The Social Responsibility of Corporations: A Stakeholder Approach

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By

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Declaration

I, Ephraim Aifheli Khodoga, hereby declare that the work contained in this assignment is my own work, and has not previously in its entirety or in part, been submitted at any university for a degree.

E.A. Khodoga
January 2002

SUMMARY

The main aim of this study is to develop, from an ethical perspective, a justification for corporate social responsibility. The research methodology used is that of a critical study of relevant literature.

The history of corporate social responsibility is discussed and definitions of key concepts are analyzed. Attention is paid to the controversies surrounding corporate social responsibility, and the views of critics as well as advocates of corporate social responsibility are examined. From the literature study it is concluded that since corporations are part of larger social systems, they are not only accountable to their shareholders but their success and long-term survival depends on fulfilling their responsibilities to a range of stakeholders. Stakeholders are defined as those groups or individuals with whom an organization interacts or has a relationship of interdependence, and who are affected by its actions, decisions, policies, practices or goals.

The study focuses on the stakeholder approach to corporate social responsibility and aims to show how such an approach underpins the idea of corporate social responsibility. It is argued that corporations have moral as well as social responsibilities to stakeholders who are affected by their operations. Emphasis is placed on business ethics as providing the framework for a set of principles or a code according to which a company should make its business decisions and on which it should base its relationships with stakeholders. The research indicates that companies that aim to operate ethically also benefit in terms of profitability and social acceptance. With reference to several South African companies as examples, the study focuses on corporate social responsibility towards key stakeholders such as local communities, the environment, employees, and customers. In each case it is investigated what the specific responsibility requires of the corporation, and what practical measures can be used to meet the responsibility. It is argued that management's task is to treat stakeholders as equal, balance their sometimes conflicting claims, and promote good relationships among them. Managers must consider the ethical and social as well as the economic implications of their decisions.

The concluding chapter looks more closely at issues that need to be taken into account as far as corporate social responsibility in South Africa is concerned. As a result of the legacy of white rule and apartheid, active steps need to be taken to address economic imbalances between blacks and whites. Both the government and corporate structures have a role to play in creating mechanisms to meet the economic needs of the black community. It is recommended that the means through which this can be achieved are processes such as affirmative action, transformation, black economic empowerment, and poverty alleviation.

The study concludes that social involvement by companies is not a favour extended to society or an optional "extra", but a business imperative and a moral obligation that is fundamental to being a company with legitimacy. The social goals of a company should be supportive of the goals of business and its social involvement strategy should be aligned with the overall business strategy.

OPSOMMING

Die hoofdoel van hierdie studie is om korporatiewe sosiale verantwoordelikheid vanuit 'n etiese perspektief te regverdig. Die navorsingsmetodologie behels 'n kritiese ondersoek van tersaaklike literatuur.

Die geskiedenis van korporatiewe sosiale verantwoordelikheid word bespreek en definisies van sleutelkonsepte word ontleed. Aandag word geskenk aan die debatte rondom korporatiewe sosiale verantwoordelikheid en die sienings van teenstanders sowel as voorstanders van korporatiewe sosiale verantwoordelikheid word ondersoek. Uit die literatuurstudie word afgelei dat aangesien korporasies deel van groter sosiale stelsels uitmaak, hulle nie slegs rekenpligtig teenoor hul aandeelhouers is nie, maar dat hul sukses en langtermyn-oorlewing afhang van die nakoming van hul verantwoordelikhede teenoor verskeie belangegroepe. Belangegroepe word omskryf as daardie groepe of individue met wie 'n organisasie in wisselwerking is of 'n interafhanklike verhouding het, en wat deur sy handelinge, besluite, beleide, praktyke en doelwitte geraak word.

Die studie fokus op die belangegroep-benadering tot korporatiewe sosiale verantwoordelikheid en poog om te toon hoe so 'n benadering die idee van korporatiewe sosiale verantwoordelikheid ondersteun. Daar word aangevoer dat korporasies morele sowel as sosiale verpligtinge het teenoor belangegroepe wat deur hul bedrywighede geraak word. Klem word gelê op sake-etiek wat die raamwerk verskaf vir 'n stel beginsels of 'n kode waarvolgens 'n maatskappy sy sakebesluite behoort te neem en waarop hy sy verhoudings met belangegroepe moet baseer. Die navorsing toon dat maatskappye wat etiese optrede nastreef, ook voordeel trek wat winsgewendheid en sosiale aanvaarding betref. Met verwysing na 'n aantal Suid-Afrikaanse maatskappye as voorbeelde, fokus die studie op korporatiewe sosiale verantwoordelikheid teenoor sleutelbelangegroepe soos plaaslike gemeenskappe, die omgewing, werknemers en kliënte. In elke geval word gekyk na wat die spesifieke verantwoordelikheid van die korporasie vereis, en watter praktiese stappe gedoen kan word om dit na te kom. Daar word aangevoer dat dit die bestuur se taak is om belangegroepe as gelyk te behandel, hul

soms strydige eise te balanseer en goeie verhoudings onder hulle te bevorder. Bestuurders moet die etiese en sosiale sowel as die ekonomiese implikasies van hul besluite in aanmerking neem.

Die slothoofstuk kyk meer in besonderhede na kwessies wat in aanmerking geneem moet word wat korporatiewe sosiale verantwoordelikheid in Suid-Afrika betref. Weens die nalatenskap van wit oorheersing en apartheid is aktiewe stappe nodig om die ekonomiese wanbalanse tussen swart en wit mense aan te spreek. Beide die regering en korporatiewe strukture het 'n rol te speel om meganismes te skep om aan die ekonomiese behoeftes van die swart gemeenskap te voldoen. Daar word aanbeveel dat dit bereik kan word deur prosesse soos regstellende aksie, transformasie, swart ekonomiese bemagtiging en armoedeverligting.

Die studie kom tot die slotsom dat sosiale betrokkenheid deur maatskappye nie 'n guns aan die samelewing of 'n opsionele "ekstra" is nie, maar 'n sake-imperatief wat grondliggend is tot die legitimiteit van 'n maatskappy. Die sosiale doelwitte van 'n maatskappy behoort die sakedoelwitte te ondersteun en sy sosialebetrokkenheid-strategie moet in ooreenstemming met die oorhoofse sakestrategie wees.

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TABLE OF CONTENTS

CHAPTER ONE

INTRODUCTION

1.1 Background

Corporate social responsibility is an issue that has become prevalent in business and academic circles. Even among those who agree that corporations are public institutions, there is considerable disagreement about the social responsibility of corporations. Some want corporate management to be more sensitive to the social impact of their decisions, others want to see more effective policing of abuses of corporate powers, and others want to see corporations undertaking extensive programmes to address social ills.

The argument about the social responsibility of corporations is essentially a debate about the proper relationship between the business sector and the rest of society. In this argument there is consensus among some that the business sector should not be seen as an island isolated from society, whereas others want business to be profit minded.

According to Gantsho (1985:1) the concepts of corporate social responsibility and corporate social auditing have only started to receive major attention in the last decade. The debate about corporate social responsibility is most evident in the United States where companies are operating in a free enterprise system, and corporate social responsibility simply calls for the balancing of the interests, claims and aspirations of shareholders, creditors, employees and society by companies while operating in a competitive market. Frederick, Davis and Post (1992:33) note that the idea of corporate social responsibility in the United States of America appeared in the early part of the twentieth century. Corporations at that time came under attack for being too big and too powerful. Critics tried to curb corporate power through antitrust legislation, banking regulations and consumer protection laws. Faced with this kind of social protest, some of the

wealthier business leaders became great philanthropists who gave much of their wealth to education and charitable contributions.

Two distinguishable principles established the original meaning and the modern idea of corporate social responsibility: stewardship, or taking responsibility for the affairs of the corporation on behalf of shareholders, and charity, or making funds and resources available to address the needs of society. Because of the stewardship and charity principles the corporate managers of today started to recognize that business and society are intertwined and interdependent. This mutuality of interests places a responsibility on business to exercise care and social concern in formulating policies and conducting business operations.

In post-apartheid South Africa corporate social responsibility is a sensitive issue. In dealing with the issue of corporate social responsibility in a post-apartheid South Africa, the social responsiveness approach has been used as the conceptual framework. In order to formulate a policy of social responsibility, corporations take into account major trends and demands in the economic, socio-political and moral/cultural spheres of South African society. For example, many influential people in South Africa and elsewhere believe that corporate social investment should be taken as the main measure of the social contribution of business.

Gantsho (1985:2) states that the question of corporate social responsibility in South Africa must be viewed against the background of a unique social-political structure. South Africa is a model of the whole world containing within it all the divisions and tensions of the world: black/white, rich/poor, migrant/non migrant, and capitalist West/ third world.

The South African Companies Act (No. 61 of 1973), as amended, indicates that a company is a legal entity (South Africa 1973). What a company should do is not distinguishable from what individuals should do. The Companies Act is structured in such a way that most of its sections protect the minority shareholders or creditors. But the acceptance of social responsibility by modern corporations led to a change of attitude in several companies and they started to embark on social

responsibility. Companies started to balance the various and sometimes conflicting interests of shareholders, creditors, employees and society while functioning in a competitive market.

Hooper (1983:3) argues that as a result of the unique character of South Africa a particular complexity is brought into corporate social responsibility, and this serves, in turn, to place a greater responsibility on companies to define and stand by their policies and practices. South African company law intimates that a company's responsibilities rest only with its shareholders and creditors, while the understanding of corporate social responsibility entails the inclusion of employees and society in general under this mantle.

1.2 Terminology

Defining the concept of corporate social responsibility is not easy and it is impossible to define it in terms of specific managerial decisions. The idea that employees might participate in a process leading to more socially responsible organizational conduct is very helpful and invites closer scrutiny of what it might mean to ask for corporate social responsibility. Chief Justice Marshall in Dartmouth College v. Woodward (De George 1995:122) defined a corporation as an artificial being, invisible, intangible, and existing only in the contemplation of the law; one of the primary reasons for which corporations are established is that they have only limited liability and those who invest in a corporation can lose only the amount of money they invest but their personal assets cannot be attached.

In defining the word "responsibility", Stone (1975:939) gives this advice: "If people are going to adopt the terminology of `responsibility' (with its allied concepts of corporate conscience) to suggest new, improved ways of dealing with corporations, then they ought to go back and examine in detail what it entails." Responsibility as defined in the *Longman dictionary of contemporary English* (1980, s.v. `responsibility') means that if you have a responsibility to someone, you have a duty to help them or to look after them. The word "social", according to the *Longman dictionary of contemporary English* (1980, s.v. `social'), means

relating to society and the way it is organized, and to the way that the various groups within society depend on each other. Gantsho (1985:4) states that an individual is therefore socially responsible if in his decision-making consideration is given to the aspirations, goals and plans of others.

Corporate social responsibility is defined by some writers as follows:

- Corporate social responsibility is defined primarily in terms of the social and environmental impact of systematic organizational activity. To be applicable, Corporate Social Responsibility should be understood as a process, through which individuals' moral values and concerns are articulated (Maclagan 1999: 43).

- It is an investment in human potential with the purpose of creating growth in business, job opportunities and the creation of wealth for shareholders (Van Gass 1990:21).

- It is aimed at a meaningful integration of corporations' moral and economic responsibilities which inter alia must deal with the problem of distributive justice (Esterhuyse 1988:191).

One might argue that to promote corporate social responsibility a company must involve the employees (and perhaps other stakeholders) because it seems inconsistent not to respect such groups' right to an opinion, while at the same time purporting to be ethical and responsible. Through such a participative process, matters of social responsibility may be identified in the expectations of individual members of organizations, as a reminder that the very idea of corporate responsibility strongly suggests a need to consider the values, motives and choices of those real people who are involved in formulating policy and taking decisions.

Gantsho (1985:4) indicates that corporate social responsibility means that corporations are responsible to those in an organized community and involve themselves in initiatives in the community which go beyond a firm's normal

profit-making activities. The concept also emphasizes a friendly association between the company and the community.

Van Gass (1990:1) argues that it would be more appropriate to view corporate social responsibility programmes in terms of a multi-disciplinary approach. The study field of corporate social responsibility requires a knowledge and understanding of the behavioural sciences (for example, sociology, psychology and politics) as well as the natural sciences.

1.3 The purpose of the research

The purpose of the research is to attempt to determine the role and responsibility of companies with regard to different stakeholders. The stakeholder approach is an inclusive approach to sustainable success. It emphasizes the multiplicity of relationships within which companies will need to manage and measure performance if they are to retain society's long-term "licence to operate".

The term "stakeholder" appears to have been invented in the early 1960s as a deliberate play on the word "stockholder" to signify that there are other parties having a stake in the decision-making of the modern, publicly-held corporation in addition to those holding equity positions (Goodpastor in White 1993:205). In this study attention will be given to the consequences of a stakeholder approach for corporate social responsibility.

Without determining what companies have to do in those areas in which they operate, there cannot be sound relations between companies and society as a whole. An evaluation will be made of the various aspects of the concept of corporate social responsibility. Without a clear understanding of the term corporate social responsibility, the roles of corporations in society will never emerge clearly.

1.4 Scope of the research

This study will focus on the social responsibility of corporations. The history of corporate social responsibility will be discussed and definitions will be analyzed.

In Chapter 2 attention will be given to a discussion on whether corporations have to be socially responsible or not. This chapter will focus on the controversies among different researchers with regard to corporate social responsibility. In Chapter 3 the focus will be on stakeholders and shareholders in order to discuss their relationship with corporations and the implication of this. Chapter 4 deals with how a stakeholder approach underpins the idea of corporate social responsibility. In this chapter the focus will be on ethics as a most important part of business and business's responsibilities to different stakeholders. Chapter 5 will give recommendations and a brief conclusion.

1.5 Research methodology

This research is based on a study of relevant literature. No interviews and questionnaires will be conducted to survey the corporate social practices of companies. The main intention of the research is to develop, from an ethical perspective, a justification for corporate social responsibility.

CHAPTER TWO

TO BE RESPONSIBLE OR NOT: CONTROVERSIES SURROUNDING CORPORATE SOCIAL RESPONSIBILITY

2.1 Introduction

The debate about corporate social responsibility is an instructive example of the complexities of contemporary business decision-making and the realities of doing business in the modern industrial arena. Social responsibility lies between two extremes. At the one extreme is the view that business is an economic institution directed towards profit, whose only responsibility to society is to provide goods and services and to return maximum benefits to the investors. At the other extreme there is the view that business is a part of the larger society and, therefore, has responsibilities other than simply maximizing profits. Some proponents of the latter view also contend that it is in a firm's own interest to be socially responsible because there is a positive relationship between social responsibility and the firm's financial performance. Arguments between these two schools of thought have led to the emergence of two groups, one that says no to corporate social responsibility and the other that supports corporate social responsibility.

2.2 Opposition to corporate social responsibility

There are those who oppose corporate social responsibility to stakeholders and maintain that business must aim for profit only.

2.2.1 Fundamentalist view: profit maximization attitude

This fundamentalist view may seem nothing more than a callous and shortsighted defence of private interests. Businessmen who hold this view make decisions believing that such decisions are the best in terms of contributing to profits. Gantsho (1985:7) is of the opinion that the profit ethic arose in the eighteenth century in Great Britain, but reached its

zenith of acceptance in the United States of America in the late nineteenth and early twentieth centuries. This was the era that was characterized by accelerated economic development. The social goal was progression and industrialization. Companies earned enormous profits which they ploughed back into their businesses for further progress. In the developing countries companies were also under no pressure to be socially responsible. In these societies business was expected to perform the classic function of producing goods and services and, in doing so, to contribute to economic growth (Quazi 1997:68).

One of the leading economists of today is Milton Friedman, who wrote the following in his book *Capitalism and freedom* (1962:133): "...few trends would so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as possible." In 1970 Friedman defended his position in the *New York Times Magazine* (Friedman 1970) under the title "The social responsibility of business is to increase its profits".

This view appears to be supporting the idea that profits are the lifeblood of business and that it should remain the major goal of business to make profits. Friedman (in White 1993:162-163) argues that corporations have no responsibility to society beyond that of obeying the law and maximizing profits for shareholders. Individuals may have social responsibilities, according to Friedman, but not corporations. If executives make contributions to address social problems in the name of the corporation, they are doing so with other people's (shareholders') money. The responsibility of corporate executives is a fiduciary one, to serve as agents for the corporation's shareholders, and to uphold shareholders' trust. This requires of executives to maximize the return to their shareholders, who can then, if they choose, invest their own money in worthy causes. Friedman continues by arguing that executives serve as

perfect agents and should not reduce corporate profits by contributing to social causes.

Carson (1993:44) claims that executives who limit profits in the pursuit of social objectives are imposing taxes on the shareholders. It is wrong for business executives to promote social objectives at the expense of profits, as doing so constitutes "taxation without representation". Executives who sacrifice profits for the sake of social objectives are spending someone else's money to promote their own causes. He regards such actions as tantamount to theft.

Rossouw (1994:31) argues that according to the "hidden hand" approach, the only responsibility of business is to maximize profits within the constraints of the law. Business has no specific obligations to society, other than making a profit and obeying the laws of society.

Madsen and Shafritz (1990:301–302) are of the opinion that the social responsibility concept provides no mechanism for accountability as to the use of corporate resources; managers are legally and ethically bound to earn the highest possible rate of return on the shareholders' investment in the company they manage. Business executives have little experience and incentive to solve social problems and social responsibility is fundamentally a subversive doctrine that would undermine the foundations of the free enterprise system if taken seriously. Madsen and Shafritz continue by arguing that if a firm unilaterally engages in social action that increases its costs and prices, it will place itself at a competitive disadvantage relative to other firms in the industry that may not be concerned about being socially responsible.

Mulholland (1977:44) holds the view that the responsibility of managers is to run the business, within the framework of laws on an ethical basis, so as to provide the shareholders with a high return on their investments. He continues by saying that if the shareholders' funds are used for the pursuit

of social goals, as perceived by the company's executives, it can be seen as opening the doors to others whose aims might be evil. He argues that if a business is run in the way that he advocates, it will best serve the interests of the following different stakeholders:

- its employees (who will enjoy security and decent rewards);
- its customers (who will benefit from improved goods and services); and
- its owners (who will receive a good return on their capital and will be encouraged to risk more in future ventures).

Freeman (1991:150) argues that corporations cannot be held to the same standard of charity and love as individuals. Only the government has to dedicate itself to enhancing the welfare and actively preserving the liberties of its citizens. The profit-making corporation is designed to achieve an economic mission and as a moral actor possesses an exceedingly narrow personality. The corporation is an economic animal and its sole responsibility is to make a profit for its investors. Freeman continues by arguing that the duty to aid the deprived does not fall upon for-profit multinational corporations, except in instances where the corporations themselves have done the depriving. It would be difficult for the multinationals to sacrifice some of their profits to buy milk, grain and shelter for persons in poor countries because assisting the poor is not one of the corporations' moral requirements. Such moral requirements of providing shelter and food for persons belong to the people's respective governments. If corporations have duties to aid those deprived of the benefits of rights, it does not mean that a corporation's failure to observe them would deprive that specific corporation of its moral right to exist. Its failure to honour such a duty could not be claimed necessarily as a violation of someone's rights.

One may say that the above-mentioned economists believe that corporations are private property and consequently have exactly the same social responsibility as other business in a capitalist economy. In such an economy there is only one social responsibility of business, namely to use its resources to engage in activities designed to increase its profits as long as it stays within the rules of the game, which is to say, to engage in open and free competition, without deception or fraud. Proponents of this view say that if business aid is needed in solving social problems, the only legitimate way of doing so is to effectively police the fraudulent and deceptive practices that contribute to these problems and to frame the laws in such a way that businesses are able to profit by providing for social needs.

2.3 Positive views of corporate social responsibility

Corporate social responsibility is a practical necessity in a rapidly changing society. Corporations must understand that they are part of a larger social system and they must know that their success depends on a good relationship between them and the communities in which they operate their businesses.

Former president Nelson Mandela, in justifying corporate social responsibility, argued that if the Reconstruction and Development Programme of the African National Congress government was to be successful, business in South Africa would have to assist the government to realize its goals. He requested assistance from the South African business community and indicated that a key objective was to facilitate the business community's collective contribution to socio-economic developmental issues and for them to involve themselves in programmes that could bring about a difference in facilitating the delivery of jobs, skills and services (Corporate social responsibility is a key issue ... 2000:22-26).

Goodpastor (in Carson 1993:172) is of the opinion that the duty of business is to serve the interests of stakeholders. The interests of stakeholders must be counted equally and the management must give the same care to the interests of

employees, customers and the local community. This view is also endorsed by Donaldson (in Madsen & Shafritz 1990:27). He states that the relationship between business entities and society is based upon an implicit compact that spells out and defines the idea of corporate social responsibility. Corporations and society could be said to have a "social contract" where each party has rights, as well as duties to the other party. This social contract of the corporation holds that in return for the right to conduct business and reap a profit within a given social context, corporations are obliged to protect and enhance the interest of consumers, workers, and the community in which a firm conducts its business.

Business entities have a number of social responsibilities by the mere fact that they conduct business and use the natural and human resources of communities to further their own private economic ends.

Donaldson continues by stating that business must begin involving itself in broad social and political issues. Business should change society in discharging its social responsibility and it must help to change the structure of society. That is what social responsibility is - doing things that will change beliefs, loyalties and structures in an enduring way.

The view expressed by Donaldson is that business must accommodate itself to social change if it is expected to survive. Business must take a long-term or enlightened view of self-interest and help to solve social problems in order to create a better environment for itself. Business has a moral obligation to help solve social problems that it has created or at least perpetuated.

Madsen and Shafritz (1990:301) argue that business should be considered as an asset to society. Its activities should also, at the same time, not be detrimental to the common good of society or to the interests of certain sectors of society, and it has to comply with the demands of society for socially responsible behaviour. If there is no approval from society, business cannot survive and flourish in the long run. Perlman (1987:16) argues that the social responsibility of business has to be extended beyond the workplace to include responsibility for the environment in

which companies operate. Employers must look not only at the social problems of their workers, but at the root causes of those problems. If they are based on injustice and/or even statutory discrimination, employers must be seen to be openly calling for the abolition or the amendment of that injustice.

Uys (1987:10) is of the opinion that corporate social accountability can be defined as a commitment to be co-responsible for the quality of life within the community from which the company draws its resources and gets its support. Business has a three-fold responsibility: to its shareholders, to its personnel and to the community in which it exists. The purpose of business is not just to make money, but to meet the needs of society and to promote the public good, while being paid for its service (Shephard *et al.* 1997:1006).

2.4 Summary

In the final analysis one may say responsibility and accountability are key concepts that companies will face in their area of operations. Business must stop concentrating only on its shareholders because in doing so it neglects its long-term future. The corporations that will succeed and flourish in the times ahead will be those that embark on addressing the important needs of the communities in which they operate. Pro-active involvement of business leads to a good relationship between society and business, and this will develop society.

Social involvement should no longer be catered for only after profits have been established, but must be taken into account right from the start along with all other factors that need to be considered in planning a business strategy. It must be planned and budgeted for in the same careful and economically sensible way applied to all other dimensions of a business strategy. For example, if corporations operate in a society faced with severe social problems which have negative impacts on their operations, productivity and eventual success, and realize that the government is not capable of dealing with those problems on its own, then the corporations must interfere in order to alleviate or solve the

problems because this would, on the one hand, promote the smooth operation of business and, on the other hand, lead to business survival in the long run.

CHAPTER THREE

THE STAKEHOLDER APPROACH

To understand what the stakeholder approach is, one has to look at definitions of stakeholders and shareholders from the literature of different researchers.

3.1 What is a stakeholder?

In defining a stakeholder approach, Goodpastor (in White 1993:205-206) defines a stakeholder in an organization as any group or individual who can affect or is affected by the achievement of the organization's objectives. Examples of stakeholder groups are employees, suppliers, customers, creditors, competitors, governments and communities. The term "stakeholder", according to Goodpastor, is synonymous to a "player" in a game like poker. One with a "stake" in the game is one who plays and puts some economic value at risk.

Stakeholders may be categorized under two types, i.e. primary and secondary stakeholders. Clarkson (in Hopkins 1999:12) defines stakeholders as persons or groups who have or claim ownership, rights, or interests in a corporation and its past, present, or future activities. According to Clarkson the primary stakeholders are those with continuing participation in the corporation; these are typically shareholders, investors, employees, customers and suppliers together with what is defined as the public stakeholder groups like governments and communities that provide the infrastructure. Secondary stakeholder groups are defined as those who influence or affect the corporation but are not engaged in the everyday transactions of the corporation and are not essential for its survival. The media and a wide range of special interest groups also fall under such a category.

The word "stakeholders" is meant to challenge the notion of shareholders as the only group to whom management need to be responsible. Clarkson makes it clear that the modern organization is affected by a large set of forces coming from shareholders, lenders, customers, employees, suppliers and management. Hummels (1998:1406) describes stakeholders as those groups or individuals with

whom the organization interacts or has a relationship of interdependence, and who also are affected by the actions, decisions, policies, practices or goals of the organization.

It should be emphasized that the stakeholder approach provides what Grace and Cohen (1995:71) call "a new way of thinking about strategic management – that is, how a corporation can and should set and implement direction". In fact, the stakeholder approach places emphasis on interdependence. James Liebig (1990:217) quotes a former American executive who, in an attempt to describe the encompassing nature of the stakeholder approach, said:

> Every citizen is a stakeholder in business whether he or she holds a share of stock or not, is employed in business or not, or buys the products and services of business or not. Just to live in American society today makes everyone a stakeholder in business.

This description of a stakeholder is over-inclusive. It is, however, indicative of a new way of thinking about a corporation's responsibilities, undermining the narrow shareholder approach.

3.2 What is a shareholder?

According to Dwight and Shew (1992:287) shareholders are the legal owners of business corporations. By purchasing a "share" of the company's stock, they become part owners of the company. They have a big stake in how well their company performs. The company's managers pay close attention to their needs and assign a high priority to their interests in the company.

The *Longman dictionary of contemporary English* (1980, s.v. `shareholder') defines a shareholder as an owner of shares in a company.

3.3 A stakeholder approach versus a shareholder approach

According to Argandoña (1998:1093 – 1099) a stakeholder could be identified on the basis of the concept of "common good". The main duty of stakeholders is to

play a part in achieving the company's goal, in other words, to contribute to its common good. They do this, firstly, by providing capital or labour they have agreed to provide, and secondly, by helping to create the conditions in which the common good of the company can develop, which means creating the conditions in which each member of the company receives from the company whatever they reasonably expect from it, and whatever rights they have to receive by virtue of their contribution (which goes well beyond the payment of wages or dividends). Argandoña continues by saying that stakeholders have an "interest" in the company and the company in turn may have an "interest" in satisfying their demands.

The impact of outside stakeholder groups on corporations is both direct and indirect. Direct effects are boycotts, demonstrations, and lawsuits initiated against companies. Indirect effects come through stakeholders' influence on public policy in the form of regulations that affect industry in areas such as equal employment, environmental protection, employee health and product safety. Stakeholder organizations use political tactics that include lobbying, litigation, policy research, coalition building and support for elected officials.

Shepard *et al.* (1997:1003–1004) argue that the stakeholder perspective assumes that various parties whose activities are tied to the corporation, including employees, consumers, shareholders, suppliers, special interest groups, the general public and government at all levels, affect the corporation for ill and good. The stakeholder approach not only has a descriptive element about the nature of the corporation's relations to others, but often involves an implicit or explicit moral claim of others, even in the absence of potential benefit.

Hummels (1998:1404–1408), echoing the view of Grace and Cohen (1995:71), emphasizes the linkage between the stakeholder concept and strategic management. He makes the point that the stakeholder model provides corporations with an innovative way to set and implement direction. By paying attention to strategic management that also takes stakeholders into account, executives can begin to put their corporations back on the road to success.

Hummels continues to say that stakeholders are primarily seen as actors who can influence the organization's continuity. Their participation in the decision-making process simply indicates that they are also affected by the organization's practices, policies and actions.

Dwight and Shew (1992:8-10) indicate that stakeholders can create conditions that influence a company to stay in or withdraw from a given market. The interests of all stakeholders need to be given consideration by the company. If their concerns are disregarded, they may damage or halt the company's operations. The key point about corporate stakeholders is that they may, and frequently do, share decision-making power with the company's managers. Their justification for doing so is that they are also affected by the company's operations.

Stakeholders have more rights to participate in decisions that substantially affect their welfare or involve their being used as a means to another's ends. Each stakeholder group would have the right to elect representatives, the right to free speech, the right to grievance procedures inside the corporation and, if necessary, in the courts, the right to civil disobedience and other basic political rights (Chryssides & Kaler 1993:262).

Each stakeholder has a unique involvement in the organization. Different stakeholders have different types and degrees of power, which can be divided into voting power, economic power and political power (Frederick *et al.* 1992:13). One may argue that all stakeholders are entitled to have their interests and acknowledgments. It is the role of the management to balance all the moral rights and interests involved, while at the same time safeguarding the objectives of the firm.

According to Dwight and Shew (1992:287) shareholders can influence corporate policy through voting mechanisms, or if necessary, by challenging actions of corporate officers in the courts. They have the legal right of sharing the profits of the enterprise if dividends are declared by directors. They have the right to receive

annual reports of the company earnings and company activities and to inspect corporate books, provided they have a legitimate business purpose for doing so and that it will not be disruptive of business operations. They have the right to elect directors and to hold those directors and the officers of the corporation responsible for their actions, by lawsuit if they want to go that far. They also have rights to vote on mergers, some acquisitions and changes in the charter and to bring other proposals before the shareholders. Lastly, they have the right to sell their stock.

The shareholders are the principals and the executives are the agents. Shareholders exert far more control over the executives than do other stakeholders, and they monitor the contributions that corporate executives make out of corporate profits to promote socially desirable objectives such as poverty reduction, community development and pollution control. Shareholders of a corporation give approval to their corporate agents to give donations in order to address broad social problems (Lee & McKenzie 1994:972).

3.4 Summary

One may conclude by saying that a stakeholder is an organization, group or individual that has an interest in a corporation. Once the corporation fails to take responsibility towards stakeholders, that business cannot survive. A stakeholder can create conditions that would influence a company to stay in or withdraw from a given market. The interests of all stakeholders need to be given consideration by the company. Shareholders are the owners of the business and they hire managers to look after their businesses. They have legal rights that include having a share in the profit of the enterprise. Shareholders are the principals and the executives are their agents. Both stakeholders and shareholders have a stake in the smooth running of the business. This means that good relationships amongst them promote business growth

CHAPTER FOUR

HOW A STAKEHOLDER APPROACH UNDERPINS THE IDEA OF CORPORATE SOCIAL RESPONSIBILITY

4.1 Introduction

In today's business pressure is increasing to make the right decisions and to make those decisions faster than ever before, just to ensure survival. At the same time stakeholders such as customers, employees and the community are becoming much more involved in those decisions or the way in which those decisions are made.

4.2 Ethics as part of business

David (in Bezuidenhout 2000:209) defines business ethics as principles of conduct within organizations that guide decision-making behaviour. A business code of ethics can provide a basis on which policies can be devised to guide daily behaviour and decisions at work sites. The entrepreneur should develop a set of principles or a code according to which business decisions are made. The latest ethical issues that have an effect on business decisions are those related to:

- product safety
- employee health
- sexual harassment
- waste disposal
- HIV/Aids in the workplace
- smoking
- employment equity
- valuing and managing diversity

- affirmative procurement
- environmental protection.

De George (1995:25) states that business ethics can help people approach moral problems in business more systematically and with better tools than they might otherwise use. It can help them to see issues they might typically ignore and also impel them to make changes they might otherwise not be moved to make. But business ethics will not change business practices unless it is recognized that it is those engaged in the practices that need moral change. It can produce arguments showing that a practice is immoral, but only those in a position to implement the changes will be able to bring them about.

According to Epstein (1989:584) business ethics is a systematic reflection, based upon generally recognized societal values, on the moral significance of the institutions, policies and behaviour of business actors (individuals and organizations) in the normal course of their business activities. Business ethics (in common with corporate social responsibility) has focused primarily on the overall consequences (intended and unintended) of business activities. It can provide a process and a framework by which individuals and organizations (and even whole societies) can determine and evaluate their actions from the perspective of essential moral principles and values. Business ethics encompasses four distinct levels:

- Macro or systematic: the nature and performance of total political economies;
- Intermediate: the conduct of collective business actors (for example, industry or trade associations);
- Organizational: the policies and actions of specific firms; and
- Individual: the behaviour of identifiable human actors.

One may say business ethics is the study of how personal norms apply to the activities and goals of commercial enterprise. It is not a separate moral standard,

but the study of how the business context poses its own unique problems for the moral person who acts as an agent of this system.

Establishment of ethical standards is only the first step in an enhancing ethics programme. Corporations must establish minimum standards of behaviour across the organization in the form of a code of conduct in order to maintain discipline amongst its different stakeholders. To promote its image the corporation should enforce the code of conduct fairly and consistently, hire the right people, conduct ethical training, perform periodic ethical audits, establish high standards of behaviour and not just rules, set an impeccable ethical example at all times, create a culture which emphasizes two-way communication, and involve employees in establishing ethical standards.

According to De George (1995:199) a firm that wishes to operate ethically will establish structures that will encourage and facilitate ethical action on the part of all its members. It must establish channels and procedures for accountability up, down, and laterally. It must develop input lines whereby employees, consumers, shareholders and the public can make known their concerns, and develop mechanisms for anticipating and resolving ethical issues by using ethical hot lines, a corporate ethics office and an ethics committee.

4.3 Corporate moral responsibility

De George (1995:197–233), in examining the moral responsibility of corporations, notes an obligation not to harm. He argues that if pollution causes harm, then the corporation is morally bound not to pollute. A socially responsible corporation is one that not only abides by the law and fulfills its legal obligations but also takes an active part in social causes and social reform of the political and civic life of society. Corporations are formed for limited ends and are structured for certain purposes, but they must engage themselves in changing society directly and in promoting the good health and life of society as a whole.

De George continues by saying that moral demands stem from the moral law. The obligations not to steal, not to cheat, and not to lie are all examples. People must

be treated as ends in themselves and corporations must avoid harming them. A corporation has obligations not to harm the environment that it shares with its neighbours and not to pollute, for example, water and air beyond social acceptance. To the general public it has the moral obligation of concern for the general safety of those who live in an area affected by the corporation's plant. It has no right to expose those people living near it to a health risk from a possible explosion or radiation.

A corporation must consider, from the moral point of view, the impact of its actions on the community but this does not mean to say that plants can never morally be closed or opened. In both the opening and closing of a plant, a corporation has the obligation to minimize harm. But the corporation should not ignore the community's contribution to its operation when it considers closing the plant. It has no legal duty to consider the community with which it has been associated, but morally, it does have an obligation to consider the effects of its action and minimize the harm.

Fieser (1996:459) states that moral practices are profitable, for example, it is profitable to make safe products. Moral principles include the following:

- The harm principle

  Business should avoid causing unwarranted harm.

- The fairness principle

  Business should be fair in all of its practices.

- The human rights principle

  Business should respect human rights.

- The autonomy principle

  No infringement on the rationality of reflective choices of people.

- The veracity principle

  Providing honest and truthful information.

- The inclusivity principle

  Business should consider the interests of all stakeholders that are affected by a business practice.

The corporation ought to prepare a policy of fair dealing; for example, not aim to achieve the most favourable contract for itself. Companies could follow an instrument of social justice and social change by not dealing with those companies that do not meet their own standards of fair play. Companies' recognition of these moral obligations of fairness should improve and increase just relationships and conventions in society (L'Etang 1995:129).

Sibiya (1988:3) is of the opinion that corporate social responsibility should be based on two important philosophical considerations: the first is that the company must behave like a good citizen, and the second is that nobody can expect to make profits if the whole fabric of society is being ripped to shreds.

4.4 Corporate social responsibility to different stakeholders

Business is an integral part of the society in which it is set. It is managed for the benefit of all its stakeholders and operates within global communities and the natural environment. Taking into account public opinion and regulation, together with a company's internal obligations through its mission, values and principles, the business is expected to provide safe, quality products, create an acceptable level of wealth for employees, take account of stakeholders in the area in which it is operating, and behave in a socially responsible manner.

Griffin (in Bezuidenhout 2000:263) argues that entrepreneurs have an obligation towards different stakeholders in the context in which their venture operates. Entrepreneurs need to exercise their responsibility to the environment, customers,

employees and the general social welfare of the community or the country in which the business operates.

The South African Breweries (SAB) Annual Report (2000) indicates that business is about wealth creation but also about creating relationships with people and showing consideration for their values and culture as well as for the natural environment. The SAB acknowledges the importance of this philosophy by taking into account those who have a legitimate interest in its business, for example, its stakeholders. Involvement in health and education, contribution to charities and other related associations, and even contributing to sports development are key responsibilities. Businesses must involve themselves in actions aimed at correcting some of the political and social wrongs that exist within the society in which they are operating.

4.4.1 Corporate community involvement

According to Epstein (1989:591) corporate involvement with local communities is a broad concept. More generally, corporate community involvement encompasses a variety of undertakings, for example, contributing funds and donating goods to communities. Khan and Atkinson (1987:422) argue that corporate social involvement leads to some significant gains for the business and will eventually promote a better relationship between industry and the people. Some of the potential gains a corporation may obtain through social involvement are:

- Increased productivity and profitability
- Greater job satisfaction among employees
- Improvement of product quality
- Increased chances for the survival of the business
- Good industrial relations
- Better chances for successful marketing and labour recruitment

- Improved corporate image
- Enhanced customer relations
- Increased social awareness
- Smooth working of the business
- Improvement in the living standards of workers
- A sense of responsibility and pride on the part of management and the workforce.

The South African Breweries Annual Report (2000) states that the SAB strives to be a good neighbour to local communities. It regularly consults people affected by its operations, both formally and informally, especially on social issues. From a social perspective SAB promotes partnership between business and community by creating active dialogue. The company assesses social attitudes and encourages constructive interaction with local communities. One may argue that in determining community involvement practices, corporations should increase professionalized staff support through a permanent community affairs department that would fulfll community commitments, support community development and combat communal social problems. Through community involvement SAB addresses specific social problems relating to education, employment and training as basic needs of the community. Business involvement in the community may lead to a better relationship between itself and different stakeholders and that would promote a good image of the business.

The South African company Murray and Roberts (M & R) supports education by developing scientifically and technologically skilled human resources (Corporate social responsibility is a key issue ... 2000:22-26). The company's support to community upliftment projects such as skills transference, capacity building and assistance to the underprivileged sectors of the community is aimed at improving the quality of life of

communities through the development of sustainable micro–economic programmes and projects. M & R has a child-care welfare fund which is run entirely by its employees, largely in their own time and always on a voluntary basis. The child-care fund is established through employees' monthly contributions. The funds collected are used to support community organizations that focus specifically on children in need aged 0 to 16.

The Denel Group focuses its social investment efforts on key areas such as education and training, which include bursary schemes and human resources development (Corporate social responsibility is a key issue ... 2000:22-26). These projects improve the quality of people's lives and increase the capacity of disadvantaged communities.

4.4.2 Business's responsibility to the environment

According to Zimmerer and Scarborough (1996:32) protecting the environment is a dominant issue for companies worldwide. Companies must learn that sound environmental policies make good business sense and lower their operating costs. Bezuidenhout (2000:263) argues that the best way of dealing with environmental challenges entails that a company must design "clean" manufacturing systems that focus on avoiding waste and pollution. Managers must make environmental considerations a part of any decision right from the beginning and aim to reduce hazardous waste. This means that business must operate in good conditions. It has a duty to promote action for a cleaner environment and by doing so both business and the environment will benefit.

According to the South African Breweries Annual Report (2000) environmental concerns are central to SAB's business. SAB supports the goal of sustainable development. It works towards achieving best international environmental practice and continuously monitors its use of materials, energy and other resources in order to minimize environmental impact. The aim of SAB is to limit or reprocess its effluents, emissions

and wastes. Practically, it rehabilitates resources and promotes re-use and recycling values, both in direct business operations and in the wider community.

SAB has developed its own environmental policy and in order to further this policy, the company, for example:

- Aligns its risk management and control practices to take account of local conditions, while setting minimum standards and improvement targets;
- Continuously monitors the impact of the movement and use of materials, energy, facilities and other resources in its operations on communities and the environment;
- Implements natural resource conservation programmes, particularly of water usage in its brewing operations;
- Adapts and implements technologies to limit and reprocess effluents, emissions and waste, including refrigerants, and to rehabilitate resources as required;
- Locates new facilities within the parameters of environmental impact assessments;
- Communicates openly with stakeholders regarding environmental planning and material impact of related activity;
- As a longer-term goal, develops an environmental management system in its various operations in conformity with the standards of the International Standards Organization;
- Promotes recycling initiatives in its business and the community, particularly of used packaging materials; and

- Contributes financially to selected organizations promoting aspects of environmental awareness and protection.

Protecting the environment must be a central issue for companies and they must learn that sound environmental policies are beneficial to business. It is a duty of business to assume a leadership role in improving the quality of the environment by making environmental considerations and concerns a part of any decision right from the beginning. Companies must prevent, rather than cope with, pollution and waste. Companies must conduct their activities with a complete commitment to avoid destroying the environment and they must make sure that they reduce the impact of effluents and emissions. They must avoid polluting the environment by finding safe and sustainable ways to dispose of residual wastes.

4.4.3 Business's responsibility to its employees

Few other stakeholders are as important to a business as its employees. Robertson and Nicholson (1996:1102) argue that companies in all industries tend to recognize the importance of employees as a major determinant of company success and to mention employees as stakeholders in a general way in their annual reports. Companies who see employees as important stakeholders have to:

- Listen to employees and respect their opinions;
- Ask for employees' input and involve them in the decision-making process;
- Provide regular feedback, positive and negative, to its employees;
- Always tell its employees the truth;
- Let its employees know exactly what is expected of them;
- Reward its employees for performing their jobs well; and

- Create an environment of respect and teamwork.

According to Hooper (1983:15) the goals of each party in the employer/employee relationship lead to mutual obligations and responsibilities. Business today must be sensitive to changing employee perceptions of success, quality of life, and requirements for improved health and safety standards at work. Moral management would recognize and attend to employees' concerns. Employees should be involved in the decision-making in order to identify with the corporate values and goals, thus stimulating their commitment to the organization. They must have equality of access to the information on which proposals or actions are based. Employees as stakeholders should be accommodated in the process of organizational governance. Business must create an environment in which employees may develop their full potential for the benefit of themselves as well as the organization. In order to make employees effective, training must be integrated into a system of setting objectives for employees, assessing their performance, and then taking action to boost their skills.

South African Breweries (2000) states that it is committed to timely, honest and respectful communication and to freedom of expression of its employees. It recognizes the right to freedom of association of its employees and further recognizes trade unions and collective bargaining as a normal part of labour/management relations. With regard to employee diversity, SAB as a corporation declares that it understands and respects the wide range of human diversity in which it operates.

SAB also recognizes that productivity is directly related to the health, safety and welfare of its employees. It promotes continual improvement in health and safety performance through the involvement of employees towards the objectives of the HIV/Aids intervention. SAB has upgraded capability to deal pro-actively with the impact of HIV/Aids and related issues at the workplace. It aims to reduce, through effective education

programmes, the incidence of HIV infection among SAB employees by focusing on behaviour and attitude change and life skills. SAB also provides support to HIV-infected employees and strives to create a sensitive and accommodating culture at the workplace where employees who are HIV infected may feel free to disclose their status and not be discriminated against.

One may say that business should limit surveillance of employees since failure to do so undermines the employees' autonomy. A corporation must be responsible to its employees and treat everyone as an individual; their dignity must be respected and their merit must be considered. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions must be clean, orderly and safe.

4.4.4 Business's responsibility to its customers

Customer satisfaction is the key to the success of a business. Robertson and Nicholson (1996:1100) are of the opinion that a corporation should build long-term relationships with its customers on the basis of mutual trust. Corporations must make sure that customer responsiveness at all stages of manufacturing and marketing is the first priority.

L'Etang (1995:126) argues that it is wrong to use people as a means to one's own needs and that one has an obligation to treat people with care and respect, having regard for each individual's subjective definition of his or her aims and objectives in life. In other words, respect for each individual's autonomy is important to corporate social responsibility. A company's failure to take account of the individual's wishes indicates that it fails to recognize the individual's autonomy.

According to Zimmerer and Scarborough (1996:43-44) socially responsible companies must abide by the consumer bill of rights, first put forward by United States of America President John F. Kennedy, who

stated that customers have the following rights: the right to safety, the right to know, the right to be heard, and the right to education.

4.4.4.1 Right to safety

Safety is the most basic consumer right. Companies have the responsibility to provide their customers with safe, quality products and services. The greatest breach of trust occurs when business produces products that, when properly used, injure or harm customers.

4.4.4.2 Right to know

Customers have the right to honest communication about the products and services they buy and the companies they buy from. In a free market economy, information is one of the most valuable commodities available and customers often depend on companies' information in order to make decisions about price, quality, features and other related factors. A business that fails to give information to its customers or relies on unscrupulous tactics of dishonest or incomplete information may profit in the short term but will not last in the long run.

4.4.4.3 Right to be heard

This customer right suggests that the channels of communication between companies and their customers should run in both directions. Socially responsible business provides customers with mechanisms for resolving complaints about products and services. Some companies have established consumer ombudsmen, hot lines and toll-free numbers to serve customers effectively and to address their questions and complaints.

4.4.4.4 Right to education

Zimmerer and Scarborough continue by saying that socially responsible companies give customers access to educational programmes about their products and services and how to use them properly. Customers must be

able to obtain information about the origin and composition of products so that they can make informed purchases. If products become contaminated or are defective in any way, the corporation has an obligation to provide its customers with such information.

4.5 The role of management towards stakeholders

Management has a responsibility to balance the rights and interests of the corporation's stakeholders in order to ensure and promote corporate welfare. It must look after the health of the corporation and this involves balancing the multiple claims of conflicting stakeholders (Hummels 1998:1412). Managers also have a duty to stakeholders to promote good relationships amongst them. Each of these stakeholders has a right not to be treated as a means to some end, therefore managers must encourage them to participate in determining the future direction of the firm in which they have a stake. Business has positive duties to stakeholders based on stakeholders' interests. Stakeholders are worthy of respect by virtue of their humanity, because they have an interest in the well-being of the firm, and because they have a great say in shaping its future (Gibson 2000:248).

One could argue that the management must create a context in which different stakeholders, for example, employees, communities, customers, suppliers, shareholders and other groups, can interact and create a common purpose. Management must accept a new model of roles reflecting the ability and willingness of the stakeholders to make up their minds and communicate their values and interests. In interaction between the groups management could be the speaker or the final decision-maker. It must give the stakeholders an opportunity to present their moral argument so as to promote good relationships between the two groups. For management to promote social responsibility, it has to give the stakeholders an opportunity to participate in and have an influence on the decision-making. Gibson (2000:245) argues that stakeholders' interests need to be considered. The corporation has a moral duty to every group touched by the institution and its products, and it ought to treat all those groups as moral equals rather than a means to an end.

4.6 Summary

Management's task in today's corporations is to treat all stakeholders as equal. It must refrain from giving primacy to one stakeholder group over another even though there will be times when one group will benefit at the expense of others. In general, the management must keep the relationship among stakeholders in balance. If the relationships become unbalanced, the survival of the firm is in jeopardy.

One may conclude that business ethics is a principle of conduct based on recognized societal values. Business ethics involves the moral values and behavioural standards business people face as they make decisions and solve problems. Managers must consider the ethical and social as well as the economic implications of their decisions. They should promote moral principles that include the following:

- The harm principle;
- The fairness principle;
- The human rights principle;
- The autonomy principle;
- The veracity principle; and
- The inclusivity principle.

Business has a duty of doing well and doing good, that is, to be socially responsible. It has a social responsibility to several key stakeholders, including the environment, employees, customers and the community. Business must abide by the consumer bill of rights, namely:

- The right to safety,
- The right to know;

- The right to be heard, and
- The right to education.

Business owners must address issues such as Aids, product safety, packaging and others. Management has a duty to stakeholders of promoting good relationships between them by giving stakeholders an opportunity to present their moral argument to them.

The interests of all corporate stakeholders need to be given consideration by the company. If their concerns are disregarded, they may damage or halt the company's operations. The key point about corporate stakeholders is that they may, and frequently do, share decision-making power with a company's managers. Their justification for doing so is that they are affected by the company's operations.

The stakeholder model calls for each organization to think carefully about the many different constituencies upon which its activities and performance have an impact. These constituencies include: customers, suppliers, local communities, owners, competitors, regulators and legislators, the natural environment, financial institutions and strategic partners. The ethical issues and responsibilities arising from the relationships with these constituencies should be carefully considered when formulating a company's policy and strategy.

CHAPTER FIVE

RECOMMENDATIONS AND CONCLUSION

The purpose of this study project was to give an answer as to whether business has social responsibility or not. The project has shown different points of view regarding this issue. A review of relevant literature has indicated that some researchers argue that corporations should have the sole purpose of making the most profit for their shareholders and that their pursuit of that goal will be best for the corporations in the long run.

This research has noted that large corporations have gained too much power over too many aspects of people's lives. Consumers are seething about insensitive corporate behaviour because large profits are more important to big companies than developing safe, reliable, quality products for consumers.

Those researchers who disagree with the profit-making motive indicate that companies must start playing by the rules and also consider their social responsibilities rather than to produce more wealth and higher incomes for themselves. Corporate leaders must be sensitive and not only be concerned with profits. They must stop getting big and arrogant and should never lose touch with the community they are supposed to be serving. Corporate leaders owe something to their workers and the communities in which they operate, and they should sometimes sacrifice some of their profit for the sake of making things better for their workers and communities.

This study project shows that corporations need to consider the attitudes of all stakeholders, not just shareholders. Customers, employees, investors and suppliers are very important and their interests need to be taken into account. The following issues should also be taken into account as far as South Africa is concerned.

5.1 Ethics

Ethics has a role in business. Business must be practised in a fair and honest way so that responsibility as an imperative can be seen in action. Ethics requires of business to consider all stakeholders and investors will not invest in a company

that is polluting the earth or is guilty of bad labour practices as they see such a company as unethical. No business can be in practice today without a code of ethics that guides the way its business is conducted. The absence of a code of ethics creates mistrust and undermines support for business decisions and strategy. Every company must have guidelines that determine the way it relates to other companies, its clients and other stakeholders.

A code of ethics is an integral part of business that inspires trust and empowers staff to make decisions and to be held accountable. Such a code facilitates respect among all the members of the company and the clients. It impels business to focus constantly on core business and core relationships, not on unethical profit-making activities. An established code of ethics serves as a guideline for behaviour, ensuring that all dealings, with both other staff members and clients, are conducted according to good principles.

5.2 Legacy of white rule and apartheid in South Africa

In South Africa there remains a lot of unfinished business. Most South African corporations have never exercised their roles of facilitating the economic development of the disadvantaged group. This was orchestrated by previous white governments which failed to honour the rights and aspirations of the black people who make up the majority in South Africa.

Several Acts were implemented in South Africa which demoralized black people and prohibited their entry into business, for example, the 1913 Land Act which restricted black access to land. This was, without a doubt, the single most significant piece of legislation which laid down the basis for racial capitalism, segregation and the economic disempowerment of the blacks. But there were many others, among them the Mines and Works Act (1911) which laid the foundation for the colour bar in the workplace and the Group Areas Act which restricted commercial activity, as well as job reservation and the balkanisation of South Africa into bantustans which further ensured the mental and physical impoverishment of black people.

The results of this deliberate disempowerment were devastating and will be felt for decades to come. Specifically and significantly, some of the consequences of the economic disempowerment of black people have been, for example:

- Lack of capital
- Lack of skills
- Lack of entrepreneurial know-how.

Given the legacy of white rule and apartheid in South Africa which continues to widen the gap between the haves and the have–nots, there must be strategies aimed at bridging this gap. The majority of the poor in South Africa are the blacks. What must be done to reverse this trend?

5.2.1 Steps to be taken to address economic imbalances between whites and blacks in South Africa

The government and corporate structures in South Africa have the social responsibility to address these issues of the economic imbalances of the past. Both parties have the role of creating mechanisms to meet the economic needs of the black community. The means through which this can be achieved are the processes of affirmative action and transformation.

The Employment Equity Act (No.55 of 1998) indicates that affirmative action means measures intended to ensure that suitably qualified employees from designated groups have equal employment opportunities and are equitably represented in all occupational categories and levels of the workforce (South Africa 1998). The Act defines "designated groups" as blacks, women and persons with disabilities, with "blacks" regarded as a generic term including Africans, Coloureds and Indians. Such affirmative action measures must include, for example:

- Identification and elimination of barriers with an adverse impact on designated groups;

- Measures which promote diversity;
- Making reasonable accommodation for people from designated groups; and
- Retention, development and training of designated groups (including skills development).

In terms of the Act a designated employer (government and corporate structures) must implement affirmative action measures for designated groups in order to achieve employment equity. Corporate structures and the government must prepare an employment equity plan and consult with employees on its drafting and implementation. Employment equity strategies that corporate structures and the government have to put in place must ensure training, transfer of skills, mentoring and succession planning.

The transformation of higher education, realisation of tourism potential, creation of a new business organisation and the mobilisation of individuals, especially black professionals, are some of the key areas of transformation that need focus.

Affirmative action and transformation measures can be used to promote or empower blacks. This can also be achieved through black economic empowerment.

5.2.2 Black economic empowerment

According to the *Sunday Times Business Times* (Survey: black economic empowerment 2001:12-13) black economic empowerment is an integrated and socio-coherent process. It is located within the context of the country's national transformation programme, namely the Reconstruction and Development programme. It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens. It seeks to ensure broader and

meaningful participation in the economy by black people to achieve sustainable development and prosperity.

Black economic empowerment means creating space and opportunities for blacks to play their role in the economy. These blacks must be given opportunities because they will add value; they are not being rewarded for being black and having been victims of apartheid. Corporate structures must regard the economic potential of blacks as important so that our economy can grow. Corporate structures that aim to be socially responsible and create black economic empowerment must make sure that there is job creation, rural development, urban renewal, poverty alleviation, specific measures to empower black women, skills and management development, meaningful ownership and access to finance.

5.2.3 Alleviation of poverty

Corporate structures and the government should, if they want to be socially responsible, make it possible to develop strategies that are inclusive, participatory, transparent and accountable in order to ensure value-adding in all delivery initiatives, especially in the area of basic needs. Blacks are disadvantaged in terms of income–generating resources. They are not well trained to command decent wages, they do not own enterprises from which they would generate profits, they do not own land from which they can collect rent and do not have investments from which they can earn interests and dividends.

To be socially responsible, corporate structures must address this structural poverty in an integrated way. They have to:

- Facilitate community development processes and capacity building to address poverty;
- Reintegrate vulnerable people into society; and
- Embark on job creation programmes.

Bethuel Sitai has been cited (Rural development: how to tackle poverty in South Africa 2001:56) as saying that every citizen of South Africa has, for example:

- A right to a basic income and access to a minimal level of economic resources;
- A right to participate in the productive work of society;
- A right to non–discrimination on the basis of gender, race, sex, pregnancy, marital status, ethnic or social origin, colour, age, belief, culture, language and birth in the distribution of income, productive output, and economic resources;
- A right to non–exploitation in all work, in the labour market, and in the informal economy; and
- A right to an equitable distribution of powers and privileges associated with the ownership of productive assets.

In the end one does not need to explore the merits or demerits of the principle of empowerment in South Africa as there is sufficient historical evidence to show that black people were effectively marginalized from meaningful access to the wealth–creation process. Significant economic growth is not possible in South Africa without consideration of black people. But black economic empowerment cannot be taken as a witch-hunt against whites - it should rather be seen as sharing the rewards of growth for which we should all have a common purpose.

5.3 Conclusion

As has been said, the partnership and stakeholder model calls for every organization to carefully consider the impact that its activities and performance may have on many different constituencies.

This is what Murray and Roberts had in mind when it aligned its social involvement strategically with the company's overall strategy. Murray and Roberts hence pursues opportunities to become socially involved in core focus areas such as mathematics, science and technology, education and training, early childhood development, environmental education and the development and upliftment of women.

In the past companies were regarded as "islands in a sea of market relationships" and within this context, employees were regarded as a company's most valuable asset. At a later stage, during the twentieth century, something else was added: the customer became king, and customer service became a priority. Towards the end of the twentieth century a new notion surfaced: the notion of the stakeholder and the view that companies should be good corporate citizens.

The latter was strengthened by what is presently known as the "triple bottom-line" – the obligation of companies to take responsibility for three distinct dimensions of business, namely the financial health of the company and the need to increase shareholders' wealth; the safety of workers and products; and the well-being of the natural and social environment in which companies operate.

The stakeholder model and the concept that companies should be good corporate citizens were excellently propounded by Kofi Annan, the United Nations secretary-general, at the World Economic Forum meeting in Davos, Switzerland, in 1999 where he appealed for private sector help to create "a compact of shared values and principles" to give the global economy a human face (The moral craze: responsible business 1999:4).

"National markets are held together by shared values", he said, adding:

> In the face of economic transition and insecurity, people know that, if the worst comes to the worst, they can rely on the expectation that certain minimum standards will prevail. But in the global market, people do not yet have that confidence. Until they do have it, the global economy will be fragile and vulnerable to backlash from all the `isms' of our post cold-war

> world – protectionism, populism, nationalism, ethnic chauvinism, fanaticism and terrorism.

Kofi Annan was pleading for social responsibility in the global business order. He went on to identify three areas of action: human rights, labour standards and environmental concerns.

The fact of the matter is that a continuation of unchecked irresponsibility regarding ethical and social values will eventually damage the market for everyone, as stated in a recent newspaper report (Giving back makes sense 2001:8). What it boils down to is that social involvement by companies is not a favour extended to society. It is a business imperative and a moral obligation. The so-called post-modern world is a world of the boundary-less firm. And a boundary-less firm has to accept more responsibility than "an island in a sea of market relationships".

The above-mentioned report (Giving back makes sense 2001:8) states it correctly: "Giving makes sense. Social commitment on the part of top names is expected, and reinforces their image, as long as it is sustained." In other words: social involvement and good corporate citizenship are in the interest of business. Social commitment and responsibility is not an optional extra. On the contrary, it is fundamental to being a company with legitimacy.

Given the unparalleled dominance of the private sector in our post-modern world, it should not come as a surprise that the private sector is expected to play a more direct role in economic and social leadership.

With this expectation and challenge in mind, Robert Davies – chief executive of a forum in Britain representing multinational companies committed to promoting socially responsible business practices – states it categorically (The moral craze: responsible business 1999:5):

> Business involvement through the mechanism of partnerships with the public and civil society sectors will be essential as a central part of the

strategy to restore the confidence of business, confidence in business and to share business skills and resources for recovery.

It is therefore necessary to view corporate social investment not as an "extra" but, on the contrary, as an integral part of a company's business plan. Of course a company has to stay in business. Staying in business is in fact an economic imperative as well as a social and moral responsibility. It is when a company is successful that the whole community benefits. For this reason the social goals of the company should be supportive of the goals of business.

To truly add value to society, to facilitate development, a corporate social investment (CSI) programme should be based on well-founded guidelines, and applied in the light of clear priorities. Transnet, well known for its social involvement, lists the following guidelines in its Annual Report (2001):

1. Give priority to the disadvantaged communities.
2. Suit the project to the region or culture.
3. Concentrate on basic developmental needs.
4. Target your employee community.
5. Involve your employees in CSI.
6. Partner with communities.
7. Partner with the Government at all levels.
8. Innovate and adapt to solve needs.

These guidelines imply that the company is prepared to treat corporate social involvement as a business imperative and moral obligation. Companies should, moreover, include reports on their corporate citizenship and social involvement in their annual reports. These reports should be as thoroughly scrutinized as the financial reports. It is even suggested that companies should be publicly rated in

terms of a set of agreed principles on the quality and depth of their corporate citizenship.

The move towards a stakeholder approach is a bid for social responsibility in business. In applying the stakeholder approach, South African companies will invert the reasoning of the traditional corporate planner's scanning of the business environment. As David Murray (1997:51) contends: "The organization now asks not only, `What effect will these have on us?', but also, `What impact will we have on these?' "

The stakeholder approach will, moreover, bring South African companies in line with what is happening in major developed countries of the world: the move towards integrated performance measurement. In this respect the assessment for the Malcolm Baldrige quality award serves as an example. It is most probably the highest prestige corporate award in the USA. The Baldrige model, according to David Murray (1997:52), does not consider an organization to be high-performing if its performance is "high" only in financial terms for the benefit of the shareholders while the interests of other stakeholders are being ignored. Strict business results account for only 30 percent of the total possible results marking. The other 70 percent of outputs are listed under the headings "People satisfaction", "Customer satisfaction" and "Impact on society".

In South Africa a trend towards a more integrated performance measurement is emerging, albeit slowly and not on a wide front. A competition "Investing in the future" – run as a partnership between the *Mail and Guardian* newspaper and the South African Grantmaker's Association (Sage) - is indicative of attempts at more comprehensive and integrated evaluation of performance. However, only a total of 38 companies, foundations and NGOs entered the competition in 2001. There is still some distance to go in South Africa. Although such factors as the impact of business on society and the natural environment are considered in the evaluation of performance, there is a tendency to view these factors as somewhat distinct from "business performance". Some business leaders and managers still think of these "non-business" factors as "add-ons".

The stakeholder approach has another important consequence for management. As part of the social responsibility of the company, the question needs to be posed: is it enough only to take note of the interests of stakeholders without giving them a voice in the decision-making process? Or should they be given a say in order to facilitate an integrated strategy and decision-making process?

A consistent application of the ethical principles inherent in the stakeholder model undermines a paternalistic decision-making process by whoever has the power or the authority to take decisions. Stakeholders should not only be taken account of. They should be given a voice – albeit that stakeholder claims are usually asymmetrical: they apply only when self-interest and commitment to certain causes are at stake.

Grace and Cohen (1995:74) grasp the significance of the stakeholder approach quite well when they state:

> The virtue of the stakeholder concept is to remind managers, investors and others with a large vested interest in business organizations that a market economy is not an unrestricted one; that a free society makes demands on its citizens not only in a personal sense but as members of social institutions. ...business operates on behalf of society and the free market economy is deemed to provide the most successful way of producing public benefits through business. The concept can be used then as a useful corrective to the mentality which sees the market as the solution to all life's problems.

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