Sustainability in emerging markets: Lessons from South Africa

Sustainability can no longer be considered apart from an organisation’s core strategy. Addressing the triple bottom line – the economic, social and environmental outcomes – within business has key implications for long-term success. This briefing offers an overview of the growing importance of sustainability issues and their impact within emerging markets. It then focuses on South Africa, often cited as a leader in corporate responsibility, in a feature from a leading local journalist.
Whilst the world’s population is increasing, we continue to use the natural assets of planet earth faster than nature can regenerate them. Consequently, companies cannot carry on business as usual and have to learn to make more with less. They have to integrate the sustainability issues pertinent to their businesses into their long-term strategies and communicate to their stakeholders the positive and negative impacts which their operations have, socially, environmentally and financially. This report is a valuable step in the ascending path towards changing existing mindsets.

Professor Mervyn King
Chairman of the Global Reporting Initiative.
About CIMA

CIMA, the Chartered Institute of Management Accountants, founded in 1919, is the world’s leading and largest professional body of management accountants. With more than 172,000 members and students operating in 168 countries, CIMA works at the heart of business, in industry, commerce, public sector and other not-for-profit organisations. Partnering directly with employers, CIMA sponsors leading-edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure that it remains the employers’ choice when recruiting financially trained business leaders.

CIMA is committed to upholding the highest ethical and professional standards of members and students and to maintaining public confidence in management accountancy. CIMA believes that sustainability is a key issue for all organisations across the world and is committed to supporting its members and students in addressing this challenge. For more information, please see www.cimaglobal.com/sustainability and www.cimaglobal.com/ethics

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Conclusions

1. Sustainability issues are no longer just a concern for major multinational corporations, but for all organisations.

2. Sustainability in leading organisations is now seen as a business imperative and part of core strategy, not as a side issue.

3. Sustainability issues are now widely recognised as creating competitive advantage.

4. Countries are at different levels of both understanding and implementing sustainability strategy.

5. Emerging markets are increasingly engaging with the agenda and, in some instances, leading.

6. There is a need for developing appropriate skills and leadership to embed sustainability issues into strategy and operations.

7. Global regulations, standards and initiatives are increasing in influence.

8. Regulation and reporting alone cannot integrate sustainability into operations, nor have the desired results – corporate culture and leadership are key.
Recommendations

1. Senior management should review their approach to sustainability issues and benchmark against similar organisations globally, in order to further knowledge, build capacity and strengthen position.

2. Boards of organisations need to factor in sustainability issues into their decision making and strategy setting.

3. Both risk and opportunities related to sustainability should be first reviewed when addressing strategy and then followed up by effective performance management.

4. Management accountants, their employers and related global bodies, together with civil society, need to work together to integrate sustainability issues into organisations.

5. Management accountants have a key role in providing sustainability related information to support strategy and decision making, but they need to update their skills and knowledge to help devise and implement processes for integrating sustainability issues into their organisations.

6. Management accountants should familiarise themselves with both local and global legislation and regulation relating to sustainability issues.

7. CIMA members and students, by upholding their Code of Ethics, are well placed to champion the business ethics principles that lend themselves to successful sustainability strategies.
This background report traces both the emergence of corporate responsibility issues as well as their impact in emerging markets. It is followed by a feature which focuses on one of the countries that has enjoyed a high reputation in relation to sustainability – South Africa. Journalist and broadcaster Chris Gibbons takes a closer look at corporate social responsibility issues, at a time when the world’s eyes have been on the continent. This has not only been because this leading African economy hosted the World Cup in 2010, but also the unprecedented growth in the other territories within the African market – a region where disparity and social needs are often highest.

Introduction:

There is no doubt that there has been a significant shift in the way that companies – of all sizes, of all sectors and in all locations – view corporate responsibility. Leading organisations no longer view the challenges narrowly in terms of risk mitigation or brand enhancement. Instead they see the complexities as providing opportunities for innovation as well as enhancing consumer, investor and wider public relationships which, in turn, contribute directly to the overall sustainability of the business. Sustainability is rising up the agenda globally, with governments, organisations and, notably, the media and wider public paying attention.

Sustainability issues – the economic, social and environmental impact a company makes, and the impact in turn made upon the company – are now high priority in the ‘C suite.’ Accenture and UN Global Compact’s report released in June 2010 found that ‘93% of leading Global CEOs saw sustainability issues as critical to the future success of their business.’1

The challenge is in both creating and embedding the management systems that inform and support the improvement of resource use, enhance external engagement and positioning (profile and brand) and enable assessment of long-term value. In doing so, arguably, business will not only raise its standing with external stakeholders, by contributing to social and economic wellbeing, but also in turn sustain the profits it is tasked to generate.

The education and training of accountants in addressing such issues, in being able to track and manage sustainability’s impact on core business drivers and to create the related metrics, is an increasing priority. The focus from the outside world will shift from observing whether a company reports externally on sustainability information to the actual impacts the company has made, negatively and positively, and how sustainability information is used in decision making throughout the business. A mismatch can have high costs – as BP discovered in 2010.

A key challenge is to ensure that sustainability risk and opportunities are addressed first when determining strategy, followed by performance management. Reporting should be about progress towards implementing and achieving a strategy in which sustainability is fully integrated.2

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1 UN Global Compact/Accenture’s study (2010) New Era of Sustainability may be viewed at: www.unglobalcompact.org/docs/news_events/8.1/UNGC_Accenture_CEO_Study_2010.pdf
2 CIMA Topic Gateway: Sustainability (2009)
Companies, in South Africa and globally, have still to make the leap from reporting to using corporate sustainability information in management and strategic decision making. As CIMA found in a comparative study of Australian and UK firms ‘whilst many companies were providing some information on social and environmental performance, a limited number of issues were covered and many organisations failed to provide insight into how they were incorporating the information into management decision making’. The pressure is still on to embed sustainability considerations into mainstream management practice and to develop the skills and information to enable this to happen.

From philanthropy to sustainability

In some ways, addressing value with a wider community lens is nothing new. The enduring corporate names of Unilever, Johnson & Johnson and Tata, for example, have always aligned themselves closely with corporate values and ethics (see box 1, p8).

At their best, businesses create value by creating and innovating products and services needed by the public, producing jobs, skills, markets and tax revenue – fundamental to economic and social development as a whole. At their worst they pollute and deplete environments, exploit workers and economies and undermine global markets, societies and, in turn, financial stability.

It has been in the past 20 years or so that there has been a real groundswell of interest and engagement. Ironically, this has also been at a time when there appears to have been, in some quarters, systematic abuse of the very principles that legitimised the market economy – poor internal governance, regulatory failures and weak corporate leadership.

The financial crisis has brought sustainability issues into an even brighter light. The proliferation of the multinational firm from the 1960s onwards, the deepening of globalisation and the formalising of international trade rules married with the growth of rapid urbanisation, resource limitations, information flows, consumer demands and business regulation have turned companies’ attention to their social impact and overall responsibility in relation to business ethics.

From the 1990s onwards there has been an increase in corporate liability and litigation, condemnation of financial mismanagement and fraud, attention on poor labour practices and human rights abuses, on widespread social inequality and a recognition of the severity of environmental challenges we all face. The explosion of social media and communication channels means no company can hide, and this will only intensify.

It wasn’t actually until the late 1990s that companies first started reporting on ethical performance – notably Shell in 1998, widely recognised as a response to the Brent Spar disaster and the scandals around the death of environmental activist Ken Saro-Wiwa in Nigeria. Formal attention to corporate social responsibility (CSR) strengthened from 2000 onwards, with a growing recognition of a number of global voluntary regulations, codes, guidelines and initiatives, such as the Global Reporting Initiative (GRI), the UN Global Compact, the Principles for Responsible Investment (PRI), the redrafted Organisation of Economic Co-operation and Development (OECD) guidelines for multinational enterprises, the Dow Jones sustainability index and, most recently in August 2010 – with direct implications for accountants and finance professionals – the International Integrated Reporting Committee (IIRC), a collaboration of GRI and the Prince of Wales Accounting for Sustainability project (A4S) with input from the main accounting bodies and other key stakeholders (see box 3, p18).

At the same time emerging markets were rapidly changing their profile, from being centres for manufacturing and low cost labour to burgeoning markets, consumer bases and investment targets, as well as global investors in their own rights.

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1 Adams and Frost, (2006) Accounting for ethical, social, environmental and economic issues: towards an integrated approach, CIMA may be viewed at: www.cimaglobal.com/sustainability
Box 1 – company profiles:

**Tata Group** – established in 1868 as a trading company in Bombay, Jamsetji Nusserwanji Tata helped pave the path to industrialisation in India by seeding pioneering businesses in sectors such as steel, energy, textiles and hospitality. A committed philanthropist, he established the JN Tata Endowment to encourage Indian scholars to take up higher education. It was the first of a number of philanthropic initiatives by the Tata Group. Over generations, members of the Tata family have bequeathed much of their personal wealth to the many trusts they have created. In July 2010 the Tata Group had a market capitalisation of $78.4BN and a presence in every major international market. The multitude of social development and environment initiatives Tata has nurtured from its earliest days flows from a wellspring of voluntary, as opposed to obligatory, commitment. Today it is looked to as setting the pace in regard to sustainability initiatives in India and beyond. [www.tata.com](http://www.tata.com)

**Johnson & Johnson** – founded at the end of the 19th century in the United States, its initial vision was the use of sterile sutures, dressings and bandages to treat wounds. In 1943, just before J&J became a publicly traded company, its chairman, Robin Wood Johnson, introduced the firm’s credo, which still stands today. The credo outlines responsibility to consumers and employees, as well as the communities both in which it works and the wider world, as well as to stockholders. It is seen as more than just a moral compass, it is believed internally as the platform for business success. [www.jnj.com](http://www.jnj.com)

**Unilever** – When Lancashire born William Hesketh Lever, founder of Lever brothers (and first president of the Institute of Cost and Works Accountants, later to be CIMA) wrote down his ideas for Sunlight soap in the 1890s it was to ‘make cleanliness commonplace, to foster health and contribute to personal attractiveness, that life may be more enjoyable and rewarding for the people who use our products.’ The founding business set up projects to improve the lot of its workers and created products with a positive social impact. Today Unilever’s vision is to develop new ways of doing business with the aim of doubling the size of the company while reducing its environmental impact. It believes success means acting with the highest standard of corporate behaviours. Unilever is regarded as both a role model and global innovator in sustainability initiatives. [www.unilever.com](http://www.unilever.com)

Source: company websites

**Sustainability and investment**

More and more mainstream global investors (in addition to ‘ethically’ focused funds, which have grown dramatically in the past decade) are now using environmental, social and governance criteria to inform their investment decisions. A report on this growth in 2009 by consulting firm Business for Social Responsibility, asserted that ‘the incorporation of ESG (economic, social and green) criteria into investment analysis is based on the belief that such issues drive financial returns.’ The report also acknowledges that traditional metrics are no longer sufficient to predict long-term sustainable performance and share price. The signatories to the PRI have soared. Similarly, the number of companies adopting the GRI framework has grown year on year – with recent endorsement by a number of emerging market companies.

Today we can see that inward investment flows into emerging and developing economies also increasingly have an impact on wider decisions. The Emerging Markets Disclosure project, (an initiative of the Social Investment Forum), created benchmark data in 2008 on sustainability reporting in several emerging economies across the key sectors of energy, materials and telecommunications. 87% offer at least a level of sustainability disclosure – with South African companies showing as the overall leaders.

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5 The Emerging Markets Disclosure project may be viewed at [www.socialinvest.org/projects/iwg/emdp.cfm](http://www.socialinvest.org/projects/iwg/emdp.cfm)
Sustainability and the emerging economies

In many of the emerging economies, the leading companies are now factoring sustainability issues into their operations. Comparative global research on emerging markets undertaken by Jeremy Baskin, Australia Director of the Cambridge University Programme for Sustainability Leadership, showed that in the BRICS grouping (Brazil, Russia, India, China and South Africa), South African companies scored highest overall on corporate reporting – with notably higher scores than the European company average: 7.2 against 6.3. While India and Brazil score well, Russia and China lagged significantly behind (see chart below).

The understanding from this research is that the overall take up of corporate responsibility (CR) is not lower in emerging markets than in developed economies – although there are vast differences between countries and subject areas. It is seen that CR flourishes in emerging economies where, among other factors: it is internally driven; has companies with global aspirations; there are high levels of poverty/inequality; and, critically, an active and informed civil society.

In relation to local regulations, guidelines and their influence, the King reports and the focus on governance had a critical role to play in the South Africa context (see box 2 below).

![Comparative BRICS Scores on corporate reporting](chart.png)

**Box 2 – The king of corporate governance codes**

From its inception in 1994, the King Committee, led by lawyer and former judge Mervyn King, determined that South Africa would be at the forefront of corporate governance internationally. What singled out its approach from the start was its broad view of corporate governance around the key themes of leadership, sustainability and corporate citizenship. The current third version of the code, King III, was published in 2009 and gives corporate citizenship more credence and concrete expression than ever before. No other governance code emphasises ethics and citizenship so explicitly and in such an up-front manner. Governance, strategy and sustainability are viewed as inseparable – as highlighted by the new requirement to integrate sustainability reporting with financial reporting. Another innovation is that the code now applies to all entities – whatever the sector.

As global regulations, standards and initiatives gain further momentum it is recognised that these trends will both accelerate and deepen – which will have consequences on the need for skills and understanding of the issues, not only in emerging economies but worldwide.

CIMA seeks to work with members, their employers and other bodies globally to integrate sustainability issues into businesses around the world, through thought leadership, events and round tables and further introduction of sustainability issues into the qualification.

As many management accountants hold senior positions within organisations, they have a key role in influencing strategic direction. Others are in roles where they provide the business intelligence needed for strategic and operational decision making and understanding. CIMA now regards sustainability as firmly on the agenda for management accountants, in both understanding the issues and helping the development of tools and systems to facilitate this.

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Market overviews

India and China, two economic powerhouses, are markets in which CIMA has seen significant growth but which have different positions in regards to the sustainability agenda. South Africa, one of CIMA’s more long established markets and the focus of the second half of this report, is often seen as a leader in sustainability reporting.

India

Many of India’s leading companies, such as Tata, which were built on industrial family dynasties, already had a deeply rooted sense of social responsibility, based on strong community and patriarchal traditions. Newer corporations, particularly those in knowledge based industries such as Infosys and Dr Reddy’s, focus on maximising the positive impact in wider society as part of their corporate development. However in 2009 only two Indian companies had submitted GRI reports or were signed up to the UNPRI. At the macro level, the Indian government is now increasingly issuing guidelines and regulations. In December 2009 the Ministry of Corporate Affairs published draft voluntary corporate responsibility guidelines covering areas such as the environment, human rights, workplace rights and social development, as well as releasing guidelines for corporate governance – including risk management and systems to ensure legal compliance. Such developments, together with an increase in focus on sustainability within the larger corporations and the recent influx into the Indian market of global corporate responsibility agencies and consultancies, indicate that sustainability is becoming increasingly strategic and professionalised.

China

As China’s markets opened from the 1990s onwards, the country’s exposure to CSR came mainly from the activities of the foreign multinationals, particularly in relation to manufacture audit. The ideas that underpinned CSR were very new. As CSR projects and activities evolved from 2000 onwards, concepts around CSR became increasingly popular, with government actively exploring policy and research related to the issues. It can now be seen that China is moving from only just developing an understanding of the concepts towards implementation and evaluation of CSR initiatives. However, it is also widely recognised that China’s evolving notion of CSR ‘will have its own set of caveats and distinctive parameters.’ China still views CSR in terms of either legal compliance or corporate philanthropy – at odds to the approach of many of the foreign investors, who rely a great deal on stakeholder engagement, the needs of civil society and the strategic imperative. China is still at the early stages of the journey, but is moving faster along this route. The recent protests and uprisings from Chinese workers forces change and both the Chinese government and the global firms which have been opposing new labour laws will face increasing scrutiny. Growing media coverage, more publications and conferences on sustainability and the role modelling of enlightened companies, including some of the larger Chinese corporations which are active in global markets, will hopefully help embed new thinking.

One such example is Lenovo, the global Chinese IT company, which in addition to its stated commitment to quality and safety for products, employee welfare, the management of a global supply chain, ethical corporate behaviour, social investments and environmental affairs, recently ran a nationwide competition in China offering funding, guidance and training to young entrepreneurs (see www.lenovo.com).

7 Ethical Corporation (March 2010), Country Briefing China, 25-34


South Africa

South Africa continues to be singled out in comparative studies on CSR/sustainability in emerging markets as a leader. Regionally, investment return in the African continent as a whole is increasing, with McKinsey Quarterly reporting that real gross domestic product rose by 4.9% a year from 2000 to 2008, doubling the pace of the preceding decades. ‘Telecommunications, banking and retailing are flourishing. Construction is booming. Private investment inflows are surging.’ Part of the growth has been encouraged by government action to improve macroeconomic and microeconomic conditions and to adopt policies for trade and the markets, including strengthening regulatory and legal systems. Government also has had a policy of black economic empowerment (BEE Act 2003) as part of a pragmatic growth strategy that aims to realise the country’s full economic potential. Codes of good practice are binding on all state bodies and private companies – and has a focus on ‘historically disadvantaged people and particularly black people, women, youth, the disabled and rural communities.’

South Africa is not only one of the continent’s most advanced economies, it is also recognised as one of the leaders globally in introducing regulation and reporting – so it is no wonder it ranks so highly. It is one of only five countries worldwide that has laws on whistleblowing. In the extractive industries, South Africa is yet to sign up to the EITI (Extractive Industry Transparency Initiative) although the initiative was launched in Johannesburg in 2002. It is argued that South Africa already has in place extractive sector payments and receipts policies, legislation and practices. There are, however calls for government to set an example, share knowledge and show further commitment to transparency and anti-corruption by signing up. As of June 2010, with the publication of King III (see box 2, p9), all companies listed on the Johannesburg Stock Exchange are required to produce an integrated report in place of separate annual financial and sustainability reports – a world first – with integrated reporting now the focus of the newly formed IIRC (see box 3, p18). The development of the series of King reports – critical work on corporate governance – are seen as key milestones. The first, in 1994, was regarded as being ahead of its time in adopting an integrated and inclusive approach to the business life of companies, embracing stakeholders other than shareholders. After the Enron and WorldCom debacles, the second report, issued in 2002, was liberally quoted in the US Congress and certain aspects of it were adopted by the New York Stock Exchange and incorporated into the Sarbanes-Oxley Act. However, there is still a wide gap between the stated regulation, the level and quality of reporting and the actual implementation and influence on strategic decision making.

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8 Leke et al, (2010, June) What’s driving Africa’s growth, McKinseyquarterly.com
9 [www.southafrica.info/business/trends/empowerment/be](http://www.southafrica.info/business/trends/empowerment/be)
10 Natural Resource revenue governance – the EITI and South Africa [www.polity.org.za](http://www.polity.org.za)
In South Africa, encouraged by legislation that calls for sustainability reporting, some companies are finding ways to meet obligations that go beyond share price and dividends. They are investing in programmes that promote employee health, finding ways to create sustainable operations and looking at general employee wellbeing. Executed correctly, many corporations discover that these initiatives have a clear impact on corporate health and profitability.

Impahla Clothing is one example. The road leading to Impahla’s factory in the Cape Town suburb of Maitland attests to the decline of a once powerful textile industry. The chipped and falling plaster, cracked windows and rubble strewn gutters are the remains of a sector that employed generations of families – mainly women – before cheap Chinese imports, a stronger rand and market liberalisation gutted the domestic industry. The Southern African Clothing and Textile Workers Union estimates that as many as 70,000 jobs have been lost in the sector since 2003.

In this neighbourhood, Impahla’s bright, freshly painted premises stand in sharp contrast. In part by embracing ideas on corporate sustainability spelled out by the Global Reporting Initiative (GRI – see box 3, p18), an Amsterdam based group that aspires to set the standards for responsible reporting, the textile company has been growing rapidly. William Hughes, co-owner and managing director, said Impahla, a privately held company, has more than doubled its personnel since 2004, from 88 to 180 workers, and is likely to take on another 60 workers once plant expansion plans are complete.

In modern corporations, few managers would disagree that company obligations go beyond programmes with a direct impact on profitability. But a new myopia – this one focused on corporate social responsibility – is not the answer. After all, managers have clear legal and moral obligations to the corporate owners, whether a small group of individuals or a large pool of shareholders, to produce appropriate returns on their investments. The answer, instead, is a balanced view that incorporates the rights of all stakeholders, including owners, employees and the community. As Daylian Cain of the Yale School of Management noted in a 2009 article in The Wall Street Journal, ‘The real question is can you ever care about anything other than maximising profits?’

The search for balance

Throughout the industrial age, some managers have tried to answer Cain’s question with an absolute ‘yes.’ At the end of the 19th century and into the early 20th, some of the giants of industry placed happy, well paid workers on a par with quality products in their models for success, creating workers’ utopias and raising pay scales. Food entrepreneur Henry John Heinz offered workers in his factory outside Pittsburgh free medical care, private lockers, a library, a swimming pool and piano music in the cafeteria.
Henry Ford, the automotive innovator, famously gave his factory workers salaries that were generous for the time – enough, he said, for them to buy the cars they made – and a profit sharing scheme based on good behaviour in and out of the factory. His concerns for his employees, dubbed ‘welfare capitalism’, reached such a level that minority shareholders John and Horace Dodge sued to dislodge some of the company’s profits. Asked at the trial about his model, Ford said his company was ‘organised to do as much good as we can, everywhere, for everybody concerned... And, incidentally, make money.’ If you gave workers a good wage and sold inexpensive cars ‘the money will fall into your hands’, he testified. The Dodge brothers won their suit when the Michigan Supreme Court ruled in 1919 that Ford could not be run as a charity, and they used the extra dividends released by the judgment to start a rival car company.

The focus on shareholders’ rights and, as an extension, value creation would sharpen throughout the century, culminating in a 1970 article in *The New York Times* by Milton Friedman, who would later win a Nobel Prize for Economics. In *The Social Responsibility of Business is to Increase its Profits*, Friedman warned that those advocating corporate responsibility were ‘preaching pure and unadulterated socialism.’ He concluded with a line from his book *Capitalism and Freedom*: ‘There is one and only one social responsibility of business – to use its resources to engage in activities designed to increase its profits so long as it stays within the rules of the game.’

But as the 21st century began, corporate social responsibility was clearly at the top of management agendas. Charles Handy, a respected management thinker, wrote in the *Harvard Business Review* in 2002: ‘A good business is a community with a purpose, and a community is not something to be owned.’ He added a business should ‘take the lead in areas such as environmental and social sustainability, instead of forever letting itself be pushed onto the defensive.’ Two other top management strategists, Michael Porter and Mark Kramer, wrote in the same edition of the *Review*, ‘Companies do not function in isolation from the society around them... In the long run, then, social and economic goals are not inherently conflicting but integrally connected. Productivity depends on having workers who are educated, safe, healthy, decently housed, and motivated by a sense of opportunity.’

The debate continues, with The Economist writing in 2008: ‘[An executive’s] job is to make money for shareholders. It is irresponsible for them to sacrifice profits in the (sometimes vain) pursuit of goodness.’ But the article also noted, to the editors’ disappointment, ‘Clearly CSR has arrived.’ Only 4% of the respondents in an Economist Intelligence Unit survey felt corporate social responsibility was ‘a waste of time and money’, it said.

Against this background, some South African companies are making inroads into finding the balance of caring for employees and their community and being profitable as well. For companies listed on the Johannesburg Stock Exchange, the effort is encouraged by new rules in 2010 that require companies to publish an integrated report that combines financial and sustainability reports. The change follows the latest report from a corporate governance committee headed by respected academic and former judge Mervyn King, (see box 2, p9) which called for companies to report on the impact their operations have on their community and how they intend to enhance the positive impact and mitigate the negative impact over the coming year.
A focus on employee health

Health is one area in which the profit motive and corporate social responsibility clearly intersect. Looking at HIV/AIDS alone, the World Bank warned in 2003 that the country could face ‘complete economic collapse... within four generations’ if the epidemic were not reversed, while a 2006 report by South Africa’s Bureau of Economic Research estimated a more conservative 10% drop in GDP by 2020 because of the epidemic. Companies face significant costs from absenteeism and other effects. Often companies train two workers for each position in an attempt to ensure continuity. The prevalence of HIV/AIDS in Sub-Saharan Africa is higher than any other region in the world, and in South Africa in 2007 an estimated 5.7 million people were living with HIV, an 18% prevalence rate, according to UNAIDS.

In 2004, Johannesburg based fabric and wallpaper distribution specialist St Leger & Viney was among the first small- and medium-sized businesses in South Africa to face the epidemic head-on. CEO and co-founder Gary Searle said: ‘The main consideration was really the welfare of the people that I work with.’ Attention to the problem became focused after a well regarded staff member died of AIDS, he said, and the company contributed to the woman’s funeral expenses and helped with her children’s welfare. ‘The next thing, I was asked to come down to reception. The grandmother [of the children] had brought the children through on the bus to thank us for the contribution we had made,’ he continued. ‘It made me very aware in a very poignant way of how difficult people’s lives had become as a result of what was going on with AIDS.’

St Leger & Viney, which was honoured by the South African business coalition for its HIV/AIDS work, is privately held with about 60 employees and annual sales of between 70 million and 120 million rand (about $7.4M to $12.6M). As part of its programme, the company appointed an HIV champion to spearhead a campaign to educate the staff about HIV testing. In addition, the company participated in the government’s programmes to offer anti-retroviral drugs through state clinics, and invited nurses to discuss the epidemic with the staff. ‘What I wanted to ensure was that nobody was unaware of how you contracted HIV, or what the repercussions were, and what needed to be done if you did find yourself in the position that you were HIV positive,’ Searle said.

The HIV/AIDS effort at St Leger & Viney has since evolved into a broader wellness campaign that covers other key issues, such as diabetes and heart disease. The company and staff also work with the Topsy Foundation, which attempts to keep AIDS orphans integrated within society. ‘A whole lot of staff, families and I went to the Topsy House to spend a day with the orphans, learning, playing, having a picnic with them and giving them presents,’ Searle said. A warehouseman who drove with Seale to the Topsy House mentioned that the outing gave him a reason for bringing up AIDS with his family without them thinking he might have an ulterior motive for broaching the topic. ‘One can measure the effect,’ Searle said. ‘People start to discuss it, to look at the issues. It all just becomes so much more understandable.’

On a much larger scale, AngloGold Ashanti, the world’s third largest gold mining company, also targets HIV/AIDS as part of an overall effort to improve employee health and eliminate job related deaths. The company has promoted voluntary testing and counselling for HIV/AIDS throughout its organisation and reported that 87% of the workforce has been tested, the company reported in its 2009 Sustainability Review. In addition, it reported in the review, almost nine out of ten of those who tested positive are receiving anti-retroviral drugs. Lung disease is also common among miners, and AngloGold Ashanti’s programme also includes efforts to combat silicosis and tuberculosis. Although tuberculosis prevalence with the company continues to rise, rates of silicosis have dropped from seven per 1,000 workers in 2007 to 3.5 per 1,000 in 2009, the company also reported.

Mining is a dangerous occupation, and AngloGold Ashanti is also focusing on eliminating on-the-job deaths. CEO Mark Cutifani wrote in the Sustainability Review: ‘In 2009 we lost 16 of our colleagues... We cannot continue to operate sustainably with such an unacceptable toll on our people, people who leave their families in trust to work
with us each day... The elimination of fatal accidents is our most important business goal and we continue to work towards this objective.’

Along with the human costs, the economic impact for fatal accidents and illnesses cost AngloGold Ashanti substantial amounts, as regulators are quick to close shafts for days or weeks during an investigation, or productivity is lost through health related absences. The Sustainability Review said the company, with annual turnover of more than $3.9BN, spends nearly $11M on direct social investments, although accident prevention is not part of this. However, the company also invests in other programmes that include efforts to reduce all injuries, to prevent hearing loss and to encourage employee commitment to its wellness programme.

**Sustainable practices**

Some South African companies are also taking the lead in issuing, sustainability reports, highlighting efforts to become net contributors to the community. Returning to Impahla Clothing, which is a major supplier of global sportswear brand Puma, managing director Hughes emphasises that such reports go well beyond good public relations or marketing. ‘I am not looking for customers; I do not have the capacity,’ he said. ‘But having said that... [Puma wants] to make all their strategic suppliers do a sustainability report because of our example. It was not a condition of doing business, but it was something that was suggested. We grasped it and have taken it on board. Our staff also love the report.’ Puma and the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), a German organisation that promotes sustainable development, helped Impahla initiate its sustainability reports.

Impahla has embraced the reports because of a corporate commitment to its goals, Hughes said. ‘We are now carbon neutral and have taken out our debt to the environment,’ he said. ‘We’ve done it for ourselves, not to impress anybody.’ Still, he noted, stakeholders, including Impahla’s bank, appreciate the reports and the reports have helped ease relations with various agencies, including the national Department of Trade and Industry, with whom they are discussing a solar energy project.

The sustainability reports also provide an additional, less obvious benefit, the executive continued. They have introduced new rigour to the company’s reporting process within its management and measurement systems. ‘It forces you to look at things differently,’ he said, pointing to areas such as cost controls for water and electricity usage. The rigour has also allowed the company to examine productivity issues more closely and revealed, for example,
that the company was losing about 2% in production time as a result of poor staff timekeeping. With this new data, the company was able to negotiate that half a percentage point in its workers’ annual raise be set aside as an incentive bonus for on-time arrivals. ‘It’s an all-or-nothing incentive, with a target of one percent,’ he said. ‘If we hit that target, everyone gets the bonus; if we don’t, no one gets it. There are big benefits to all of us from the attention to detail.’ A similar measure was introduced to counter unwarranted sick leave.

Hughes continued: ‘You can definitely crunch the numbers a bit more closely. You can track the efficiencies, look in our report at things like electricity usage and late coming.’ But he stressed that the benefits reach beyond the bottom line. ‘If you become sustainable by, say, reducing your electricity consumption, relying less on the grid, there is more now for the rest of the nation. There’s a long-term benefit which you can’t measure in rands and cents.’

Sustainability encompasses much more than energy efficiency, of course, and companies are also finding ways to conserve other vital resources. SABMiller, the descendent of beer giant South Africa Breweries, has embarked on a number of initiatives to promote sustainability of the water supply. ‘As a brewer with water as one of its primary ingredients, we are aware of water being a limited resource, not only in South Africa but the world over,’ said spokeswoman Robyn Chalmers. ‘Water is one of SAB’s top three global sustainable development priorities under the company’s environmental policy.’ In one part of its effort, SAB has joined the Worldwide Fund’s Water Neutral Scheme. As a partner in the effort, the brewery monitors and reduces its operational water consumption and offsets its usage through a river revitalisation programme. The river programme, as well as creating jobs, clears catchment areas of alien vegetation, releasing water back into the ecosystem and reclaiming the river area. Overall in South Africa, the target is to reduce water consumption by 10%.

‘We believe that our sustainable community investment has the potential to develop healthy communities and a healthy nation, which will in turn contribute to economic growth in South Africa,’ Chalmers said. ‘SAB is in the process of putting together effective monitoring and evaluation tools that will help produce impact assessment feedback on our social impact.’
Sustainable worker communities

Companies are also revisiting an idea from the late 19th century, when some industrialists created company towns that housed their workers and often offered other facilities such as churches, schools and shops. In South Africa, Exxaro, the country’s largest coal producer, is investing 590 million rand (about $62M) to accommodate workers in Lephalale, a remote town near the Botswana border. Lephalale is the epicentre of South Africa’s efforts to expand power generation. Eskom, the country’s electricity supplier, is building a coal fired, 4,800-megawatt station there, which when completed will be the world’s largest dry cooled power station, and two other projects are slated nearby.

Lephalale is dominated by massive coal seams. Exxaro’s Grootgeluk mine digs into the seam and, when a 9.5 billion rand ($1BN) expansion is completed, it will be the world’s biggest coal operation.

To facilitate the expansion and attend to the workers needed at the mines, Exxaro will build almost 800 houses in Lephalale for the workforce. Ernst Venter, Exxaro’s general manager for business growth, said: ‘What’s quite interesting is that we have opted to build the houses as eco-friendly as possible, in light of the national drive for energy efficiency, as well as Exxaro’s commitment to sustainability. The new homes will incorporate the efficient use of renewable energy such as solar powered geysers, solar architecture, evaporative cooling units and energy efficient appliances.’

Venter said sustainability efforts are also included in the expansion, with the new operations designed as zero affluent mines that will minimise their carbon footprint.

Conclusion

Without question, corporate social responsibility should not eclipse a company’s determination to bring in profit. Owners have a right to a fair return on their investments, but other stakeholders – employees, neighbours, governments – also have legitimate claims on a company’s agenda. Corporate obligations are more complex than a single minded pursuit of equity value. A handful of companies in South Africa are showing that Henry Ford was not far from wrong: build good products (or services) and treat employees well and more often than not, profits will follow.
Box 3: Examples of global sustainability initiatives:

**Global Reporting Initiative (GRI):** is a network based organisation that has pioneered the development of the world’s most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. Sustainability reports based on the GRI framework can be used to benchmark organisational performance with respect to laws, norms, codes, performance standards and voluntary initiatives; demonstrate organisational commitment to sustainable development; and compare organisational performance over time. See: [www.globalreporting.org](http://www.globalreporting.org)

**Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises:** First drafted in 1976, these are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. The guidelines are the most comprehensive instrument in existence today for corporate responsibility multilaterally agreed by governments. See: [www.oecd.org/daf/investment/guidelines](http://www.oecd.org/daf/investment/guidelines)

**United Nations Principles for Responsible Investment (PRI):** With the growing view among investment professionals that environmental, social and corporate governance (ESG) issues affect the performance of investment portfolios, the PRI provides a framework for investors to assist in these considerations. They are not prescriptive, but instead provide a menu of possible actions for incorporating ESG issues into mainstream investment decision making and ownership practices. The principles came into being in 2006 on the back of a UN initiative and in early 2010 there were 785 signatories. Applying the principles should not only lead to better long-term financial returns but also a closer alignment between the objectives of institutional investors and those of society at large. See: [www.unpri.org](http://www.unpri.org)

**United Nations Global Compact:** The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles, in the areas of human rights, labour, environment and anti-corruption. By doing so, business, as a primary agent driving globalisation, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere. In 2010 the UNGC stands as the largest corporate citizenship and sustainability initiative in the world – with more than 7,700 corporate participants and stakeholders from more than 130 countries. See: [www.unglobalcompact.org](http://www.unglobalcompact.org)

**Dow Jones Sustainability Index:** Launched in 1999, the Dow Jones Sustainability Indexes are the first global indexes tracking the financial performance of the leading sustainability driven companies worldwide. See: [www.sustainability-index.com](http://www.sustainability-index.com)

**International Integrated Reporting Committee:** Launched in August 2010, the objective of the IIRC, a cross-sectoral initiative of the Prince of Wales’ Accounting for Sustainability Project (A4S) and the Global Reporting Initiative is to create a globally accepted framework for accounting for sustainability that brings together financial, environmental, social, and governance information in a clear, concise, consistent and comparable format. The intention is to help with the development of more comprehensive and comprehensible information about an organisation’s total performance, prospective as well as retrospective, to meet the needs of the emerging, more sustainable, global economic model. The committee and working groups involve representatives from the corporate, accounting, securities, regulatory, non-governmental organisation, and standard setting sectors. See: [www.integratedreporting.org](http://www.integratedreporting.org)

**The Equator Principles:** A financial industry benchmark established in 2003 for determining, assessing and managing social and environmental risk in project financing and adopted by more than 60 international banks including the majority of the world’s leading project lenders. See: [www.equator-principles.com](http://www.equator-principles.com)

**CIMA** is a signatory of the UNGC and sits on the supervisory board and various working groups of the International Integrated Reporting Committee.
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Other relevant CIMA publications

- *Incorporating ethics into strategy: developing sustainable business models*, CIMA, 2010

- *Westpac’s Squashed Tomato strategy: sustainability strategy at Westpac*, CIMA and Australian School of Business, Baxter, Chua and Strong, 2010

- *Accounting for climate change*, CIMA, 2010


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- *Accounting for sustainable development performance*, CIMA and Bebbington, J, 2006

All are available from www.cimaglobal.com/sustainability

Also see Hopwood et al; *Accounting for Sustainability Practical Insights*, Earthscan, 2010
Available from www.earthscan.co.uk (CIMA members can get a 20% discount off the list price by quoting CIMA in the voucher code box when ordering).

For further information on business ethics, business values and CIMA’s Code of Ethics see: www.cimaglobal.com/ethics and www.tomorrowsvaluelectures.com

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