5.2 Introducing corporate social responsibility

5.2.1 What is corporate social responsibility?

The term **corporate social responsibility** (CSR) is not mentioned in the Santam case study, yet after thinking about what you have read, you may conclude that Santam seems to employ a responsible approach to business conduct. This is important as businesses need to be measured on much more than their annual financial performance if they strive to be sustainable in the long term.

The reality is that corporations exert tremendous power upon the world. According to a Special Report on Corporate Clout,[1] Royal Dutch Shell's revenue, for example, exceeded the respective gross domestic products (GDPs) of 171 countries (including the entire African continent). ExxonMobil's revenue was bigger that the combined GDPs of Venezuela, Austria, Columbia and South Africa. In fact, the largest five energy companies (i.e. China National Petroleum Corporation, BP, ExxonMobil, Royal Dutch Shell and Sinoped) in the world in 2012 had revenue equivalent to 2,9 per cent of the total global GDP. That is slightly more than Russia, the eighth-largest country in terms of GDP. Together in 2012, the 40 companies among the world's largest 100 economic entities generated revenues of over US$7,9 trillion and employed 12,8 million people. The financial wealth and economic clout of such major players allow them to use their power and influence to contribute to the common good of markets. They can do so through **partnerships** with government, business, communities or by themselves, providing equitable and safe job opportunities, investing in small and medium enterprises (SMMEs) through their supply chains, and building infrastructure, as Santam does. Industry can even develop new technologies for energy efficiency or products to provide the poor with access to markets. Corporations can also lessen their impact on societies and the environment, or even contribute to social development. Many companies live up to society's expectations to become part of the solution – as illustrated by Paul Polman, Unilever CEO, in the box on the next page.

However, such power could also be exploited and result in real harm to human health, human society, political governance and the natural environment. The challenge for major corporations with global clout is to recognise and act on the mutual interdependence between nations, societies and firms. CSR deals with how business organisations can meet essential needs without dishonouring community values.

Definitions of CSR vary by virtue of, among other things, the different practical orientations of corporations towards their responsibilities. Different companies also give varying emphasis to different aspects of CSR (for example, community involvement, socially responsible products and processes, and socially responsible employee relations) to realise their business objectives. The general consensus is that CSR is an umbrella concept that recognises the following points:

- Companies have a responsibility for their impact on society and the natural environment. This responsibility may extend beyond legal compliance and the liability of individuals.
- Companies have a responsibility for the behaviour of others with whom they do business (for example, within supply chains).
- Companies need to manage their relationship with wider society, whether for reasons of commercial viability or to add value to society.

The King III Report[3] provides a broader definition of the responsibilities of corporations (not limiting the scope to the social aspect only): 'Corporate responsibility is the responsibility of the company for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that:

- contributes to sustainable development, including health and the welfare of society;
- takes into account the legitimate interests and expectations of stakeholders;
- is in compliance with applicable law and consistent with international norms of behaviour; and
- is integrated throughout the company and practiced in its relationships.'

5.2.1.1 Corporate citizenship and corporate social investment

Some literature uses the terms 'corporate citizenship', 'corporate social investment' and 'corporate social responsibility' interchangeably. Although corporate social responsibility and corporate citizenship both refer to business's conduct in society, the former focuses solely on the responsibility aspect of business while the latter focuses on business being a social player by virtue of both its rights and its responsibilities as a citizen. Some explanation of why the term 'corporate social responsibility' is preferred above the term 'corporate citizenship' in this book is given below. Note that corporate social investment refers only to one very specific aspect of corporate social responsibility.

The term '**corporate citizenship**' recognises corporations as legal persons with certain rights and responsibilities in the same way as individual citizens have rights and responsibilities as members of a community. These rights and responsibilities include the right to govern internal affairs, the right to enter into contracts, the right to hold assets, the right to hire, and the right to sue and be sued. Corporate personhood means that corporations are granted constitutional rights.

Corporate social responsibility, with its focus on the responsibilities of corporations, is therefore a preferred term to corporate citizenship.

It is clear that Spec-Savers takes responsibility for giving back to the community beyond what is legally expected. The 'Kids' Right to Good Sight' initiative also signals the company's commitment to the communities it serves by offering eye-care services to those who cannot afford it.

In the northern hemisphere, **corporate social investment** is also called corporate philanthropy. While companies may donate substantial amounts of money to worthy causes and community-based projects, CSI does not refer to a company's contribution to society through its core business activities (in this case, the creation of employment and training opportunities) or local business development. Neither does it refer to a company's contribution through its engagement in public policy.[5]

Considering Santam's approach to CSI, a few important issues stand out. Firstly, Santam invests a substantial amount in CSI, but does so in a responsible way. The group has a formalised strategy and money is awarded to worthy projects within a predetermined domain, namely youth development. Delivery occurs through partnerships with established organisations, and relationships and responsibilities are formalised in memoranda of agreement. Santam's approach is a good example of a business that is committed to giving back to society in a responsible manner.

5.2.2 Cannibals with forks: The triple bottom line

Best-selling author and green guru John Elkington published a book entitled *Cannibals with forks: The triple bottom line of 21st century business* in 1998.[7] The title was inspired by poet Stanislaw Lec who asked the question: 'Is it progress if a cannibal uses a fork?' Elkington made a compelling argument that businesses could expand their life expectancy by using sustainability's 'three-pronged fork', or the triple bottom line. Indeed, he argues that future market success often depends on a business's ability to satisfy not just the traditional bottom line of profitability, but that companies are also required to focus on environmental quality and social justice. In this section, we will review the triple bottom line, a term coined by Elkington. This is an important concept as businesses operate in an environment in which the planet, people and profit are inextricably intertwined. To illustrate this philosophy practically, imagine being asked to provide investment advice about the following three companies described by their CEOs as follows:

Company 1: Our company is known for its green approach, meeting rigorous environmental standards in terms of infrastructure, manufacturing and operations. Producing environmentally friendly products is more costly but, given the international emphasis on environmental sustainability, consumers are willing to pay a premium when buying these products. I believe that the decline in market share is temporary and that it will recover along with the country's economy. I am, however, concerned about rumours of possible retrenchments and low staff morale. Perhaps if we cut our advertising budget, we could postpone this.

Company 2: Staff is our first priority and we are proud to announce that we won the Employer of the Year award two years ago. Happy employees are productive employees and, as such, we provide a child-care facility, a state-of-the-art restaurant and a caring environment. The past few years have been difficult with the economic crunch. Let's face it: consumers tend to cut back on luxury consumer goods. So, perhaps we need to lower our manufacturing and product standards, but we will never compromise our commitment to our staff.

Company 3: Being in the mineral sector, we know that we offer a world-class product at below-industry costs. We are, however, very disappointed with the attitude of the local community and labour market. One would expect that in a country with such a high unemployment rate, low-skilled workers would be more appreciative of being gainfully employed. We have also invested in the community in terms of creating jobs and supporting local businesses and schools, but we realise that concerns about pollution are valid. Then again, we will rehabilitate exhausted mines. We also have health and safety programmes, so we don't know what all the fuss is about.

Sadly, the business interests of the above companies clearly indicate that not one is embracing the triple bottom line sustainably. The idea behind the triple bottom line is that a company's ultimate success or health can, and should, be measured against its financial bottom line as well as its social/ethical and environmental performance. It is therefore expected, and required, that companies honour their obligations to stakeholders and behave responsibly. In this context, it should be noted that sustainable organisations and societies typically generate and live off interest rather than depleting their capital. Capital includes natural resources (i.e. minerals, water and air), human and social assets (from worker commitment to community support) as well as economic resources (i.e. legal and economic infrastructure). In short, the triple bottom line advocates that a company's ultimate worth should be measured in financial, social and environmental terms. These terms should respond to all stakeholders' legitimate claims.[8] As a result, the **triple bottom line (TBL)** metaphor has been adopted as an accounting framework to which many companies subscribe. This framework incorporates three dimensions of performance, namely social, environmental and financial. It thus extends the traditional reporting framework to include ecological (or environmental) and social measures. The TBL dimensions are also commonly called the three Ps: people, planet and profit.[9] In line with the requirements set out in the King II and King III reports, companies are encouraged to measure, report and audit their additional bottom lines. If companies pay lip service to social responsibility – even Enron had an exhaustive code of ethics and principles – the outcome could be devastating. Conversely, companies embracing the triple context lay a solid foundation for a sustainable future as illustrated in the Mondi case example.