THE BUSINESS OF SUSTAINABLE DEVELOPMENT IN AFRICA

Human Rights, Partnerships, Alternative Business Models

EDITORS:

Ralph Hamann

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CHAPTER 1

Introducing corporate citizenship

RALPH HAMANN

This chapter provides a broad introduction to corporate citizenship. First, it describes the increasingly prominent expectation that companies adopt more wide-ranging, explicit responsibilities than previously. Second, it looks at ways of defining corporate citizenship, particularly in Africa, where the context may require different priorities and approaches. Third, it considers some controversies surrounding corporate citizenship, taking into account liberal and radical critiques, and suggests a middle way. It discusses the 'business case' for corporate citizenship and its limitations. Finally, it describes some generic challenges faced by companies in implementing corporate citizenship policies.

A new role for business in sustainable development?

The relationship between business and society, and the way this is circumscribed by ethics and institutions, has long been a subject of debate.[1] Adam Smith, often called the father of modern economics, emphasised how economic transactions were premised on a range of ethical assumptions and foundations.[2] At least since Smith's days, establishing an institutional context in which business activity, broadly speaking, can enhance social outcomes has been a key objective and legitimating foundation for the development of modern states.

In much of Africa, this interplay between ethics, states and markets has historically been characterised by colonialism and slavery. Traditional institutions that previously created a balance between personal wealth creation and collective benefit have to a large extent been dissipated or distorted by systematic colonial subjugation and 'divide-and-rule' tactics, and this legacy persists in the difficulties African states have experienced since independence.[3] There is thus an uneasy tension between the contemporary notion of corporate citizenship and the origins of some of the first truly multinational corporations – such as the British and Dutch East India Companies, which were founded on the systematic exploitation of African slaves and primary resources.

Yet even in the days of the East India Companies, questions were being asked about their social responsibilities – by Smith himself, among others – and this arguably contributed to their demise. The history and political economy of corporate citizenship is fascinating,[4] but the point being made here is that questions about the social responsibility of businesses have long been asked, even if they were not situated in debates about 'sustainable development', as they are currently. So is there really a new, socially responsible role for business in sustainable development? The answer is yes, to the extent that there are now increasingly prominent demands and expectations that business leaders contribute more comprehensively to broader social objectives than they used to, and that many of the largest companies seem keen to adopt these expanding responsibilities, at least rhetorically.

The increasingly mainstream and high-level expectation that business can and should contribute to sustainable development is perhaps best illustrated in the primary multilateral agreements on sustainable development and related issues. Already in 1992, a key document of the first Earth Summit in Rio de Janeiro, Brazil, argued that 'the policies and operations of business and industry, including transnational corporations, can play a major role in reducing impacts on resource use and the environment'.[5]

There is thus a call for a growing private sector that will provide more 'employment and livelihood opportunities',[6] and over and above this there are increasing expectations that business leaders should contribute decisively to sustainable development by changing their strategies and decisions. Perhaps the most prominent expression of this is the UN Global Compact, an initiative of the UN Secretary-General, described in more detail below, which argues: 'By taking a principle-based approach to business, companies can help to ensure that sustainable development is achieved and that the benefits of globalization are shared more widely.'[7] Such expectations are also raised with particular reference to Africa's development. The Commission for Africa advises: 'Businesses must sign up to leading codes of good social and environmental conduct, including on corruption and transparency, and focus their efforts on coordinated action to tackle poverty – working in partnership with each other, with donors, with national governments, and with civil society, including trades unions.'[8]

This image of business as contributor to development is supported by parts of the business community, led by major multinational companies. In particular, the World Business Council for Sustainable Development (WBCSD) has been at the forefront of efforts to argue the business case for sustainable development and to propose mechanisms for implementing this contribution. In a report focused on the Millennium Development Goals (MDGs), the WBCSD says: 'Business is good for development and development is good for business.'[9] What motivated companies to join this group? Writing in 2002, three of the WBCSD's main founders explain:

> Some business leaders were drawn to the concept as they realised that not only was it not anti-growth but also it called for serious economic growth to meet the needs of the current population. Also, some warmed to the idea as they compared the issues involved in sustaining the planet with those involved in sustaining a corporation. Both require balancing acts between managing for the long term and managing for the short term.[10]

The increasing interest among governments, business and civil society in corporate citizenship has produced a wide array of initiatives or guidelines. Among the first were the Sullivan

Principles, which were established in 1977 in response to concerns about US corporations' investments in apartheid South Africa. They obliged their signatories to ensure fair labour practices and oppose racial segregation in their operations in South Africa, and they have since been re-branded as the Global Sullivan Principles.[11]

Increasing calls for companies to provide reliable and timely information about their environmental and social performance led to the establishment and rapid growth of the Global Reporting Initiative (GRI), a 'long-term, multi-stakeholder, international process whose mission it is to develop and disseminate globally applicable *Sustainability Reporting Guidelines*… for voluntary use by organisations for reporting on the economic, environmental and social dimensions of their activities, products, and services'.[12] Initiatives such as the GRI emphasise their voluntary nature. But in the context of repeated criticism of voluntary initiatives by many non-governmental organisations (NGOs) (to be discussed in more detail below), it is notable that some governments, such as those of France and Australia, have promulgated legislation requiring increased transparency on social and environmental issues.[13]

Other initiatives have more direct government involvement in their implementation. One of the most prominent of these is the OECD (Organization for Economic Cooperation and Development) Guidelines on Multinational Enterprises, which were first developed in 1976 and revised in 2000. These guidelines pertain, among other things, to disclosure of information, employment relations, environmental management, bribery, competition and consumer interests, and are 'the only multilaterally endorsed and comprehensive rules that governments have negotiated, in which they commit themselves to help solve problems arising in corporations'.[14] Signatory governments commit themselves to establishing National Contact Points that will investigate complaints about violation of these rules.

There is also an increasing array of standards, most notably those of the International Organisation for Standardisation (ISO). The ISO 14000 series focuses on corporate environmental management systems, promoting continual improvement without specifying actual standards of performance. Social issues are not given much consideration, though there is reference to stakeholder engagement. This series has been an important guide for companies in Africa, many of which have become certified in connection with international supply chain and consumer expectations. The ISO's breadth and legitimacy also contribute to the interest devoted to the current development of ISO 26000, a social responsibility guidance standard due for release in 2008 or 2009. This will not prescribe a formal management system, but will provide guidance on specific issues and suggest how organisations can address them. Nevertheless there are concerns that it may become a de facto performance standard in international supply chains, thereby increasing pressure on businesses, especially small and medium enterprises in Africa.[15]

In addition to such universal standards, there are a number of sector-specific standards and certification systems. These include, for instance, the certification systems of the Forest Stewardship Council and the Marine Stewardship Council, the chemical industry's Responsible Care programme, and the Kimberley Process, which seeks to counter the trade in 'blood diamonds'. Key drivers of such initiatives commonly include customers and retailers in developed countries. In those industries with international supply chains and high levels of consumer choice, such programmes have enjoyed relatively high prominence among companies operating in many African countries.

Other market-based initiatives focus on the role of investors as potential drivers of sustainable business practices, particularly in the form of socially responsible investment (SRI) funds. These include the Dow Jones Sustainability Index in the US and the FTSE4Good in the UK. In South Africa, the Johannesburg Securities Exchange launched its JSE Socially Responsible Investment Index in 2004, the first of its kind in the developing world.[16] An important role has also been played by corporate governance and risk management guidelines, which are often included in the larger stock exchanges' listing requirements. So, for instance, the JSE in South Africa requires adherence to core components of the internationally respected King 2 Report on Corporate Governance in South Africa, published in 2002 (and currently being updated), and the Nigerian Stock Exchange has a code on corporate governance adopted in 2004, though the latter makes less explicit reference to issues such as corporate citizenship and sustainability reporting than the JSE.[17]

Arguably the most prominent corporate citizenship initiative is the UN Global Compact, first proposed in 1999 by UN Secretary-General Kofi Annan at the World Economic Forum. According to the Global Compact website:

> Through the power of collective action, the Global Compact seeks to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalisation. In this way, the private sector – in partnership with other social actors – can help realize the Secretary-General's vision: a more sustainable and inclusive global economy. The Global Compact is a purely voluntary initiative with two objectives: Mainstream the ten principles in business activities around the world [and] catalyse actions in support of UN goals…[18]

The ten principles of the Global Compact are listed in Box 1. Its 4000 signatory organisations (as of mid 2007) – mostly multinational corporations, but also including universities and even municipalities – commit themselves to complying with the Global Compact principles and furthering the objectives of the United Nations. Importantly, both commitments go beyond compliance to embrace proactive efforts in pursuit of sustainable development. As signatories, companies also commit themselves to submitting 'Communication on Progress' reports and participating in the various initiatives of the Global Compact, such as the Regional Learning Forum that organised the event in Ghana where many of this book's case studies were first presented.

In response to critics of the Global Compact, who emphasise the lack of enforcement or monitoring of signatories' adherence to the principles, one of the architects of the Global Compact argues as follows:

> The Global Compact has explicitly adopted a learning approach to inducing corporate change, as opposed to a regulatory approach; and it comprises a network form of organization, as opposed to the traditional hierarchic/bureaucratic form. These distinctive (and, for the UN, unusual) features lead the Compact's critics seriously to underestimate its potential, while its supporters may hold excessive expectations of what it can deliver… The hope and expectation is that good practices will help drive out bad ones through the power of dialogue, transparency, advocacy and competition.[19]

There are many who doubt the power of dialogue and transparency for driving out bad corporate practices. This is discussed in more detail below. Yet the Global Compact remains one of the key points of reference for business managers and others grappling with corporate citizenship.

Box 1: The UN Global Compact principles

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

Human rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour standards

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

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

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

Source: http://www.unglobalcompact.org (accessed July 2007).

In many African countries, such as Malawi and Mozambique, it provides a crucial introduction to corporate citizenship principles and ideas, where many business managers have yet to be confronted with corporate citizenship initiatives.[20] It also provides an important platform for convening multi-stakeholder discussion and negotiation on issues ranging from human rights to corruption. For instance, when confronted with allegations that ABB's operations in the Sudan were contributing to the human rights abuses in that country, ABB managers realised that the Global Compact could provide a vital, legitimate platform to invite other companies, civil society organisations and – most crucially – the national government, to a discussion on how human rights concerns are affecting the country's socio-economic development.[21] One

of the case studies in this book shows a similar role being played by the Global Compact in facilitating multi-stakeholder deliberations on curbing corruption in Malawi.

The current proliferation of initiatives dealing with various aspects of corporate citizenship is proving a headache for many business managers. They are confused and even overwhelmed, and there is much talk of 'code fatigue'. However, the reality is that the number of key initiatives that have proven their pertinence and established legitimacy among diverse stakeholder groups (even though they might continue to be controversial) is relatively small. Furthermore there are important differences between them, and many of them complement each other. For instance, among other things the GRI represents a useful complement to the UN Global Compact, because it allows companies to report comprehensively on their performance regarding adherence to the Global Compact's ten principles. The most prominent initiatives – especially the GRI, the Global Compact and the soon to be issued ISO26000 guidelines – have explicit agreements in place to build these complementarities and synergies.

Defining corporate citizenship

Corporate responsibilities

As noted above, some of the tenets of corporate citizenship have been on people's minds for as long as they have created formal groups for the purpose of economic activity. Whereas 'corporate citizenship' is a term that has only become commonly used relatively recently, systematic efforts to define 'corporate social responsibility' (CSR) have a longer history, especially in the North American management literature. Archie Carroll attributes the first explicit consideration of CSR to Howard Bowen, who defined it in his 1953 book, *Social Responsibilities of the Businessman,* as 'the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society'.[22]

In the 1970s, in response to society's concerns about increasingly powerful corporations, a tiered model of CSR was developed, culminating in Carroll's well-known pyramid model (see Figure 1), which illustrates his observation that '[t]he social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organisations at a given point in time'.[23] The pyramid notion implies that economic responsibilities are the foundation on which all the others rest – 'economic performance undergirds all else'. Above these, in ascending sequence, are the legal, ethical and discretionary responsibilities. However, Carroll explains that business 'should not fulfil these in sequential fashion'; rather, that 'each is to be fulfilled at all times'.[24]

In a later version, Carroll describes the economic and legal responsibilities in terms of what is *required*, the ethical ones as what is *expected*, and the discretionary or philanthropic ones as what is *desired*.[25] Similarly, Klaus Leisinger, the special advisor on the Global Compact to the UN Secretary-General in 2005/6, describes 'must', 'ought to' and 'can' dimensions of corporate responsibility (see Figure 2), based on the work of German sociologist Ralf Dahrendorf.[26] Leisinger's 'ought to' dimension encompasses applying best practice norms in circumstances where state legislation is weak or lacks enforcement, and striving to enhance the social and environmental performance, even of third parties for (instance, in the supply chain). Somewhere

Figure 1: Carroll's hierarchy or pyramid model of Corporate Social Responsibility (CSR)

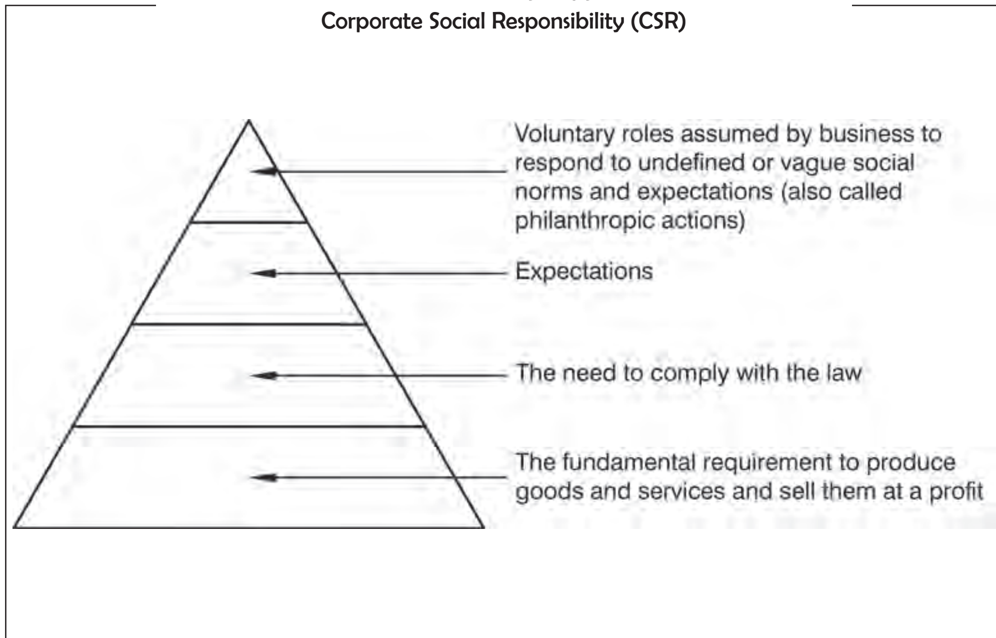


Figure 2: The connection between good management practices and corporate responsibility excellence according to Leisinger[27]

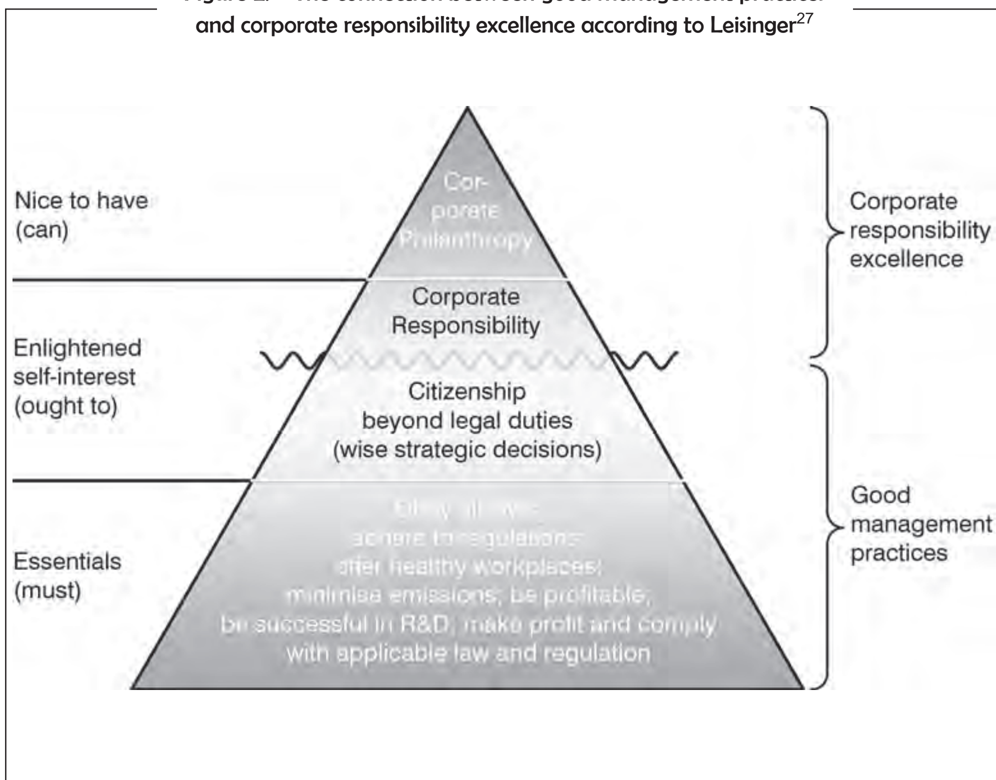


Table 1: An overview of South Africa's generic Broad-Based Black Economic Empowerment scorecard

Scorecard component	*Focus areas include consideration of (among other things)*
Ownership (20%)	• The nature of the exercisable voting rights in the hands of black people • The nature of the economic interest of black people in the enterprise • The level of involvement of black people in ownership of the enterprise through employee ownership schemes, broad-based ownership schemes and co-operatives
Management control (10%)	• The nature of the exercisable voting rights of black Board members • The number of black executive directors • The level of representation of blacks in senior top management • The number of black independent non-executive directors
Employment equity (10%)	• The level of representation of black employees in senior, middle and junior management • The number of black disabled employees as a percentage of all employees
Skills development (20%)	• The level of skills development expenditure on specified learning programmes for black employees • The number of black employees participating in defined learnerships as a percentage of total employees
Preferential procurement (20%)	• The level of B-BBEE procurement spend from all recognised B-BBEE suppliers as a percentage of total procurement spend • The level of B-BBEE procurement spend on suppliers that are 50% black-owned and suppliers that are 30% owned by black women, as a percentage of total procurement spend
Enterprise development (10%)	• The level of the average annual value of all enterprise development contributions and sector specific programmes made by the enterprise as a percentage of a defined target relating to profit and turnover
Socio-economic development initiatives (10%)	• The level of the average annual value of all socio-economic development contributions made by the enterprise as a percentage of a defined target relating to profit and turnover

Source: DTI (Department of Trade and Industry), General Notice 112 of 2007, 'Codes of Good Practice on Black Economic Empowerment Act (9 February 2007)'.

within this range of ethical responsibilities lies the 'responsibility frontier' (the wavy line) between good management practices and corporate responsibility excellence. The position of this frontier 'remains the prerogative of informed top management'.[28]

Because Carroll's pyramid model is one of the best known approaches to defining CSR, it has been subjected to numerous adaptations and critiques. Wayne Visser argues that it requires substantial revision if adapted to the African context, suggesting that in Africa a dominant interpretation of CSR is in terms of philanthropic activities, so the discretionary aspects of CSR are often more important here than the legal and ethical ones.[29] This, he argues, is because the socio-economic development needs in many parts of Africa are 'so great that philanthropy is an expected norm', and because CSR in general 'is still in an early stage of maturity'. Legal responsibilities, on the other hand, are seen to represent less pressure for good conduct, because the legal infrastructure is often poorly developed and 'many African countries are also behind the developed world in terms of incorporating human rights and other issues relevant to CSR into their legislation'.[30]

Visser does not back up his critique with empirical research, though there are other studies that support it at least partially. For instance, my research on mining companies in South Africa found that most corporate managers interpret CSR as so-called corporate social investment activities – or philanthropic contributions towards services such as education, health and welfare – and that the emphasis on this philanthropy sidelined more important changes to companies' core business practices.[31] However, contrary to Visser's argument, my South African research suggests that the most influential driver of recent changes in companies' policies and practices has been the government's new regulatory framework.

Notwithstanding Visser's critique, Carroll's pyramid model is highly relevant in Africa at least in terms of its *normative* application, that is, as a yardstick of what the social responsibilities of business *should* be. For a start, Carroll's definition explicitly includes legal responsibilities, in contrast to those who emphasise the voluntary nature of CSR, such as the European Commission in its 2001 green paper on CSR.[32] As Visser points out, the lack of government policy and its enforcement may be a reason why legal compliance is seen as a relatively low priority for companies from a *descriptive* perspective. But the prevalence of this perception should not detract from the important role that regulations *should* play. With particular reference to East African countries, Mumo Kivuitu and his colleagues suggest that '[t]he limited capacity of regulators and inspectorates means that compliance with even basic legislation can be in effect voluntary'.[33] Hence, especially in the African context, CSR cannot be seen as merely 'beyond compliance', but needs to focus on 'towards compliance' as well.

Further, in the context of the debates about the developmental role of the state and continued efforts to remedy the ills of the colonial and apartheid legacies, many African governments are seeking to define a social role for companies more proactively than is catered for in the European Commission definition of CSR mentioned above (though note that this can also be said of many European national governments, such as Norway). This is illustrated for instance in the South African debate about black economic empowerment (BEE), which has parallels in other African countries, such as the Nigerian government's 'Local Content' policies. BEE requirements are stipulated on a 'balanced scorecard' (see Table 1) and South African companies are obliged to improve their scores if they want to do business with the government (which is by far the country's largest procurer of goods and services) or obtain licences (such as mining

or fishing licences). As shown in Table 1, one of the elements of the BEE scorecard is preferential procurement, which means that a company needs to show that it is procuring goods and services from companies that are complying with the BEE requirements. This ensures that significant pressure to comply with BEE requirements is filtered down the supply chain.

Though there are noteworthy critiques of BEE and its implementation in South Africa,[34] it can be argued that it represents a negotiated definition of what CSR means in this country – at least in part – with the state playing a strong role in defining and enforcing it.[35] The broader implication is that corporate citizenship cannot be seen as purely a voluntary effort by business but that complying with the spirit of government policies and regulations is a crucial component. Rather than sidelining the role of governments by emphasising business voluntarism, this role ought to be integrated and strengthened in enhancing corporate citizenship.

Perhaps the more significant critique of Carroll's pyramid is its simplicity, in that it 'does not adequately address the problem of what should happen when two or more responsibilities are in conflict'.[36] Visser highlights this point with an example especially pertinent in much of Africa:

> In an African context, such conflicts and contradictions [between the levels in Carroll's pyramid] tend to be the norm, rather than the exception – how to reconcile job creation and environmental protection, short term profitability and Aids treatment costs, oppressive regimes and transparent governance, economic empowerment and social investment? And in reality, the interconnections between Carroll's four levels are so blurred as to [make these levels] seem artificial or even irrelevant. For example, is the issue of Aids treatment primarily an economic responsibility (given the medium to long term effects on the workforce and economy), or is it ethical (because Aids sufferers have basic human rights), or is it philanthropic (it is not an occupational disease, so surely treatment amounts to charity)?[37]

CSR as social cost accounting and transparency

Parallel to the efforts by Carroll and others to identify and, to some extent, prioritise different corporate social responsibilities, there has been a long-standing emphasis on business organisations' accountability for their negative impacts. This emphasis is also in line with more critical assessments of the role of business in society, and with the growing convergence between the debates on CSR and those on sustainable development and the attendant quest for performance indicators, and it is particularly noticeable in industries with significant direct social and environmental impacts. So, for instance, Alyson Warhurst and Paul Mitchell define CSR in mining as 'the internalisation by the company of the social and environmental effects of its operations through pro-active pollution prevention and social impact assessment so that harm is anticipated and avoided and benefits are optimised'.[38]

The social cost accounting perspective has led to the development of new accounting frameworks that seek to introduce social and environmental criteria into corporations' accounting practices. Such frameworks have a dual purpose: first, to achieve internal management objectives; and second, to help the company achieve and maintain legitimacy among its stakeholders. More broadly, this perspective emphasises the transformative potential of increased transparency. Stuart Hart illustrates this with a US example:

> Passed in 1998… the Toxic Release Inventory (TRI) in the US received relatively little attention in its early days. This seemingly innocuous provision required only that manufacturers disclose their use, storage, transport, and disposal of more than 300 toxic chemicals (all of which were perfectly legal at the time). Much to everyone's surprise, this data… became an important new source of information for activist groups, the media, and third-party analysts to track corporate environmental performance… The TRI also provided, for the first time, a metric for corporate and facility managers to track their own firms' performance and benchmark it against competitors. What gets measured gets done. Ten years later, toxic emissions in the United States had been reduced by more than 60 percent, even though the US economy boomed during the 1990s.[39]

From a company perspective, the most widely used and systematic mechanism for publicly reporting on sustainable development impacts is, of course, sustainability reporting. Though this practice has come a long way from the initial discussions in the 1970s on social accounting to the current prominence of the GRI,[40] most companies' reports are arguably still not very effective in explaining actual impacts on stakeholders, especially for the company as a whole. The first problem here is the tension between universal guidelines – epitomised by the GRI – and companies' diverse and complex local contexts. Attempts are therefore being made to augment high-level indicator systems with more participatory methods involving local stakeholders.[41]

More fundamental critiques of corporate sustainability reports involve claims of 'greenwashing', or the intentional provision of misinformation to suggest the company is environmentally responsible.[42] Despite the advances made through the GRI, many NGOs continue to view corporate sustainability reports negatively with regard to their 'credibility and sufficiency'.[43] To some extent, the increasing scrutiny of corporate activity by a global network of NGOs, linked to local activists and making effective use of the media and the Internet, arguably increases the pressure on companies to become more transparent. Yet there is considerable scope for enhancing this involvement of civil society in company-level impact appraisals, not only to increase the local legitimacy of the indicators used, but also to increase accountability and trust.[44] One of the most striking examples of such an approach was a study on the impacts of Unilever on poverty in Indonesia conducted jointly by the company and Oxfam.

Enter corporate citizenship

This growing emphasis on joint initiatives between companies and civil society organisations to increase companies' accountability already goes well beyond Carroll's definition of CSR. So, whereas many use the term 'corporate citizenship' interchangeably with 'CSR' (and indeed some of the authors do so in parts of this book), Andrew Crane and Dirk Matten identify an extended view of corporate citizenship that goes beyond the above definitions of CSR.[45] Their definition emphasises the concept of 'citizenship', which relates to the rights and responsibilities of members of a community. Although corporations are not 'real' citizens, they are juristic persons and powerful actors in society, so they arguably have duties to respect, uphold and further the social, civil and political rights of citizens. This duty is all the more pertinent because 'the failure of governments to fulfil some of their traditional functions, coupled with the rise in corporate power, has meant that corporations have increasingly taken on a political role in society'.[46]

This expanded view of corporate citizenship is defined as 'the corporate function for administering citizenship rights for individuals'.[47] These citizenship rights are social, civil and political. The following are examples of these rights and the company's consequent responsibilities:

- *Social rights* include, for instance, the right to education, health care or aspects of welfare. As Crane and Matten point out, 'in developing countries where governments simply cannot (and very often do not want to) afford a welfare state… improving working conditions in sweatshops, ensuring employees a living wage, providing schools, medical centres and roads, or even providing financial support for the schooling of child labourers are all activities in which corporations… have engaged under the label of corporate citizenship'.
- *Civil rights* generally refer to, among others, the right to be protected from abuse by third parties, especially the state, and they include the right to a fair trial and freedom of speech. Crane and Matten mention the example of Shell in Nigeria to show that 'corporations might play a crucial role in either discouraging (as Shell [has done]) or encouraging governments to live up to their responsibility in this arena of citizenship'.
- *Political rights* allow individuals to participate in political processes, including the right to vote or to be voted into office. Here, corporate citizenship provides citizens with a means to effect change by making corporations prime targets of campaigners and advocacy groups.[48]

Crane and Matten's definition of corporate citizenship is useful because it begins to see the corporation in its broader socio-political context (alluded to at the beginning of this chapter), and because it provides a link to the crucial role of human rights in these discussions (the topic of Chapter 2). It is also a useful platform for discussing the stakeholder model of CSR, the subject of the next section.

The stakeholder model

The need to define companies' social responsibilities more clearly has led many scholars and practitioners to conclude that rather than identify responsibilities to society in general, it is perhaps better to consider companies' responsibilities to their *stakeholders*. Clarkson provides the following definition:

> Stakeholders are persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future. Such claimed rights or interests are the result of transactions with, or actions taken by, the corporation, and may be legal or moral, individual or collective. Stakeholders with similar interests, claims, or rights can be classified as belonging to the same group: employees, shareholders, customers, and so on.[49]

Two types of stakeholder are identified, though they are not clearly delineated. *Primary stakeholders* are those whose continuing participation is vital to the corporation, or those who have direct and well-established legal claims on a corporation's resources.[50] Groups that would satisfy both criteria include shareholders, creditors, employees and government. Depending on the circumstances, customers and local communities may fulfil the first requirement, but not the second. *Secondary stakeholders* are those groups that are affected by the corporation

but not essential to its survival, or that do not have legal claims but rather rely on non-binding or ethical obligations.

Figure 3 represents graphically the kinds of stakeholders that may be relevant to, say, a publicly-listed mining company, including the ways they might seek to influence the company. The stakeholders are tentatively aligned according to geographic scale and their likely status as primary or secondary stakeholders. Bear in mind, however, that this status cannot be clearly assigned as it depends on the circumstances. As mentioned, for instance, a local community group may not have a contractual relationship with a company (i.e. a legal claim on it), but can nevertheless exert significant influence through protest or other means.

Clarkson describes the stakeholder model as a fundamentally different perspective on the role and objectives of a corporation. It sees the corporation as 'a system of primary stakeholder groups, a complex set of relationships between and among interest groups with different rights, objectives, expectations, and responsibilities'.[51] Because the corporation depends on the continued participation of the primary stakeholders, its success will depend on the degree to which the primary stakeholders – not just the shareholders – are provided with 'wealth, value, or satisfaction'.

> This means that managers must resolve the inevitable conflicts between primary interest groups over the distribution of the increased wealth and value created by the corporation. Resolving conflicting interests fairly requires ethical judgement and choices.[52]

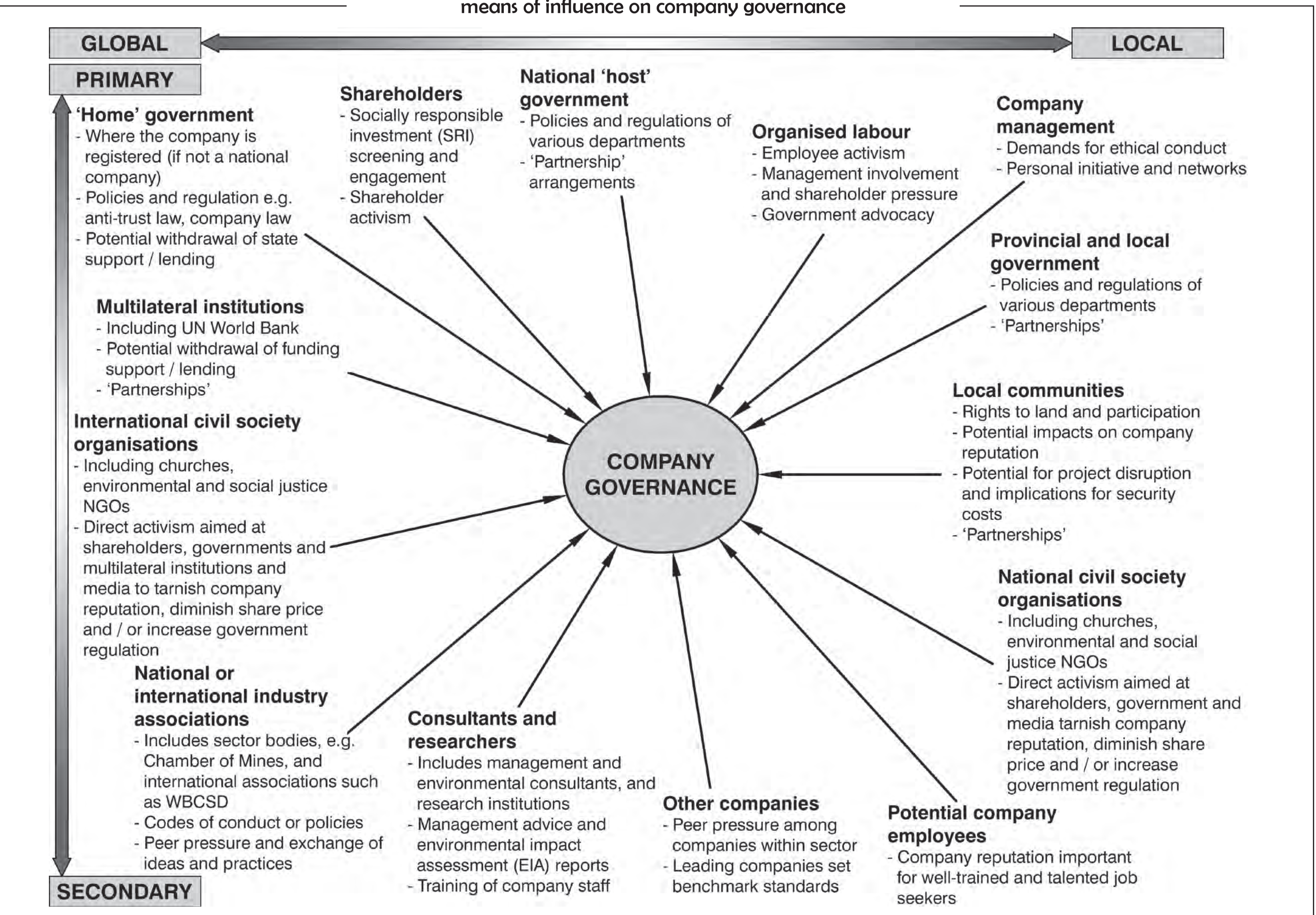
The stakeholder model is popular because it is based on a more manageable definition of the scope of CSR: companies are no longer responsible for vague notions of the good society, but must rather respond to specific issues raised by stakeholder groups, which can generally be identified relatively easily. The model allows for a more precise assessment of the outcomes of corporate activity, and it has been used to provide advice on managerial practice.[53] Perhaps most significantly, it emphasises relationships as a key principle:

> Corporate citizenship really means developing mutually beneficial, interactive and trusting relationships between the company and its many stakeholders… through the implementation of the company's strategies and operating practices. In this sense, being a good corporate citizen means treating all of a company's stakeholders (and the natural environment) with dignity and respect, being aware of the company's impacts on stakeholders and working collaboratively with them when appropriate to achieve mutually desired results.[54]

Corporate citizenship as a contribution to improved governance

There are, however, a few problems with the stakeholder model. One is that it focuses almost exclusively on the relationship between the company and the stakeholders. In other words, it implies neutral relationships between the stakeholders. But stakeholders and stakeholder groups, particularly the local ones, are in fact embedded in a complex web of relationships. Furthermore, it puts the company in the centre of these relationships, which potentially sidelines important processes that are outside the immediate ambit of the company but which nevertheless play a crucial role in an effective corporate citizenship strategy. Consequently,

Figure 3: A model of company stakeholders and their means of influence on company governance



Source: Author

it often places insufficient emphasis on the role of power in the relationships between the company and its stakeholders, as well as between the various stakeholders.

The model in Figure 4 is a response to these problems, suggesting a complex set of relationships between a company and various local stakeholders.[55] It depicts the company as an inherent component of a local governance system. This system is characterised by the rights, interests, roles and interrelations of various organisations and institutions, which are shown in the oval enclosed by a broken line. It encompasses the local development context, summarised here by reference to the sustainable livelihoods framework, which categorises the resources, or 'capitals' – financial, social, human, physical, and natural – available to households to construct livelihoods for their members (see also Case 6, Figure 1). This is important because local governance is determined by the development opportunities or challenges faced at the local level. The relationship between local groups will be influenced by the way individuals and groups relate to these development issues. Seeing a company as a participant and contributor to this governance system is a variant of Crane and Matten's political interpretation of corporate citizenship mentioned above.

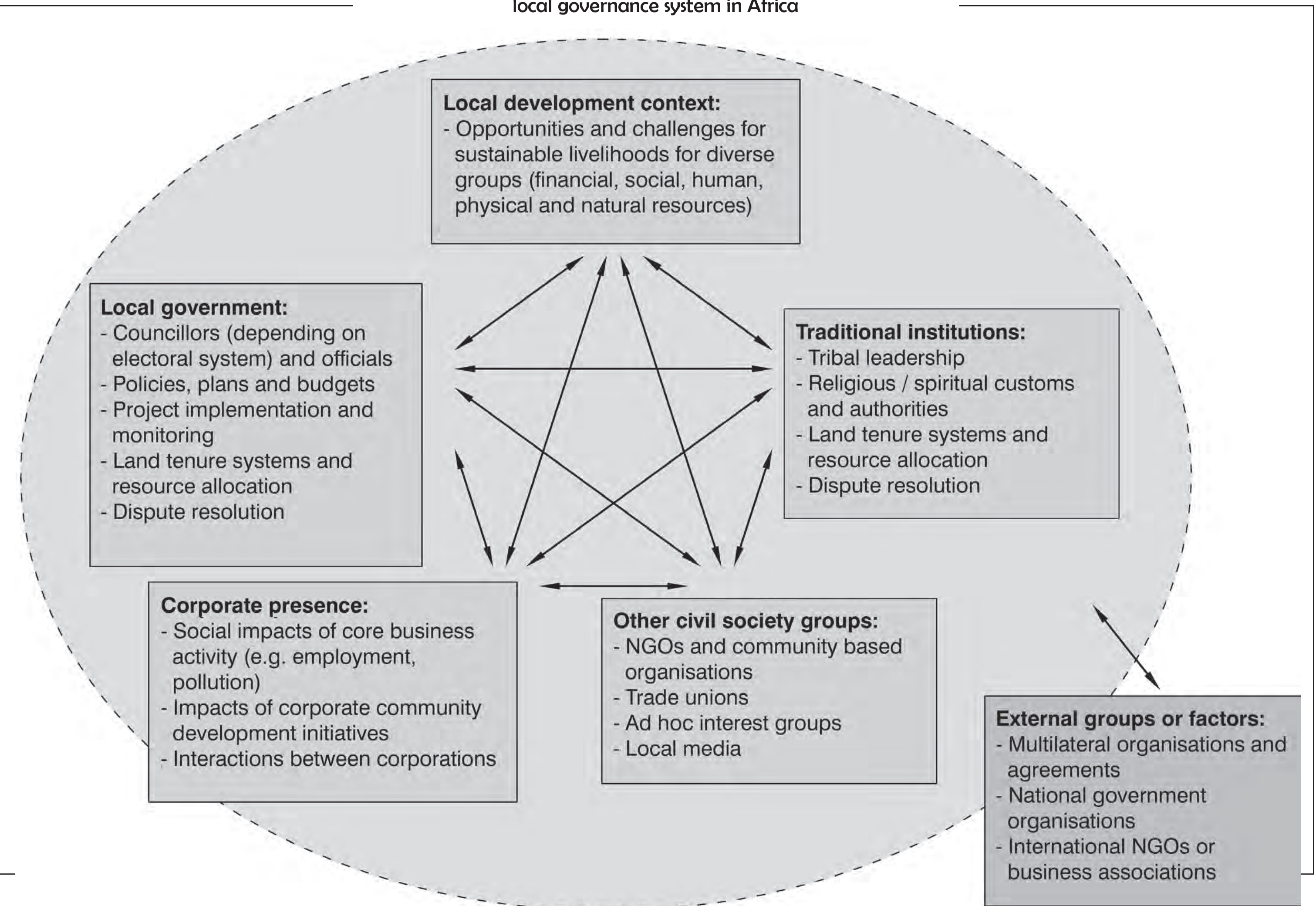
The model proposes four primary categories of groups or organisations at the local level that are commonly encountered in Africa (though there are likely to be others). These are local government; traditional institutions and authorities; other civil society groups, such as NGOs or community-based organisations; and the corporations present in the area. Although this model focuses on the local stakeholders, others whose origins are international or who are operating on an international scale – such as international NGOs – may also be pertinent in this local system, especially in the case of large, high-profile or even controversial projects. The organisational or institutional categories are shown in squares that are also enclosed by broken lines, to indicate that they are defined subjectively and that there is often some overlap between them, depending on the local context. The arrows between the categories indicate formal or informal interactions, such as communication pathways or resource transfers.

This local governance system cannot be easily influenced by decisive actions by any one group within the local system, including a corporation. The relationships implied in Figure 4 are path-dependent: the opportunities offered or constraints imposed by the local governance system depend on what happened in the past. This history is manifest in the relationships between organisations and institutions, and in the way the stakeholders see each other and how much they trust each other. Proverbially speaking, it takes years for trust to be created, but only a moment for it to be destroyed.

In some instances, weak and inefficient local government organisations, conflict between elected, state-centric government and traditional authorities, historical distrust or resentment of large, possibly multinational companies and growing expectations of them because of local political agendas, all coalesce to contribute to vicious cycles of interaction. Such patterns are characterised by low collaboration potential and high levels of unpredictability. In these circumstances especially, traditional corporate citizenship activities based on unilateral company actions or engaging stakeholders independently of each other are unlikely to meet their objectives. Instead, a more proactive involvement in moving local governance towards accountability and inclusiveness is often necessary.

A key outcome of seeing corporate citizenship in terms of local governance complexity, therefore, is that it dampens expectations of what can be achieved by unilateral corporate

Figure 4 Schematic model of corporate presence as part of the local governance system in Africa



actions. Rather, proactive and creative approaches are often necessary to develop and foster local collaboration arrangements. Collaboration is a gradual, self-organising process in which successive steps depend on prior agreements and commitments and the final outcomes cannot be predetermined. (In the terminology of complexity theory, this is referred to as an 'emergent' process.) In other words, establishing collaboration arrangements requires much time, dedication and creativity from the company. But it is arguably the most efficient, long-lasting and sometimes the only way of implementing corporate citizenship principles at the local level. This is illustrated in Cases 7 and 8 in this book.

Corporate citizenship as an opportunity and new purpose for business

Some of Africa's socio-economic challenges may present innovative companies with new business opportunities. The quest for innovative products or services that benefit the poor is at the frontier of corporate citizenship, despite seldom being described as such. Most prominently, C.K. Prahalad and Stuart Hart argue that large corporations can make substantial profits in marketing to the poor at the 'bottom of the pyramid':

> Contrary to popular assumptions, the poor can be a very profitable market – especially if MNCs [multinational corporations] change their business models. Specifically, [the poor are] not a market that allows for the traditional pursuit of high margins; instead, profits are driven by volume and capital efficiency.[56]

This notion is popular with big business. The WBCSD says leading companies are 'offering clear development benefits through investing in new ideas designed to create opportunities for the poor', and mentions Eskom's efforts at affirmative procurement and support for small businesses and Vodafone's use of mobile phones to extend access to financial services to the poor.[57] An example of a much smaller but particularly innovative exploitation of a business opportunity is the provision of streetlights in Nairobi by an advertising company in Kenya that asked companies to pay for those lights that would carry their advertisements – lights that are furthermore erected by street children.[58]

The concept of the bottom of the pyramid (which is not to be confused with Carroll's pyramid model of CSR mentioned above) is discussed in more detail in Chapter 4, but it is worthwhile briefly considering the extent to which MNCs are able and willing to 'change their business models'. Considering the persistent pressures for short-term returns to shareholders, epitomised by quarterly reports, it is fair to suggest that innovative business models that effectively cater for the poor may remain a sideshow to 'business as usual', at least for large, listed corporations. Allen White, the former head of the Global Reporting Initiative, argues that the corporate citizenship debate focuses too much on peripheral elements of corporate activity and neglects core elements such as company law and fiduciary duties to shareholders.[59] This is as yet uncharted territory and there are also crucial opportunities for investigating the philosophy, practicalities and feasibility of revising the purpose of business to place greater emphasis on value-based principles, longer time frames and the interests of a broader array of stakeholders.

Tensions and controversies

The view that big business is motivated and able to make decisive contributions to sustainable development is controversial. There are essentially two main sources of critique, which, though they share some characteristics, come from contrasting vantage points with opposing assumptions and diverging interpretations of sustainable development. The first critique is that of the liberal economists, who are superficially more likely to believe that a corporation operating within the law in a competitive market is inherently contributing to sustainable development because it is contributing to the most efficient and effective allocation of resources. The second is that of the radical economists or advocacy groups, who believe the ideal free market conditions assumed by the liberal economists are far from the current reality and that, generally speaking, corporations *detract* from sustainable development because in their quest for profits they seek to externalise the costs to society (for example by decreasing real wages) and the environment (for example by causing air and water pollution).

Somewhere between these stereotypes lies a range of arguments that companies' effects on sustainable development are not inherently positive or negative, but rather depend on the strategies the companies use and the decisions they take, and on the institutional context in which they operate. Concepts such as corporate citizenship or CSR can thus be interpreted in terms of the incentives and mechanisms that companies can choose in order to contribute to rather than detract from sustainable development. These arguments are summed up in the form of some representative quotes in Figure 5.

The liberal critique and some counter-arguments (including the business case for corporate citizenship)

The liberal economists' concern is that business decision-makers are not mandated or capacitated to devote attention and resources to anything other than the company's core purpose of making money. The most well-known statement to this effect was Nobel laureate Milton Friedman's argument in 1970 that 'the social responsibility of business is to increase its profits'.[60] More recent proponents of this view include David Henderson, former chief economist at the OECD, who argues: 'The case against CSR is… that it would make people in general poorer by weakening the performance of business enterprises in their primary role.'[61] In 2005, *The Economist* weighed in along similar lines in its editorial for a theme issue on this topic:

> All things considered, there is much to be said for leaving social and economic policy to governments. They, at least, are accountable to voters. Managers lack the time for such endeavours, or should do. Lately they have found it a struggle even to discharge their obligations to shareholders, the people who are paying their wages. If they want to make the world a better place – a commendable aim, to be sure – let them concentrate for the time being on that.[62]

These various criticisms of the notion that business decision-makers have objectives over and above the profit motive are distilled by Margolis and Walsh into two central concerns.[63] *Misappropriation* is seen to occur when decision-makers 'divert resources from their rightful claimants, whether these be the firm's owners [in the case of public companies, their shareholders] or, sometimes, their employees'. *Misallocation*, it is argued by CSR critics, occurs

Figure 5: Perspectives on the role of big business in sustainable development

Liberal economists' critique of corporate social responsibility (CSR):	*Calls for corporate citizenship / CSR:*	*Radical economists' / activists' critique of CSR:*
'There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.' (Friedman, 1970) *'The case against CSR is… that it would make people in general poorer by weakening the performance of business enterprises in their primary role.' (Henderson, 2005)*	*'By taking a principle-based approach to business, companies can help to ensure that sustainable development is achieved and that the benefits of globalization are shared more widely.' (UN Global Compact, 2005)*	*'Corporations' profits depend to a disturbing extent on their ability to use their extraordinary economic power to extract huge subsidies from the larger society.' (Korten, 2001)* *'CSR is a completely inadequate response to the sometimes devastating impact that multinational companies can have in an ever more globalised world – and… it is actually used to mask that impact.' (Christian Aid, 2004)*

Source: Author, using quotes from various sources.[64]

when business decision-makers are distracted from what they are good at – making money for the company's owners – by doing what they are generally not good at, or at least not as good as public servants ought to be.

CSR proponents have made diverse responses to these criticisms from liberal economists (also known as contractarian criticisms). In many instances, these have involved arguments about what is called the 'business case' for sustainable development or CSR – that is, that contributing to social objectives will also benefit a company's financial performance. Indeed, in the North American academic literature there is a long history of studies that aim to identify

a correlation between companies' social performance and their financial performance. For instance, Margolis and Walsh surveyed 127 studies on this topic published between 1972 and 2002. They write that 'a simple compilation of [these studies'] findings suggests that there is a positive association, and certainly very little evidence of a negative association, between a company's social performance and its financial performance'. [65] However, they also note that these various studies are plagued by diverse methodological shortcomings, so the debate over the business case remains unresolved.

The other concern about this literature is that it focuses almost exclusively on North American and, to a lesser extent, European companies. Studies on the business case in the African context mostly rely on case studies or anecdotal evidence. A recent study of mining companies in South Africa argues that the business case cannot be relied on and that much depends on companies' institutional context, especially the regulatory environment.[66] An earlier study, conducted by the IFC and others, considers anecdotal evidence from around the world, including Africa (see Table 2). This study is noteworthy for its analysis of the way various aspects of CSR are likely to have varying relationships with different aspects of a firm's financial performance. In particular, it suggests that environmental performance dimensions have generally a stronger impact on financial performance than, say, human rights issues.[67]

The key concern, however, is that the business case alone is not a sufficient motivation for responsible business practices: 'While there is a strong "business case" for respecting human rights, companies are obliged to respect human rights at all times, not just when it suits them.'[68] In many instances, such arguments have been made on ethical grounds. Nobel laureate Amartya Sen, for example, has argued that the conventional view of economic self-interest as the primary or even the only motivation for business is out of place, noting that economic transactions themselves rely to a large extent on social norms and values.[69]

A further response to the liberal economists' critique of CSR is to focus on the changing context in which companies find themselves. Friedman himself emphasised that the business manager's responsibility is generally 'to make as much money as possible *while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom*' (emphasis added).[70] These rules of the society are bound to change, including legal requirements and ethical custom, and it may be argued that the current emphasis on CSR and business contributions to development and respect for human rights is part of a broader shift that has taken place since 1970.

Hence, over and above economic and ethical arguments focused at the level of the business organisation, the liberal economists' critique of CSR can be rebutted on the grounds that it presupposes a 'well-ordered, strong governance context, where whole system needs such as law and order, social justice and conservation, and market failure issues such as monopoly and externalities are relatively well controlled'.[71] Such conditions are rare, if they exist at all, particularly in Africa. In the context of globalisation, the power of nation states is widely perceived to be diminishing relative to that of big companies in the wake of technological developments and global trade connections, as well as many governments' quest to attract foreign direct investment. The World Economic Forum, for instance, states that:

> In the face of high levels of insecurity and poverty, the backlash against globalization, and mistrust of big business, there is growing pressure on business leaders and their

Table 2: Examples of the business case for corporate citizenship in Africa, according to IFC *et al.*

Example	*Business case*
Investments in prevention, treatment and care of HIV/AIDS by companies operating in southern Africa (such as Eskom) have led to reduced incidence, and also improved workers' quality of life.	Reductions in the cost of benefit payments, employee training, overtime and casual wages, insurance premiums, supervision and management, increases in productivity and employee motivation, and retention of trained employees.
Fairtrade chocolate, which provides a market for initiatives such as Kuapa Kokoo, a cooperative involving 35 000 farmers in Ghana farming according to social and environmental principles.	The Fairtrade movement is based on consumers' willingness to pay a premium on products that are produced with high social and environmental standards, thereby providing more secure income to the cooperative's members.
During the 1980s and early 1990s, UK-based company Thor Chemicals' mercury reprocessing plant in South Africa had severe pollution and health impacts on employees, including the death of two workers in 1993.	The company's blatant pollution and health offences prompted numerous protest and legal actions. Business partners discontinued their relationship with the company. In 1993, the company and three of its directors were charged by the South African state (though charges were dropped after the payment of a small fine). In 1994 the plant was closed down by the government. The company was subsequently sued both in South Africa and the UK, with settlement payments totalling over $3 million.
The Nairobi based Serena Group of Hotels has built a number of lodges and tented camps in East Africa. It has implemented extensive environmental management, community involvement and enterprise development programmes.	The acceptance of the Group's activities among local populations has significantly reduced the incidence of theft. The Group has also won a prestigious 'Green Globe' award, thereby improving its reputation in the travel industry. Sensitive siting, protection of resources, and good community relations add to its visitors' ecotourism experience.
In an electrification project involving ABB, a transmission line was re-routed to minimise social impacts, significantly decreasing the number of people to be resettled. The company and its partners have also established a social committee to facilitate interaction with affected communities and to implement social investment projects.	Resettlement costs were significantly reduced since there were fewer people to be moved. The social committee and related initiatives also reduced the potential for community grievance and protest, which might have led to project delays and various extra costs.

Source: Adapted from International Finance Corporation, SustainAbility, and Instituto Ethos, The Business Case in Emerging Economies (Washington: International Finance Corporation, 2002).

> companies to deliver wider societal value. This calls for effective management of the company's wider impacts on and contributions to society, making appropriate use of stakeholder engagement.[72]

There is now also a greater awareness of the complex interrelationships between socio-economic and natural systems – as manifested in climate change, for instance – which are further evidence of the limitations of the traditional reliance on the nation state to respond to such problems. Not only do these complex sustainable development challenges transcend the borders of nation states, they often require collaboration between different role-players in society, including business. This makes it difficult to see a clear dividing line between government and business responsibilities. In sum, the liberal economists' critique of corporate citizenship is arguably rendered inapplicable by widespread poverty and illiteracy, weak and corrupt national governments and struggling multilateral bodies, monopolisation and growing concentration of economic power, and increasingly complex and interconnected social and natural systems.

The radical critique and a middle way

At the other end of the spectrum, consistent criticism of CSR or corporate citizenship has come from radical economists and advocacy NGOs, who see it as empty, harmful rhetoric. They argue that business leaders' emphasis on voluntary corporate *responsibility* initiatives is a means to pre-empt or limit mandatory government regulations to ensure corporate *accountability* that would make corporations answerable for the negative consequences of their actions:

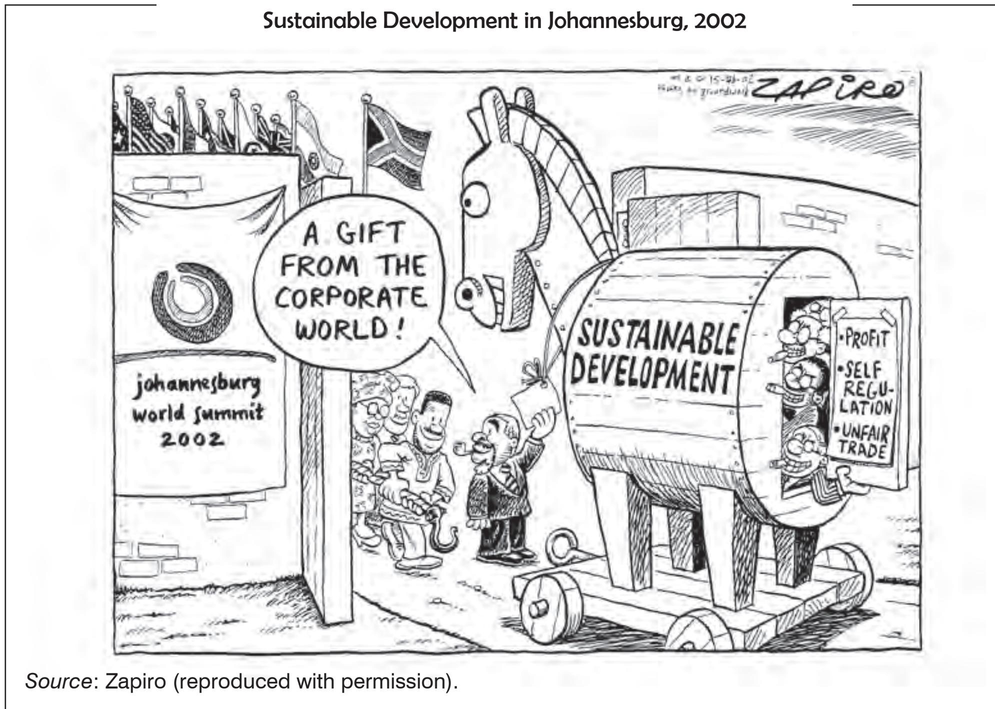
> Business… has consistently used CSR to block attempts to establish the mandatory international regulation of companies' activities. Its basic argument is that CSR shows how committed corporations already are to behaving responsibly and that introducing mandatory regulation could destroy this good will. Business leaders are also constantly saying that regulation is bad for their profits – the two statements are, of course, not unconnected.[73]

Activist NGOs are not the only ones to have raised such concerns. Analysts and academics of diverse persuasions have agreed that there is a danger of CSR becoming dominated by companies' public relations departments. Even prominent business management scholars, such as Michael Porter, lament the precedence of image over substance in the approach of most companies to CSR.[74]

> A critical view of CSR emphasizes the need to consider underlying motivations for business to embrace and perpetuate the CSR concept. These may relate to accommodation – the implementation of cosmetic changes to business practice in order to preclude bigger changes – and legitimization – the influence by business over popular and policy-related discourse in order to define what questions may be asked and what answers are feasible.[75]

When companies' motivations for sustainability reporting are more to do with maintaining legitimacy and controlling stakeholders than with being accountable to those stakeholders and curbing unsustainable trends, this not only has detrimental effects on the credibility of the corporate citizenship movement, it may also have perverse side-effects: 'The purchase of the

Figure 6: A cartoon popular during the World Summit on Sustainable Development in Johannesburg, 2002



Source: Zapiro (reproduced with permission).

"commodity of compliance" sufficient to shift the risk of liability and loss, in certain firms, may result in decreased levels of care by senior managers.'[76]

The critical view of big business under the rubric of corporate accountability featured prominently at the World Summit on Sustainable Development (WSSD), in particular. Common reference was made to 'greenwash': 'It is often the world's most polluting corporations that have developed the most sophisticated techniques to communicate their message of corporate environmentalism.'[77] A related term was 'bluewash' – the concern that the legitimacy of the United Nations itself was being co-opted by big business interests. During the WSSD, this notion was captured in a popular cartoon, shown in Figure 6.

Craig Bennett, of Friends of the Earth International, explained one of the main concerns of NGOs: 'For every company that sincerely implements its CSR policies, there are hundreds who greenwash, and for each of these there are hundreds more who don't even bother with that.'[78] To thwart greenwash and, more importantly, raise the social and environmental performance of recalcitrant companies, NGOs have demanded more effective and targeted government intervention, including the guarantee of human rights, rights to a clean and healthy environment, access to justice, access to information, and public disclosure of pertinent information. Cases of litigation against corporate wrong-doing have been highlighted to emphasise the need for stricter regulation and liability, including the demand for an International Convention on Corporate Accountability that would impose explicit '*duties* on corporations with respect to social and environmental matters'[79] (see Box 2).

Box 2: Cases of litigation against mining companies in South Africa

The final report of the South African Truth and Reconciliation Commission (TRC) (established to investigate, inter alia, human rights abuses during apartheid) recommended that big business should pay reparations to apartheid victims.

On the one hand, this was received with great concern by business, the business media and investment analysts. On the other, the TRC's findings provided substantial impetus to litigation, in which many companies, including multinational companies based elsewhere, stand accused of having knowingly gained from or supported unjust apartheid policies, primarily as they related to labour laws. The Apartheid Claims Taskforce (ACT) and Jubilee 2000 South Africa initiated separate legal proceedings in the United States, arguing that the accused firms 'knowingly propped up the apartheid state and made huge profits by doing so'.[80]

The best known litigation against mining companies that operated in South Africa is that in which about 7 500 South Africans with asbestos-related diseases sued UK-based company Cape plc before UK courts. This set a vital precedent because the House of Lords decided against the applicability of the *forum non conveniens* rule on the basis that 'in South Africa in all probability the claimants would not be able to obtain the professional representation and the expert evidence that would be essential to justice in the case'.[81] In addition, UK laws allowed the claimants substantially higher compensation rewards. The Cape plc claimants won a large out-of-court settlement in early 2002, but the company failed to honour the settlement and pay its first instalment in mid 2002 due to the threat of insolvency. (Indeed, a concern raised by human rights lawyers is that companies faced with significant claims against them are prone to file for bankruptcy.)[82]

Parallel to the Cape plc litigation, asbestosis sufferers sued Gencor in South Africa. Gencor had controlled a number of asbestos mines at one stage. One implication of this case was that Gencor was prohibited from unbundling its 46% share in Impala Platinum (which comprised Gencor's main worth) prior to the case being settled. Furthermore, Gencor was added as a co-defendant in the Cape plc case, partly because of Cape plc's apparent inability to honour its settlement. Eventually, an out-of-court agreement was reached in mid 2003, in which both Cape plc and Gencor were to pay a once-off contribution to a trust fund that would support the critically ill.

Source: Adapted from R. Hamann, 'Corporate Social Responsibility in Mining in South Africa' (PhD thesis, University of East Anglia, 2004).

It is apparent that the activist NGOs and radical critics have very different perspectives on the role of business than the business leaders and others who are espousing corporate citizenship principles and initiatives such as the UN Global Compact. The polarisation of the debate between CSR protagonists (in business and elsewhere) and anti-CSR activists may prevent

the acknowledgement of strengths or weaknesses in the arguments in each of the respective camps. So, for instance, while the pro-CSR business lobby is arguably correct to emphasise the potentially important role of private sector investment and innovation in sustainable development, it often pays insufficient attention to the negative social and environmental impacts of such investments, especially the indirect or cumulative impacts. Conversely, while the activists play an important role in highlighting human rights or environmental infringements by insensitive companies, arguing for stricter government rules and their enforcement, they arguably pay insufficient attention to the potential for market forces and voluntary initiatives to achieve improved social and environmental outcomes.

Of course, the characterisation of these two camps is in many ways a caricature. There are already many initiatives and organisations that create something approaching a middle way between these contrasting perspectives. This middle way consists of a more differentiated assessment of the current role of business in sustainable development, in that it is both a contributor to and a detractor from sustainable pathways, and much depends on the strategies adopted and decisions taken by business leaders and the broader institutional context in which business operates. Governments have a crucial role to play in making this institutional context more amenable, for instance by ensuring that costs to the environment are factored into prices (including measures such as carbon taxes) – indeed this is a principle on which progressive business representatives and radical critics of business are beginning to agree.[83] Governments can also play a more active role in supporting voluntary initiatives by business, while at the same time expanding legal measures to enhance corporate accountability and to provide redress for people who have been harmed by corporate activities.[84]

There is also a need for greater multilateral efforts to encourage corporate responsibility, as well as enforce corporate accountability. The OECD Guidelines on Multinational Enterprises, mentioned above, are an important initiative in this regard, not only because they are among the most comprehensive guidelines for responsible business conduct, but because they involve government agencies in their implementation through what are called National Contact Points that probe allegations of misconduct. A further key initiative has been the UN Commission on Human Rights publication in 2002 of a draft report entitled *Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights* and the subsequent work of the Special Representative of the UN Secretary-General on business and human rights – this is discussed in more detail in Chapter 2. There is arguably a strong business case for international frameworks on corporate citizenship with some legal standing, which would ‘raise the common standard of practice and ensure greater benefit for all’.[85]

Finally, the role of NGOs is increasingly vital, but they need to improve their efforts at practising what they preach in terms of accountability, stakeholder dialogue and legitimacy. They should also develop a more differentiated view of business that goes beyond black-and-white caricatures, while bearing in mind that both criticism and collaboration are often necessary to achieve genuine changes in companies’ strategies and systems. This notion of ‘critical cooperation’[86] is also apposite to business decision-makers, who need to acknowledge that going into partnership with government or civil-society groups does not make the company immune to criticism. They need to learn to face challenges and criticism in an open and courageous manner, and it must be shown that mistakes are acknowledged and that lessons are being learnt from them. These issues are considered in more depth in Chapter 3.

Putting corporate citizenship into practice

An increasingly wide variety of guidelines and tools for implementing corporate citizenship principles within company management are being produced. While many of them deal with particular aspects or sectors, such as human rights management or assessing conflict related risks in the extractives sector,[87] the most widely used ones provide companies with advice on implementing corporate citizenship in general. They generally seek to be relevant to companies of different sizes and in different sectors, and they have in common an emphasis on continuous improvement, based on the so-called Deming cycle that was developed for quality management, a cycle that consists of identifying progressively rising targets and implementing corresponding strategies, implementation systems and monitoring. The Deming cycle is used in, for instance, the ISO 14000 series of environmental management systems, mentioned above, the Sigma framework,[88] and the UN Global Compact Performance Model. The last mentioned is of particular interest because a number of case studies in Part 2 of this book explicitly refer to this model (in particular Case 3, about Global Alumina). This model, shown in Figure 7 and described in Box 3, focuses on diverse enabling factors and the kind of results that are to be achieved and monitored.

Much is to be gained by corporate leaders and decision-makers – and their companies' stakeholders – from a thorough engagement with the recommendations of the Global Compact Performance Model. But management guidelines will only take a company so far. For a start, the earlier discussion of definitions of corporate citizenship is pertinent because, as noted, many business leaders in Africa still emphasise its philanthropic aspects. This view is a fundamental barrier to implementing corporate citizenship in its more comprehensive form.

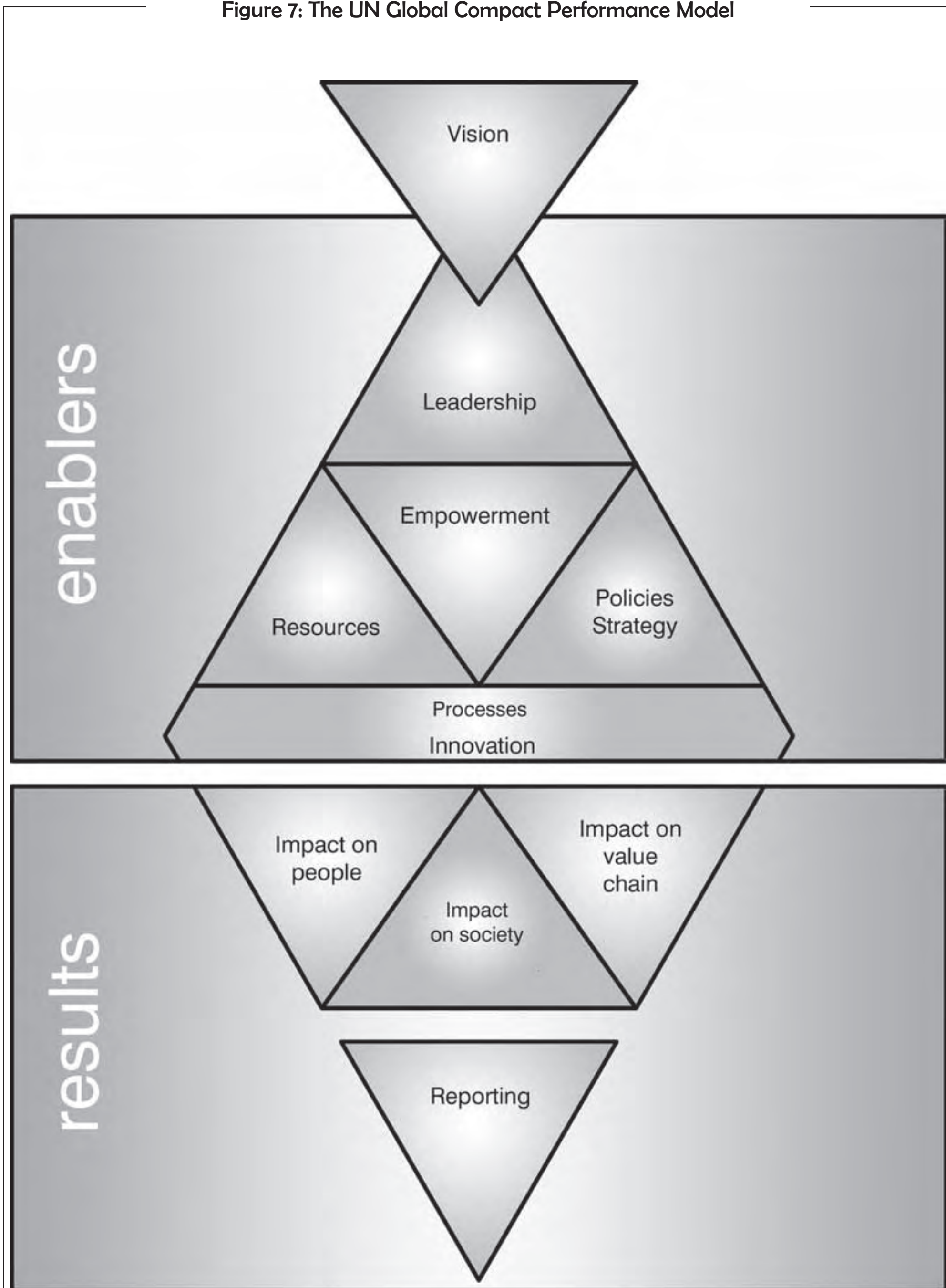
Though philanthropic support for worthy causes is a welcome contribution, particularly in the areas of education and health, it is an easy target for criticism because by itself it does not affect the way companies go about their business. As a CSR manager in a prominent mining company in South Africa notes:

> The view that CSR is primarily CSI [corporate social investment, or philanthropy] is a result of how things were structured, in the sense that businesses thought that they needed to pay what some people referred to as blood money, but it never needed to be part of the business processes. So in order to operate, they needed to do some charity work or CSI, but it has never been key to their own business strategy.

Despite the various initiatives that emphasise a broader approach to corporate citizenship, many CEOs in Africa are still prone to point to their charitable foundations or similar departments when asked about corporate citizenship. A lack of integration into core business is apparent in the way some companies call themselves good corporate citizens, with reference to their education and health programmes, while at the same time continuing to ignore some of the negative consequences of their core business activities.

Yet the habit of confusing philanthropy with corporate citizenship is not only prevalent in Africa. In an influential article published in the *Harvard Business Review*, Porter and Kramer highlight the need to develop more strategic approaches to CSR, beyond the current emphasis on philanthropy and stakeholder engagement.[89] They argue that such a strategic approach needs to identify and focus on the points of intersection between a company's core business and

Figure 7: The UN Global Compact Performance Model



Source: C. Fussler, A. Cramer and S. van der Vegt, *Raising the Bar: Creating Value with the United Nations Global Compact* (Sheffield: Greenleaf Publishing, 2004).

Box 3: Overview of key components of the UN Global Compact Performance Model

The upper box in the model (see Figure 7) represents the enablers of corporate citizenship. The key components here are:

The company's *vision* – 'a shared ambition of a highly desirable end-state' – ought to take into account also society at large. 'The redefining of the boundaries of the company… is at the heart of the corporate citizenship debate.'

Effective *leadership* is necessary to prioritise issues and it requires 'being in tune with the accepted codes and culture of their social environment'.

Empowerment entails stimulating and nurturing the creativity of each employee, and it includes the need for effective training, dialogue between various levels of the organisation, and establishing an appropriate recruitment profile.

Policies and strategies are the core of company management system and they need to reflect the commitments made to corporate citizenship, also with a view to identifying and obtaining competitive advantages on the basis of these commitments.

Though engagement in the Global Compact does not require large *resources*, 'any system of vision, policies and strategy will only be as good as the means to implement it'. The key resources are time, knowledge, technology, material assets and financial resources.

Process management has become a fundamental feature of the corporate citizenship field through its emphasis on continuous improvement, an important aspect of which is *innovation*: 'Innovation is to bridge two conflicting realities with a new behaviour that generates value and that can be implemented.'

Overall this model emphasises the role of stakeholder engagement and partnership: 'Stakeholders and partnerships… are signs of a new paradigm that sees success in managing complex changes through the association of interdependent actors with a shared purpose, real accountability in parts of the system and a real stake in the success or failure of the endeavour.'

society. These points include the company's impact on society through everyday operations across its value chain, including for instance its human resource management, procurement, and logistics. They also include the firm's competitive context, such as the need to enhance high-quality inputs (for instance, human resources or physical infrastructure) or fair and open competition and transparency.

> Integrating business and social needs takes more than good intentions and strong leadership. It requires adjustments in organization, reporting relationships, and incentives. Few

The lower box shows the results achieved through continuous improvement of the company's enablers. These require monitoring, evaluation and reporting:

Impact on employees: Respecting the basic rights of workers reduces costs (e.g. with regard to health and safety) and improves productivity (e.g. through enhanced employee participation in policy- and decision-making). 'Employees do not just expect material advantages from their job, but rather an enhancement of meaning and community in their lives.'

Impact on value chain: It is important to understand how customers perceive issues related to corporate citizenship as this will influence their purchasing behaviour. It is also important for companies to better understand how they can influence suppliers and contractors so that they improve their social and environmental performance.

Impact on society: Assessing and managing a company's impact on society is complex and fraught with tensions. One of these difficulties is assessing the boundaries of a company's responsibilities up or down the supply chain. Another is the tension of conflicting expectations – while the term 'sustainable development' confuses some people because of its simultaneous emphasis on growth and limits, it ought to be seen rather as a requirement for creative thinking and innovation. Finally, there is the concern about a company's ability to make a difference when the broader framework conditions – market pricing, weak governments, etc. – present such powerful countervailing forces.

Reporting: Despite frustrations with regard to corporate sustainability reports when it is said that 'few read them and fewer believe them', the model emphasises the need for reporting because this helps fulfil the Global Compact commitments, by facilitating continuous improvement and allowing for benchmarking and informed dialogue with stakeholders

Source: C. Fussler, A. Cramer, and S. van der Vegt, *Raising the Bar: Creating Value with the United Nations Global Compact* (Sheffield: Greenleaf Publishing, 2004).

companies have engaged operating management in processes that identify and prioritize social issues based on their salience to business operations and their importance to the company's competitive context. Even fewer have unified their philanthropy with the management of their CSR efforts, much less sought to embed a social dimension into their core value proposition. Doing these things requires a far different approach to both CSR and philanthropy than the one prevalent today. Companies must shift from a fragmented, defensive posture to an integrated, affirmative approach. The focus must move away from an emphasis on image to an emphasis on substance.[90]

Top level commitment is crucial in devising and implementing a strategic approach to corporate citizenship. A quick, if somewhat superficial test of this commitment, is to consider the extent to which social and environmental issues are reflected in performance assessment measures for operational management. To illustrate, it is striking that in 2004 only one mining company with significant operations in southern Africa had a comprehensive, systematic process in place for including both environmental and social criteria in the performance appraisals of mine managers.[91]

The potential contradiction between rhetoric and practice or, in the words of Porter and Kramer, between image and substance, is the primary concern of critics who label corporate citizenship a ‘greenwash’ strategy, as discussed above. These critics argue that the gap between corporate policy and its implementation is inevitable or even intentional. An alternative interpretation, more common among company representatives, is to point out the complexity of implementing corporate citizenship in often difficult circumstances. These representatives commonly refer to ‘the steep learning curve’ that they are on, both personally and as organisations. They are prone to point out the challenge of generating the necessary buy-in from all pertinent employees, especially if these employees have a background in technical professions with little inclination towards ‘soft issues’. A related problem they identify is the challenge of creating management systems that effectively coordinate the diverse and interrelated elements of sustainable development. Anglo American’s sustainable development manager says that:

> Integration and coordination remain the biggest challenge, given that implementing the various sustainable development policies is too big for any one individual. No one could drive this broad-ranging agenda individually. So we need to find out how best to integrate, and also when it’s okay to let [different line departments] operate in parallel.[92]

Another challenge for many companies is that implementation of policy objectives is often hampered by ‘turf wars’ between departments, lack of coordination, multiple and overlapping reporting and performance management systems, and limited capacity (and the resulting reliance on external consultants).

Company representatives also emphasise the complexities and contradictions encountered in the quest for sustainable development, which make it difficult to implement CSR policies. As the CSR manager of a mining company pertinently asked: ‘For example, we have a mine… that cannot pay for environmental standards but provides 6 000 jobs – what do you do, close it down?’ Similar dilemmas are a significant feature in many of the case studies in Part 2 of this book. These experiences show that there are no stock responses to such problems, but much depends on the willingness of decision-makers to consider all options, think creatively, engage with all stakeholders, and acknowledge and redeem previous mistakes.

To add a further level of complexity, achieving corporate citizenship objectives is often outside the ambit of firms acting independently. Crucial efforts are under way to take a sector-based approach, because different sectors face different challenges and opportunities, and many of these can best be dealt with collectively. In South Africa, the National Business Initiative is one such collective effort[93] and Cases 9 and 10 in Part 2 of this book provide further examples.

Over and above collective business action, for companies to achieve corporate citizenship objectives, whether individually or collectively, often requires collaboration with stakeholders, including the state and civil society organisations. For instance, mining companies in

South Africa, Kenya, Mali and elsewhere are realising that they can deal effectively with the pressing social problems around many of their mines only by systematically helping to enhance local governance and local economic development planning, in collaboration with local government, NGOs and others (as considered in the section above on local governance). Such collaboration is of course often difficult to achieve, given the various priorities and capacities of these different role players. Partnerships and cross-sector collaboration are discussed in more detail in Chapter 3, and a number of cases in Part 2 provide illustrative examples.

Conclusion

This chapter has assessed, in broad terms, some of the main issues of corporate citizenship: the public's expectations of companies; how to define the concept, particularly in Africa; and the controversies it generates. It has suggested that enlightened self-interest, ethics, and changed environmental and institutional contexts mitigate the liberal economists' critiques of corporate citizenship. It described the business case for corporate citizenship as important but not to be relied upon. The chapter also considered the radical critiques of corporate citizenship, suggesting a middle way between anti-CSR activists and CSR protagonists. Finally, it has outlined some of the difficulties companies face when they try to put corporate citizenship into practice.

Many of the case studies that follow in Part 2 show that the arguments and tensions over how to define and implement corporate citizenship are not confined to academia, but are something companies themselves have to deal with when working on their own strategies and policies (as in the case of Sasol – Case 1) or when confronted with dilemmas (as in the case of mining companies' problems with informal settlements – Case study 7). Taken as a whole, the case studies show that the requirements for more effective business contributions to sustainable development can go beyond a company's own commitments, strategies and management systems, and that what is needed is broad commitment to changing the institutional context of business, and to innovative collaboration between companies and stakeholders.

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"At last! A book focused on the vital subject of corporate citizenship and partnerships in Africa. Written by a diverse group of scholars and practitioners, the book achieves an excellent balance of theory and practice, and offers insightful African perspectives within a broader global context."

– Jane Nelson, Director, Corporate Social Responsibility Initiative, JFK School of Government, Harvard University

"In today's globalised economy, strategies pursued by business leaders have profound effects on people and the environment. In countries with severe poverty and under-resourced regulatory and governance frameworks, navigating between the bottom line and the needs of affected communities can pose serious dilemmas. This book argues that a strategic, values-based approach, coupled with a willingness to innovate and collaborate, can assist companies in grappling with such challenges, and may even turn such challenges into new opportunities."

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– Michelle Ndiaye Ntab, Chief Executive Officer, African Institute of Corporate Citizenship (AICC)

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