VALUE AND VALUES

WHAT MOTIVATES CORPORATE CITIZENSHIP IN SOUTH AFRICA?


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TSHIKULULU
SOCIAL INVESTMENTS

Leading corporate citizens

I don't think it has ever been as important as it is now for companies to go beyond just doing business, and instead step up and lead; to show they are relevant and making a difference in our country.

That for me is what business leadership is about today.

It's about more than just making a profit or delivering value to shareholders, as important as both those things are. It's about re-engaging and rebuilding trust with government, local communities and employees. It's about investing in society and making sure that any investment is used wisely and effectively. And it's about being alive to the need to exercise the responsibility that comes with size and significance.

This is what BLSA members are committed to doing.

South African businesses are growing the economy and making a contribu¬tion to addressing the social challenges that society faces. This report, Value and Values, is a welcome step forward in understanding that contribution and what motivates it.

Developing South Africa

South African businesses are driven by more than just compliance in their CSR and CSI programmes; in fact as the report so clearly shows, their CSR spend is in large part "driven by a commitment to the development of South Africa".

Our businesses are committed to this country for the long term and they understand that their success is integrally linked to the success of all our people. As such they know that more still needs to be done and will welcome the recommendations of this report. Finding better ways to engage local communities and becoming more efficient at identifying, planning and evaluating CSR projects are both important areas where improvement can be made.

Going beyond advocacy and actively contributing to developing South Africa is something which all South Africans need to get involved in. This report is a thorough, well thought out contribution to that conversation.

Thero Setiloane
CEO, Business Leadership South Africa

INTRODUCTION

The expectation that business has a responsibility to the immediate communities in which they operate and to national development imperatives has become entrenched in society. Globally, businesses have responded by embracing the discourse and practice of corporate social responsibility (CSR), albeit at different levels. Such responses have been shaped by local business cultures and the national economic and political contexts.[1]

The discourse on CSR or corporate social investment (CSI) has ascended to global prominence, and there are numerous definitions of what it consists of. However, emerging and common themes point towards legislative compliance, meeting stakeholder expectations and contributing to the upliftment of the broader society while increasing and sustaining business profitability.[2]

The purpose of this report is to analyse what motivates corporate social investment philosophies and initiatives among South African businesses. The report is based on the views of 41 senior business leaders representing 39 companies, the majority of which are large and globally influential companies publicly held and traded on the Johannesburg Stock Exchange (JSE). The report further examines the findings of the research in the context of emerging trends from other studies and concludes by exploring the implications of these trends for socio-economic development in South Africa.

SETTING THE SCENE

South Africa is regarded as one of the most unequal societies in the world.[3] This is one of the legacies of apartheid which was designed to systematically restrict the ability of the majority of South African citizens from participating equally in the economy, on the basis of their race. Long before the country's transition to democracy in 1994, many large corporates were actively engaged in social investment programmes and subscribed to the principles of corporate social responsibility. However, for many companies social investment was and, in some instances, continues to be implemented in an ad hoc philanthropic way.

Since 1994 the democratic government has began the long process of transforming the economy: democratising wealth, diversifying business ownership and boardroom control, expanding employment, and generally trying to enable all South Africans to equitably participate in the economy. Government has also introduced a strong social regulatory framework impacting on social investment initiatives. However, much still needs to be done to address inequality and societal transformation in our country.

The introduction of the Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice sought to expedite economic transformation and the re-entry of previously marginalised communities into the mainstream of the economy. But B-BBEE is technically a voluntary exercise. While companies that perform badly on their B-BBEE scorecards may endure various consequences, such as not being able to contract with government entities, participation is voluntary.

In addition to the B-BBEE Codes, government has also implemented a series of industry charters – compliance with which is frequently linked to licensing. These include, among others, the Broad Based Socio-Economic Empowerment Charter for the South African Mining Industry or, as it's more commonly known, the Mining Charter. In order to earn or renew mining licenses South African mining companies are obligated to transform their labour force, invest in the well-being of their employees and their families, and contribute to the development of nearby communities.

[1] Idowu, S and Filho, W. Eds. (2009). Global Practices of Corporate Social Responsibility, Springer.

[2] Dahlsrud, A (2006). How Corporate Social Responsibility is defined: an analysis of 37 definitions, Corporate Social Responsibility and Environmental Management, Wiley Science.

[3] Mannak, M. (2009). "Report: South Africa most unequal society", Digital Journal, 28 September, available at www.digitaljournal.com/article/279796 (accessed 6 December 2013).

Likewise, when the Department of Energy introduced a programme in 2011 to procure power from independent renewable energy producers, its bid requirements included detailed standards for economic development and transformation. For example, if a renewable energy developer is awarded a procurement contract, it is committed to contributing a minimum percentage of its annual revenues towards community development projects in the areas surrounding its facility.

Thus one of the results of B-BBEE and sector charters is that these regulations have effectively institutionalised corporate social responsibility. Many of the practices that in other parts of the world might be considered voluntary acts of good corporate citizenship – buying from small local suppliers, or even philanthropic giving to charitable causes – have become *de rigeur* for companies in South Africa. At the same time, and partly in response to government efforts, businesses have come to recognise and respond to the interests of other stakeholders other than shareholders and investors.[4]

A CHANGING CONSUMER CONTEXT

All of that said, South Africa's economy is changing – and rapidly. And this rapid change has tremendous ramifications for the country's companies, and particularly those in consumer sectors.

According to research by the University of Cape Town's Unilever Institute of Strategic Marketing, the rapid emergence of South Africa's black middle class is fuelling the country's growth, and particularly in consumer sectors. The black middle class grew by nearly 250% between 2004 and 2012, expanding from 1.7-million people to more than 4.2-million; this segment is now worth some R400-billion in annual purchasing power.

As these individuals enter into the consumer class, their direct experiences with poverty – both past and present – seem likely to shape their buying habits. Moreover, even as incomes rise, the country's inequities will not be 'out of sight, out of mind'. As the *Mail & Guardian* puts it, "The fact that South Africans are moving up into the black middle-class category does not necessarily mean they are moving out of the townships."[5] As a consequence, there is a perception among companies that the social consciousness of South African consumers appears to be increasing – and potentially shifting the way in which companies and brands are perceived.

In the meantime recent community and labour unrest has heightened public awareness about how companies interact with society, and subjected South African companies to greater scrutiny than at any time since the demise of apartheid. Indeed, the question of whether or not a company is perceived as socially responsible may never have been as important as it is right now.

ABOUT THIS RESEARCH

With all this in mind, Tshikululu set out to explore: "What really drives corporate social responsibility in South Africa?"

South Africa has a long legacy of corporate social investment. According to research done by Trialogue, South African corporates have increased their annual CSI spend from approximately R2-billion in 2003 to almost R8-billion in 2013. This investment, about 1.4% of total net profit after tax (NPAT) has grown rapidly, outstripping the rate of inflation by 77% over the past 10 years, and growing now at nearly 6% per annum. The largest share of CSI spend is allocated to education, social and community development and health with more bias towards urban communities.

[4]Esser, I. & Dekker, A. (2008). "The dynamics of corporate governance in South Africa: broad based Black economic empowerment and the enhancement of good corporate governance principles", Journal of International Commercial Law and Technology, Vol. 3 No. 3, pp. 157-69.

[5]*Mail & Guardian*, Lisa Steyn, "The black-belt economy kicks in", 03 May 2013. Accessed online at http://mg.co.za/article/2013-05-03-00-the-black-belt-economy-kicks-in

[6]*Trialogue, (2013). The CSI Handbook, 16th Edition.*

The rapid growth of corporate social investment (CSI) – and the huge amounts being invested – suggest that there is more to the story than companies simply trying to meet or manage regulatory obligations.

The motivations of South African companies specifically are not only poorly understood, they are also uniquely relevant because of what they may say about the challenges and prospects of an emerging market economy. While a few key pieces of research outline how companies globally derive value, or ascribe value to, their corporate social responsibility programmes (see Additional Reading), none has focused solely on South Africa's unique context. Tshikululu's hope is that this exercise will broaden understanding of how South African business views the country's development prospects, and their role in achieving it.

Thus in conducting this exercise Tshikululu has sought to understand whether, in the view of South Africa's senior business leaders, social responsibility initiatives have added value to businesses, and if so, what kind.

On the other hand, if they had not, it sought to understand whether the predominance of corporate social responsibility initiatives in South Africa was motivated by essentially cynical factors (such as regulatory compliance) or legitimately (and possibly purely) altruistic ones.

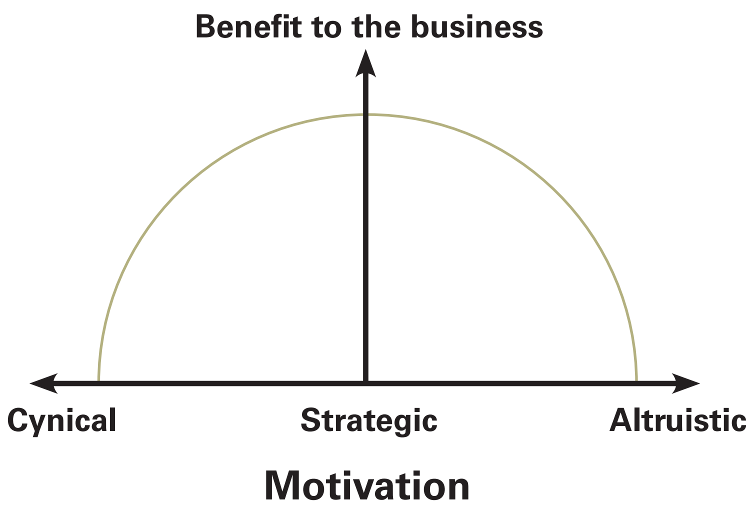


Exhibit 2. Motivation curve

SITUATING SOCIAL RESPONSIBILITY

In essence, this exercise was intended to aid in understanding if South Africa's leading companies were realising tangible strategic business 'dividends' from their investments in social responsibility programmes, and whether they were adding value to the business or not. After all there are a number of reasons to engage and invest in corporate social responsibility efforts, particularly in South Africa, and not all of them are inherently value-adding. Their value proposition, to the business, is highly variable depending on what the company set out to achieve in the first place.

For example, while 'tick-box' compliance may be important for regulatory reasons, it contributes little to the viability, sustainability, or reputational equity in an enterprise. Likewise, purely altruistic responsibility initiatives are seen as those where potential benefits to the business, such as brand association or reputational value, are intentionally deferred – the 'Anonymous Donor' phenomenon.

This is not to say that purely altruistic corporate responsibility ventures – or even purely cynical ones, for that matter – have little social value. Indeed, while corporate investments that are made purely for philanthropic or compliance reasons could have tremendous social value, they may simply add little strategic value to the business itself.

Likewise, purely strategic corporate responsibility efforts might be hugely valuable from a business standpoint, but contribute little in terms of social dividends. For example, a company that has employee volunteers publicly paint a home for vulnerable children

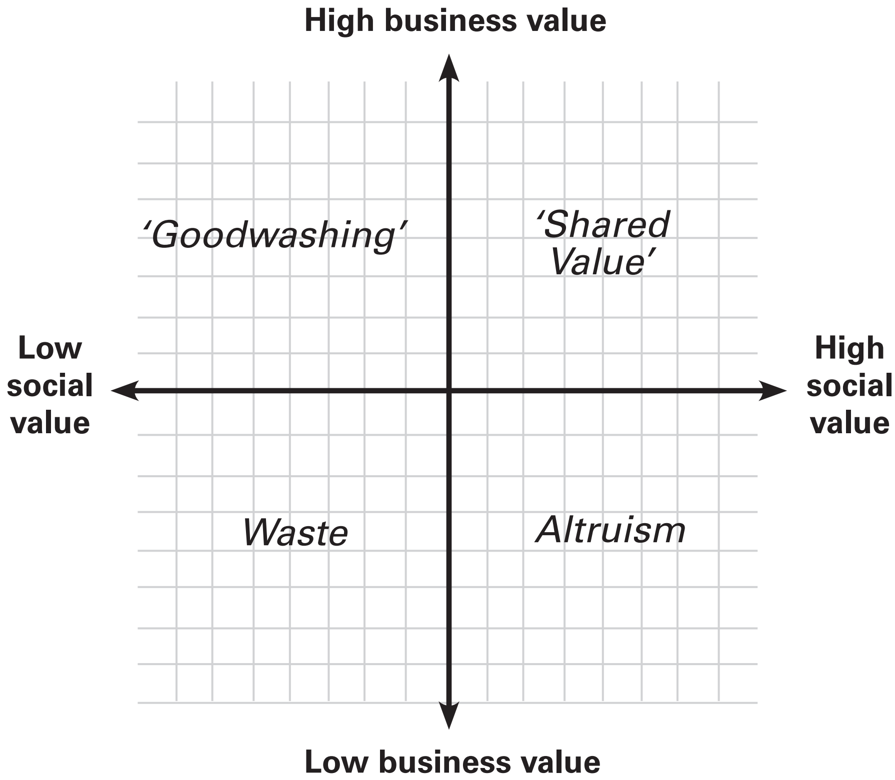


Exhibit 3. Social value versus business value

might see a significant improvement in terms of its reputation or employee retention, even if it has not made any material impact on the lives of the children themselves. This phenomenon has become known as 'goodwashing'.

So it is important to understand that there is not an inherent trade-off between 'social dividends' and 'business dividends'.

While it was not the purpose of this study to make judgements about the social value or impact of South African corporate responsibility initiatives, it is worth understanding the potential relationships and trade-offs between 'business value' and 'social value'.

The concept of 'shared value' introduced by Professor Michael Porter and Mark Kramer in 2006 describes circumstances in which the interests of a business and society intersect, mutually reinforce one another, and create value for both. In short, shared value occurs when both the company and society derive clear benefits from their interaction. For example, a corporate investment in education that helps to foster a pipeline of talented future employees, or that helps potential future customers enter the consumer class, would be seen as a shared value initiative.

But a company can also contribute to society without benefitting directly, or at least not in ways that add strategic value to the business itself. In these cases, a company might support worthy social causes for purely intrinsic or value-based reasons, and expect no reputational or business value in return – simply 'out of the goodness of its heart'. We often call this simply 'charity', although the term sometimes connotes passive, discretionary giving; as such, and for the purposes of this paper, we prefer the term 'altruism', to include active and conscientious donors.

Finally, a company could invest in corporate responsibility initiatives that contribute little to their business and little to society around them. Simply put, these investments would be characterised as 'wasteful'.

A NOTE ABOUT TERMINOLOGY

The terms 'corporate social responsibility' (CSR) and 'corporate social investment' (CSI) are used intermittently throughout this report. CSR is generally defined to include any activities or investments made by a company to make its business operations itself more socially or environmentally sustainable. For example, CSR activities might include developing products or services that have an explicit social or environmental benefit or providing assistance or awarding preference to small, local suppliers. CSI, by contrast, is defined to include externally-directed social investment by a company. This might include providing a grant to development organisations, or funding a scholarship or skills-development programme that is not explicitly linked to the company itself. Frequently, CSI is done through an independent or semi-independent corporate foundation or trust.

For the purposes of this report Tshikululu has employed a few broadly encompassing terms: 'corporate responsibility initiatives' and 'corporate responsibility programmes'. These terms are used summatively to describe any and all of a company's investment activities, business operations, and engagement with stakeholders that contribute to the economic, environmental, and social sustainability of South Africa.

RESEARCH SAMPLE

In total 41 senior business leaders representing 39 companies responded to Tshikululu's questionnaire. A large proportion of the companies in the sample are in the financial services sector. The survey questionnaire was sent to most of South Africa's prominent companies, including all of those listed on the Johannesburg Stock Exchange and members of Business Leadership South Africa (BLSA). The respondents were self-selecting, and the sample thus reflects some response bias. All individual respondents, and the details of their responses, have been kept anonymous, and our findings are presented in a generalised manner.

In addition, 12 of these business leaders sat for an extended interview with Tshikululu's research team. The quotes interspersed throughout this report are taken from these interviews and presented anonymously. They have been selected by Tshikululu for illuminative purposes only and should not be taken to represent the summative viewpoints of any participating individual, company or industry group.

Though this clearly does not – and is not intended to – provide a scientifically significant sample and cannot be used to conclusively represent the South African business community as a whole, the public and economic prominence of the respondent companies is notable; included are many of South Africa's most visible brands, largest employers, and most globally influential companies. As such, and noting the above limitations, we believe this study does provide a useful 'snapshot' of how South Africa's corporate leaders perceive value in their social responsibility initiatives.

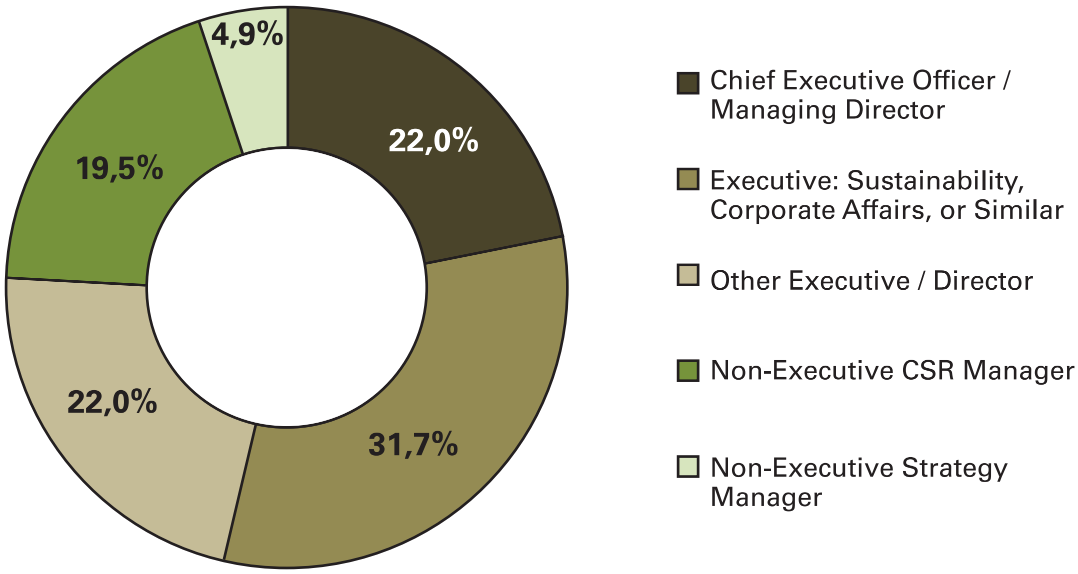


Exhibit 4. Profile of respondents (N = 39)

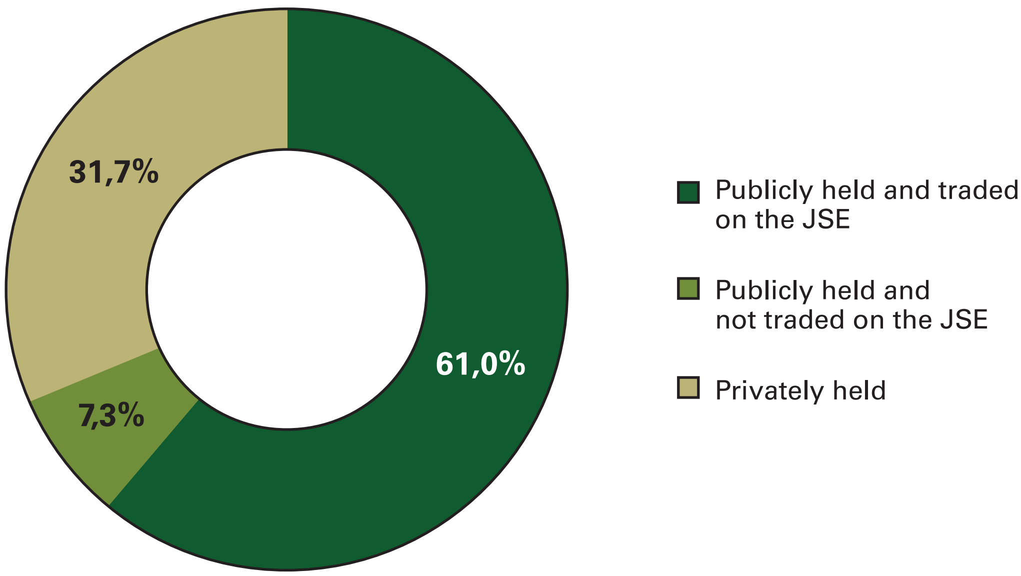


Exhibit 5. Ownership structure, respondent companies

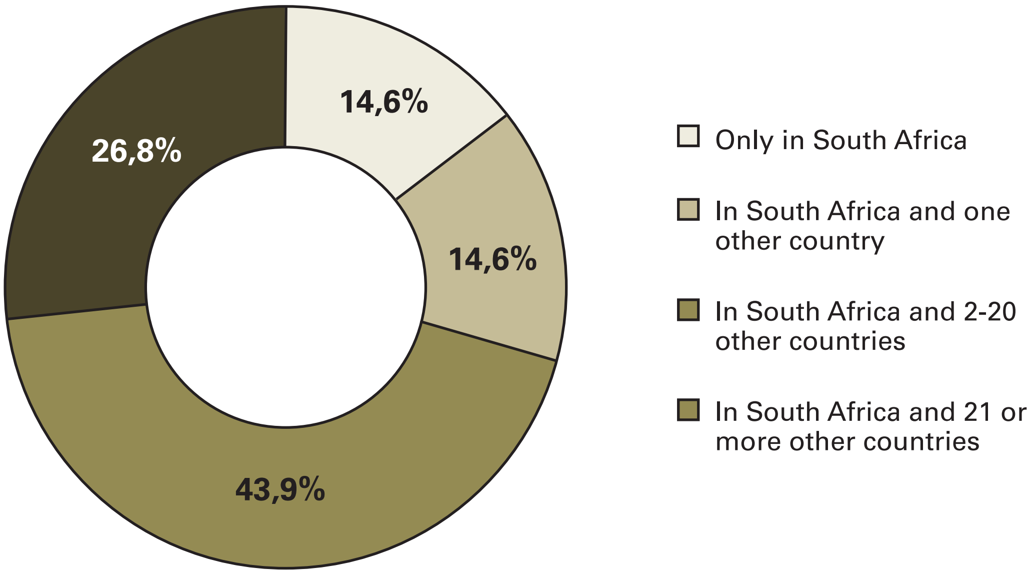


Exhibit 6. Geographic footprint, respondent companies

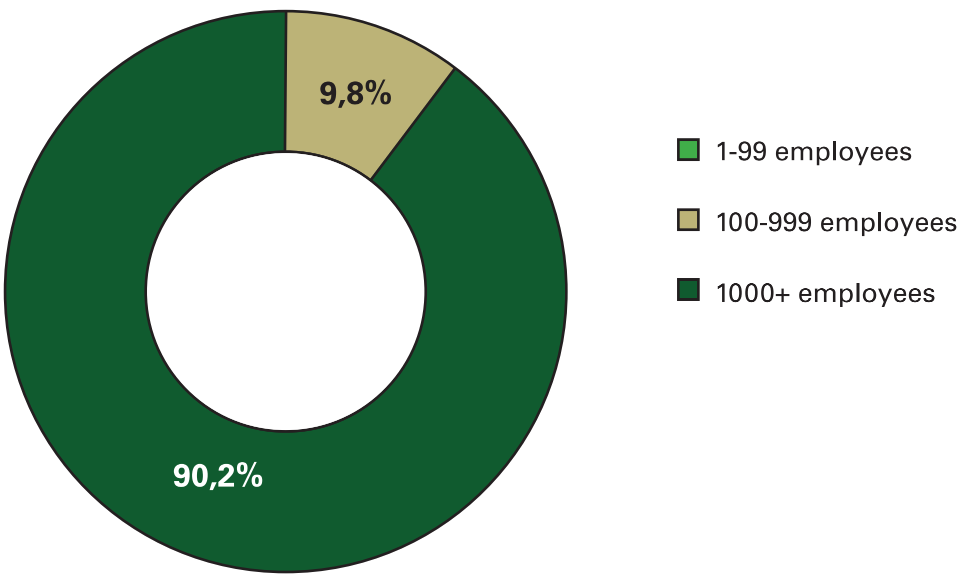


Exhibit 7. Number of employees, respondent companies

- Energy
- Financial services
- Health care and pharmaceuticals
- Manufacturing
- Retail and wholesale
- Transportation
- Professional services (e.g. consulting, tax)
- Extractives and natural resources
- Food, beverages and agriculture
- Information and communications technology
- Real estate
- Tourism
- Engineering and construction
- Diversified industrial services

Exhibit 8. Industrial sector, respondent companies (N = 37)

Absa/Barclays Africa	Ernst & Young (EY)	Nedbank Ltd
AngloGold Ashanti Ltd	Eskom	Neotel
Anglo American Platinum Ltd	Etana Insurance	Pick n Pay
Anglo American South Africa Ltd*	FirstRand Limited*	Sanlam
Aveng Group*	Gold One International	Standard Bank
Barloworld Limited	HDA	Steinmuller Africa
Clientele Limited	Hollard Insurance Company	Taggart JHDA Engineering Pty Ltd
Coca-Cola Southern Africa	Impala Platinum	Telesure Investment Holdings*
De Beers Group of Companies*	Investec Limited	the Bidvest Group limited
Deloitte	Life Healthcare	Tiger Brands
Discovery Health*	MMI Holdings Limited	Tongaat Hulett Limited
DRA Minerals Projects Ltd	Murray & Roberts Limited	Vestas Southern Africa*
EdCon Limited	Nando's	Woolworths

** indicates current Tshikululu client*

Exhibit 9. List of respondent companies

KEY FINDINGS

Tshikululu undertook this exercise to understand what kind of value corporate social responsibility initiatives add to South African companies, and what motivates the substantial investments that companies make each year. The answers to these questions are complex.

The reasons that motivate companies' investments in social responsibility programmes are diverse.

Our research highlights that corporate South Africa derives significant value from their social responsibility efforts, and in a variety of different ways: they help bolster corporate image, they help make companies attractive places to work, and they help companies manage regulatory compliance requirements, *inter alia*. What is less clear, however, is to what extent any of that is reflected in net financial value to the company and its shareholders.

COMPANIES ARE DRIVEN PRIMARILY BY VALUES

Tshikululu asked respondents to rate to what extent various factors motivate or drive their social responsibility initiatives (see Exhibit 10).

Interestingly, and by a fairly significant margin, values-driven factors rate as the most important motivators. Social responsibility programmes are seen as an extension of companies' values and culture, and a means of demonstrating their commitment to the development of South Africa. While these characteristics are undoubtedly important, they are also deeply intangible, suggesting that much of the value that South African companies derive from their social responsibility initiatives is, essentially, intrinsic.

> *We believe quite strongly as a major player in the [sector] that we have a responsibility to make a difference*
>
> \- CEO, Financial Services

Indeed, many interview respondents note that their companies were investing substantially in social responsibility programmes long before government or industry regulations demanded it, and speculate that they would continue to do so even if those regulations disappeared. Not because they have to, but – as many interviewees underscored – because they want to.

Exhibit 10. What motivates or drives companies' investments in social responsibility programmes

COMPANIES FEEL REGULATORY PRESSURE, BUT THE BENEFITS OF COMPLIANCE ARE UNCLEAR

South African companies perceive pressure from many different quarters to be socially responsible, including from employees, communities, and shareholders (described in greater detail below). But, perhaps unsurprisingly, respondents indicated that they feel the most pressure (to invest in development programmes and to comply with regulations) from government (see Exhibit 11).

What is perhaps concerning, however, is that government involvement seems to be more a case of 'stick' than of 'carrot'. While more than 60% of respondents indicated that they feel a 'large amount' or 'very large amount' of pressure from government to invest in CSR/CSI initiatives, less than half report that doing so improves their relationships with politicians and government officials.

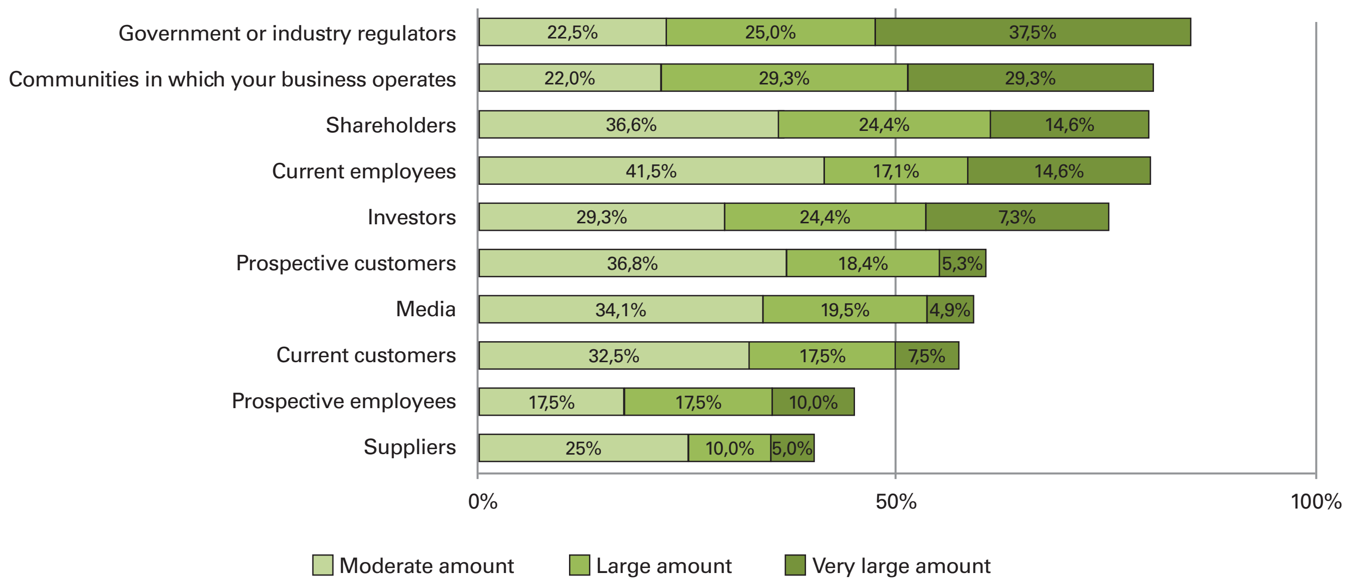


Exhibit 11. Extent to which respondents report pressure from various groups to engage in CSR/CSI initiatives

Tshikululu asked survey respondents about the role of B-BBEE in motivating their CSR activities, as well as the benefits their businesses derived from these activities.

Interestingly, and perhaps contrary to popular perceptions, while respondents indicate that they feel significant pressure from government to invest in social responsibility programmes, regulatory compliance is not, in and of itself, cited as a primary motivating factor.

While over half of respondents indicated that the management of regulatory pressure motivated their investments a 'large amount' or a 'very large amount', it rated as just the seventh most important factor overall in Tshikululu's survey (see Exhibit 10).

Indeed, as one executive interviewee noted, "[Socio-economic development] is not something we're doing because of the [B-BBEE] scorecard."

However, this appears to be highly variable by industry. Asked another way, nearly all respondents in 'non consumer-facing' sectors – including mining, energy, engineering, and industrial services – indicated that regulatory compliance motivates or drives their companies' investments in social responsibility initiatives a 'moderate' amount or more; more than half reported that compliance motivated it a 'very large amount' (see Exhibit 12).

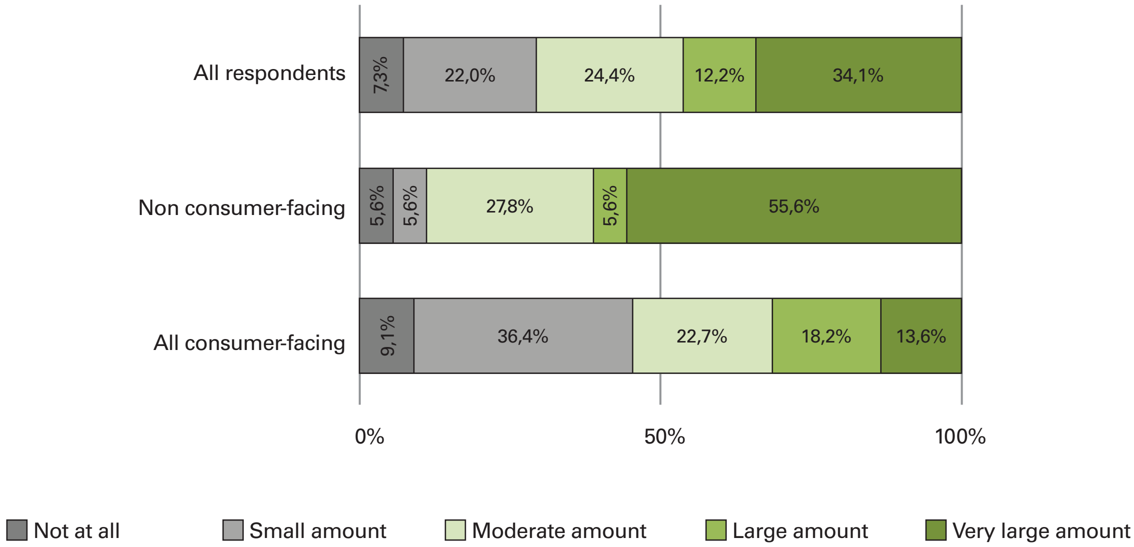


Exhibit 12. Extent to which compliance with B-BBEE and/or industry regulations motivate or drive respondent companies' investment in CSR/CSI initiatives

By contrast, however, in consumer-facing sectors, such as retailing and financial services, fewer than 10% of respondents reported that B-BBEE or industry regulations drove their social responsibility programmes a 'very large amount' – suggesting that, in these sectors, regulatory pressure matters far less than consumer perceptions.

While regulatory compliance management may not always be a primary driver or motivator for their companies' investments in social responsibility initiatives, respondents indicate that the regulatory benefits of such initiatives – such as earning points for their B-BBEE scorecard – are a welcome if ancillary outcome. While a large percentage of survey respondents indicated that their companies had seen some positive benefits, in terms of their B-BBEE scorecards or ability to manage industry regulations, fewer than a quarter reported that it had benefitted their company a 'very large amount'; the preponderance suggest this benefit was more muted.

PRESSURE FROM COMMUNITIES RANDOM

Nearly a quarter of respondents to Tshikululu's questionnaire indicated that they feel a 'very large amount' of pressure from the communities where they operate, to invest in development programmes. This is particularly acute among industries with fixed assets and a prominent presence particular communities, such as mining and energy.

According to some of the business leaders that Tshikululu interviewed, however, pressure from communities is often impulsive, and the corporate investments designed to mitigate that pressure are correspondingly reactive. As a consequence, these projects often feel insubstantive and low-impact – leaving relations between the company and the community frustrated and frayed.

Finding out what the community wants is very difficult... One of the challenges is that we often find difficulty with who is actually speaking for the community – have we got the right person?

- Group Executive, Strategy and Risk, Mining

Furthermore, many respondents spoke of the difficulty of effectively monitoring their social responsibility programmes, and the impact that this work has on communities and the country – a challenge of development practitioners the world over. But as reputational equity is increasingly tied up in how 'caring' a company is, companies are also faced with a growing burden to ensure that those perceptions are matched by reality.

DOING GOOD CAN SOMETIMES GO BADLY: DONATIONS SOMETIMES SIT IDLE AND SHAREHOLDERS ARE AN UNEXPECTED PRESSURE GROUP

Notably, respondents to Tshikululu's questionnaire indicate that they perceive significant pressure from shareholders to be socially responsible. For example, Tshikululu asked to what extent shareholder interest motivated their investments in social responsibility initiatives; nearly two-thirds responded a 'large amount' or a 'very large amount' (see Exhibit 13).

[Our company] needs to look after the future of South Africa and look after shareholder value at the same time.

- Corporate Affairs Executive, Financial Services

Likewise, Tshikululu asked 'To what extent do you feel direct pressure from the following stakeholders to engage in CSR/CSI initiatives?' More than three-quarters indicated that they perceive at least a 'moderate amount' of direct pressure from shareholders – only government and industry regulators, and local communities, were said to exert more pressure.

These findings indicate that South African shareholders do not believe that social responsibility initiatives diminish value, and in fact suggest that they may actually add value.

As one interviewee put it, "Things have changed; investors are no longer only looking at numbers but [also] looking at social impact and sustainability."

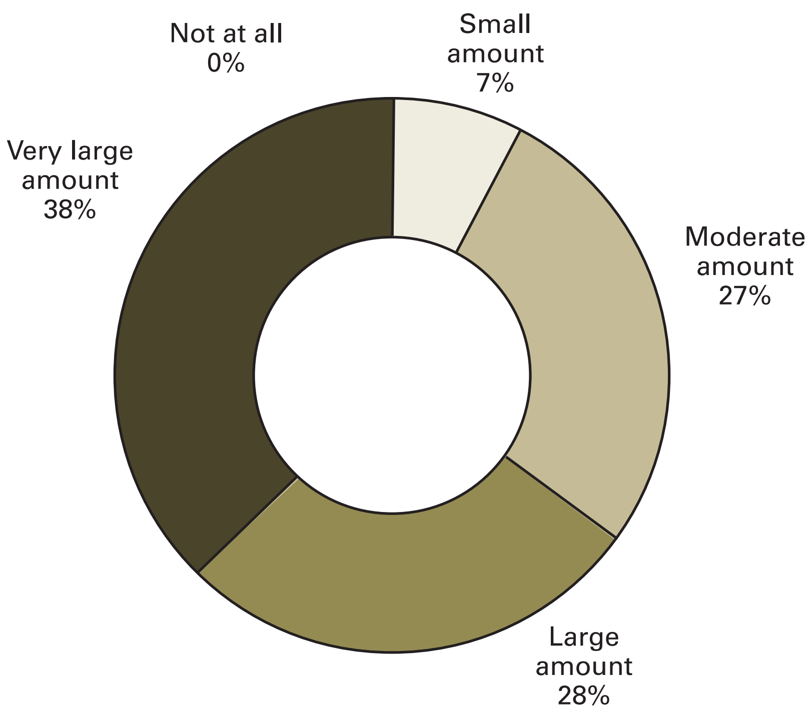


Exhibit 13. Extent to which respondents believe CSR/CSI initiatives are important to shareholders

TSHIKULULU SOCIAL INVESTMENTS

The next question then is 'why?'. Although Tshikululu's research did not seek to answer this question, one can speculate on a number of potential explanations.

For one, the South African investor class is itself changing, becoming more diverse and more inclusive. B-BBEE has incentivised many large South African companies to extend share offerings to employees and historically-disadvantaged South Africans – everyday investors whose priorities, and whose experiences with the country's development challenges, are quite different than those of professional investors. Kumba Iron Ore's employee share ownership scheme *Envision*, South African Breweries' *Zenzele* scheme, and MultiChoice Limited's *Phuthuma Nathi* scheme are successful examples of these kinds of transactions.

> *Shareholders are also citizens of an environment or a country themselves, that is part of it.*
>
> – Public Affairs Director, Food, Beverages, and Agriculture

Second, shareholders may perceive the same opportunities in the consumer marketplace that survey respondents do. As noted earlier, the rapid growth of the black middle class may be changing consumer tastes and the values by which brands are judged. Shareholders may see this as an opportunity for socially responsible companies to gain an advantage.

Of course, the other side of that coin is that shareholders may also be responding to perceived risk, that if companies are seen as socially irresponsible or non-compliant, there may be risk of blowback from customers, government, or other stakeholders.

Either way, there does not appear to be any inherent tension between corporate social responsibility efforts and shareholder interests; in fact there seems to be alignment. What's good for society also appears to be good for South African shareholders.

CONSUMERS ARE BEGINNING TO CREATE MARKET VALUE

That said, market and brand-positioning rates as an important motivator for social responsibility initiatives. Some 60% of respondents indicated that they feel at least a 'moderate amount' of pressure from consumer groups to invest in these efforts, suggesting that whether or not a company is perceived as being socially responsible is of increasing significance to consumers – a point reinforced in several interviews.

> *Good corporate citizenship has grown to a point where it is now expected, and as such, responsible companies will be viewed favourably*
>
> – Public Affairs Director, Food, Beverages, and Agriculture

Even if company values are the primary motivator for such investments, companies are beginning to understand the potential power that 'good' corporate citizenship can have in the marketplace.

Indeed, responses suggest that there is growing awareness of, and demand for, socially responsible companies in the marketplace – although a few interviewees characterised this as more of a consumer 'expectation' than as a potential opportunity or key brand differentiator.

Tshikululu asked respondents to indicate to what extent their companies had benefitted from social responsibility initiatives. The two highest-rated responses, by a wide margin, were 'maintained a good corporate reputation and/or brand identity', and 'met society's expectations for good corporate behaviour'.

SOCIAL RESPONSIBILITY IS AN INCREASINGLY IMPORTANT PART OF COMPANIES' VALUE PROPOSITION TO CURRENT AND PROSPECTIVE EMPLOYEES

Some 75% of the respondents to Tshikululu's questionnaire indicated that they feel at least a 'moderate' amount of pressure from their employees to engage in social responsibility initiatives – indeed, employees rate as a more-influential pressure group than customers (see Exhibit 11).

But the business leaders that Tshikululu interviewed see this pressure less as a threat and more as a strategic opportunity for the business. Their social responsibility programmes, they explained, yield important dividends in terms of motivating and developing current employees, and attracting and retaining quality talent – which clearly has implications for the productivity of the business.

> *Especially to the younger people... they are a lot more interested in what we stand for in society.*
>
> - CEO, Financial services

While employees were rated as one of the most important pressure groups influencing South African companies, several interviewees noted that not all employees groups are the same. Specifically, social responsibility initiatives are valued differently by younger and older employees. Younger employees are seen to not only be more aware of how their employers – or prospective employers – are perceived, but also that the perception be a positive one.

As a prominent executive interviewee noted, "The employee value proposition is new… to attract the best, people need to be proud of the company we work for."

COMPANIES STRUGGLE TO ASCRIBE REAL FINANCIAL VALUE TO THOSE BENEFITS

While survey respondents were able to clearly identify many important general benefits their businesses derived from engaging in CSR activities, they had far less clarity on specific financial benefits of these activities.

While some three-quarters of respondents indicated that their company reputations have benefitted from their social responsibility initiatives a 'large amount' or a 'very large amount', fewer than 40% of respondents could claim that their companies' reputational benefits were reflected in a 'large amount' or a 'very large amount' of financial value. A few interview participants indicated that perceptions about their company's social responsibility – whether a company is seen as 'caring', according to a number of interviewees – is becoming an increasingly important consideration in the overall health of their brand, and something that is measured regularly.

> *Indirectly it does impact capital and reduce your risk. It is not something you can measure... It is just that companies want to deal with companies that are doing good things.*
>
> - Group strategy, Financial Services

But more broadly, however, the general trend is fairly clear – while corporate leaders see that their companies derive significant benefits from corporate responsibility initiatives, they are much less certain about if or to what extent those benefits add financial value.

Another case in point: more than 60% of respondents indicated that their corporate responsibility efforts had helped them to better manage social risk. But fewer than 40% indicated that this improved risk profile had had at least a 'moderate' financial impact on their company.

But while respondents clearly see how social responsibility initiatives can be leveraged to support core, strategic business imperatives – and they recognise the benefits thereof – they appear to be less certain if those initiatives add quantifiable financial value. Crucially, this is not unique to South African companies; globally, valuation models purporting to isolate social responsibility as a financial performance determinant remain contentious.

But it would be premature to simply assume that social responsibility initiatives do not add financial value. Rather, it may well be that South African companies have simply not yet developed adequate valuation models for understanding if, how, and how much value these investments truly have. For example, when Tshikululu asked respondents what effect social responsibility programmes had on shareholder value, more than half responded 'do not know' (see Exhibit 15).

Importantly, to a few respondents the discussion of financial value was entirely beside the point. As one senior executive explained, "We shouldn't get involved in CSR because we want direct financial benefit."

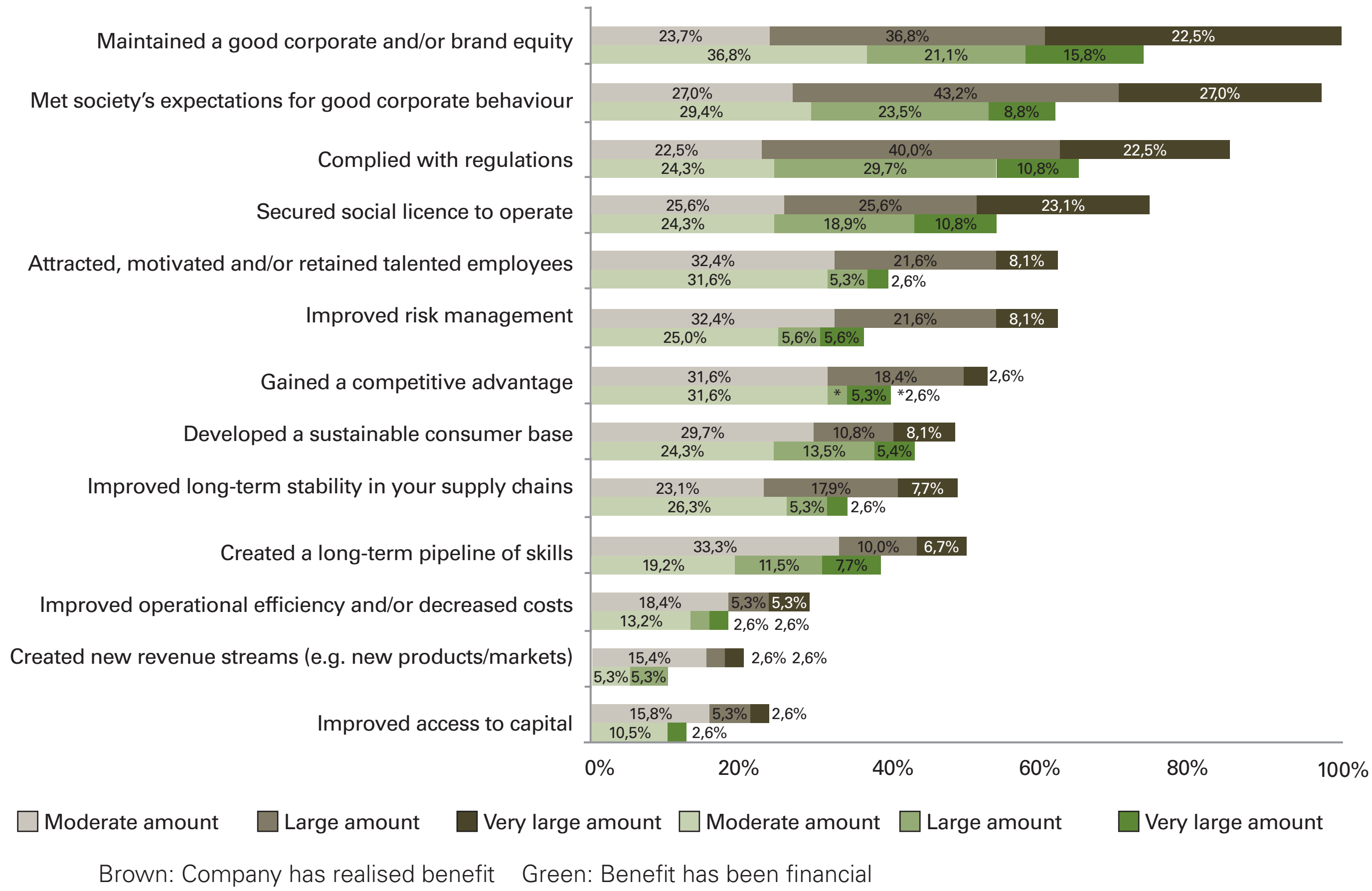


Exhibit 14. Extent to which companies have realised benefit; extent to which benefits have been financial

COMPANIES ARE LOOKING TO THE HORIZON, THINKING BIG-PICTURE

As noted above, respondents clearly see their social responsibility initiatives as a way for their companies to contribute to the development of South Africa – virtually all indicated that this motivated their investments in these programmes to a 'large' or 'very large' extent (see: Exhibit 16).

For sustainable business to thrive you need a healthy society.

- Group Executive, Financial Services

But these investments do not appear to be made on a purely altruistic basis – in the longer term, respondents seem to see a clear convergence between the interests of their companies and those of the country. According to the business leaders Tshikululu interviewed, investments in the development of the country clearly support the long-term strategic objectives of the corporate sector, contributing not only to the vitality of the country as a marketplace (and, crucially, as the source of a talented employee pool), but also as a means of bolstering their companies' presence and profile. Indeed, time and again, interviewees spoke of the importance of improving the operating environment and socio-economic contexts in which their businesses operate.

There needs to be social impact, and business impact as well – there needs to be an intersection between those two.

- Corporate Affairs Executive, Financial Services

This suggests that the South African business community takes a fundamentally optimistic view of the country's prospects, progression, and development trajectory – that it is a place where they want to, and expect to, be doing business in the long term.

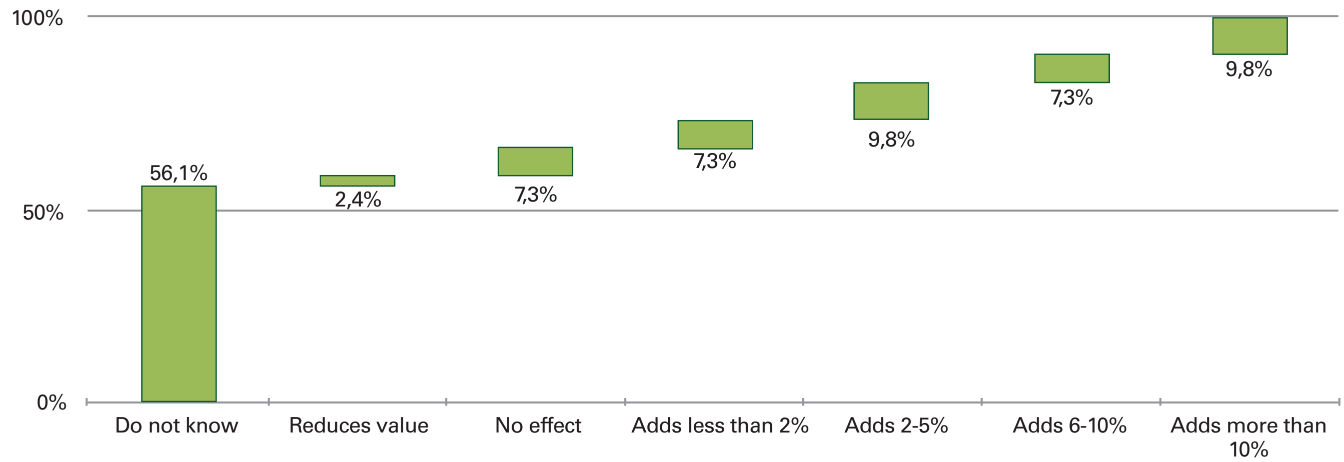


Exhibit 15. Perceived effect of company's CSR/CSI initiatives on shareholder financial value

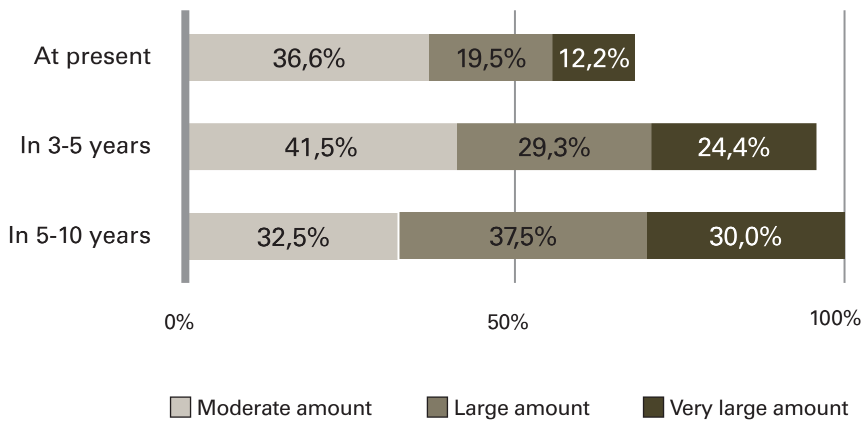


Exhibit 16. Extent to which respondents believe CSR/CSI initiatives contribute to South Africa's long-term viability as a marketplace and operating environment for their business

Have we seen skills improve? We have
- Group Executive, Financial Services

Notably, respondents do not appear to have expectations that their social responsibility efforts will pay immediate material development dividends. But when asked to take a longer view, these investments are seen as increasingly more important – and more strategic. As one interviewee involved in their company's strategy said, "Long-term, we do see some sort of return on investment."

One of the primary ways that companies are looking for a return on these investments is in their sector's future talent pool. As one financial services executive explained: "We are in a knowledge business; we are service providers – and as such, the provision of services depends on highly-trained and well-developed skills." In other words, corporate South Africa has an obvious stake in the quality of the country's educational outcomes.

Interviewees see clear risk in the status quo; they need South Africa's educational system to provide a diverse base of talented, skilled, and well-qualified young people and the current state of education is a cause for alarm about the future. Crucially, however, they regard themselves, collectively, as an important part of the solution.

Respondent companies are investing heavily in education – at all levels – in large part to ensure that there is a pipeline of capable, qualified, and highly-skilled individuals entering their respective sectors. Many of these programmes are highly strategic, highly-specialised, and employed to triage very specific skills gaps – South Africa's deficit of chartered accountants or engineers, for example. While these efforts may look like traditional corporate philanthropy, they are designed as a response to a clear industry threat, and with a specific strategic imperative in mind.

As the future of the company and society are seen as increasingly interlinked, there is also a clear move away from giving simply for the sake of giving – charity, one might say – and consciously towards more impactful, more developmental initiatives. As a financial services executive said, "It's not about cause giving; it is about making sure the organisation is sustainable going into the future."

CONCLUSION

Leading South African businesses sit firmly in the 'shared value' space. They understand very clearly that their success and vitality is intrinsically linked to the success and vitality of the society around them. Most survey respondents and interviewees were ardent that contributing to South Africa's continued development – and having genuine impact – is a strategic business imperative in and of itself.

> *Given the events in the mining industry over the past couple of years we have realised that this is an issue of strategy.*
> - Group Executive, Strategy and Risk, Mining

While this sentiment is laudable, it is also deeply intangible, and one that is fundamentally and firmly rooted in the values and culture of the company. Respondent companies report that their substantial investments in social responsibility initiatives are driven more by a commitment to society than by strict or short-term corporate imperatives.

While companies benefit from these initiatives in many other ways, these benefits tend to be regarded as secondary, ancillary, even incidental. Respondent companies are motivated primarily by their values, and frequently their employees, to invest in social responsibility programmes, not their marketing departments.

While virtually all respondents recognised the more immediate benefits to the business, few suggested that those benefits truly drove their investments in social responsibility programmes, or that those programmes were being fully maximised in terms of their potential strategic dividends.

Thus, a clear majority of respondents would be situated right-of-centre on the motivation curve… While some were motivated more by the potential equity to their brands or reputations, and some were motivated more by their values or the needs of society, almost all responses exhibited some combination of both. And, of course, a few respondents were frank about their need to respond more primarily to pressure from government, and comply with regulations, as a primary motivating factor.

While most respondent companies are motivated by their values, they do see short-term benefits as well. Crucially, respondents report significant and increasingly market-based pressures and incentives to be seen as socially responsible – from consumers, from employees, and even from shareholders. Being seen as a positive and proactive contributor to society appears to be becoming the de facto standard in South Africa, particularly in consumer-facing sectors. Thus, companies are recognising that their social responsibility efforts strengthen their brand and reputations, and earn them favour with sought-after young employees.

Our research highlights businesses' commitment to the country's social and economic development agendas. Business does

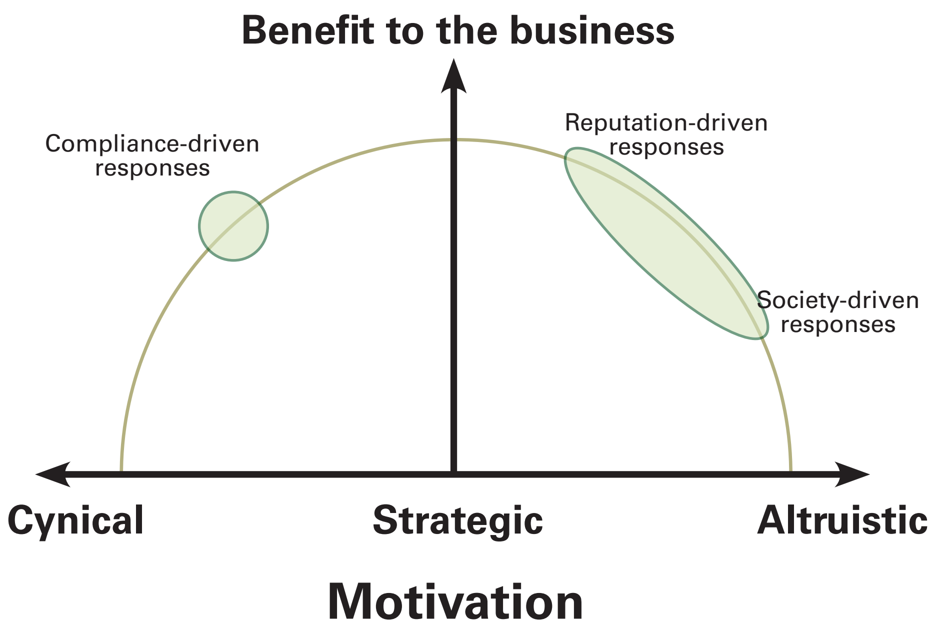


Exhibit 17. Respondent motivations

not pretend to do so for purely altruistic reasons; in the longer term, businesses can see a clear convergence between the interests of their companies and those of the country. This suggests that the South African business community recognises that for government to address inequality, poverty, the high levels of unemployment and economic growth, the active engagement of business and civil society, in an enabling environment, is a pre-requisite to the country's prosperity and societal transformation.

A SNAPSHOT OF SOUTH AFRICAN CORPORATE RESPONSIBILITY PROGRAMMES

Percentage of respondents responding 'somewhat true' or 'very true'

[Social responsibility is] part of our business strategy

82.5%

Monitoring and evaluation

65.0%

We regularly measure the impact of our CSR/CSI initiatives on stakeholders

CSR/CSI initiatives are an integral part of our business planning process

78.9%

Organisational commitment

97.2%

Respondents whose companies have an individual or team responsible for CSR/CSI initiatives

91.4%

Respondents whose companies have clear policies or written statements about CSR/CSI

62.5%

Individual managers have performance goals related to CSR/CSI performance

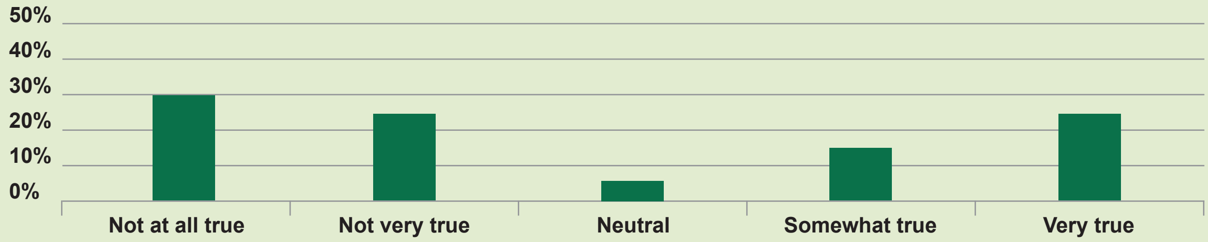
87.5%

Our board of directors has responsibility for decision-making around CSR/CSI initiatives

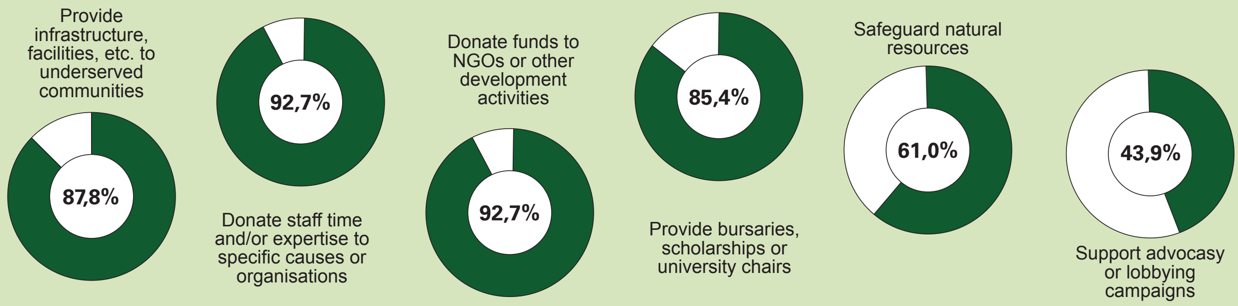
32.4%

Compensation of our executives is a function of CSR/CSI-ralated metrics in addition to other performance metrics

Our company outsources some or all of our CSR/CSI initiatives



What do respondent companies do with their corporate social investment?



RECOMMENDATIONS

TO GOVERNMENT...

• Look to corporate South Africa as a partner, and invite them to do the same

Respondents and interviewees in this research clearly understand how their fortunes are tied to those of the country, and are keenly aware of both the moral and strategic case for investing in South Africa's development. Business has as much interest in growth and social cohesion as anyone else; as one executive noted, "Business cannot succeed in a failed society."

They also recognise government's limitations, and believe that business is uniquely placed to both fill gaps and come up with new solutions. But that does not mean that government should dictate the agenda. Respondents are sceptical about merely paying for line-items on a government 'wish-list', or fulfilling roles that should ordinarily be filled by government. They do not want to passively support the country's development agenda, but to actively help shape it as well.

• Understand the corporate value proposition, and help companies to benefit from it

Companies exist to produce goods, provide services, and make profits – not to run development programmes. But if companies are able to derive clearer and more valuable benefits from their social responsibility initiatives, then they will have greater incentive to invest more in them – and to do them better. In this way, the interests of government and the interests of companies are aligned.

Tshikululu recommends that government look for additional ways to support companies to realise value from their social investments and social responsibility programmes. This should include the creation of an enabling environment and policies and legislation that promotes the inclusion of business in the country's societal transformation agenda. Government could also do more to acknowledge and recognise the substantial amount of money being invested by the private sector, and celebrate the contributions of truly outstanding companies. Government should consider embarking on large-scale public-private partnerships, and doing so in a public way that celebrates the role of businesses in helping to transform South African society.

• Be a bridge between business and communities

Pressure from communities is particularly acute among industries with fixed assets and a prominent presence in particular communities, such as mining and energy. This pressure has to be managed to enhance the development of responsive but sustainable interventions fostered by good relations between the communities and such companies.

Government, however, could help to ensure that this investment is focused and legitimately developmental. Not only can it help to coordinate community stakeholders to speak with a unified voice, it can also play a more active convening role, bringing together the company and local leaders to jointly develop a shared vision for their community, and defining each party's role and expectations in realising it.

This would help to ensure that corporate community obligations not only contribute credibly to community development, it would also give companies the assurance that their investments are not being wasted or spent frivolously. It would also help to ensure that these investments are aligned not only to local economic development plans, but to national development imperatives as well.

TO BUSINESS...

• Build credibility through substance

While companies are clearly under increasing pressure from numerous stakeholders to be seen to be socially responsible, the risks of 'goodwashing' or being seen as being exploitative increase. In this context, credibility becomes currency.

There is nothing unethical about companies benefitting, reputationally or otherwise, from their social investments – indeed, this is the very definition of 'shared value', and the more those investments benefit the company, the more incentive the company has to do them well.

But Tshikululu recommends that companies keep the motivation for such investments, whether or not they lead to benefits, grounded in their values. As one interviewee involved in a financial services group's strategy said, "We do it because it is the right thing to do, not because we get a lot of recognition for it… we are not doing it to get clients."

Substantive social responsibility programmes are intentional, well-designed, and have a clear developmental objective that they are trying to meet. Companies should take the time to understand the needs and expectations of their social partners, invest adequate time and resources in thoughtful programme planning, and focus their efforts on social responsibility programmes that drive real social value.

• **Understand the internal value proposition**

Much of the benefit that South African companies derive from social responsibility programmes actually rests in whether key stakeholder groups themselves find value in these initiatives. But the value proposition of these programmes may be different for employees than it is for, say, shareholders or consumers. Companies should take the time to understand the expectations of each of these internal stakeholders, and work to maximise the value that they derive from them.

For example, several interviewees spoke of how important it is to young employees that their company be seen as a good corporate citizen, and that being able to recruit and retain young talent is a key benefit of social responsibility programmes.

But a corporate responsibility initiative can only help the business motivate or retain those employees if it speaks directly to their value proposition: Standalone charitable giving will not be of value to them if they are actually looking for volunteer opportunities; investing heavily in environmental sustainability will not be of value to them if they are actually interested in community upliftment.

Likewise, respondents indicated that they feel a significant amount of pressure from shareholders for their companies to be seen as socially responsible. But before it goes reinvesting profits in social development or environmental programmes, the company needs to understand why – and how – its shareholders perceive value in good corporate citizenship.

The most effective corporate social responsibility efforts balance the needs of society with those of the business. But that means that the business has an obligation to understand both. For the business to benefit, it is not enough for it to simply be doing some abstract 'good'. It must be doing the right kind of good; good that speaks to the priorities, interests, and expectations of its key internal stakeholder groups.

Companies should regularly consult with their primary internal stakeholders and seek to better understand exactly what they hope to achieve through them, and why exactly it matters to them how the company is perceived. By taking time to understand stakeholders' priorities and expectations, companies will be better equipped to design programmes that help actualise those goals and drive value through them.

• Understand risk, as well as value

While many of the corporate benefits associated with social responsibility programmes are internal and intangible, the risks – particularly to corporate reputations – can be very public and very real.

Many respondents indicated that their companies derive significant goodwill from their social responsibility initiatives. Substantially fewer, however, indicated that they 'regularly measure the impact of… CSR/CSI initiatives on stakeholders'. This information gap could charitably be characterised as 'risk'.

Doing good can sometimes go badly: donations sometimes sit idle and unused; expensive projects sometimes fail to have an impact; beneficiaries sometimes become disillusioned or unhappy. But it is far better for companies to be able to anticipate these issues and remediate them, than for them to be played out loudly and in public. Thus effective project monitoring, regular stakeholder engagement, and seeking feedback from social partners are not just good development practices, they are essential tools to help companies foresee problems, mitigate risk, and proactively manage their reputations from a social standpoint. Likewise, companies should take care to avoid propagandising or overstating their impact; all messaging about their social responsibility efforts should matched by facts on the ground.

• Define success, both for society and for the business

Companies often look back at their social responsibility initiatives, sometimes years and millions of rand after the fact, and ask, "What did we achieve?"

The better question, asked less frequently, should come well before all of that time, money, and human resources have been invested: "What are we trying to achieve?"

Without clear strategic intent, and without clearly-defined goals, these programmes risk becoming wasteful: of time, money, and human capital. And where there is waste, social responsibility programmes do not create value for anyone; neither the company nor wider society.

- By asking – and answering – a few key questions such as what specific social problem are we trying to solve, what are the benefits that we expect to accrue to society, what is our definition of success, and how will we know when we have realised it,

will assist companies to clarify why they are making such investments, and what the company seeks to achieve through them – both in terms of the value they add to society, but also in their strategic value to the company itself.

These questions also force companies to plan not only how they implement their social responsibility initiatives (what they will do, and when they will do it), but also how to monitor whether those initiatives are realising their intended goals.

Increasingly companies are focusing on understanding the impact of their social investments on society; however, they tend to not have a corresponding plan to monitor whether they are having the desired impact on the company itself.

This presents an opportunity for companies to gain significantly more clarity about the strategic value proposition of social responsibility initiatives: define what the intended benefits are; establish key performance indicators to measure those benefits (and ascribe value to them accordingly); set clear targets and milestones; and report on them regularly.

Lastly, companies should not lose sight of making a difference that is achievable and measureable, and that represents a clear and concrete contribution to a broader social agenda.

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