging market economy with the 10th largest stock market in the world, the wealthiest and most economically developed country in Africa. Consequently, South Africa is the bellwether economy for sub-Saharan Africa and a good barometer of its economic prospects (Malan, 2005).

In South Africa, CSR emerged in response to the socio-economic imbalances brought on by apartheid. After 1994, the democratic government tried to correct the social imbalances and marked inequalities of the previous years by introducing various social projects, programmes and initiatives. Gradually, but steadily, the private and the public sector began to embrace CSR initiatives, and it therefore became necessary for business to engage in favourable CSR and to report these activities (FASSET, 2012). In South Africa the CSI Handbook published by Triologue reports annually on documented business involvement in this practice.

The practice of CSR extends corporate obligations to include multiple stakeholders—such as stockholders, workers, the community, and the natural environment—and the outcomes of policies and programmes directed toward those relationships (Dawkins & Ngunjiri, 2008).

In South Africa Social and community investment and development programmes to include these stakeholders have become critically important. As a result of increasing demand for robust corporate governance and an illustration of the “license to operate”, growing consumer awareness as well as a growing global awareness of the divide between rich (corporates) and the poor (communities), companies and grant makers are investing billions of dollars into corporate social development programmes. In South Africa, CSR investment from corporates has grown from R2 billion in 2003 to R8 billion in 2013/2014 (Triologue, 2014). Community Investment programmes include a range of focus areas/investment portfolios, from healthcare to education, housing development to food security, and early childhood development to youth development programmes and social problems such as unemployment, crime, weak social services and a burgeoning HIV and AIDS populace (Hamann, 2005:179-180). The main objectives of corporate social community investment and development are for companies to implement programmes that have positive, sustainable and measurable benefits for communities as well as for the company itself, thus creating shared value such as prospering societies and sustainable livelihoods.

One of the more fundamental issues surrounding sustainability in a business context is the fact that directors have a fiduciary duty to take into account interests of those stakeholders other than investors/shareholders. Changes in the corporate sector in South Africa appear to have taken the approach to CSR more scientifically, thereby requiring corporations to effect and measure initiatives as dictated by recent regulation by the Code of the King Committee on Corporate Governance (Institute of Directors, 2009). These changes include: tightening of legislation, a more socially-engaged and better educated population with higher expectations around corporate conduct and a growing media focus on corporate practices. This has ensured that all JSE listed corporations are being obliged by regulation to produce codes of ethics and to report on their triple bottom line performance (social, environmental and financial).

The above proves that CSR has moved from ideology to reality and is now acknowledged as an important dimension of contemporary business practice. Business leaders in South Africa have given increased importance to this topic, recognizing that CSR is an important component of business survival and success in the 21st century.

The South African Corporate Sector subscribes to the King Report on Corporate Governance. This report (King III) tasks organisations to take into account and report on their triple bottom line. A review of reporting practices of the largest 100 organisations listed on the Johannesburg Stock Exchange (JSE) found that the frequency and comprehensiveness of such reporting is more advanced than those organisations in leading competing economies (Miles & Jones, 2009:7-8).

In terms of the core principles of the King III report, social injustice has to be eradicated. Further, social transformation and redress is important and needs to be integrated within the broader transition to sustainability (Pwc, 2011). King III therefore directs companies to “proactively manage the relationship with its stakeholders” and strive to achieve the correct balance between its various stakeholder groupings, in order to advance the interests of the company (Olson, 2010: 222-3).

1.3. Legislative framework

The Companies Act 71 of 2008 (Section 7) in South Africa has put pressure on business practices which requires a different focus in respect to the ethical aspects of the organization’s business practices. Triple bottom line, corporate governance, corporate social responsibility, and BBBEE practices now indicate a major change from the previous held belief “that organizations are simply only in existence to make profits”.

Therefore, in 1994, the Black Economic Empowerment (BEE) policy was introduced, which functions as an affirmative action strategy and which ensures that government supports economic empowerment and procurement practices in a sustained manner. The objective was to reduce interracial income disparities through economic growth and encourage the creation and growth of a black business-owning class, through direct empowerment through ownership and control of enterprises and assets, human resource
development and employment equity, and indirect empowerment through preferential procurement and enterprise development (Noon, 2009). This strategy was brought into effect by the South African Government as an intervention to tackle the injustices of apartheid’s exclusion of black people from full participation in the economy. For many years, the apartheid structure in South Africa restricted Black people (a generic term for Africans, Coloureds and Indians) from meaningful participation in the economy, allowing only White South Africans full participation and business interest in the economy (Ndhlouvu, 2009:72).

So what obligations does legislation impose on South Africa business today? Legislation now compels companies to act socially responsibly. This dictates that corporate social responsibility should be aimed at social conduct where stakeholders’ interests are taken into account be it by way of indirect legislation or by way of voluntary conduct.

A good system of corporate governance contributes to the sustainable economic growth, to strengthening of business and to attracting of domestic and foreign sources of capital and their protection. It ensures the structure through which the goals of the company, the means for attaining the goals and the ways of monitoring the results are determined. Legal, regulatory and institutional environment influence on corporate governance, as well as business ethics, shared awareness of the interests of the environment and social interests also influence the long-term reputation and the success of the business (Radicov and Radukic, 2012: 128 in Rampersad, 2013: 972).

In 2003, the Johannesburg Stock Exchange (JSE) expressed a need to hold large corporations accountable for their investment actions by launching a socially responsible investment (SRI) index. The SRI index was instituted to identify those companies listed on the JSE that integrate the principles of SRI and sustainability into their business activities, and to facilitate investment in such companies. The SRI index has been structured to reflect the complex nature of social responsibility in South Africa and, hence, it has detailed criteria for each of the triple bottom lines. In addition, the SRI Index identifies criteria for corporate governance, which is the foundation on which each of the triple bottom lines rests as good corporate governance plays a major role in ensuring that sustainability issues are identified, managed and resolved. The Index is structured along the three pillars of the triple bottom line, namely, environment, society and economy. A company must address each of these pillars if it is truly to be said to have integrated sustainability into its business practices. While the economic dimension is about profitability, the social dimension means that companies have to go beyond fulfilling their legal responsibilities and invest in human capital, as well as take actions to contribute to the welfare and interests of the staff and community (Terry, 2010: 17).

Corporate Social Responsibility (CSR) is a topic usually discussed under Corporate Governance. In terms of legislation, the Companies Act 71 of 2008 does not compel companies to engage in CSR activities or projects. However, in South Africa, both private and state-owned companies are subject to King III, a best practice governance framework that emphasises good business ethics as an integral part of the “interaction between a company and its stakeholders” (IoDSA, 2009:51). This stakeholder-inclusive approach to corporate governance and business ethics implies that decisions made by the board of an organisation must be in the best interests of the organisation, whilst also considering “the legitimate interests and expectations of stakeholders” (IoDSA, 2009:4, 11).

The Triple bottom line approach focuses on social, environmental and economic concerns of the organisation. For listed companies, compliance with King III is a listing requirement which makes compliance regulatory or mandatory for them. In addition, in the bid to comply with BBBEE Legislation Act 53 of 2003, many companies are legally compelled to embrace CSR initiatives because the Act requires South African based companies to engage in Preferential Procurement Policy, they are required to assist previously disadvantaged groups in the economy to be actively involved in the economy. This way, the government is of the opinion that the imbalances of the past would be corrected (Fasset, 2012).

This has ensured that all Johannesburg Securities Exchange (JSE) listed corporations are being obliged by regulation to produce codes of ethics and to report on their triple bottom line performance (social, environmental and financial) (Da Piedade and Thomas, 2006). Such obligation shows that South African corporations are complying with legislation and voluntarily taking initiatives to improve the well-being of their employees and their families as well as the communities and societies that they operate in. It further shows that by creating ownership of CSR interventions the corporate sector has been engaging citizens in the planning and implementation of the CSR processes. The stakeholder engagement increases the quality and responsibility towards the sustainability process, thereby stimulating democratic attitudes (Finkel, 2002).

1.4. Stakeholder Engagement/Management

In South Africa an inclusive stakeholder approach plays a very important role in strategic CSR. Importance on the stakeholder is emphasised in the third King Report on Corporate Governance (King III). King III is a principle-based governance framework that emphasizes the use of integrated reporting as a communication vehicle for reporting on an organisation’s corporate governance practices and triple-bottom-line performance " (IoDSA, 2009:51).

CSR is strictly embedded with a multitude of business actors. Although companies strive to engage in CSR together with their stakeholders, they are simultaneously struggling to understand the true relationship behind this marriage and who their stakeholders are. Stakeholders are persons or groups who are directly or indirectly affected by a project as well as those who may have interests in a project and/or the ability to influence its outcome, either positively or negatively. Stakeholders may include locally affected communities or individuals and their formal and informal representatives, national or local government authorities, politicians, religious leaders, civil society organizations and
groups with special interests, the academic community, or other businesses (D’Amato, Henderson & Florence, 2000: 14).

The AA1000 Accountability Principles Standard (Accountability.org 2008:9) provides guidance for the process of stakeholder engagement based on three principles, namely i) materiality; ii) completeness; and iii) responsiveness. Materiality requires that organisations understand and know what is important to them and their stakeholders. The second principle of completeness requires that organisations acknowledge i) the impact they have on society and the environment; and ii) their stakeholders’ views, needs and expectations. Essentially this expresses that responsiveness entails attending meaningfully to the needs of organisations and their stakeholders. These principles support the overarching aim of inclusivity and is further highlighted in the “enlightened shareholder value” model in the Companies Act 2008, which holds that the best interests of all stakeholders, including employees, suppliers and creditors, as well as the environment and the community at large, must be considered.

Today, businesses must ensure that stakeholders are more likely to succeed when a long-term vision is embraced (Chow Hoi Hee, 2007).

Sustainability reporting therefore allows the company to disclose their non-financial impacts. These reports are important tools for organisations to communicate with their stakeholders about how they have integrated social and economic considerations in their profit generating activities. Sustainability reports are an opportunity for business to demonstrate their responsiveness to stakeholder concerns (Goa & Zhang 2001:729).

In South Africa in keeping with the need for improved inclusiveness of stakeholders, as of June 2010, all organisations listed on South Africa’s Johannesburg Stock Exchange (JSE) became obliged to compile integrated reports in place of separate annual financial and sustainability reports. These integrated reports include important information regarding organisations’ environmental, social and economic performance and a more holistic and verified account of organisations’ overall performance. This created a need for business to report on how they have included stakeholders in the design and implementation of their CSR activities. (Eccles & Saltzman, 2011:57).

The above discussion concludes that it is necessary for business to focus on not only identifying stakeholder interests and expectations, but to build into their standard operating procedures processes for creating value for these stakeholders. Such processes should include establishing governance structures, policies, objectives, targets, management systems and measurement and monitoring of performance (AccountAbility, 2011). The following South African best practice cases provide accurate reports on their triple bottom line performance and stakeholder management programmes and how these are closely aligned to King III’s governance and ethical business conduct requirements.

2. SOUTH AFRICAN BEST PRACTICE

2.1. Case One: ESKOM

[Integrated Report 2014]

Eskom is South Africa’s primary electricity supplier and is wholly owned by the South African government. In total, it generates and distributes about 95% of electricity used in South Africa and about 40% of electricity used on the continent. Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers in South Africa, and to municipalities, who in turn redistribute electricity to businesses and households within their areas. It also purchases electricity from independent power producers (IPPs) in terms of various agreement schemes as well as electricity generating facilities beyond the country’s borders.

According to the Integrated Report 2014, Eskom operates 27 power stations with a total nominal capacity of 41 995MW, comprising 35 726MW of coal-fired stations, 1 860MW of nuclear, 2 000MW of gas-fired, 2 000MW hydro and pumped-storage stations as well as the 3MW wind farm at Kliphuewel. The company also maintains more than
359 337km of power lines and substations with a cumulative capacity of 232 179MVA.

More than 120 stakeholder engagements were arranged in the year 2014 at a national level. Engagements focused on sharing key information, improving existing and new relationships and creating partnerships to ensure support in addressing Eskom's challenges.

The relationships with stakeholders are managed in terms of a governance process which is aligned to King III. This includes a stakeholder relations policy, process control manual, assessment of stakeholder relations and annual reporting of the material issues to the executive management committee, the social, ethics and sustainability committee and to the board.

This integrated report focuses on qualitative and quantitative items that are material to Eskom's operations and strategic objectives. The question of what is “material” has been determined by the board and executive management through extensive consultation within Eskom as well as with Eskom’s stakeholders (figure 1), while taking into consideration Eskom’s strategic objectives, risk assessments and the way in which its value chain operates.

Material items are those that are both of high concern to stakeholders and have a significant impact on the business. Eskom analysed the following to determine its material items:

- Both formal and informal stakeholder feedback, including media coverage
- Parliamentary questions received and the questions and feedback from government portfolio committee engagements
- Reports submitted to the board and shareholder for discussion or approval
- Eskom’s shareholder’s compact, corporate plan, its long-term strategic objectives and key focus areas for 2013/14
- Eskom’s key risks, as identified by its integrated risk management process
- Policies and initiatives relevant to Eskom’s business
- Policy, legislation and regulation changes

The complete list of material items was analysed in terms of Eskom’s strategic objectives and was tabled at Eskom’s integrated report steering committee for consideration of the accuracy and completeness of the list. As part of Eskom’s governance process, the following committees also reviewed the material items that were included in the integrated report for accuracy and completeness:

- Executive management committee
- Social, ethics and sustainability committee
- Audit and risk committee
- Board

### Figure 1. Eskom Stakeholder Model

![Eskom Stakeholder Model](http://integratedreport.eskom.co.za)

Source Adapted from: Integrated Report 2014 (http://integratedreport.eskom.co.za)

**Stakeholder engagement**

There are various avenues of communication through which stakeholders can approach Eskom with their concerns and expectations. The company takes care to ensure that all stakeholder engagements are carefully planned (figure 1) in terms of the scope of the engagement. The intended outcomes of the interaction and the engagement approach with relevant stakeholders are as follows:

**Government**
- One-on-one meetings;
- Presentations to parliamentary portfolio committees;
- Committee meetings; Eskom website; Reports;
- Annual general meeting; Industry associations and...
task teams; Site visits and public hearings; Monthly, quarterly and bi-annual meetings; Community and executive forums.

Lenders, investors and customers - Roadshows; Meetings; Results presentations; Webcasts; Site visits; Eskom website; Teleconferences; Social media; Formal presentation website; Company announcements; Reports and quarterly forums.

Suppliers and contractors - Roadshows; One-on-one meetings; Preferential procurement programmes; Open days; Contracts and service agreements; Workshops; Presentations; Training; Project steering committees.

Business groups, civil society and non-governmental organisations - Roadshows; Results presentations; Reports; Community forums; Stakeholder forums; Peer educators; Industry partnership; Wellness campaigns; HIV and Aids awareness; Skills development programmes; Advertising in local newspapers; Sponsorships; NGO Forum.

Eskom management, employees and organised labour - Provincial employee engagements; Collective bargaining practices; Pre- and post- interim and annual results; Regular meetings; Eskom website; Social media; Development programmes; Special publications and newspapers; Open dialogues, conferences and forums; Partnerships.

Industry experts, analysts, academics and media - Industry associations and task teams; Forums and committees; Emails and Eskom website; Interviews; Roadshows; results presentations; Quarterly briefings; Company reports; Articles (Integrated Report 2014 - http://integratedreport.eskom.co.za)

Eskom believes that integrated reporting brings greater cohesion and efficiency to the reporting process. It encourages integrated thinking to break down internal silos and reduce duplication in content, therefore improving the quality of information available to key stakeholders.

2.2. Case Two: LONMIN

[Lonmin Sustainable Development Report September 2013]

According to the Lonmin Sustainable Development Report 2013, Lonmin engages in the discovery, extraction, refining and marketing of platinum group metals (PGMs) and is one of the world’s largest primary producers of PGMs. Their core operations, consist of eleven shafts and inclines, are situated in the Bushveld Igneous Complex in South Africa, a country which hosts nearly 80% of global PGM resources. Lonmin conducts all their business in a way which is socially and environmentally responsible and sustainable. They believe this is essential for Lonmin’s future and for the wellbeing of all their stakeholders.

The company after major hurdles in 2012 realised the need for an improved way to engage with stakeholders that took into consideration the complexities that they faced.

Their aim was for honest, open conversations, and relationships, in terms of how they interact with their employees and stakeholders and to work towards the “win-win” outcomes with all stakeholders.

In 2013 significant time was spent working towards developing a revised stakeholder engagement plan, in line with the Lonmin Renewal Plan. The stakeholder engagement plan was designed to distil the stakeholder issues that were most relevant both to the company and to key stakeholders.

This was conducted in a five-step process:

1. Identify all key stakeholders: This was done using a desktop review, analysis of media coverage, online sources, research documents, and internal conversations and consultations between representatives of all of the different business units.

2. Background review of stakeholders to uncover key issues: This comprised a desktop review and analysis of media coverage and online sources, as well as the minutes of our extensive range of formalised stakeholder engagement meetings.

3. Prioritise issues to identify those most relevant to Lonmin: They undertook this through internal working groups and feedback from management.

4. Identify the most important stakeholders in each issue group: This was conducted through a ranking done by an internal working group and members of Lonmin management and finalised according to weighted averages.

5. Analysis of research: Once the initial four steps were completed, all the research was analysed and used to draft the first version of our new stakeholder engagement plan.

Their research was largely focused on the effect of the unrest during 2012 and led to a number of key findings regarding their stakeholders and their notable issues.

The main stakeholder groups identified were:

- Social parties, including civil society, non-governmental organisations (NGOs), academics, churches, world bodies and social commentators.
- Government.
- Communities.
- Employees and trade unions.
- The media.
- The private sector and industry role players.

The issues were grouped into the following categories:

- Social responsibility, including living conditions, local communities, sustainable development, education, environment, health and wages.
- Industry/Sector, including collective bargaining, role of unions and impact of the unprotected strikes on the sector.
- Economic, including impact on the South African economy of the Marikana tragedy, wages and income inequality.
- Political, including government responsibility, legal and regulatory framework, impact on South Africa, violence, migration and unions.
- Regulatory framework, including compliance with national and international regulation, labour laws, unions and migrant labour force.

From these groups the following five issues were identified as the issues stakeholders believed were most material, and these became the basis for their Board initiatives.
Figure 3. Stakeholder identified issues


Following this initial research, they updated their stakeholder engagement plan, which considered what their approach to each issue and each stakeholder would be, how they were going to react to the various issues and what their methods of engagement would be.

They also introduced a stakeholder engagement forum that meets quarterly to address stakeholder issues and facilitate the communication of new stakeholder requests. The management of stakeholder concerns will be the responsibility of the newly appointed Executive Vice President: Communications and Public Affairs, who reports directly to the CEO.

Projects such as the Employee Value Proposition (EVP) and the Community Value Proposition (CVP) are driven by effective stakeholder engagement, and Lonmin hopes to move forward with a thorough understanding of their stakeholders and an open line of communication.

3. CONCLUSION

This research paper along with many others (Malan, 2005; Visser, Middleton & McIntosh, 2005) demonstrates that CSR receives considerable attention and has become a leading principle of top management in South Africa. The number of research observations in this field clearly highlights leadership competencies, accountability, and structure of partnerships. South African JSE listed businesses have re-examined their interest in the TBL framework and are driven towards a sustainable approach that is integrated into their business strategy and which provide frameworks for community and stakeholder engagement that allow for positive participation in programmes, which in turn leads to more successful and sustainable programmes.

REFERENCES