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Notes Overview

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CHAPTER 5

Corporate social responsibility: aka corporate citizenship. Businesses operate in a wider social environment, and have both positive and negative impacts on the communities and the environment around them. They therefore have a responsibility towards these communities and the environment, and as a result need to become involved in solving problems society faces, such as poverty, unemployment and pollution. Corporate social responsibility is about proactive efforts on the part of companies to make a positive contribution to society

Five universal reasons why companies need to make an effort to become better corporate citizens:

1. Global investors value good corporate citizens
2. Financial markets are waking up to the liabilities of irresponsible behaviour
3. Different countries have their own dynamic and volatile market conditions and their own ways of understanding business responsibility. These companies that do not engage with the communities on which they operate will struggle to thrive
4. Intense global competition increasingly means co-operation with other businesses. Since you will be judged by the company you keep, finding a partner with a good corporate citizenship and being a good corporate citizen is essential
5. How you approach public policy issues matter

Within the business context, corporate social responsibility is a concept that recognises that (i) companies are responsible for their impact on society and the natural environment (ii) companies are responsible for the behaviour of others with whom they do business, and (iii) companies need to manage their relationships with the wider society

Terminology:

1. A company's bottom line: its financial profit or loss
2. Triple bottom line: measures the financial, social and environmental impacts of business. All are equal and all are interconnected

3. Corporate social investment: spending a small part of your profits on good causes. Corporate social responsibility is about how you make your profits in the first place. Not to be confused!
4. Sustainability reporting: increasing expectations for companies to publicly report on financial, social and environmental issues
5. Corporate governance: how a company's objectives and strategies and decision making structures are developed, implemented and monitored. It also relates to the extent to which, and way in which, a company is accountable to its shareholders and other stakeholders
6. Sustainable development: development that meets the needs of the present without compromising the ability of future generations to meet their own needs

10 principles of the UN Global Compact:
Human Rights

1. Businesses should support and respect the protection of internationally proclaimed human rights and
2. Make sure that they are not complicit in human rights abuses

Labour standards

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
4. The elimination of all forms of forced and compulsory behaviour
5. The effective abolition of child labour and
6. The elimination of discrimination in respect of employment and occupation

Environment

7. Businesses should support a precautionary approach to environmental challenges
8. Undertake initiatives to promote greater environmental responsibility and
9. Encourage the development and diffusion of environmentally friendly technology

Anti-corruption

10. Businesses should work against all forms of corruption, including extortion and bribery

The Global Reporting Initiative (GRI) (1997): aims to provide a set of reporting guidelines that cover all the key issues of concern regarding corporate citizenship. By developing guidelines the GRI wants to encourage companies to be more systematic and comprehensive in their approach to sustainability reporting

AA1000 Framework (1999): purpose is to help users to establish a systematic stakeholder engagement process that generates the indicators, targets and reporting systems needed to ensure its effectiveness in overall organisational performance. It does not describe what should be reported on, so its guidance is considered complementary to that of the GRI Reporting Guidelines

Other relevant initiatives:

1. ISO 14000 series: a series of standards that focuses on corporate environmental management systems
2. Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises: concerns the disclosure of information, employment relations, environmental management, bribery, competition, consumer interests and science and technology diffusion
3. SA 8000: focuses on labour conditions, was developed by Social Accountability International

South African initiatives and imperatives:

1. Legislation: the basis of corporate citizenship is compliance with all relevant national legislation:
    a. Companies Act 61 of 1973 and Close Corporations Act 69 of 1984
    b. The Constitution of the Republic of South Africa (1996)
    c. Labour Relations Act 66 of 1995 and Basic Conditions of Employment Act 75 of 1997
    d. Employment Equity Act 55 of 1998
    e. Preferential Procurement Policy Framework Act 5 of 2000
    f. Mineral and Petroleum Resources Development Act 8 of 2002
    g. National Environmental Management Act 107 of 1998
    h. Promotion of Access to Information Act 2 of 2000
    i. Basic Conditions of Employment Act 75 of 1997
    j. Occupational Health and Safety Act 85 of 1993
    k. Broad-based Black Economic Empowerment Act 53 of 2003
2. King Code on Corporate Governance in SA: King III Report is very important for CSR in SA companies, and is internationally recognised as being a progressive document. The report provides organisations with guidance on good corporate governance practices and explicitly defines concepts such as “corporate citizenship”, “social responsibility”, “triple bottom line performance”, “stakeholder engagement” and “sustainability reporting”. It applies to all entities regardless of the manner and form of incorporation and establishment
3. JSE Socially Responsible Investment Index: relates to the role of investors in corporate citizenship and the emerging requirements of investors and civil society for companies to demonstrate more socially responsible behaviour. This index comprises criteria to measure the triple bottom line categories of environmental, economic and social impacts, as well as a separate category for corporate governance
4. Industry charters: sector-specific charters that promote socio-economic transformation and establish an equitable economic playing field
    a. Chartered Empowerment and Transformation in the Tourism Industry
    b. Financial Sector Charter
    c. BEE Charter for the South African Mining Industry

The business case for CSR: refers to the argument that being a good corporate citizen can contribute to a company’s profitability

1. Being a good corporate citizen can have positive implications for a company’s reputation. This can have positive financial benefits through customer loyalty, attracting higher-quality employees or improving relationships with investors
2. Eco-efficiency can save a company cost; using recycled materials in building design, employing solar panel technology to generate energy and using fuel-efficient technologies in vehicles
3. Competitive advantage and value creation. A company that ignores ethical, environmental or social issues may actively destroy value through inadequate management of risks, but may also limit value through missing opportunities. While focusing on the risks will protect existing business interests, and thus conserve value, such a purely defensive approach will not open up new opportunities to create value

Key Strategic opportunities and threats in the environmental and social field:

Threats	Opportunities
Labour shortages	Access to new pools of labour from education and training programmes and community involvement
Low productivity and quality because of poor labour practices and skill levels	Higher productivity because of better trained staff and higher standards
Missing new market opportunities, and the erosion of traditional markets	New markets through an improved understanding of consumer needs

Product obsolescence through low levels of innovation and inappropriate technology	New products and markets through the application of new technologies
Failure to anticipate new social and regulatory requirements	First mover advantage by anticipating the impacts of social pressures
Vulnerability because of low investor confidence	Lower cost of capital because of greater investor confidence in a company's ability to manage change
Higher cost levels from increased regulation from old technology	Lower compliance costs by being ahead of regulations
Recruitment and customers retention problems through poor reputation	Enhanced reputation leading to greater staff, customer and investor loyalty

Perceived threats and opportunities for South African businesses with regards to pertinent social economic and environmental factors:

	Threats	Opportunities
BEE Legislation	Lower competitiveness through lower skilled appointments Less investor confidence	Empowerment of disadvantaged individuals Increased competitiveness in terms of government business Investor confidence in company's ability to manage change and retain profits
HIV/ Aids	Lower productivity Increased medical costs Lack of continuity Higher training costs	Positive contribution to staff wellness and education on health matters, which slows down infection rates and leads to higher productivity Developing partnerships with government and NGO's
Minimum wages	Higher operating costs because of salary/ wage bill	Improvements in employee's standards of living, which leads to higher employee morale, productivity and retention
Regulatory requirements	More formalities, paperwork etc. Costs of compliance	Attracting foreign investment

Corporate governance refers to the way in which an organisation makes decisions and decides how to manage its affairs. The King III Report on Corporate Governance was published on 25 Feb 2009 and it includes the following principles:

1. Good governance is about effective leadership
2. Sustainability is the primary moral and economic imperative for the 21st century
3. Innovation, fairness and collaboration are important factors regarding sustainability
4. Sustainability reporting is a key facet of good corporate governance

Stakeholders: the people or groups who are affected by or who can have an effect on a company:

1. Internal stakeholders: executive board members, management and other employees
2. External stakeholders: shareholders, the consumer, the public, suppliers and the wider community in the area where the business operates
3. Primary stakeholders: those whose ongoing support of the company is vital to the company's survival
4. Secondary stakeholders: less direct impact on the company, and include environmental NGO's or the media

Key approaches of the stakeholder engagement process:

1. Involvement: encourage brand involvement by welcoming interested parties and respecting their roles. Build existing relationships and find new participants to enrich dialogue
2. Candour: be comprehensive. Make sure that you consider every issue. Build trust by creating an environment where different opinions are welcome. Be candid. Disclose your agenda, assumptions, goals and boundaries
3. Relevance: make the process relevant by focusing on the issues of greatest importance. Share knowledge so that all participants have access to pertinent information. Ensure that the process is timely and that the process takes place when new information can influence decisions
4. Learning: uncover new perspectives. Seek mutual understanding and identify mutually beneficial solutions to problems. Focus on the future. Emphasize what can be done to resolve issues
5. Action: act on results by applying what has been learnt to improve business planning and decision-making. Provide stakeholders with evidence of how the results of the process will be used

Level	Goal	Communication	Nature of relationship	Engagement approaches
Remain passive	No goal No engagement	No active communication	No relationship	Stakeholder concern expressed through protest letters, media, websites and so on, or pressure on regulatory bodies and other advocacy efforts
Monitor	Monitor stakeholders views	One-way communication: stakeholder to company	No relationship	Media and internet tracking Second-hand reports from other stakeholders, possibly via targeted interviews
Inform	Inform or educating stakeholders	One-way communication: company to stakeholder No invitation to reply	Short- or long-term relationship with stakeholders: "we will keep you informed"	Bulletins and letters Brochures, reports and websites Speeches, conferences and public presentations Open houses and facility tours Road shows and public displays Press releases, press conferences. Media advertising and lobbying
Transact	Work together in a contractual relationships where one partner directs the objectives and provides funding	Limited two-way communication: setting and monitoring of performance according to terms of contract	Relationship terms set by contractual agreement: "we will do what we said we would"	Public-private partnerships, grant-making (donor agreements for funding of NGO's) and cause-related marketing (marketing activities of companies that promote NGO causes and the company product)
Consult	Gain info and feedback from stakeholders to influence decisions made internally	Limited two-way communication: company asks questions and stakeholders answer	Short- or long-term involvement: "we will keep you informed, listen to your concerns, consider your insights and provide feedback on our decision	Surveys and focus groups Workplace assessments One-to-one meetings, public meeting and workshops, standing stakeholder advisory forums, online feedback and discussion
Involve	Work directly with stakeholders to ensure that their concerns are fully understood and considered in decision-making	Two-way or multi-way communication between company and stakeholders Learning takes places on both sides Stakeholders and company take action individually	May be one-off or longer-term engagement: "we will work with you to ensure that your concerns are understood, to develop alternative proposals and to provide feedback about how stakeholders views influenced the decision-making process"	Multi-stakeholder forums Advisory panels Consensus-building processes Participatory decision-making processes
Collaborate	Partner with or convene a network of stakeholders to develop mutually agreed	Two-way or multi-way communication between company and stakeholders	Long-term relationship "we will look to you for direct advice and participation in finding	Joint products, voluntary two-party or multi-stakeholders initiatives and partnerships

	solutions and joint plan of action	Learning, negotiation and decision-making take place on both sides Stakeholders work together to take action	and implementing solutions to shared challenges"	
Empower	Delegate decision-making on a particular issue to stakeholders	New organisational forms of accountability: stakeholders have formal role in governance of an organisation or decisions are delegated out to stakeholders	Long-term relationship: "we will implement what you decide"	Integration of stakeholders into governance structure (for example, as members, shareholders or on particular committees)

Step in the stakeholder engagement process:

1. Prepare: identify and understand the territory to be explored through the engagement process with stakeholders. Determine the most important issues where stakeholder engagement might be helpful and what kinds of stakeholders might be considered for engagement
2. Plan: set objectives and parameters for the engagement process, and identify and priorities stakeholders with whom to engage. Decide how an adequate objective for the engagement process can be set and how the process can be kept within bounds. Consider who should be accountable for engaging and how to determine exactly which stakeholders should be involved. Decide on the best mode of discussion to have and how to measure the success of the process
3. Design: co-develop the management plan, including the agenda and logistics, to meet the engagement objectives. Determine how and when to extend an invitation to explore whether engagement is possible and what objectives might be mutually agreed to for the engagement. Consider the best way to conduct the sessions, whether an independent third-party facilitator will be required, and what logistics and rules must be in place. Decide whether it is necessary to verify or audit the engagement
4. Engage: successfully meet the objectives through execution of the engagement plan with stakeholders. Before doing this, establish whether the correct background information, materials and training to begin the engagement are available. Decide on the steps or actions that will follow the engagement
5. Evaluate: assess the outcomes of engagement for both the company and stakeholders against specific objectives. Decide if further engagement sessions are necessary and use the predetermined criteria to assess whether the engagement was successful. Consider the outcomes and establish whether the process was helpful
6. Apply: share information and integrate the outcomes of the engagement process appropriately into business practices. Decide how to ensure that the results of the engagement reach the right internal decision-makers and how to inform stakeholders about follow-up from the engagement session

Important sustainable development meetings:

1. The Rio Earth Summit 1992
2. The United Nations Global Compact
3. The Millennium Development Goals (MDGs) 2000
4. The World Summit on Sustainable Development (WSSD) 2002

Impact of CSR on a business:

1. CEO/ top management: responsible for managing issues that pertain to the whole corporation. They also oversee all functional areas. They will also be concerned with specific ways in which more CSR practices can be helpful.
2. Operations: operating managers are responsible for ensuring that their corporations can produce products and services in a timely, cost-effective way and can beat their competition on price, innovation and quality. Good CSR practices can create market opportunities and increase competitiveness of companies that use innovation to develop products or services based on sustainability criteria. Recognising and responding to emerging niche markets allows companies

to translate good CSR into corporate social opportunity. Total quality management (TQM) forms an integral part of the operations function and focuses on the development and delivery of quality products by involving the entire company. Total quality should be defined with reference to financial considerations, products' social and environmental characteristics. Similarly, priorities for continuous improvement should be determined with reference to the preferences of consumers and the activities of competitors, as well as to constant monitoring of the product's impact on society and the environment

3. Finance: good CSR practices – particularly good corporate governance structures and risk management systems – provide important opportunities to unlock capital. Financial institutions and multilateral lenders will invest in and lend to companies that have a good reputation
4. Procurement: suppliers are external stakeholder to a business:
    a. How does the business choose the suppliers? Refer to relevant legislation
    b. How is the supplier running its business?

    Relevant legislation:

    a. Preferential Procurement Policy Framework Act 5 of 2000
    b. Broad-based Black Economic Empowerment Act 53 of 2003
    c. Companies Act 61 of 1973 and Close Corporations Act 69 of 1984
    d. Constitution of the Republic of South Africa 1996
5. Human resources: CSR can help to increase employee satisfaction and loyalty, improve recruitment and retention and build the long-term pipeline of employees.

    Relevant legislation:

    a. Labour Relations Act 66 of 1995
    b. Employment Equity Act 55 of 1998
    c. Basic Conditions of Employment Act 75 of 1997
    d. Broad-based Black Economic Empowerment Act 53 of 2003
6. Risk management: can become more difficult because:
    a. Globalisation of risks – more risks from multiple sources
    b. Heightened surveillance – companies are being watched by the entire world
    c. Increased demands for transparency from consumers, labour and communities
7. Marketing and PR: marketing deals with the effective development and delivery of a satisfactory product offering to the market in such a way that it meets the needs of the organisation, consumer and community. Responsible marketing is about how the organisation positions its brand. Brand citizenship and cause-related marketing: when businesses and charities form a partnership to market an image, product and brand for mutual benefit using the power of the brand to make a difference in society