

Author: H Kloppers

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INTRODUCING CSR - THE MISSING INGREDIENT IN THE LAND REFORM RECIPE?

H Kloppers*

1 Setting the scene

The South African agricultural landscape was (and to a large extent still is) characterized by uneven land ownership, extreme rural poverty and the unproductive use and management of resources. These characteristics are directly linked to the strategic objectives of rural development, food security and land reform as identified in the Government's 2009-2014 *Medium Term Strategic Framework* (MTSF), which is *inter alia* aimed at ensuring a more equitable distribution of the benefits of economic growth and decreasing poverty and unemployment by half by 2014.¹

Government's MTSF has identified 12 outcomes as a key focus until 2014, of which outcome 7 requires the Department of Rural Development and Land Reform (DRDLR) to build vibrant, equitable and sustainable rural communities. In order to achieve this outcome the DRDLR has identified eight strategic goals which address issues such as increased access to and productive use of land (agrarian reform) and improved food production.² The goal of increasing access to land and the productive use of land by 2014 is directly linked to the land reform programme and further addresses the issue of uneven land distribution through restitution and redistribution.

The distorted distribution of land is evident from the fact that by 1994 an estimated 87% of agricultural land was owned by the white minority, while 13% was owned by

* Henk J Kloppers. B Com (Law), LLB, LLM (PU for CHE), LLD (NWU), Post Graduate Diploma in Financial Planning (UFS). Senior Lecturer, Faculty of Law North-West University Potchefstroom Campus. Email: Henk.Kloppers@nwu.ac.za

¹ The Presidency *Medium Term Strategic Framework 2*.

² DRDLR *Strategic Plan 22*.

black persons.³ This skewed distribution of land was the direct result of the way in which the pre-1994 governments regulated the occupation of, access to and rights in land through spatial segregation based on race.⁴ Given its history of forced removals and racial segregation, Bromley⁵ described South Africa's land reform programme as *sui generis*, where the cry is not only for land redistribution, but also for land restitution.

In order to address this unequal distribution of land, the first democratically elected South African Government initiated a land reform programme consisting of three constitutionally endorsed pillars.⁶ The first pillar focuses on land restitution in terms of which a person or community who was dispossessed of property after 19 June 1913 as a result of past discriminatory laws or practices would be entitled to restitution of the property or to equitable redress.⁷ Land redistribution forms the second pillar of the programme. The objective of this programme is to redistribute 30% of white-owned agricultural land to historically disadvantaged South Africans by 2014.⁸ The final pillar makes provision for tenure reform in terms of which persons whose tenure of land is legally insecure are entitled to legally secure tenure.⁹

³ It should be noted that although these figures are widely used to describe the uneven distribution of land under the apartheid regime, the figures are questionable. The 13% of black-owned land refers in all likelihood to land owned by the South African Development Trust and does not include land privately owned in the former homelands of Transkei, Bophuthatswana, Venda or Ciskei, which, under the new dispensation, were again incorporated into South Africa, or to land owned by companies and close corporations with a majority of black shareholders or members.

⁴ De Villiers *Land Reform* 45.

⁵ Bromley 1995 *Land Use Policy* 99.

⁶ Sections 25(5)-(9) of the *Constitution of the Republic of South Africa, 1996* lay the constitutional foundation for land reform and as a result, land reform must be conducted within the confines of the *Constitution*.

⁷ This pillar received constitutional backing through s 25(7) of the *Constitution*.

⁸ Section 25(5) of the *Constitution* requires the state to take reasonable legislative and other measures within its available resources to foster conditions which would enable citizens to *gain access to land* on an equitable basis. 30% of agricultural land amounts to an estimated 24.7 million hectares of land. Confusion existed regarding the meaning of the phrase "agricultural land", since the original land reform documents referred only to "agricultural land". However, it would appear that "agricultural land" in the context of the current land reform programme refers to "white-owned commercial agricultural farmland" (Bosman *Land Reform* 7 and CDE *Land Reform* 33). Redistributive land reform is defined as "the net transfer of wealth and power from the landed to the landless and land-poor classes" (Borras 2006 *Journal of Agrarian Change* 73).

⁹ Section 25(6) of the *Constitution*. This research will primarily focus on the restitution and redistribution pillars, since these two pillars are closely related. Due to the limited focus of this

Through these three pillars and their constitutional foundation, the land reform programme has become a constitutional imperative.

The pace of land reform in general has unfortunately been disappointingly slow. It took almost 13 years after the cut-off date for submitting land claims in terms of the restitution programme to settle 96% of the claims. It is furthermore evident that the target of redistributing 30% of white-owned agricultural land by 2014 will not be met and it is becoming increasingly important to speed up land and agrarian reform in order to prevent a Zimbabwe-style land grab.¹⁰ The continued unequal distribution of land and the slow progress of the land reform programme as a whole have led to political figures such as the controversial former president of the ANC Youth League, Julius Malema, inciting black South Africans to occupy and take land from white owners without giving payment,¹¹ with Malema reported as have said "if they don't want to give the land over to us, we must take it without their permission".¹² The undeniable truth is that land reform is an emotional, sensitive and potentially explosive topic.

Calls like these not only elicit strong emotional reaction from current land owners, but also have a negative impact on investor confidence, which could adversely affect economic stability. However, it is not difficult to understand why the landless are becoming impatient. In the 17 years since the inception of the land reform programme, only an estimated 6.7 million¹³ hectares of land have been transferred and of these it is estimated that 90% of the land that was acquired by the state and

research, tenure reform as a land reform programme will not be discussed. Borras 2006 *Journal of Agrarian Change* 77 is of the opinion that tenure reform cannot be described as redistributive land reform.

¹⁰ Nkwinti as quoted by Reuters 2010a www.news24.com.

¹¹ Nhlabathi 2011 www.sowetanlive.co.za.

¹² SAPA 2011 www.news24.com.

¹³ This figure represents the total hectares of land transferred collectively in terms of all three of the pillars of the land reform programme (SAPA 2012 www.fin24.com). It is estimated that less than 4 million hectares have been transferred in terms of the redistribution programme (Olivier *Restitution Operational Strategy* 5).

provided to emerging farmers has become unproductive.¹⁴ As a result of these failures, it was reported that for the 2011/12 restitution budget, an amount of R900 million would have to be diverted to recapitalising the failing projects - an amount which had been allocated to settle restitution claims.¹⁵

The challenges in the current land reform model were acknowledged by the Minister of Rural Development and Land Reform when he said:¹⁶

I have to acknowledge that the land reform programmes implemented to date have not been sustainable and have not provided the anticipated benefits to the recipients of the programme. To date approximately 6 million hectares of land have been transferred through restitution and redistribution and much of this land is not productive and has not created any economic benefit for many of the new owners. There has been an over-emphasis on hectares at the expense of development and food security. This has contributed to declining productivity on farms; decrease in employment in the agricultural sector; and, deepening poverty in the countryside.

To further exacerbate the problem it was reported in 2011 that of the almost 6 million hectares bought by Government to be redistributed through the land reform programme, an estimated 2 million hectares (or 30%) have been sold back to the previous white owners¹⁷, largely as a result of a lack of support (financial, training, production) from Government (lack of Government intervention and flawed agricultural policies).

To demonstrate the challenges of the land reform programme, it was reported in 2010 that the Government needed approximately R72 billion to transfer 19 million hectares of land to achieve the 30% target by 2014.¹⁸ This massive financial burden is linked to what is referred to as the problem of "big policy and the shrinking state"

¹⁴ It was reported that more than half of the farms bought by Government in terms of the Land Redistribution for Agricultural Development Programme had failed or fallen into decline (SAPA 2010 www.news24.com).

¹⁵ Radebe 2011 www.businessday.co.za.

¹⁶ Nkwinti 2010a www.ruraldevelopment.gov.za.

¹⁷ AFP 2011 www.news24.com. Bromley 1995 *Land Use Policy* 101 observed in 1995 that "[i]ndeed it is not impossible to imagine that a white owner, displaced in the restitution process, might well purchase his original holding from the recipient of an award".

¹⁸ Nkwinti 2010a www.ruraldevelopment.gov.za. According to Du Plessis, Pienaar and Olivier 2009 *SA Public Law* 591 it was estimated that approximately R71 billion was needed to ensure that 15% of agricultural land is transferred by 2014.

- the big policy being the land reform policy. The land reform policy "bears little relation to the institutions, budgets and political environment in or through which it is to be realised,"¹⁹ and the shrinking state is confronted with insufficient institutional and financial resources.

However, it is crucial that any acceleration of the pace of land reform should result in a dramatic improvement in the sustainability of the farming enterprises concerned.²⁰ The land reform programme involves more than the mere restoration and redistribution of land. People gaining access to the land are expected to manage legal entities and manage vital resources sustainably, while the programme has not focussed on supporting individual household livelihood activities on the land. The programme has resulted in the establishment of numerous unsustainable, poorly managed projects.

Land reform has undeniably fallen far short of both public expectations and official targets and has done little to bring about the equal distribution of land.²¹ Recipients of land under the land reform programme have not reaped the full benefits from the initiative and have not received the anticipated socio-economic benefits, mainly as a result of institutional weakness in overall land management, policy and legislation.²²

In order to substantially reduce the pressure placed on Government with specific reference to the challenges faced by the land reform programme, it is submitted that the effective facilitation of Corporate Social Responsibility (hereinafter referred to as

¹⁹ Hall 2004 *Review of African Political Economy* 219 and Hall 2004 *Canadian Journal of African Studies* 668.

²⁰ Department of Agriculture *LARP*⁶.

²¹ According to Hall 2004 *Review of African Political Economy* 213 the restitution programme has not led to the expected redistribution of land with many of the beneficiaries opting for financial compensation as opposed to land. Restitution beneficiaries have various options available if their claims are successful.

²² President Zuma, quoted in Reuters 2010b www.news24.com. The Minister of Rural Development and Land Reform supported the President's remarks and noted that "as a result of inadequate post-settlement support such as training and development; access to finance and markets, etc, a large number of those who have received land through the land reform programme have not been able to derive optimal benefit out of the process" (Nkwinti 2010b www.ruraldevelopment.gov.za).

CSR) would not only contribute towards the success of the land reform programme, but would also have a positive impact on the country's economic stability and food security.

With the distinction between the roles of business and the state becoming increasingly more blurred it appears as though the responsibility for development is shifting away from government to the private sector. It is important to recognise that the state alone is currently not in a position where it would be able to address all of the challenges arising from the land reform programme, without the assistance of the private sector. As a result, it is submitted that the private sector (especially the agricultural sector) has an important role to play in contributing to the success of the land reform programme and the improvement of the quality of life of land reform beneficiaries through the acceptance of its social responsibilities.

An interrelationship exists between business and society in which context business and society need each other. This article is based on the assumption that a successful business sector is reliant on society to provide labour and to purchase the commodities produced or provided by the sector. At the same time, society requires successful businesses. This need was aptly formulated by Porter and Kramer²³ when they noted:

No social program can rival the business sector when it comes to creating the jobs, wealth, and innovation that improve standards of living and social conditions over time.

This statement emphasises the important contribution that businesses make toward addressing a variety of social challenges, such as poverty and unemployment. Through their CSR practices and initiatives businesses play an undeniably important role in contributing to the well-being of society.

²³ Porter and Kramer 2006 *Harvard Business Review* ⁸³.

Based on the interdependence between businesses and society, this responsibility requires that, within the context of this article, businesses have a positive involvement with land reform beneficiaries that would lead to sustainable land reform projects and ultimately benefit the emerging South African economy. The role of business is becoming increasingly important in the development of human skills since such development is beneficial not only to society at large, but to the business as well. As businesses draw on societal resources, they need to "plough back" into society in order to promote the greater well-being of society at large. By developing the skills of their stakeholders (including the communities in which each business operates), businesses make a direct investment in human capital. Consequently it can be stated that CSR has evolved from the interrelationship between the private sector and the societies in which the private sector operates.

According to a recent report by the World Bank²⁴

[t]he contemporary corporate social responsibility (CSR) agenda is founded in a recognition that businesses are part of society, and they *have the potential to make a positive contribution to societal goals and aspirations*. (emphasis added)

The report continues by stating that:²⁵

[t]here is increasing evidence that developing country governments are beginning to view CSR practices as a subject with relevance for public policy – as a *means to enhance sustainable development strategies* and a component of their national competitiveness strategies to compete for foreign investment and position their exports globally, as well as to improve poverty-focused delivery of public policy goals. (emphasis added)

Private sector CSR initiatives are aimed at filling the gaps caused by an inability by the state to comprehensively address social problems. These initiatives represent an important alternative source of resources which can be utilised in development.²⁶

²⁴ Fox, Ward and Howard *Public Sector Roles* 3.

²⁵ Fox, Ward and Howard *Public Sector Roles* 4.

²⁶ It should be noted that by October 2011 the social welfare grants made available by the Government supported an estimated 15.2 million South Africans, a figure which translates into 10.9% of the national budget (SAPA 2011 www.fin24.com). In reaction to this figure, President

Despite the potential of CSR, it should be kept in mind that it should not be regarded as a means through which all of society's problems can be solved, nor should the private sector be expected to carry the costs of addressing societal problems. The private sector is, however, able to address a number of social problems through its social agendas.

The agricultural sector in particular, is strategically located to contribute to the success of the land reform programme through its CSR practices and initiatives. It is essential to briefly position the sector within the national economy. Primary agricultural activities contribute an estimated 2.5-3% to the gross domestic product (GDP) and are responsible for employing between 7 and 8% of the national workforce.²⁷ However, it is estimated that the agro-industrial sector, which is linked to various other sectors of the economy, contributes 12% to the GDP, an estimate that illustrates the importance of the sector. In 2009 the agricultural sector was responsible for 6.5% of all South African exports, with 46% of agricultural production being exported.²⁸ These exports included wine, citrus, maize and grapes. South Africa is the largest producer of maize in the Southern African Development Community, with an average of 9.7 million tons being produced annually by an estimated 8 000 commercial maize producers, mainly in the North West Province, Mpumalanga, and the Free State.²⁹ South Africa is also the world's 12th largest producer of sunflower seeds and the leading exporter of protea cut flowers.³⁰ Whereas only 22% of the total arable land can be classified as high-potential arable land, nearly 80% of the agricultural land is suitable for livestock farming.³¹ Livestock

Zuma noted that these grants were not sustainable and that plans had to be developed to reduce the general dependency on government assistance. According to the President, South Africa cannot afford to be a welfare state, and government and business need to work together to improve the situation (Phakati 2011 www.businessday.co.za).

²⁷ SA Government 2010 www.info.gov.za. The latest figures were not available in by January 2013.

²⁸ SA Government 2010 www.info.gov.za.

²⁹ SA Government 2010 www.info.gov.za.

³⁰ South Africa also has a thriving forestry sector with the country having developed one of the biggest planted forests on the planet. It is estimated that approximately 1.3 million hectares of South Africa's land surface are covered by plantations. The sector employs almost 170 000 employees and contributes in excess of R16 billion to the national economy on an annual basis (SA Government 2010 www.info.gov.za).

³¹ Anon 2011 www.gcis.gov.za.

farming contributes almost half of the total agricultural output, making the livestock sector the largest national agricultural sector.³²

From the above it is clear that the South African agricultural sector has a vital role to play in the South African economy. The future existence of this sector might be threatened by a land reform programme that continues to perform below expectations. This article identifies corporate social responsibility - especially the responsibility of the agricultural sector - as one of the missing ingredients in land reform's recipe of success. In order to get a more comprehensive understanding as to why CSR is identified as a possible avenue towards improving land reform, it is necessary to: determine the business case for CSR; identify its benefits; discuss its possible limitations; and examine the major drivers behind it. Each of these issues will be addressed in the paragraphs that follow.

2 Introduction to CSR

CSR is aimed at improving the quality of life of stakeholders by going beyond normal business activities and is primarily concerned with the contribution that the *business sector* makes towards the general upliftment of the local community, for example, and society at large. It is submitted that the private sector has an important role to play as an agent of development in addressing social issues through its CSR agenda. Despite various measures taken by Government to attempt to achieve the land reform targets the need exists to find alternative measures through which the failing land reform programme can be improved - CSR initiatives represent such an alternative.

3 Defining CSR

Defining CSR is an important step in determining how CSR is framed. However, the attempts to define CSR could aptly be described as "terminology in turmoil". No

³² It is estimated that the dairy industry employs 38 000 workers, with an additional 40 000 workers employed by related industries (Anon 2010 www.southafrica.co.za).

consensus exists regarding a single universally acceptable definition of CSR.³³ This conclusion is *ad idem* with the remark by Votaw³⁴ in 1972 that CSR "means something, but not always the same thing to everyone". An examination of the leading definitions of CSR³⁵ confirmed that it is inevitable that CSR definitions will differ from society to society and as a result no single definition will be universally accepted. However, certain characteristics are included in many CSR definitions. These characteristics include references to the identification of the beneficiaries of the CSR initiatives, CSR's being beneficial to both the business and society, CSR initiatives being extraneous to regular business activities, and CSR practices being integrated throughout all levels of a business.³⁶

CSR was not officially defined in South Africa until the *King III Report* was published. Both the *King III Report* and the SANS 26000:2010 Standard on social responsibility endorse the definition of CSR proposed by the ISOs *Guidance on social responsibility*. The *King III Report* and the SANS 26000:2010 Standard are regarded as two of the major instruments dealing with CSR in South Africa. In terms of these instruments, CSR in South Africa is currently defined as the³⁷

responsibility of an organisation for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development, health and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organisation and practised in its relationships.

This definition includes most of the identified characteristics and is a useful point of departure for discussions on the topic of CSR.

³³ This was confirmed by the discussions in para 3.2 that examined numerous international and national definitions of CSR.

³⁴ Votaw 1972 *California Management Review* 25.

³⁵ See Kloppers *Improving Land Reform* 106-138 for an examination of more than 20 CSR definitions.

³⁶ See Kloppers *Improving Land Reform* 139-141 for a reference to the central characteristics of a CSR definition.

³⁷ ISO *Guidance on Social Responsibility* 3. See Kloppers *Improving Land Reform* 110-112 for a discussion of the ISO's definition.

Any attempt to define CSR should in the first instance recognise that the definition can differ from society to society and can be influenced by factors such as culture and belief. This variability contributes to the inability to formulate a single universally accepted definition.³⁸ The South African position serves as an excellent example. In a discussion of the national definitions of CSR it emerged that local businesses are not totally comfortable with the use of the term CSR owing to their negative perception of the notion of "responsibility".³⁹ Local businesses prefer the term corporate social *investment*, although a good case can be made for the opinion that CSR and CSI do not have the same meaning and that one is a consequence of the other.⁴⁰ This is partially as a result of South Africa's history and is reflected in references to "contributions toward transformation"⁴¹ or "transformation in agriculture",⁴² which are uniquely South African.

However, regardless of a particular history or culture, it is impossible, even within the context of a particular country, to define CSR to such an extent that it would be applicable in each instance. As a result CSR should rather be used as an umbrella term to indicate that businesses have a responsibility towards the societies within which they operate and that this responsibility needs to be managed.

The difficulty in defining the concept of CSR lies in the fact that CSR is context dependent and that the concept and its application could differ not only from country to country, but from business to business within the same sector, and even from activity to activity within a single business. This situation is confirmed by the fact that in general the definitions attached to CSR (or CSI or SED) in the South-African context differ from the definitions provided by international bodies such as the World Bank or the WBCSD. This is mainly as a result of the country's unique

³⁸ Blowfield and Frynas 2005 *International Affairs* 502 note: "This vagueness restricts CSR's usefulness both as an analytical tool and as a guide for decision-makers".

³⁹ Kloppers *Improving Land Reform* 138.

⁴⁰ Kloppers *Improving Land Reform* 128. It should be mentioned further that the legislator is not comfortable with the use of the term CSR, and has preferred terms such as CSI or socio-economic development (SED).

⁴¹ According to the Financial Services Charter (GN 110 in GG 29610 of 9 February 2007).

⁴² According to the AgriBEE Charter (para 5.1.2.8 of GN 314 in GG 30886 of 20 March 2008).

history of apartheid. The discussion of the various definitions of CSR came to the conclusion that it is unlikely that a universally accepted definition will ever be provided. Rather than attempting to define CSR, elements of socially responsible actions were identified. Based on the definitions discussed, it was concluded that in the first instance, at a minimum, CSR refers to legal compliance (the letter of the law), and that it then goes beyond the literal requirements of the law in accordance with the spirit of the law. Secondly, CSR practices should identify the targeted beneficiaries (or recipients) - who must benefit from the corporate initiatives? Thirdly, it must be evident that the socially responsible initiatives should be beneficial to the business, as well as to society (or the targeted beneficiaries). Fourthly, CSR activities are activities that are extraneous to regular business activities, and must have an identified objective such as the skills development objective of AgriBEE activities. Finally, CSR should be integrated throughout a business' management and should feature in the entire business strategy.

Given the fact that the agricultural sector (as a representative of the private sector) is strategically positioned in relation to the land reform programme, it is not difficult to appreciate why the sector is well suited to improving land reform through its CSR initiatives. CSR has the potential not only to benefit the land reform beneficiaries, but the businesses themselves, thus benefitting the economy as a whole. Despite the potential beneficial contribution that CSR can make to the success of land reform it is unfortunately true that many businesses do not engage in CSR and do not act on their social responsibilities. This situation might be brought about by the fact that some businesses do not see the business benefits of CSR. The following paragraph will discuss the business case for CSR.

4 A business case for CSR

Despite extensive research on the subject of CSR, the business case for CSR has not been proven on a balance of probabilities, nor has it been discredited.⁴³ To illustrate, studies have reported positive, negative and neutral impacts of CSR on corporate financial performance.⁴⁴ This is partly due to the fact that, as was stated previously, no universally accepted definition exists for CSR and various conflicting terms are used in the CSR dialogue. An issue that further compounds the difficulty in making the business case for CSR is the fact that businesses have unique and dynamic characteristics distinguishing them from other businesses, even those in the same sector or those conducting the same business. Barnett⁴⁵ takes this a step further by noting that within the same business an identical CSR initiative instigated in different time periods will not necessarily yield the same financial results.

Businesses are increasingly becoming aware of the fact that "doing good" is expected of them and that "doing good" could have positive effects not only on corporate financial performance, but also on the business' stakeholders. In this regard Bhattacharya and Sen⁴⁶ note that the business case for CSR reflects

the pervasive belief among business leaders that in today's marketplace CSR is not only an ethical/ideological imperative, but also an economic one.

The primary focus of business in an economy is commercial and there is no imperative for a business to get involved in developmental issues. The challenge

⁴³ The business case for CSR approaches CSR contributions from an instrumental point of view, which stresses the link between CSR principles and outcomes. This view holds that a business should adopt CSR because it would have a positive impact on the financial bottom line. In contrast, the normative view holds that CSR is the morally right thing to do and that a business should engage in CSR regardless of what the consequences are (Geva 2008 *Business and Society Review* 12).

⁴⁴ See in this regard Griffin and Mahon 1997 *Business and Society* 5-31; Preston and O'Bannon 1997 *Business and Society* 419-430; Margolis and Walsh 2003 *Administrative Science Quarterly* 268-305; and Wood and Jones 1995 *International Journal of Organisational Analysis* 229-267. Burke and Logsdon 1996 *Long Range Planning* 495-502 note that, in the long term, a positive relationship exists between CSR and financial performance.

⁴⁵ Barnett 2007 *Academy of Management Review* 795.

⁴⁶ Bhattacharya and Sen 2004 *California Management Review* 9.

facing business is how to get involved in developmental issues whilst still protecting the bottom line. The business case for CSR could be described as making use of social initiatives in order to reach corporate objectives.⁴⁷ The challenge facing the private sector is how to maintain profits on a sustainable basis while accepting that it has a responsibility to stakeholders, including shareholders, employees, customers and the communities within which the business operates.

The business case for CSR is found in the basic premise that acting in a socially responsible manner has a positive impact on the financial bottom line and is positively reflected in the business' reputation. An improvement in a business' reputation would improve the financial performance by improving the business's relationship with all of its stakeholders. The further positive spin-off from improved relationships with stakeholders is that it could attract new customers and create new investment opportunities. Scholars in CSR generally support the notion that in the long term the market will reward a business for its social initiatives related to the business' core business.

CSR should be treated as an investment in the future of the business and not as expenditure. It should be regarded as a strategic investment in the business' future that requires initiatives that are specifically planned for, that receive management support and that are constantly monitored. The key incentive for these investments is to improve social conditions and to contribute to the improvement of society. This social welfare orientation, where the focus is on furthering a social cause, is what distinguishes CSR investments from other forms of business investment. Traditional corporate investments are aimed at benefiting the shareholders, whereas strategic CSR investments are aimed at addressing social problems.⁴⁸ Strategic investments should be aimed at enabling the beneficiaries of these initiatives to become self-

⁴⁷ Frynas 2005 *International Affairs* 587.

⁴⁸ In this regard, Drucker 1984 *California Management Review* 53 asserts: "... the proper 'social responsibility' of business is to tame the dragon, that is to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well paid jobs, and into wealth".

sustaining and eventually enable the beneficiaries to decrease dependence on "social handouts".⁴⁹

Strategic CSR occurs when a business identifies a public good which it would like to serve and then links the public good to the core services rendered by the business.⁵⁰

Porter and Kramer⁵¹ remark that strategic CSR:

[u]nlocks shared value by investing in social aspects of context that strengthen company competitiveness. A symbiotic relationship develops: The success of the company and the success of the community become mutually reinforcing. Typically, the more closely tied a social aspect is to the company's business, the greater the opportunity to leverage the firm's resources and capabilities, and benefit society. ... The most strategic CSR occurs when a company adds a social dimension to its value proposition, making social impact integral to the overall strategy.

Once the CSR initiatives yield business-related benefits to the business and the initiatives support the core business activities, the initiatives can be regarded as

⁴⁹ In the mid-1980s Peter Drucker 1984 *California Management Review* 59 noted that "... it will become increasingly important to stress that business can discharge its 'social responsibilities' only if it converts them into 'self-interest', that is, into business opportunities". This statement recognises that businesses must benefit from their socially responsible initiatives. Such initiatives should provide a strategic benefit. According to Drucker 1984 *California Management Review* 59 the "proper 'social responsibility' of business is to tame the dragon, that is to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well paid jobs, and into wealth". This position is supported by Carroll (Carroll "Ethical Challenges" 200), who notes that good deeds are good for both business and society.

⁵⁰ In contrast to strategic CSR, generic CSR initiatives are those initiatives which may address important social problems, but have no link to a business' core business and have no noticeable influence on the business' long-term competitiveness. A donation by an agricultural co-operation to Alzheimer research can be regarded as a generic CSR initiative since it has no connection with the corporation's core business and it does not provide the corporation with any competitive advantage. A further manifestation of CSR is responsive CSR which, according to Porter and Kramer 2006 *Harvard Business Review* 85 consists of two elements: "acting as a good corporate citizen, attuned to the evolving social concerns of stakeholders, and mitigating existing or anticipated adverse effects from business activities". Responsive CSR initiatives are not necessarily aimed at providing a company with a competitive advantage, nor are they tied to the company's core business. These initiatives remain incidental as opposed to strategic to the company's business. Lantos 2001 *Journal of Consumer Marketing* 595 distinguished between ethical CSR, which is obligatory and is related to avoiding societal harms, altruistic CSR, which is related to doing good works which could be at the expense of shareholders (and which is consequently not legitimate), and strategic CSR, which refers to getting involved in initiatives which are beneficial to both business and society. For a discussion of the nature of and debate about altruistic CSR, see Lantos 2001 *Journal of Consumer Marketing* 608-618.

⁵¹ Porter and Kramer 2006 *Harvard Business Review* 89-90.

strategic CSR initiatives that add to the financial performance of the business.⁵² Strategic initiatives should be proximate to the business' core business and the business' goals and objectives. The closer the CSR initiatives are to the core business, the more likely it is that the initiatives would receive high-level support from within the business and the greater the opportunity is to use the business' resources and capabilities to the benefit of the business and all its stakeholders.⁵³ The more strategic an initiative is, the more likely it is that a business would receive direct benefits from the initiative, benefits that would be internalised in the business. The test that should guide businesses in their CSR agenda is not whether the CSR initiatives will address a worthy cause, but whether the initiative represents an opportunity to add value to the business, as well as to make a meaningful contribution to society.⁵⁴ Through its strategic CSR initiatives a symbiotic relationship should develop between a business and its communities - a business will be able not only to make a significant social impact, but also to reap financial benefits.

Businesses should constantly be aware of opportunities that arise in the market and should be able to react proactively to such opportunities. These opportunities could for example arise out of existing social problems. An agricultural company could consider the ever worsening situation in the land reform programme as an opportunity to create new markets and new producers. The early recognition of opportunities such as these would enable the company to strategically position itself in order to attain a market advantage.

Social problems such as poverty, unemployment and crime all impact on the financial wellbeing of a business. If a business is apathetic to surrounding poverty or unemployment, these problems might escalate into social instability, which may in turn threaten the bottom line. On the other hand, if a business is able to contribute to society in a manner that results in social improvements, such improvements

⁵² Burke and Logsdon 1996 *Long Range Planning* 496.

⁵³ This closeness between CSR initiatives and the core business is referred to as "centrality", which according to Burke and Logsdon is a critical issue in strategic CSR (Burke and Logsdon 1996 *Long Range Planning* 496).

⁵⁴ Porter and Kramer 2006 *Harvard Business Review* 84.

would for instance help crime to decrease and as a result of the greater social stability the business would have to spend less on securing its property and less taxes would have to be levied for public safety.⁵⁵ In this regard it can be argued that businesses are becoming social investors - investors that upon making a social investment receive benefits, including enhanced reputation and the ability to attract better employees.⁵⁶

Husted and Salazar⁵⁷ identify at least three circumstances in which a business will engage in CSR that will also increase the value of the business. The first is where the possibility exists of strategic interaction based on governmental intervention. The situation regarding black economic empowerment is an excellent example of how government intervention guides businesses to consider strategic interactions in order to remain competitive. The second is where opportunities exist to differentiate products, and the third is where cost reduction may occur within the business.

The challenge facing a business is how to convert its social responsibilities into opportunities providing a strategic edge against competitors, to turn the magnitude of social problems into profit bearing opportunities that benefit both the business, as well as its stakeholders.

Despite the fact that to date research has not conclusively found that a definite relationship exists between a business's levels of social responsibility and its financial performance, it would appear that businesses still accept the business case for CSR. Businesses with a social conscience regard CSR as part of their business strategy and corporate identity and in most instances the CSR initiatives are internally driven.⁵⁸ This social conscience is an acceptance of the fact that a business is responsible for those affected by the business's core activities and that it is a

⁵⁵ Davis 1973 *Academy of Management Journal* 313.

⁵⁶ See para 5 for a discussion of the business benefits of CSR.

⁵⁷ Husted and Salazar 2006 *Journal of Management Studies* 82.

⁵⁸ Vogel *Market for Virtue* 73.

reflection of the values of the shareholders. These businesses view CSR as a means to differentiate themselves from competitors in order to gain the competitive edge.

CSR initiatives are, however, not always driven by a social conscience or a realisation of the competitive edge associated with CSR, but rather by a need to avoid being branded and becoming distinguished.⁵⁹ These CSR initiatives are the result of the business being targeted by activists and the business wanting to minimise possible damage to its brand and reputation. Vogel⁶⁰ notes that the displays of a corporate conscience by companies such as Shell and Nike have been primarily defensive and not as a result of corporate virtue.

In return for being socially responsible and addressing social issues through their strategic CSR initiatives, businesses expect some form of reward, which may be to turn a social problem into economic opportunity and economic benefit and wealth. The following paragraphs will address some of the direct and indirect economic benefits which might result from socially responsible practices.

5 The benefits of CSR

5.1 Introduction

The benefits of CSR for businesses are closely related to the business case for CSR. In short, businesses should derive benefits from their CSR practices in order to justify the use of business resources.⁶¹ The United Kingdom's Department for International Development (DFID)⁶² remarked in this regard:

⁵⁹ See para 7 for a discussion of various drivers of CSR.

⁶⁰ Vogel *Market for Virtue* 73.

⁶¹ Weber 2008 *European Management Journal* 250 noted that the business benefits for CSR could be classified into monetary and non-monetary benefits. Monetary benefits refer to benefits that have a direct measurable financial benefit, while non-monetary benefits refer to benefits that are not directly measured in monetary terms. For a more comprehensive discussion of CSR business benefits, see Epstein and Roy 2001 *Long Range Planning* 585-604; Heal 2005 *Geneva Papers* 387-409; and Kong 2002 *European Management Journal* 109-127. There is no attempt in this section to provide an encompassing overview of the possible benefits deriving from the practice of CSR, since the benefits vary from business to business. Porter and Kramer 2006 *Harvard*

By following socially responsible practices, the growth generated by the private sector will be more inclusive, equitable and poverty reducing.

The following paragraphs will briefly refer to the business benefits resulting from CSR activities that have been identified.⁶³

5.2 Image and reputation

The first benefit to a business relates to the impact that CSR activities have on the business' image and reputation. With consumers becoming more and more aware of the impact of businesses on the natural environment for example, socially responsible businesses are viewed more favourably with a resulting positive impact on the business' image and reputation.⁶⁴ Although a business would not necessarily see an improvement in its image and reputation if it is acting in a socially responsible manner, it would see an instant decrease in its image and reputation if its socially irresponsible practices become known. This situation was witnessed when it became known that Nike made use of labour that did not comply with international labour standards. The discovery led to enormous image and reputational damage. In reaction to stakeholder criticism the company now requires that all of its suppliers comply with a strict code of conduct related to the payment of reasonable wages and acceptable working conditions.⁶⁵

Business Review 80 remarked that CSR can be a source of opportunity, innovation, and competitive advantage.

⁶² DFID *Socially Responsible Team Strategy: April 2001-March 2004 2*, as cited by Jenkins 2005 *International Affairs* 525.

⁶³ It should be kept in mind that CSR should benefit not only the business, but also society. For society these benefits include experiencing "less adverse impacts from ill-thought-through business initiatives; a gearing-up of social partnerships; capacity and innovation brought to bear on problems; and the full contribution of influential citizens to the general well-being" (IoD *King Report* 230).

⁶⁴ ISO *Guidance on Social Responsibility* 21; Siegel and Vitaliano 2007 *Journal of Economics and Management Strategy* 773; IoD *King Report* 12; and Den Hond, De Bakker and Neergaard *Managing Corporate Social Responsibility* 86. The more socially responsible a business is, the more likely it is that public trust in the business will grow. The inverse is also true. The less socially responsible a business is, the more likely it is that the public will distrust the business. As an example, after the Exxon Valdez oil spill Exxon was targeted by various consumer groups in response to the environmental damage caused by the company's actions (Thorne, Ferrell and Ferrell *Business and Society* 27).

⁶⁵ Werther and Chandler *Strategic Corporate Social Responsibility* 12; Porter and Kramer 2006 *Harvard Business Review* 80.

Although an enhanced image and reputation is a benefit of being socially responsible, it should be noted that CSR initiatives should not be used purely as a marketing tool to create better public relations. If the main reason for an initiative is to better public relations, the initiative will in all likelihood not contribute to the development of the community. Success lies in the long-term ability to support and develop the community.

5.3 Employee retention

Being socially responsible not only improves reputation, but also has positive effects on employee motivation, retention, and recruitment.⁶⁶ The basic argument supporting this statement is that employees are more likely to be motivated to work for a socially responsible business than one which is not. The same holds true for employee recruitment, with potential employees being drawn to socially responsible businesses. CSR activities could affect the attractiveness of the business to potential employees.⁶⁷ The workforce of a business with a strong commitment to being socially responsible will have a stronger positive feeling towards the business as opposed for instance to a business with a history of causing harm to the environment without an acceptance of responsibility for its acts.

5.4 Cost savings

Many businesses that incorporate socially responsible practices throughout the business experience cost savings. These cost savings result in many instances from the implementation of environmentally responsible practices, for example, where as a result of these practices a business saves electricity because it is more aware of its electrical consumption or where labour costs are reduced through lower levels of

⁶⁶ Weber 2008 *European Management Journal* 249; Mazurkiewicz 2004 siteresources.worldbank.org; Den Hond, De Bakker and Neergaard *Managing Corporate Social Responsibility* 86. Added to employee motivation is the issue of employee commitment. Employees will be more committed to a company if they believe in the social commitment of the company (EC COM(2001) 366 7).

⁶⁷ ISO *Guidance on Social Responsibility* 21; Thorne, Ferrell and Ferrell *Business and Society* 27.

absenteeism as a result of having a healthier workforce.⁶⁸ Costs could also be lowered as a result of the implementation of practices leading to safer workplace conditions.⁶⁹

5.5 Revenue increase

This benefit relates to the positive impact that socially responsible practices have on the financial bottom line through increased sales or growth in market shares. This benefit is closely linked to image and reputation, where a ripple effect is evidenced. An increase in a business' image and reputation would benefit sales, which would give rise to revenue increases. Muller⁷⁰ remarked that CSR is positively associated with a return on investment and assets, and a growth in sales.

Besides an actual increase in revenue, a socially responsible company might experience a competitive advantage, which would increase its market opportunities.⁷¹ Having a good CSR track record could also be beneficial to a business when the business attempts to raise capital, either through investors or through financial institutions. Investors prefer to invest in businesses with established social records. This is commonly referred to as socially responsible investment. It has also been reported that financial institutions are increasingly making use of social (and environmental) checklists to evaluate risks before providing finance through loans.⁷²

5.6 Licence to operate

A benefit which is closely associated with the previous benefits addresses the business' "license to operate" and the business' legitimacy in society. The social

⁶⁸ Mazurkiewicz 2004 siteresources.worldbank.org.

⁶⁹ See Den Hond, De Bakker and Neergaard *Managing Corporate Social Responsibility* 86 for a list of possible cost savings.

⁷⁰ Muller 1999 *Business Week* 94. Also see Thorne, Ferrell and Ferrell *Business and Society* 28-29.

⁷¹ EC *COM(2001) 366* 7.

⁷² EC *COM(2001) 366* 7; Mazurkiewicz 2004 siteresources.worldbank.org.

licence to operate refers to societal acceptance and endorsement of the business' practices.⁷³ The idea of having a licence to operate is derived from the fact that every business should be granted a licence to operate by government and other stakeholders, including local communities. This permission to operate can be implied or explicit. Society will continue to accept and endorse a business as long as the business is regarded as socially responsible. Once society withdraws its licence to operate, a business' reputation, employee retention and revenues will reflect the withdrawal. The licence to operate is linked to being regarded as a good corporate citizen. Good corporate citizens must be able to show that they are actively addressing social problems through their CSR initiatives.

The licence to operate could further refer to actual legal licences to operate. Within the South African context and with specific reference to for example black economic empowerment, if a business does not sufficiently contribute to transformation and consequently scores low on the BEE scorecard, such a business would be excluded from conducting business with the public sector, for example.

In spite of all the possible benefits, CSR is by no means exonerated from criticism. The following paragraphs will discuss the major limitations and points of criticism against CSR.

6 Limitations / criticism of CSR

6.1 No universally accepted definition

In the discussion of the definition of CSR it became evident that no universally or even locally accepted definition exists and that an array of interpretations and applications have been advanced to define CSR. Added to this difficulty is the fact that various alternative themes (such as corporate citizenship) have evolved, further

⁷³ Porter and Kramer observed: "The notion of licence to operate derives from the fact that every company needs tacit or explicit permission from governments, communities, and numerous other stakeholders to do business" (Porter and Kramer 2006 *Harvard Business Review* 81-82).

clouding the definitional construct. The fact that no single accepted definition for CSR is available has very negative consequences for CSR research. Since almost every single business has its own definition of CSR, it is an impossible task to do reliable empirical research, for example on the question of whether or not a positive correlation exists between a CSR initiative and financial performance.

The absence of an authoritative definition implies that businesses are able to determine their own definition for CSR and align their CSR initiatives in accordance with their definition. This implies that an initiative which has no connection with a business's core business, but services some kind of public good must be accepted as a CSR initiative even though the initiative has no strategic value to the business.⁷⁴

Sethi⁷⁵ identified this limitation as early as 1975 when he wrote:

Business executives, academic scholars, government regulators, and social activists view the corporation's social role within their respective frames of reference, thereby allowing the evaluator *maximum discretion as to the amount of funds expended, the nature of activities engaged in, and the types of groups whose needs are responded to.* (emphasis added)

The various definitions for CSR suggest that CSR requires businesses to go beyond what is required by law. The problem that currently exists is, however, that CSR is not regulated by law and that the legal framework does not provide an enabling environment for CSR that assures socially responsible behaviour.

A further characteristic of the CSR definitions is the fact that they regard CSR as *voluntary* - going beyond legal requirements. This voluntary approach has been identified as one of the shortcomings of CSR.

⁷⁴ This kind of initiative is best described as philanthropic contribution, and the question might rightfully be asked if it is true CSR?

⁷⁵ Sethi 1975 *California Management Review* 58.

6.2 *Voluntary nature*

The problem with the voluntary approach to CSR is that in most instances businesses cannot be trusted to voluntarily go beyond the legal requirements and as a consequence acceptable legal requirements need to be set.⁷⁶ This issue is highlighted by Villiers,⁷⁷ who notes:

Indeed, what advocates of voluntarism fail to recognize is that there are different types of company that are to be regulated: those who know the law and are willing to follow it, those who do not know the law but seek to be law abiding, those who do know the law but defy or ignore it and those who do not know the law and do not seek to be law abiding.

Added to these categories are those companies that know the law, but comply only to the extent that they will not be prosecuted.

Friends of the Earth International⁷⁸ identified a number of possible reasons why voluntary initiatives are failing to have a noticeable impact on advancing the CSR agenda. These include the fact that the voluntary measures⁷⁹ do not "provide strong incentives for compliance to counterbalance the financial incentives for non-compliance". A further shortcoming of voluntary measures is that they rely on businesses to comply through self-regulation without being monitored by independent agencies. The fact that voluntary measures rely on self-regulation is creating regulatory gaps that are compounded by inadequate enforcement of these measures.⁸⁰ The voluntary measures do not make provision for any enforcement,

⁷⁶ The assumption is that "corporate responsibilities are likely to be fully met only when it is in the self-interest of the corporation to do so - or when they are likely required to meet those responsibilities by government mandate" (Allouche *Corporate Social Responsibility* xxiii).

⁷⁷ Boeger, Murray and Villiers *Perspectives on Corporate Social Responsibility* 97.

⁷⁸ FOEI 2001 www.foei.org. Friends of the Earth International claims to be the world's largest grassroots environmental network, working as a global network on environmental and social issues.

⁷⁹ Voluntary measures such as the UN Global Compact will be discussed in more detail in para 5.4.3.

⁸⁰ Boeger, Murray and Villiers *Perspectives on Corporate Social Responsibility* 98.

which means that businesses that choose not to follow the guidelines are not open to any form of sanction.⁸¹

6.3 Barrier to trade

One of the biggest points of criticism against CSR is that it causes a barrier to trade, as pointed out by Friedman.⁸² The pursuance of social and environmental objectives engages resources that should be accruing to shareholders, thus lowering economic efficiency and profits.⁸³

When directing business funds towards social issues, the competitive advantage of the business is under threat due to the increased costs to the business. The devotion of business funds towards social issues is tantamount to the involuntary redistribution of wealth away from the shareholders who are entitled to the wealth towards others who are not. The use of business resources for purposes unrelated to the company's core business has been described as theft and an unjustified appropriation of the shareholders' property, which amounts to "corporate irresponsibility".⁸⁴ It is argued that the provision of social justice lies within the domain of state regulation, and if Government supports CSR it should also provide mechanisms for monitoring CSR initiatives.⁸⁵

6.4 Corporate "greenwash"

One of the major reasons why not only the general public, but also a large section of the business community is sceptical about CSR is found in what is generally referred to as "greenwash". This quaint term refers to an attempt to improve a business' image without changing the business model to incorporate CSR principles -

⁸¹ This criticism of CSR is addressed in the proposed CSR Act, which makes provision for enforcement measures to ensure compliance with the Act. See para 6.3.

⁸² See Kloppers *Improving Land Reform* 146-150 for a discussion of the Friedman approach to CSR.

⁸³ Lawrence and Weber *Business and Society* 61-62.

⁸⁴ Allouche *Corporate Social Responsibility* 40; Sternberg *Just Business* 42; Mintzberg 1983 *Journal of Business Strategy* 5.

⁸⁵ Blowfield and Frynas 2005 *International Affairs* 506.

camouflaging business-as-usual.⁸⁶ Businesses make superficial changes to improve their image and create the impression that they are incorporating social interests into their management.

One of the most effective ways in which businesses communicate the extent of their CSR initiatives is through the publication of annual reports. Many of these reports are drafted in line with voluntary reporting requirements, such as the UN Global Compact or the GRI.⁸⁷ Despite the fact that such reporting models suggest the issues on which a business should report, in many instances the glossy annual reports prepared by businesses are nothing more than mere public relations exercises, which⁸⁸

rarely offer a coherent framework for CSR activities, let alone a strategic one. Instead, they aggregate anecdotes about uncoordinated initiatives to demonstrate a company's social sensitivity. What these reports leave out is often as telling as what they include.

In many instances the sources of the data used in the reports are not available to the general public, raising serious concerns about the reliability of the data. Verification of the data provided in the reports is difficult. Many valuable resources are directed to the production of glossy annual reports, while the resources could have been better spent on social initiatives. It seems as if the appearance of the reports is more important than the content. In many instances they are perceived as "mainly tokenism".⁸⁹

An excellent example of this phenomenon is the Enron case. It was reported⁹⁰ that Enron's 2000 Report on Sustainability included the following statements:

⁸⁶ Utting 2003 *Global Future* 10. Corporate greenwash is often a public relations attempt to obscure the true impact of business activities (Hamann, Khagram and Rohan 2008 *Journal of Southern African Studies* 23).

⁸⁷ For a discussion of voluntary instruments used to facilitate CSR, see Kloppers *Improving Land Reform* 374-399.

⁸⁸ Porter and Kramer 2006 *Harvard Business Review* 81.

⁸⁹ Fig *Staking Their Claims* 115.

⁹⁰ Zamagni 2006 www.stthomas.edu.

We want to work to promote reciprocal respect with the communities and stakeholders that are touched by our activities. We treat others as they would like to be treated.

Unfortunately history proves that Enron did not practice what it preached and did not follow its "golden rule". Due to Enron's actions numerous communities and stakeholders were touched, sadly to their detriment.

6.5 Lack of skills

A further point of criticism against CSR is that in most instances business managers are not equipped to address social issues. This raises the question: Are businesses sufficiently equipped to get involved in community development if community development is not their core business activity?⁹¹ Business managers are skilled in managing a business. Their main focus is an economic one and their skills are the same. Managers are not qualified to address social issues and are not able to meddle in social affairs.⁹² Constraints in the implementation of CSR projects include a lack of human resources, failure to involve beneficiaries in planning and executing the project, and failure to integrate the projects into larger development plans, such as a local economic development plan.⁹³ Businesses need someone with developmental experience to manage CSR initiatives. Davis remarks that⁹⁴ involvement in social initiatives might

dilute business's emphasis on economic productivity, divide the interests of its leaders, and weaken business in the marketplace, with the result that it would accomplish poorly both its economic and social roles.

As a result, it is argued that businesses are not equipped to engage in social betterment and that if they do become involved in social initiatives, such

⁹¹ Prieto-Carrón 2006 *International Affairs* 984.

⁹² Davis 1973 *Academy of Management Journal* 318. Regarding the lack of skills regarding CSR amongst managers, Freeman and Liedtka 1991 *Business Horizons* 94 argue that CSR promotes incompetence, as managers are required to make decisions about issues beyond their fields of expertise.

⁹³ Frynas 2005 *International Affairs* 587; Mintzberg 1983 *Journal of Business Strategy* 5.

⁹⁴ Davis 1973 *Academy of Management Journal* 318.

involvement would distract business managers from their primary function - to maximise profits.

Regardless of this criticism against CSR, businesses are still engaging in CSR practices, and although businesses might be opposed to the idea, various drivers exist that push businesses toward socially responsible activities. The following paragraphs will in brief refer to the most common drivers of CSR.

7 CSR drivers

7.1 Introduction

CSR drivers refer to those incentives or pressures directed at businesses to improve their socially responsible practices. A variety of drivers exists and the drivers discussed in this paragraph are not necessarily applicable to every business. Mazurkiewicz⁹⁵ distinguishes between three types of drivers: economic drivers, social drivers, and political drivers. Economic drivers include company image/reputation; competitive advantage and competitiveness; pressure from consumers and pressure from investors, while social drivers are pressure from NGOs; the need to be licensed to operate; and pressure from local communities. Political drivers refer to legal and regulatory drivers and political pressure. The following paragraphs will discuss drivers falling within each of these categories.⁹⁶

7.2 Shareholder / investor activism

Shareholder or investor activism is closely linked to the business case for CSR, with these stakeholders wanting to see an increase in the value of their shares or

⁹⁵ Mazurkiewicz 2004 siteresources.worldbank.org.

⁹⁶ Drivers could vary from country to country and from business to business. The drivers discussed in this paragraph represent a portion of the possible drivers. Other drivers not discussed in this paragraph include the media and top managers as drivers of CSR. (For a discussion of top managers as drivers of CSR, see Swanson "Top Managers" 227-248).

investments in a business.⁹⁷ The more socially responsible a business acts, the more likely it is that the business will perform well.⁹⁸ A business with a negative reputation for social responsibility would not be able to attract the same kind of future investments from shareholders as a business with a positive reputation for social responsibility.⁹⁹ Shareholders are more inclined to invest in business with good social reputations.

One of the best examples of the potential driving force of investors is evidenced in the role that they play in making investments in socially responsible (SRI) funds.¹⁰⁰ Vogel¹⁰¹ identifies three ways in which social investors can affect corporate social behaviour. If the share value of a business rises as a result of greater demand from social investors, the cost of capital would be lowered, providing a competitive advantage. When businesses with poor CSR records become aware of the pool of capital available to socially responsible businesses they might be encouraged to change their policies in order to gain access to the pool of capital. Finally, socially responsible investors have the ability to change business policies through shareholder resolutions aimed at pressuring the management into adopting change.

7.3 Reporting requirements

Reporting requirements for businesses are increasingly being regarded as one of the most powerful drivers of CSR. Reporting requirements refer to the voluntary or

⁹⁷ For a more detailed discussion of shareholder/investor activism as a CSR driver, see Kurtz' discussion in Crane *Oxford Handbook* 249-280. Utting 2005 *Development in Practice* 377 identifies a number of prominent types of activism. These include watchdog activism (undertaken by watchdog organisations, which highlight incidents of socially irresponsible behaviour by businesses), consumer activism, and the fair trade movement (see para 3.8.7), shareholder activism and ethical investment, and litigation by activists and victims who make use of the legal route to prosecute corporate malpractice.

⁹⁸ This is reflected by the economic benefits of CSR. See para 5.

⁹⁹ See para 3.6.2. The European Commission (EC *COM(2011) 681 7*) notes that "consumers and investors are in a position to enhance market reward for socially responsible companies through the consumption and investment decisions they take".

¹⁰⁰ Within the South African context, the JSE was the first bourse in emerging markets that launched a sustainability index, called the JSE Socially Responsible Investment (SRI) Index, which provided the basis for SRI products. For a discussion of the JSE SRI Index, see Sonnenberg and Hamann 2006 *Development Southern Africa* 305-320.

¹⁰¹ Vogel *Market for Virtue* 61.

involuntary requirements in terms of which a business is required to report on a variety of issues such as social, economic and environmental issues. Although the majority of the current reporting requirements are voluntary, businesses are increasingly realising the importance of reporting on issues important to their stakeholders. Based on the discussions held at the Third National Conference on Corporate Citizenship held in 2003, Birch and Littlewood¹⁰² conclude that Australian CEOs agree that the increase in voluntary reporting is an effective means through which businesses can demonstrate their commitment to being good corporate citizens.

However, not all reporting requirements are voluntary. From 1 January 2009 all large businesses in Denmark are required by law¹⁰³ to report on their CSR initiatives. Although CSR is not compulsory, large businesses should still take a position on CSR and reflect this position in their annual reports. In terms of this statutory requirement, businesses are required to report on their social responsibility policies and how these policies are put into action, as well as the achievements of the business' CSR initiatives. If a business has no CSR policies, this should be reported.¹⁰⁴ In the South African context, companies listed on the Johannesburg Securities Exchange are as part of their listing requirements required to annually report on their participation in social and environmental issues.¹⁰⁵

7.4 Peer pressure

Peer pressure refers to the situation where the behaviour of leading companies shapes the action of other companies to follow. Large companies have the necessary resources to demonstrate their commitment to CSR and to set standards for those who follow. Smaller companies often do not have a choice of whether or not to follow the example set by their larger counterparts. This is as a result of the fact that

¹⁰² Birch and Littlewood 2004 *Journal of Corporate Citizenship* 62.

¹⁰³ Act Amending the Danish Financial Statements Act (Accounting for CSR in large businesses).

¹⁰⁴ **Danish Government 2009** <http://csrgov.dk/legislation>.

¹⁰⁵ For a discussion of the listing requirements of the JSE, see Kloppers *Improving Land Reform* 366-372.

in many instances smaller companies form part of the larger companies' supply chains and that the larger companies outsource some of their supply chains of products and services to the smaller companies. Since the smaller companies are then regarded as being a part of the larger companies, they are also expected to comply with specified social standards in their respective CSR programmes.¹⁰⁶

7.5 Civil society pressures – NGOs

Civil society organisations and non-governmental or non-profit organisations play a significant role in furthering CSR. In the developed world pressure by civil society on the private sector to act in a socially responsible manner is far more advanced than in developing countries. In developed countries civil society groups such as NGOs, trade unions and community pressure groups are well-organised and have considerable lobbying power. The same cannot be said, however, for the situation in developing countries, where these civil groupings are often weakly organised and do not have the ability to lobby any notable support.

A powerful tool in the armoury of international NGOs is the strategy of "naming and shaming", in terms of which companies with unacceptable CSR records are identified and their practices exposed through the media. The value of this strategy is found in the threat of a negative reputation. Businesses with highly visible brands are more likely to recognise the threat of a negative reputation and take measures to ensure that they do not become the target of a "name and shame" strategy.¹⁰⁷

The importance of NGOs as drivers of CSR is illustrated by the actions of the South African NGO Treatment Action Campaign (TAC). At the turn of the century the TAC became involved in the fight against the exorbitant prices (which the majority of people living with HIV could not afford) which pharmaceutical companies were charging for their patented HIV/Aids treatment drugs. The aim of their action, together with the governments' *Medicines and Related Substance Control*

¹⁰⁶ Fig *Staking Their Claims* 74.

¹⁰⁷ Vogel *Market for Virtue* 53.

Amendment Act,¹⁰⁸ was to enable the import of generic drugs from countries where they could be sourced at a lower cost. As a result of their action a number of the pharmaceutical companies announced a significant reduction in the prices of the drugs used in the fight against HIV/Aids.¹⁰⁹

7.6 Employees

Employees are in a position to put pressure on their employers to become more socially responsible. Employees want to be associated with a business with a reputation for being socially responsible. As is the case with civil society pressures, the organisation for example of consumer groups (as stakeholders in a business) in developing countries has also been weak, and they have been unable to exert any mentionable pressure on the private sector to accept its social responsibility.

Society expects business to act in a certain way and expects business to achieve a variety of social goods. The more sensitive a business is to the needs of its communities, the more likely it is that these communities will create an environment that is conducive to business.

7.7 Consumerism

The realisation by businesses of the positive relationship between CSR and consumer support is encouraging businesses to allocate more resources to CSR initiatives in order to strengthen their position in the market. It is accordingly no longer a matter of "whether or not" a business should engage in CSR initiatives, but rather to what extent it should do so.¹¹⁰ The rise to prominence of the CSR movement has resulted in a change in the manner in which a consumer decides whether or not to purchase a product. The general contention is that consumers take note of the extent to

¹⁰⁸ It should be noted that this 1997 amendment act was not enacted.

¹⁰⁹ Ward *Legal Issues* 23.

¹¹⁰ For a more detailed discussion of consumers as drivers of CSR, see Smith's discussion in Crane *Corporate Social Responsibility* 281-302; Auger 2003 *Journal of Business Ethics* 281-304; Klein and Dawar 2004 *Journal of Research in Marketing* 203-217.

which a business has accepted and acted on its social responsibility and that their behaviour as consumers is affected by the level of social responsibility of a particular business. Through their purchase and consumption power consumers have the ability to shape the behaviour of the private sector, a fact which should encourage businesses to accept their social responsibility and to act in a socially responsible manner. The power of consumers to encourage / force businesses to accept their social responsibility is multiplied when consumers organise themselves and start pressuring businesses through organised consumer boycotts.

Various examples of the power of organised consumer boycotts aimed at businesses not regarded as acting in a socially responsible manner are found throughout literature. Many of these examples relate to consumer boycotts aimed at businesses that operated in apartheid South Africa, where pressure was placed on companies to divest. It was reported that at the height of the consumer boycotts against these businesses, one in four consumers in the United Kingdom indicated that they would not buy South African produce as a result of the apartheid regime.¹¹¹ As a result of consumer pressure, Barclays Bank decided to withdraw from South Africa in order to protect its reputation in their home market.

Whilst consumer boycotts refer to the situation where consumers intentionally decide not to purchase a particular product as a result of the manufacturer's negative CSR reputation for instance, consumers also decide to support a product with a positive CSR reputation. This conduct has been described as "positive ethical consumerism"¹¹² as opposed to boycotts, which can be described as negative ethical consumerism. The idea of positive ethical consumerism is illustrated by initiatives such as the "Proudly South African" initiative, in terms of which consumers are encouraged to purchase products that have been manufactured locally in order to help address social problems such as unemployment.¹¹³ The Proudly South African

¹¹¹ Smith *Morality and the Market* 184-196.

¹¹² Crane *Corporate Social Responsibility* 291.

¹¹³ The Proudly South African campaign is aimed at promoting the produce and services of local companies in order to stimulate economic growth. For more details on the Proudly South African campaign, see Proudly South African Date Unknown www.proudlysa.co.za.

logo confirms that the providers of goods or services are "socially responsible and are supporting the local economy".¹¹⁴ The Proudly South African initiative is an example of what has become known as social labelling, which is closely associated with consumerism and also regarded as a CSR driver. The purpose of a social label is to confirm that a product has been produced or manufactured in circumstances that are socially responsible.

The Fair Trade initiative is probably the best-known international social label and is primarily aimed at the sale of coffee.¹¹⁵ This label is based on the premise that producers of a product such as coffee have been paid a fair market-related price. The purpose of this initiative is to ensure that the income of small-scale farmers in developing countries is increased so that they become part of the global economy, and so that consumers are enabled to contribute to the social welfare of the farmers. This initiative enables consumers to "put their money where their values are".¹¹⁶

7.8 Government pressures

Many businesses engage in CSR initiatives in order to avoid governmental regulations. As soon as regulations are put in place a business' ability to manoeuvre is restricted and the business is forced to comply with the regulations, with the added costs of complying. Governments are in a situation where they can promote CSR as an indirect form of regulation.¹¹⁷ The Commission of the European Union¹¹⁸ has identified the important contribution that CSR initiatives can make in reaching

¹¹⁴ Proudly South African Date Unknown www.proudlysa.co.za..

¹¹⁵ For more on Fair Trade, see Boeger, Murray and Villiers *Perspectives on Corporate Social Responsibility* 160-163; Moore 2004 *Journal of Business Ethics* 73-86; Raynolds 2002 *Sociologia Ruralis* 404-424; Renard 2003 *Journal of Rural Studies* 87-96; Walton 2010 *Third World Quarterly* 431-447.

¹¹⁶ For a discussion of the effect that culture has on a consumer's willingness to punish a business for irresponsible corporate behaviour, see Williams and Zinkin 2008 *Business Ethics* 210-226.

¹¹⁷ Vogel *Market for Virtue* 11.

¹¹⁸ EC COM(2006) 136 4.

public policy objectives. These objectives include investment in skills development, the better utilization of natural resources, and poverty reduction.¹¹⁹

In the national context, Government has to some extent played a role in thrusting CSR onto the corporate agenda. This was done mainly through legislative measures such as the *Broad-Based Black Economic Empowerment Act*¹²⁰ and the BEE Sector Charters such as the Mining Charter and the Financial Sector Charter, which includes CSR (or CSI or SED) as an element on the BEE scorecards.¹²¹

7.9 Conclusion

According to the World Bank¹²²

... drivers will not be effective unless human capacities and institutions are in place to enable them to work in their particular sectoral or geographic context.

Effective drivers require an enabling environment in which to function optimally. This enabling environment is created by institutions, which includes all branches of government, and through the tools created by government, which include legislation and regulation, as well as non-governmental tools such as codes of conduct, international standards and labels. Within the CSR dialogue the challenge is to strike a balance between governmental interventions, providing the rules for the game on the one hand and on the other hand the awareness of the fact that over-regulation will stifle the private sector's ability to operate in a free market. The ability of a government to create a regulatory framework in which the private sector operates

¹¹⁹ Other public policy objectives that CSR initiatives can assist in reaching more integrated labour markets, higher levels of social inclusion and improvements in public health resulting from businesses becoming involved in providing consumers with nutritional advice on food products, for instance (EC *COM(2006) 136 4*).

¹²⁰ *Broad-Based Black Economic Empowerment Act* 53 of 2003.

¹²¹ De Wet remarked that: "The charter process laid the groundwork for new laws and regulations which have served to entrench CSI as a formal part of the corporate sector's contribution to broad-based transformation" (De Wet *CSI Handbook* 5).

¹²² Ward *Public Sector Roles* 3.

places the government in a unique position where it is possible to enable CSR by creating an environment that encourages the private sector to act in a socially responsible manner.

8 Concluding remarks

CSR is often regarded as the panacea which will solve all societal ills ranging from the global poverty gap and social exclusion to environmental degradation.¹²³ Despite the fact that CSR is not the magic remedy that will solve all of society's problems, it can address societal issues to some extent and, if approached strategically, it should be beneficial to both business and society. Within the context of this article, CSR is identified as an appropriate tool through which agricultural companies can ameliorate the crisis in land reform.

The progress made in terms of the restitution and redistribution programmes is unsatisfactory. Unless the Government takes decisive action to increase the pace of land reform a situation similar to the Zimbabwe-style land grabs could become a reality. It should be noted that any attempt to increase the pace of land reform has to be coupled with measures to ensure that these land reform projects make meaningful contributions to the national economy.

One of the aims of land reform is to enable black people to enter into the economy through the use of agricultural land for agricultural activities. The success of land reform is in dispute, however, as a large number of redistribution programmes have failed because they have not been able to facilitate sustainable livelihoods and consequently pose a threat to a sustainable economy. The reasons for the perceived failure of these programmes include a lack of post-settlement support from Government and a lack of skills to manage and maintain a farm as a productive agricultural unit. In the case of land reform, beneficiaries are often resettled on

¹²³ Van Marrewijk 2003 *Journal of Business Ethics* 96.

agricultural land and are expected to engage in agricultural activities, but do not have the necessary knowledge and farming skills to make a success.

Since Government does not have the resources to provide adequate post-settlement support to emerging farmers, it is proposed in this article that the agricultural sector should contribute to land reform through its CSR initiatives.

The agricultural sector is strategically and ideally situated to improve the current land reform process through providing support to emerging farmers as part of their CSR initiatives. Through CSR the agricultural sector can contribute not only to land reform, but also to itself as a business, as well as to the economy as a whole. These CSR initiatives will also reflect the universal characteristics of CSR, since they will benefit both society (through the sharing of expertise and the making of a contribution to the economy) and business (through the development of improved relationships with most stakeholders), will be extraneous to the regular activities of the business and can be integrated in all decisions of the business. Despite these potential benefits, the reality is that not all businesses are engaging in CSR initiatives voluntarily, necessitating that Government act as a driver of CSR by creating an enabling CSR environment.

In February 2012 Minister Joemat-Petterson, the Minister of Agriculture, Forestry and Fisheries, acknowledged that the current land reform policy has not been working. She made a call to role players to formulate an alternative land reform policy that would contribute to the success of land reform. This paper is a response to the call and provides a unique alternative to the current policy.

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List of abbreviations

CDE	Centre for Development and Enterprise
CSI	Corporate Social Investment
CSR	Corporate Social Responsibility
DFID	United Kingdom's Department for International Development
DRDLR	Department of Rural Development and Land Reform
EC	European Commission
FOEI	Friends of the Earth International
GDP	Gross domestic product
IoD	Institute of Directors
ISO	International Standards Organisation
MTSF	Medium Term Strategic Framework
SED	Socio-economic development
SRI	Socially Responsible Investment
TAC	Treatment Action Campaign