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Corporate Social Reporting in South Africa: A Test of Legitimacy Theory

University of Cape Town

Synopsis

This study analyses the corporate social reporting (CSR) in the annual reports of fifty-six of South Africa's Top 100 listed companies for the period 1989-1998. It makes use of content analysis to divide that CSR into themes and to establish trends in the disclosure over time. The purpose of the study is to determine whether the CSR provided can be understood from a political economy perspective and whether legitimacy theory is able to offer a plausible explanation for the trends observed.

After a review of the literature and a discussion of the political economy of the country in the period studied, the report finds that the trends identified in the study can be understood from a legitimacy theory perspective. The disclosures are seen to correlate with developments in the political economy of the country such that management appears to have provided CSR in an attempt to legitimise their actions in society.

An analysis of the data provides some interesting observations about CSR disclosure patterns of South African companies. It appears that South African companies are prolific disclosers (especially in comparison to other developing countries) devoting an average of 2,4 pages of their annual reports to CSR over the period. The most popular categories for disclosure appear to be Human Resources and Community Investment.

From an additional cursory analysis of the data no support is found from the sample for a significant size effect, although industry does appear to have influenced the level of disclosure. The conclusions reached by other studies of South African CSR are broadly supported by those in this paper.

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Chapter One

Introduction

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Introduction

This paper presents the results of a longitudinal study into the amount and type of Corporate Social Reporting provided by fifty six of South Africa's large listed companies through their annual reports over a ten year period. It seeks to relate this to developments in the political economy of the country and sets out to determine whether 'legitimacy theory' is able to offer some insight into the motivations behind the provision of this voluntary disclosure.

This chapter presents a definition of Corporate Social Reporting and introduces the principle of accountability and the debates which surround it. The chapter seeks to set out the purpose of the study, its problems, hypotheses and limitations; and finally the structure of the paper from this point onward.

Corporate Social Reporting (CSR) is defined as the process of communicating the social and environmental effects of an organisation's economic actions to society. It is based on a premise which seeks to extend the accountability of organisations beyond the traditional role of providing a financial account to shareholders (Gray et al, 1987). This extension is based on the assumption that organisations have wider responsibilities than simply to make money for their shareholders. Typically corporate social reporting is a process of providing information designed to discharge social accountability. Matthews (1997) states that CSR includes "providing information about employees, products, community service and the prevention or reduction of pollution". This information may be included in the annual report, special purpose reports, or even in socially oriented advertising.

CSR seeks to extend the realm of accounting to:

- different things (not just economic activities)
- different media (not only financial accounts)
- different groups (other than shareholders)
- different purposes (not only for investor decisions) (Gray et al, 1996).

Accounting and Accountability

This study accepts that business has a responsibility to society at large. As such the provision of CSR is a means of demonstrating (or pretending) to society that the company in question is discharging its social responsibility. It is a form of accounting to stakeholders other than (or, in addition to) shareholders.

There was much debate in the early years of accounting and business research about the principle of accountability and indeed the 'business of business' (Gray et al, 1987). However, today it appears as if most writers have accepted the extension of the responsibility of business. The next section will briefly discuss the differing positions on this subject.

The principle of accountability has its roots in agency theory. This theory argues that since in the modern corporation there is a separation between ownership (principal) and management (agent), management is required to act in a certain way and to regularly provide an account of its actions (Cohen and Uliana, 1990). The debate centres on whether the contract between principal and agent is a linear one between owners and managers, or whether it is more pluralistic and consists of a number of different contracts between managers and members of society at large. Do organisations (and their management) have to account to shareholders only, or do they have responsibilities to a wider audience? Essentially the question is whether only formal contracts are relevant (ie. those between manager and owner) or whether more

implicit (or informal contracts) exist between managers and members of society which impel managers to act in a certain way.

On the one hand, the proponents of the profit maximisation philosophy hold that the welfare of society is not the company's business. In the words of Theodore Levitt companies exist to "make money, not sweet music" (Cited in Botha, 1994: 91). The most famous proponent of this argument was Milton Friedman. In 1962 Friedman wrote: "few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for stockholders as possible" (Cited in Gray et al 1987). Friedman argued that managers had no right to spend money on socially responsible activities when that money rightly belonged to shareholders. He added that to do so would lead to distortions in the market, disrupt the effective and efficient economic activity of firms, and interfere with government efforts to develop the community.

Social reformers, however, hold that business entities are actors in society and that they have to accept social norms and guide their actions in socially responsible directions. Sociologist Max Weber was one of the proponents of this view claiming that a society solely concerned with the pursuit of wealth for its own sake was empty. Friedman's attempts to separate business from society were attacked by the social reformers who claim that economic transactions rely largely on social norms and values.

The social reformers refer to the concept of "externalities". These are the consequences of economic activity which are not reflected in the direct costs borne by the individual or organisation enjoying the benefits of the activity (Lubbe, 1994). Each economic advance tends to be won at a price; possibly unemployment or environmental degradation. Traditional accounting does not measure these external diseconomies - the uncompensated costs to society. For the persons affected these represent coerced assessments, a form of hidden taxation. In an article entitled "The Public Cost of Private Corporations" Ralf Estes determined that the costs (or externalities) which corporations "offloaded" on American society in 1995 totalled

some US\$3 031 billion. Noting that if this were to be taken into account in preparing profit and loss statements for all of corporate America, if “corporations absorbed these externalised social costs instead of imposing them on an often unwilling and unsuspecting populace”, then the companies concerned would have made an aggregate loss for 1995 of US\$2 337 billion. Estes summarises his point as follows: “The lesson is clear: Corporations, by offloading costs onto society, may be profitable for stockholders and senior executives - but they aren't a good deal for the rest of us. We have to pick up the tab for the workplace injuries, pollution, employment discrimination, consumer rip-offs, corporate white collar crime, tax abatements and all the other instances of corporate welfare, government contracting fraud and ‘creative accounting’ suffered at the hands of Corporate America” (Estes, 1998: 1). Corporate social reporting can be seen as an attempt to provide additional disclosure which attempts to capture some of these “externalities” (which conventional accounting cannot) and force companies to focus on the costs which their activities are imposing on society.

Parker argues that this view came into vogue in the 1970's when it became clear that formerly free goods were no longer “free”. Clean air and water, and the environmental impact of activities were now an issue. In response to certain high profile environmental disasters (such as the Exxon Valdez oil spill) environmental pressure groups began to target companies and governments. Business was seen as owing society a responsibility for its use of formerly free goods. It became widely accepted that while economic criteria were important to the market system they were not as important in the wider context of the socio-political system. In this context management had a responsibility greater than just that to the owners of capital (1986: 68). In the modern world, the proponents of the Friedman approach appear to have lost the argument and have all but disappeared from the debate. Indeed some modern-day management accounting researchers have even begun to argue that social responsibility activities may be consistent with wealth maximisation. In a social environment that expects all corporations to exhibit concern for social goals, companies which do not do so may be punished by those societies. This punishment may take the form of fines imposed by government, higher taxation, loss of customers,

suppliers and staff or litigation against the company, In this case demonstrating social responsibility helps to increase profits by avoiding the punishment.

The acceptance of this wider role is well stated by Benston when he claims: “the conclusion is inescapable that the corporation receives its permission to operate from society and ultimately is accountable to the society for what it does and how it does it” (1982: 87).

Hamann and Kapelus write about a global shift in the way that business is perceived such that it is increasingly being seen as a crucial element in the transformation of society. This is demonstrated by growing emphasis among United Nations and international government organisations on the need for partnerships with businesses to achieve common objectives. It is also demonstrated by the establishment of global social responsibility guidelines and socially responsible investment indices including the Dow Jones Sustainability Index and the FTSE4-Good, as well as by the increasing emphasis being placed on the importance of social responsibility by employees, consumers and environmental activists (2001: 10).

Certainly in South Africa it appears as if the consensus is that business indeed does have a responsibility to society. As Botha argues (1994:92), the local economy has shifted such that “companies and other stakeholders accept the need [to] focus on social issues”. He goes on to point out the apparent acceptance by business that “both government and the private sector need to involve themselves with community responsibilities in the form of the creation of infrastructure in health, housing, transport, education and culture” (ibid).

A statement from the chief executive of the South African Chamber of Commerce, Kevin Wakeford, supports the view that South African business has accepted responsibility for helping to meet the needs of the community. He is quoted as saying that from the late 1980’s a new view of business emerged which proposed that business operated within a socio-economic context and as such had to “take

cognisance of a variety of stakeholders, including employees, clients and the broader community” (in Cape Times, 1999).

In South African today the acceptance of the social responsibility of business is based less on the ‘consumption of social resources’ argument and more on the acceptance of a moral obligation to right the wrongs of the past. The absence of committed state support for social development (prior to 1994) saw many companies embracing developmental objectives through corporate social investment initiatives. As will be more fully discussed in the chapter on History and Political Economy, there appears to be an obligation on local companies to pick up some of the traditional welfare responsibilities of the state. There is strong evidence to suggest that business benefited from the system of racial capitalism embodied in the Apartheid legal framework and for this reason they appear to be morally obliged to contribute to the development of a non-racial society. This is well stated by Gray et al who quote from Savage’s 1994 study of South African CSR. “Human Resources is a particular issue in South Africa where some companies at least want to appear to be taking some responsibility for the inequalities of society in the wake of Apartheid” (1996: 163).

Purpose of the study

This study seeks to evaluate the social disclosure provided by the sample companies in their annual reports for the period 1989 – 1998. It seeks to determine trends in the disclosure over the period (in aggregate and per category), to make observations about the reporting and ultimately to draw some conclusions about the possible motivation of management for providing such information. In particular the study attempts to determine whether a political economy perspective in general, and legitimacy theory in particular, can explain the characteristics of, and trends in CSR over the ten year period.

A perplexing question around CSR arises. What factors contribute towards the decision by a company to expend scarce resources on voluntarily providing corporate

social reporting information? Why provide CSR at all? As Hutchins puts it: the annual report is “[u]nquestionably the most expensive and management-intensive tool within the typical financial communication program” (cited in Neu et al, 1998). So what motivates management in providing extra voluntary disclosure devoted to CSR? This study will attempt to answer this question in some way.

In attempting to address the question, the study will make use of political economy and legitimacy theory frameworks to analyse CSR. The body of research in this area is very fragmented and confused, with conflicting conclusions being the norm. CSR literature in general has been largely concerned with identifying factors that appear to be related to disclosure rather than placing CSR in some theoretical context. Additionally there has been very little CSR research conducted in the South African institutional setting. Studies of South African CSR have largely been limited to descriptive works which, again, make no attempt to understand the motivations behind disclosure. International research in this area has focused on developed nations, particularly the United States of America (USA), United Kingdom (UK) and countries of Western Europe. The importance of this study then, lies in its attempt to examine the applicability of legitimacy theory in a South African context, as well as in its contribution to a field in which there is little focused theoretical research.

In particular, the attempt to study whether a political economy explanation applies to a South African company's CSR provides rich ground for research. South Africa is a country in which politics has dominated the lives of many people. Its often tragic history has certainly provided much development in the light of which to study company reactions.

Much of the recent CSR literature has been focused on environmental reporting practices. There has been little literature that has considered other types of CSR. It is hoped that this study will contribute in some way to addressing this imbalance and that it may provide a foundation for future research in this area.

The research problem has been alluded to above. However for clarity, this section briefly states the problem and hypothesis before proceeding with the study.

A short statement of the Research Problem

The larger question to which the dissertation aims to contribute some knowledge is: 'What determines the amount and type of Corporate Social Reporting which South African companies voluntarily present in their annual reports?' In attempting to find an answer the study will examine the applicability of a certain theoretical perspective which seeks to answer that question. That theoretical perspective holds that developments in the political economy of a country influence the CSR disclosures that a company makes. More specifically, the legitimacy theory perspective (which falls under the umbrella of political economy) posits that companies make CSR disclosures in an attempt to legitimise their actions in society.

The specific problem of this thesis can be stated thus: "Is Legitimacy Theory able to explain the trends in CSR of South African Companies between 1989 and 1999".

Sub-problems

In attempting to answer the problem, an analysis of the data gathered for the study will also enable a comparison to be made with the results of other studies into CSR, those in developed countries and those in developing countries, as well as those specifically focused on South Africa. This will enable the study to answer two questions:

- How do the trends observed compare with those observed in other longitudinal studies of CSR, and
- Do the characteristics identified in the literature as being related to levels of disclosure apply equally to the South African companies in the sample?

Hypotheses

The corporate social disclosure by South African companies in the period studied can be seen as a reaction to the political, social and economic environment in which the companies operated. Events and trends in the political economy of South Africa are related to the frequency, level and type of CSR provided by the companies in the period studied.

The CSR provided by the companies studied was motivated by, and is indicative of, corporate needs for legitimacy.

The level of CSR will have increased since 1989 and the topics covered are related to developments in the political economy of the country.

Simply stated, the hypothesis is that the trend in CSR over the period 1989-1998 is influenced by developments in the political economy of the country. A high level of CSR is expected when compared with other studies and. The pattern of total disclosure is expected to be one of increasing volume from 1989-1994, followed by a period of high disclosure. From the initial high level, the CSR is expected to begin to drop off towards the end of the period. In the early years of the study companies had maximum incentive to seek legitimacy as a result of uncertainties about the new political dispensation. Once business was comfortable with the new government and had had their fears allayed there was less incentive for legitimacy-seeking disclosures.

Limitations and Assumptions

The study has various limitations and makes certain assumptions in order to draw conclusions about the CSR observed.

The study is limited to drawing conclusions from the amount and type of CSR

provided by 56 South African companies between 1989 and 1998. It will thus not seek to evaluate the usefulness of CSR to investors and other users. Nor will it directly attempt to identify characteristics of firms providing CSR – any observations concerning this will be incidental to the main study. The focus will be on drawing conclusions from trends in total disclosure of all the companies, thus explanations of individual company's CSR will be limited.

The study will also not consider issues around the placement of CSR in the annual report and the implications around this. It is practically difficult to draw any firm conclusions from this type of information which could add significant value.

The attempt to understand CSR from a theoretical perspective like 'legitimacy theory' assumes an ability to infer management's intentions from its social disclosures. This is necessary by virtue of the fact that this is a theoretical study. In the absence of evidence to the contrary this assumption will be applied.

Other assumptions and limitations arise from the approach adopted. For example the method of sample selection and measure of CSR impose some necessary assumptions. These will be fully discussed in the chapter on methodology.

Structure of the paper

The report will proceed as follows. The following chapter provides a summary of important trends in, and conclusions from, the body of literature in the field. Chapter 3 sets out the methodology adopted and notes the assumptions and limitations arising. This is followed by a look at the political economy of the country over the period of the studied. Chapters 5 and 6 present the results of, and observations from the study, while Chapter 7 provides a conclusion.

The appendices contain an historical timeline (Appendix A), a list of companies chosen for the study and those in the Top 100 which were excluded (Appendix B), as well as a Glossary of important terms and abbreviations used in this paper (Appendix C).

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Chapter Two

Literature Review

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Literature Review

This chapter contains a review of literature in the field of CSR which is important to this study. The review allows for the study to be placed in a context and helps to highlight the specific area to which the study seeks to make a contribution. Additionally, the consideration of prior research works allows for the development of the hypotheses listed in Chapter one, and an expectation for the research.

The review has been divided into two main parts. The first covers the CSR literature from an overall perspective, while part two looks more closely at studies which are directly relevant to the topic of this paper and which approach CSR research from a theoretical perspective.

A GENERAL LITERATURE REVIEW

Researchers are of the opinion that the field of CSR literature is very broad and as such lacks overall coherence and uniformity (Gray et al 1995a, Belkaoui and Karpik, 1989 and Ullmann, 1985). Indeed there is little about CSR which has not been contested. An agreed theoretical perspective has not been developed and the absence of systematic reporting by companies appears to have hampered traditional research attempts. As the broad literature review below indicates many different perspectives have consequently developed.

Developments since 1970

The CSR literature has been comprehensively reviewed by Matthews (1997) who distinguishes, inter alia, between empirical studies and philosophical discussion.

Matthews divides the literature on CSR into three periods: 1971-1980, 1981-1990 and 1991-1995. His review does not cover any period prior to 1970 as he is of the opinion that the subject was only introduced in 1971 (1997:483). Guthrie and Parker argue that there are some isolated examples of CSR research prior to that date. However, they concede that CSR was very much a "child of the post-1970 period" (1989:343). Matthews draws a distinction between traditional studies and philosophical (or critical) studies. Traditional work sees CSR as an addendum to conventional accounting which can be researched with the same assumptions and preconceptions which inform mainstream accounting research. Such an approach takes the financial community as the principal users of CSR and tends to limit social accounting to that which can be articulated within the confines of conventional accounting. The second approach places social reporting at the heart of an examination of the role of information in organisation-society dialogue. This research falls into what Tilt (1994) calls the "radical paradigm" which sees CSR as a reflection of conflicts occurring between capital and other social interests (such as workers, environmentalists and consumers). Developments in these different fields over time will now be considered.

1971-1980

In the first period empirical studies tended to measure the incidence of CSR disclosure by firms and the volume of disclosure provided. These were sometimes related to the characteristics of the disclosing company such as size, industry and profitability. Perhaps the first (and most often quoted) study of this kind was performed by Ernst and Ernst in 1978. In an analysis of the annual reports of Fortune 500 companies between 1972 and 1978 a high incidence of disclosure was found, although the average volume of CSR was only half a page. This study set the tone for a great many others which followed and categorised the different types of CSR provided and then sought to make observations about the characteristics of the companies making disclosures.

According to Matthews, Bowman and Haire performed one of the earliest studies (in 1975) which looked for a relationship between profitability and level of disclosure. The study found that the highest return was associated with a medium level of disclosure. This was reportedly refuted by Abbott and Mosen in 1979, when they

found no differences in the returns to investors between high and low disclosure firms. Researchers at this time were concerned with social accounting as whole, rather than specific topics (Matthews, 1997).

1981-1990

In the second period, general social disclosures became less of a concern and the attention given to environmental matters increased dramatically. In this period an attempt was made to study the motivation behind social disclosure - this study, by Guthrie and Parker, will be examined more fully below. Empirical studies continued to examine the incidence of CSR and attempted to give some explanation of the source, direction and type of disclosures (eg. Trotman and Bradley, 1981; Belkaoui and Karpik, 1989). Critics of this type of content analysis research have claimed that it is unhelpful in that it reports the past, lacks a theoretical base and is concerned with improving the image of companies and maintaining the status quo in society. Matthews holds that a limited amount of such research is needed, but laments the lack of research into reasons why management "invest scarce resources in making additional disclosures" (Matthews, 1997: 492).

In the field of philosophical discussion, the second period provided debate about the extent to which accountants should become involved in social and environmental accounting, as well as an appraisal of the influence of accounting as a means of preserving the status quo by supporting capital over labour interests (Matthews cites the works of Tinker, in 1985, and Schreuder and Ramantahan, in 1984, as support here). Finally, the period saw the introduction of some legislation which required forms of CSR, for example the Bilan Social in France and the Environmental Response Compensation and Liability Act in the USA (Matthews, 1997: 490-495).

1991-1995

The final period is characterised by the almost complete domination of environmental accounting over social accounting, with a wealth of empirical studies being carried out to determine the extent of environmental disclosures (Roberts, 1992 and De Villiers, 1996, 1997). Writers in the field of critical theory warned against environmental researchers being absorbed by the accounting profession and also

noted that not enough attention was being given to actions which could change the underlying system. (Matthews cites Tinker as the chief proponent of this view). Finally he notes that some further attention was paid to environmental audits (Matthews, 1997: 496-501).

Major Conclusions produced by the research

The wide range of empirical literature makes it possible to draw some conclusions about CSR practice.

Most of the literature gives support to the view that CSR is **not a systematic activity**, but rather waxes and wanes in popularity and in the subjects covered (Hogner, 1982; Guthrie and Parker, 1989 and Gray et al, 1995a).

CSR appears to be **unrelated to profitability or stock market performance** in the same period, but does appear to be **related to company size** (Deegan and Hallam, 1991; Trotman and Bradley, 1981; Williams, 1999; Neu et al, 1998; Belkaoui and Karpik, 1989 and Cowen et al, 1987). Large firms appear more likely to provide CSR. (Adams et al (1998) made a further distinction between large and 'super-large' firms, finding that the latter were significantly more likely to provide CSR). This is perhaps due to the fact that they are in the public eye to a greater extent than smaller companies and, due to their higher profits, are easy targets for social pressure groups and governments (Adams et al, 1998; Cowen et al, 1987; Deegan and Hallam, 1991; Roberts, 1992; Singh and Ahuja, 1980; Trotman and Bradley, 1981 and Belkaoui and Karpik, 1989). Ullmann (1985: 541) suggests that given the limited resources and information processing capabilities of pressure groups and stakeholders of a company, they are more likely to focus their demands on the most conspicuous firms and industries. This results in the larger firms being subject to the most pressure.

There also appear to be some **industry effects** on CSR. For example oil companies and companies in industries which are subject to a large amount of political pressure

tend to give more CSR (Cowen et al, 1987; Roberts, 1992; Singh and Ahuja 1980; Adams et al, 1998 and Williams, 1999).

The country in which a company reports, as well as the country of ultimate ownership, appear to influence social disclosure too (Gray et al, 1987; Roberts, 1990; Gray, Kouhy and Lavers, 1995a; Guthrie and Parker, 1989, 1990; Adams et al, 1998; Williams, 1999 and Ahmed and Courtis, 1999). Adams et al found significant differences in both the type and amount of information disclosed by companies from different countries, and that differences in cultural, political and social factors help explain this (1998: 16ff).

These conclusions can be understood and explained by a legitimacy theory analysis using the political economy perspective. This is more fully discussed below. The perspective holds that where companies are subject to political pressures they will respond with CSR. So, larger companies may be subject to greater political scrutiny. Companies in certain industries are also likely to be subject to different political pressures than those in other industries. Indeed even variances in the CSR provided in different countries are likely to be a result of those companies being subject to differing political pressures based on the institutional environment and social norms within which they operate.

Decision-usefulness studies

Many researchers have tried to understand CSR from a traditional accounting perspective. These include studies in which users are asked to rank various accounting data in order of importance, as well as those which have attempted to investigate whether CSR is treated as information by stockmarket participants. The first category of research seems to suggest that the financial community find CSR to be somewhat useful (Belkaoui, 1980 and Benjamin and Stanga, 1977). The conclusions reached in the second area have been mixed and inconclusive with no common trends emerging (Matthews, 1987). However the time and resources devoted to CSR have generally been shown not to translate into increased share prices or profits (Belkaoui and

Karpik, 1989) with Mintzberg (1983) noting that “it pays to be good, but not too good”.

An interesting study of the usefulness of CSR to investors was carried out by Dennis Patten (1990). The author examined the stock trading volume and price return reaction to the 1977 announcement that certain United States firms doing business in South Africa had agreed to sign the Sullivan Code promoting equal opportunity for black workers. The results indicated that firms that did not sign the code experienced significantly higher unexpected trading volumes than signing firms around the announcement date. These findings were seen to represent evidence of investor use of social responsibility information.

The fundamental problem with these ‘decision usefulness’ approaches is that they rely on the efficient market hypothesis whereas the provision of CSR is not motivated by the wants and needs of financial participants (Gray, Kouhy and Lavers, 1995a; Matthews, 1987). This is because the purpose of CSR is to fulfil the obligations of the organisation to a wider audience than simply shareholders or to maintain organisational legitimacy amongst a wider range of participants.

Indeed it seems absurd to use the traditional decision-usefulness approach to study a phenomenon which arose in reaction to the adverse effects of decisions made by managers and investors based on their decision-useful accounting information. As Gray et al note, studies which avoid concern with what should be and defer all wisdom to the ‘free market’ have little relevance in a field in which the main concerns are the failure of that market and an attempt to change current practice (1995a).

Some decision usefulness studies sought to test whether social performance information is found to be decision useful. Shane and Spicer (1983) conducted a study to determine whether security price movements were associated with the release of externally produced information about companies’ environmental performance. They found that price movements in shares of companies mentioned in eight environmental studies conducted by the Council on Economic Priorities (CEP) were consistent with changes in perception among investors relating to future cash flows. Additionally they

found evidence that investors discriminated against companies with bad pollution control records.

However an interesting study by Chan and Milne appeared to come to a different conclusion. Their study, using the traditional decision-usefulness approach, highlighted the fact that shareholders do not pay too much attention to the CSR provided by a company itself. While many studies before had sought to link CSR to stock market or accounting performance, Chan and Milne managed to take their test to the level of the individual. They designed an experiment in which investors were asked to spread their investments between various fictitious firms. The study found that the investors tended to react strongly and negatively to poor environmental performers whereas there was no significant reaction to the companies which showed significantly positive environmental performance (1999:265). Their conclusion, coupled with the somewhat inconclusive results of other studies in this area seem to indicate that since shareholders themselves do not find CSR provided by the company itself all that useful or necessary, managers must be providing it to meet the demands of other constituents. And it is with studies focussed on these other constituents that this paper is most concerned.

DIRECTLY RELEVANT LITERATURE

This section of the literature review looks more closely at some studies which are of direct relevance to this paper

Studies applying social and political theory

Much research in the field of CSR has focussed on descriptive studies and studies to identify the characteristics of disclosing companies. There has been less research that attempts to understand CSR from a theoretical perspective. As Ullmann laments there appears to be much “empirical data in search of an adequate theory” (1985: 555). Those social accounting studies, which have attempt to place CSR into some theoretical perspective, are of greatest interest to this report. For if the study is to be of any value it is necessary to situate it in some theoretical framework which will help to draw conclusions from empirical observations. Despite the fact that most research has not been theoretical some major theories have emerged. These can be divided into two broad approaches: the Agency Theory approach and the Political Economy perspective.

The Agency Theory Approach

This approach has not found much support from researchers. This is possibly because its conclusions are almost indisputable and do not provide much of a basis for better understanding reporting practice. Based on positive accounting theory (as developed by Watts and Zimmerman, 1978, 1986, 1990), agency theory holds that managers will provide CSR only to the extent that it increases their welfare. The perceived benefits of CSR would have to outweigh the costs. Ness and Mirza (1991) conducted a study of 131 UK annual reports for 1984 and concluded that social information was disclosed in order to increase the welfare of management. This conclusion is logical, however it doesn't provide us with much room for further exploration as to why

management perceives CSR as being a worthy activity. So while it provides an adequate base from which to proceed, other perspectives are required to enrich our understanding.

Deegan and Hallam went somewhat further in their 1991 study when they introduced the concept of political cost to the debate. They proposed that companies make certain voluntary disclosures as a means of reducing the political cost imposed by employees, unions and the government. Using a sample of 115 Australian companies they tested various hypotheses centred on the view that the provision of value added statements was a means to de-emphasise profits and as such reduce political costs. They found some support for this perspective concluding that larger companies and companies operating in politically sensitive industries were more likely to voluntarily present value added statements. Their approach indicates that in order to understand CSR practice one needs to look beyond the manager-owner nexus to the wider political and social environment. It is this that the next perspective seeks to do.

The Political Economy Perspective

The political economy perspective makes the point that the economic domain cannot be studied in isolation from the institutional framework within which economic activity takes place. It sees accounting reports as social, political and economic documents. They serve as tools for constructing, sustaining and legitimising economic and political arrangements which contribute to the company's private interests. CSR can be used by a company to define itself and to project its beliefs, norms and perceptions. Corporate social reports emerge from political processes and reflect corporate power and the impact of government regulation or pressure (both from government and other pressure groups). They are not neutral documents, but are a product of the interchange between the company and its environment, and they reveal an attempt to mediate and accommodate a variety of sectional interests.

The classical political economy perspective provides an alternative to the neo-classical marginalist view of economics in studying the practice of accounting.

According to Tinker (1980: 147) the political economy approach regained favour amongst academics following the critique of marginalism known as the 'Cambridge Controversies' which showed that marginalism relied on fallacious theoretical foundations. Marginalism focuses on the efficiency of forces of production, in which decisions are made, based on the marginal productivity of one force of production over another. Thus it sees profit as a measure of firms efficiency in utilising society's resources. Political economy, on the other hand, is most concerned with the distribution of power in society and the institutional structures which result therefrom. It recognises that there are two dimensions of capital: one as physical instruments and another as a relationship in societal organisation. We may say that political economy focuses on the social relations of production and sees profit as indicative of social power rather than efficiency and productivity.

Marginalism was shown by the 'Cambridge Controversies' to be an inadequate theoretical base for understanding economic behaviour as it is tautological. Marginalism requires certain assumptions to be made in order to proceed with the analysis, however the assumptions required are the answers that the analysis seeks to find in the first place. We seek to answer a question by analysis and are forced to assume the answer first in order for the analysis to proceed. (Tinker, 1980).

Tinker sought to demonstrate the ability of political economy to help in understanding economic activity by applying it to analyse the profitability of Scottish company Delco, which operated in Sierra Leone until its collapse in 1976. His analysis showed that an understanding of the configuration of social forces over the company's 46-year history was central to an understanding of the history and profitability of the firm over the period. He concluded that "market efficiency and social stability are not independent realms: there is a complex interplay between the two that shapes the destiny of enterprises such as Delco" (1980: 158).

Authors like Gray and Tinker assert that accounting does not merely play a passive role in social conflict, but that it contributes to social reality. As Tinker, Lehman and Niemark note "[a]ccounting practice and scholarship is not just derivative and reflective of social reality; it also helps constitute that reality" (Tinker et al, 1991:29).

Empirical support for Political Economy

A comparative analysis of the CSR provided by companies in the US, UK and Australia found empirical support for the political economy perspective. This research was conducted by Guthrie and Parker (1990), who found that a large amount of CSR was reactive, rather than proactive. They concluded that this fact coupled with the high levels of voluntary CSR observed in their study demonstrated a constructive response to public expectations and possibly an attempt to avoid further regulation. Companies sought to pacify socio-political demands made on them, while attempting to win or maintain support from certain targeted constituencies by emphasising their positive contributions to social welfare.

The predominance of 'good news' disclosures was seen to lend credence to the argument that CSR represents a strategy to counter public criticism of corporate activity. The levels of disclosure observed were seen as a "testament to the perceived importance attached by social, political and economic interest groups to the disclosure of the non-market impact of corporate activity" (Guthrie and Parker, 1990: 273).

Adams et al (1998) conducted a study of CSR practices in Western Europe. Their study allowed them to identify factors which appeared to influence all types of social disclosure. The political economy perspective was considered by the authors to be most helpful in analysing and theorizing the results of their study.

The political economy perspective is very wide in its application. Besides its application on a general level, researchers have developed two main theories which seek to apply the approach more specifically. These are stakeholder and legitimacy theory. Some researchers have chosen to see the two as competing approaches to explain CSR practice. Indeed, some have even drawn a distinction between the political economy perspective and the theories which apply it. As this report will argue, it is more correct to see the political economy perspective as a description for any approach which places the socio-political paradigm at the centre of its analysis of

CSR. The way in which this is further developed provides the distinction between the two, and it is to this that the study now turns.

Stakeholder Theory

According to Gray et al (1995a), the chief proponents of Stakeholder theory in the context of CSR are Arie Ullmann and Robin Roberts. Although Edward Freeman introduced the topic into management studies as a way to understand how executives manage external forces and pressures. This theory develops the political economy approach from a 'bourgeois' perspective. Such a perspective perceives the world as essentially pluralistic and focuses on interactions between groups. Society is seen to be made up of various sets of relationships between individuals, organisations and the state - all of whom seek to preserve their own self-interest. Thus the perspective may focus on the negotiation between a company and an environmental pressure group. (Gray et al, 1996). The 'bourgeois' perspective emphasises the right to pursue self-interest within a framework or social environment which by its nature limits the rights in some sense (Williams, 1999). (This contrasts with the 'classical' perspective, which places class interests, structural inequity and the role of the state at the heart of its analysis – something which the bourgeois perspective accepts as given).

From this bourgeois perspective, a company's continued existence is seen to depend on the support of stakeholders whose approval must be sought for the company to survive (Lehman, 1994). Freeman (1983) defines a stakeholder as any group or individual that can be influenced by, or can itself influence the activities of an organisation, or those groups without whose support the organisation would cease to exist. These stakeholders include investors, employees, creditors, customers, suppliers, public interest groups and the government. Freeman notes that the application of the concept to social responsibility places less emphasis on satisfying owners and more emphasis on society and employees. The stakeholders together are said to determine what corporations can and cannot do (Freeman, 1983). The more powerful the stakeholders, the more the company must adapt its behaviour to gain approval. Corporate disclosure is seen as part of the dialogue between the company

and its stakeholders. It is a means by which the company negotiates its relationship with society by, for example, demonstrating the extent to which stakeholders' demands are being met.

Ullmann (1985) contributed to the development of this theory through research which used a three-dimensional model to explain the level of social disclosures using a stakeholder approach to strategic management. Ullmann presented stakeholder power as the first dimension of his model, noting that a firm would be responsive to the demands of critical stakeholders. The other dimensions were the firm's strategic position towards CSR activities and its past and current economic performance. Roberts (1992) tested Ullmann's theory on a sample of 80 US corporations using a logistical regression with a rating of corporate social disclosures as the dependent variable. Corporate political action committee contributions (a surrogate for government and regulatory influences) were significant at the 5% level, and the average debt/equity ratio (a surrogate for creditor influence) at the 10% level. Roberts noted that his tests provided evidence that stakeholder theory is an appropriate foundation for empirical analyses of CSR.

This theoretical perspective appears to invite application to the South African institutional setting. This is because it finds some support from a report issued in 1994 by the King Committee on Corporate governance which saw South Africa as a country characterised by 'stakeholder capitalism'. This report, which was accepted by the business community and regulators in the country as descriptive of the status quo of business at the time, held that companies had a responsibility to account to different constituent stakeholders. This is more fully discussed in a later chapter. As such many companies tended to refer in disclosures in the annual reports to various 'stakeholders'.

It should be noted, however, that the perspective proceeds from an inadequate basis in certain respects. It fails to recognise the role of class conflict and structural inequality in its analysis. This is particularly relevant in South Africa, a country in which such conflict played an important role in shaping our history. This weakness, which results

from adopting a bourgeois perspective is somewhat addressed by the development of legitimacy theory.

Legitimacy Theory

Legitimacy Theory proposes that CSR is provided as a reaction to political, economic and social factors, and that disclosures aim to *legitimise* the company's actions (Guthrie and Parker, 1989; Hogner, 1982; Lehman, 1994).

Legitimacy theory is based on the notion that business operates in society via a social contract in which it agrees to perform various socially acceptable actions in return for approval of its objectives. This idea of the social contract as an unwritten agreement among members of society can be traced back to philosophers like Plato (Richards, 1966), Hobbes (Toenies, 1969) and Jean Jacques Rousseau (Betts, 1994). The contract recognises that as part of the social system businesses utilize resources which might have been otherwise allocated. Their utilization of these resources must be accepted as legitimate by the larger social system and they are thus required to disclose enough social information for society to assess whether they are good corporate citizens.

In legitimising their actions via disclosure, companies hope ultimately to justify their continued existence. This perspective also recognises that society may be characterised by competing class interests. As such, companies have to provide evidence to maintain their legitimacy within the system and, indeed, may have to provide such evidence to legitimate the system itself.

The theory, furthermore, holds that company managers seek to enter a state in which their value system is congruent with those of the society within which they operate. As Nue et al (1998: 265) argue, "congruency between organizational actions and the values of relevant publics are central to organizational survival". Such legitimacy ensures the continued inflow of labour, capital and customers and forestalls regulatory activity from the state or disruptive actions by other external parties (eg. boycotts and

strikes). If companies are unable to demonstrate their legitimacy the community may in a sense 'revoke' their contracts. This could take the form of consumers reducing spending, employees withholding labour or constituents lobbying government to increase taxes or fines or prohibit actions which don't conform with community expectations (Brown and Deegan, 1998).

Brown and Deegan assert that the view that organisations will be penalised if they do not conform to public expectations is one that is being embraced by corporate management. They cite a statement made by the directors of North Limited in Australia as follows: "We recognize that the support we receive for our activities will depend on our ability to protect the health and well-being of the people and the environment around our operations ... Performance in these areas is of critical importance to our employees and the community and is therefore critical to the success of our Company" (1998: 23). This example appears to lend some support to their contention that management in Australia has accepted that failure to fulfil the expectations of the community will be detrimental to the ongoing operations of an entity.

When there is a disparity between the value system of companies and those of society at large there exists a threat to the company's legitimacy. Company managers thus take action to seek legitimation of their objectives.

According to Lindblom (1983) (possibly the most often quoted researcher in this area), these actions will seek to achieve one or more of the following:

- To educate the "relevant publics" about changes in the company's performance and activities in order that they accord with society's values
- To change perceptions, but not company behaviour
- To manipulate perception by deflecting attention to other issues (eg. by ignoring company pollution and focusing on contributions to environmental charities), and
- To change society's expectations of the company's performance.

Corporate social responsibility disclosures are tools used to achieve the strategies above which "serve to rationalise and justify the corporate entity ... by not merely

describing effective management, but legitimising corporate power and maintaining confidence” (Lindblom (1983 and 1990) cited in Guthrie and Parker, 1989 and Gray et al, 1995a).

It is necessary to be clear in distinguishing between legitimacy and legitimation. Legitimacy is a generalized perception that the actions of an entity are acceptable within some socially constructed system of norms and values. It is a noun describing a state which is conferred and controlled by those outside the organisation and is dependent on a collective audience rather than particular observers. Legitimation, on the other hand, is a noun describing the *process* underlying the status. It refers to the specific actions which are under the control of the organisation and are aimed at justifying its right to exist and continue with its economic pursuits.

It is inevitable that contradictions will exist between profit generating activities and other social values. Various researchers have advanced the argument that CSR disclosures have the effect of maintaining both firm-specific and system-wide legitimacy when these contradictions arise (Guthrie and Parker 1989, Gray et al 1995a, Tinker et al 1991). Indeed, as Neu et al (1998: 269) put it “narrative disclosures in annual reports allow managers to stage and direct the play they wish their publics to see, to pick the characters, to select the script and to decide which events will be highlighted and which omitted [so as to] ... shape the way various publics ‘know’ or ‘feel’ about the corporation”.

All of this begs the question ‘who are the relevant publics’? Neu et al suggest that financial stakeholders (shareholders and creditors), regulators, and environmentalists should be included. In a South African sense, and certainly for the purposes of this paper, it is submitted that employees, customers, suppliers and the general public need to be included. This will allow us to adapt the ‘stakeholder theory’ model by bringing the stakeholders in as relevant publics in the legitimacy theory perspective. The stakeholder literature proposes that stakeholders can be identified by their power to influence firms, the legitimacy of their relationship with firms and the urgency of their claims. Mitchell et al argue that stakeholders can be given a broad or narrow definition. The broad definition is used in this study for the definition of both

stakeholders and 'relevant publics' and as such includes groups which are not in a formal relationship with the entity. As long as a group is placed at some degree of risk as a result of an organisations activities they are regarded as having a 'stake' or being relevant (Mitchell et al, 1997).

Neu et al argue that in their attempts at legitimation, companies direct their disclosures at relevant publics which are perceived to be important to the company rather than at all peripheral critics (1998). (This is consistent with Roberts and Ullmann's contention in connection with 'stakeholders'). The Neu et al study of environmental disclosures provided by 33 Canadian firms appeared to support the contention that in cases where multiple relevant publics with incommensurable interests exist, the disclosures made tend to accommodate the more important publics (government, financial stakeholders) and defy the interests of the more marginal publics (environmentalists). Thus the multiplicity and relative power of the relevant publics (or stakeholders) will affect the communication strategies adopted by management and in turn the disclosures made (1998: 274).

Ullmann (1985: 552) supports this contention from the stakeholder perspective finding that organisations are selective with regard to the stakeholders they take into consideration and noting that the relative importance of stakeholders comes from their power to control resources required by the organisation. Ullmann concludes that the disclosure of social responsibility programs "can be viewed as part of the strategic arsenal of dealing with one particular segment of a firm's stakeholders".

As can be seen from the preceding discussion, it is not entirely clear, in the empirical domain, where legitimacy theory ends and stakeholder theory begins. As Gray et al argue, the body of CSR literature itself appears confused, such that it has not always properly developed the distinction between the different positions (1996). Gray et al argue (and I submit too) that it is more correct to see the two not as competing theories of reporting behaviour, but as points of view that enrich our understanding of CSR. Stakeholder theory and legitimacy theory should be seen as two overlapping perspectives set within a framework of certain assumptions about political economy (Gray et al: 1995a, 1996). Legitimacy theory merely takes stakeholder theory and

adds conflict and dissent to the picture; or places it in a framework of classical political economy.

The classical political economy perspective encourages the interpretation of CSR in systemic political terms (as opposed to the pluralistic approach of bourgeois perspective). Such an approach would, for example, see the rise of environmental disclosure in the late 1980's and early 1990's as an attempt by management to act as if it were responding to pressure from environmental groups, while in reality attempting to wrest control of the agenda away from these groups in order to permit them to do what they do best – to make more money for capital. The bourgeois perspective would see this as negotiation between two stakeholders, whereas this perspective recognises the desire and ability of organisations to use information to legitimate, control debate and deflect criticism of their activities and existence (Gray et al 1996).

This study will use the legitimacy theory perspective in an attempt to understand the CSR of the companies in the sample. In doing so, it does not reject the stakeholder perspective but uses the legitimacy theory perspective as it appears to have been developed further in the literature allowing it to be more fully employed in the empirical analysis of CSR.

The study will not necessarily be concerned with differences between the bourgeois and classical political economy perspectives and will seek to use both in our understanding of CSR. Indeed the differences between the two appear to come down to the level of resolution in the analysis. So, for example, the bourgeois perspective would see the growth of environmental disclosures as an attempt to respond to pressure groups. Classical political economy would see it as an attempt to wrest control of the environmental agenda from these groups so as to enable capitalists to make more profits. Both perspectives are concerned with the power that society has to force organisations to disclose and the desire or ability of the organisation to use CSR to legitimate, deflect criticism and control debate (Gray et al, 1996).

Review of most important Legitimacy theory studies

This part of the literature review looks at some of the seminal works in the CSR field concerned with Legitimacy Theory. These are reviewed in order to further develop the theory and aid its application. It will also allow comparisons to be drawn between the observations of these works and those arising from the study described in this paper.

Hogner: 1982

Hogner produced what is perhaps the earliest important application of Legitimacy Theory to an empirical case study. In his 1982 paper entitled "Corporate Social Reporting: Eight Decades of Development at US Steel", Hogner examined the annual reports of US Steel for the years 1901 to 1980 and documented CSR in terms of content. The data was then analysed for year to year variation and Hogner found that what was considered reportable varied over time. While particular social activities might be ongoing, inclusion in the annual report was found to be selective.

The subjects of disclosure were, however, concentrated on the area of Human Resources, with some Environmental Reporting appearing after 1960. Overall Hogner's analysis revealed that US Steel had a history of social reporting which went back to the turn of the century and displayed a long record of growth, decline, and evolution rather than a short period of recent one-way development.

Hogner framed his conclusion in terms of legitimacy theory, arguing that US Steel's CSR constituted a response to societal forces and behaviours. He did not attempt to establish a precise linkage between external events and specific disclosures, merely commenting on specific trends in disclosure at different times (Hogner, 1982). He saw the information reported as an indicator of corporate legitimacy needs - a way of reporting information on extra-market activities which showed that the company regarded society's perceptions as important.

Guthrie and Parker: 1989

In a follow up study in 1989, Guthrie and Parker reported the result of an historical analysis of social disclosures over a hundred year period by the Australian corporation Broken Hill Proprietary Company (BHP). BHP is described as a dominant industrial corporation in the mining/manufacturing industry which has a long recorded history, and has had a major impact on Australian social and economic life. The study used a historical and content-method approach to analyse the social information published by BHP in its annual reports from 1895 to 1985 analysing CSR across six main themes. Like that of US Steel, the amount of CSR disclosed was seen to fluctuate over time, revealing a history of growth, decline and change.

To study the applicability of legitimacy theory the writers identified key themes from the history of the Australian economy and assembled a data bank of all major events and issues relating to BHP. The longitudinal disclosure frequency graphs were then compared to significant events and related BHP activities or socio-economic environmental conditions. If a majority of disclosures were associated with relevant events, this was seen as evidence of a legitimising explanation for BHP's CSR.

Guthrie and Parker concluded that there was little correspondence between peaks of BHP social disclosure and key economic and social events. They suggested that a number of significant events were not reported and that, at times, reporting occurred when no extraordinary socio-economic events had occurred. A relationship between disclosure and legitimacy theory was found to be marginally supported for some issues and unconfirmed for others. They concluded that legitimacy theory was not an adequate explanation for BHP's social disclosure and that a richer, and more robust, theory was required. A theory that recognised a tendency for management to attempt to "tell its own story, or refrain from doing so, according to its own self-interest" (Guthrie and Parker, 1989: 343- 352).

It is submitted that Guthrie and Parker placed too stringent a test of coincidence on their research. Their paper shows that there were indeed many instances of

congruence between CSR and important events. While there was not perfect correlation, it is argued that BHP's CSR certainly lends some support to a legitimising theoretical perspective. Indeed, if this theory is given a wide construction (as it is in this paper), an attempt by management to shape the agenda of national debate and transform social conflict through disclosure will certainly fall into the net of Legitimacy Theory as a theory falling under the broad net of the Political Economy perspective.

Gray et al: 1995

A similar longitudinal (time series) study was undertaken by Gray et al (1995a, 1995b). However, instead of being confined to one company, the study looked at a large number of British companies over a thirteen year period between 1979 and 1992. The authors found empirical support for the Political Economy, Legitimacy and Stakeholder theories.

From a Political Economy perspective the authors found that the history and political economy of Britain in the period studied had an important influence on the voluntary social responsibility disclosures. Over the period of study the volume of CSR disclosed increased fourfold. The period in question corresponded with the "Thatcher era" during which companies were called upon to play a greater role in society and to take over some of the government's traditional social functions. There was an attempt to reduce the influence of trade unions, encourage workforce participation, and to pass the traditional welfare functions of the state over to the market. Companies responded with a greater level of involvement in the community and the study showed that this was reflected in an increase in voluntary social responsibility disclosures.

"The annual reports reflected this in wider disclosure of share-ownership schemes, consultation with employees, training, equal opportunities and higher community involvement, while the 'old' confrontational disclosure areas - the Value Added Statement and trade union disclosure quietly fell away. UK social responsibility

disclosure does appear to offer a plausible reflection of changes in the political economy of Britain” (Gray et al, 1995a: 63).

Additionally the authors found it useful to “sharpen the level of resolution” within the Political Economy perspective by bringing in Legitimacy and Stakeholder theory. The large rise in employee-related disclosure (eg. Employee Share Ownership Programmes) could be understood from a Legitimacy Theory point of view. Since the levels of unemployment and redundancy showed a drastic increase in the period under observation, the increased CSR could be seen as an attempt to deflect attention away from the rate of unemployment by placing emphasis on the quality of employment offered to those with jobs, and on the way in which employees shared in the company’s profits. In a sense, the companies were disowning their responsibility for unemployment and emphasising their responsibility for those in employment. Also, the increase in the level of environmental disclosure was seen as an attempt at legitimation through demonstrating the satisfactory performance of the company in the environmental domain. Finally, the growth in health and safety disclosures, at a time when companies were under pressure to improve their performance in this area, can be seen as an attempt to change perceptions about company performance by showing that they gave increasing concern to the matter of protecting the workforce. These examples all accord with at least one of Lindblom’s four strategies of legitimation, namely education, changing perceptions, manipulating perceptions and changing expectations (Gray et al, 1995a: 64-67).

Stakeholder Theory was not able to offer much in the way of additional interpretation, mainly because (as noted above) it is somewhat difficult, in the empirical domain, to clearly determine where it begins and Legitimacy Theory ends. However, there is some evidence that companies were using CSR to strategically manage a new and emerging issue (the environment) with its stakeholders, while attempting at the same time to assess the power of those stakeholders.

Adams et al: 1998

In a study of 150 annual reports from six Western European countries, Adams et al sought to identify factors that influence social disclosures. They found that company size, industry and country of domicile tended to affect social disclosure. Their discussion found that legitimacy theory is able to offer a satisfactory explanation for the size and industry effects. The authors noted that size and industry type were a proxy or measure for the relative pressure which companies faced from social and environmental activists. Interestingly enough they concluded that when it came to explaining differences across countries the situation was complex and thus “legitimacy theory alone appear[ed] inadequate in explaining them” (1998:16).

This is somewhat of a non-sequitur conclusion. The authors noted that German companies tended to disclose most CSR and they explained this by the history of employee involvement in German companies as well as the relative strength of the Green movement there. They went on to suggest that the provision of a large amount of CSR by companies in the UK might represent an attempt to demonstrate that government interference was not needed to force companies to be socially responsible. Adams et al saw this as a possible means of reinforcing government’s free-market ideology and anti-legislative stance. It certainly appears from the foregoing discussion as if the differences in CSR between the two countries *could* indeed be explained by legitimacy theory. It is submitted that the authors place too tight a definition of the theory. Indeed they claim that their analysis of UK CSR “points to the ability of political economy theory to explain motivations for corporate social disclosure decisions” (1998: 18). Thus they seem to see Political Economy as a competing theory of behaviour to Legitimacy Theory. It has been submitted (both above and by Gray et al, 1996) that Legitimacy Theory should rather be seen as a refinement of Political Economy. Indeed, it appears as if UK companies needed to provide CSR not only to legitimise their actions in their society, but also to legitimise the system itself. From a classical political economy perspective, business has an interest in the laissez-faire stance of the British government and as such has an incentive to use CSR to support this stance. This certainly seems to be a valid legitimising action.

Other support for Legitimacy Theory

Patten argued in his study of environmental disclosures that legitimacy theory would suggest that companies operating within the oil industry would respond to the Exxon Valdez oil spill incident in Alaska in 1989 by increasing the amount of environmental disclosures in their annual reports. His results indicated that there were significantly increased environmental disclosures across the industry in the post-1989 period – a finding which supports legitimacy theory arguments (Patten, 1992).

Brown and Deegan (1998) cited other studies which found support for a legitimacy theory perspective as follows. Deegan and Gordon reportedly found, in a study of environmental disclosures in Australia, that increases in disclosure were positively related to increases in environmental group membership. Deegan and Rankin also concluded, from a 1996 study, that companies which had been subject to environmental prosecution provided significantly more positive environmental disclosures than a matched sample of non-prosecuted companies (cited in Brown and Deegan: 1998). The authors note that this finding is in line with Lindblom's legitimation strategy of deflecting attention away from potentially damaging news.

Brown and Deegan's own study finds a significant association between higher levels of media attention and higher levels of environmental disclosures in the annual reports of the companies concerned. In the view of the authors this lends support to the ability of Legitimacy Theory to explain CSR disclosure practices.

Ethical Relativism

Lewis and Unerman provide an interesting argument that differing CSR practices among various countries and times may be grounded in ethical relativism. That is, what is considered good at a particular point in time by one society, stakeholder or individual may not be considered as good by other societies, stakeholders and individuals or at other times.

Ethical relativism has a long history in philosophy; it was set out and expressed by philosophers such as Hugo Grotius, and Thomas Hobbes way back in the 17th Century. As Hobbes pungently put it: "Every man, for his own part, calleth that which pleaseth, and is delightful to himself, good; and that evil which displeaseth him: insomuch that while every man differeth from other in constitution, they differ also one from another concerning the common distinction of good and evil" (Toenies, 1969). This was further developed by writers like Foucault who held that moral values are relative to some particular framework or reference point and are therefore not absolute. (Sheriden Smith, 1989).

From this relativist perspective Lewis and Unerman assert that since morals themselves differ according to society and time, the CSR that addresses these moral values will also differ (1999: 521). They note that many CSR studies have found that that the nature and volume of CSR tends to vary over time and space and offer ethical relativism as a possible theoretical explanation for these variances. Recognising the fact that there may be disagreement between individuals in any society regarding the morality of specific behaviours, the authors propose that the relative power of different stakeholder groups is likely to determine which detailed moral codes are likely to be addressed by a particular corporation's legitimisation strategies. They are the first in the CSR literature to recognise that the annual report is a form of discourse and hold that the discourse is used to legitimise a corporation's actions in society, just as social discourse determines the dominant political and social values in a given community.

Lewis and Unerman provide a good example of literature which does not distinguish between stakeholder and legitimacy theory. Using legitimacy theory as a theoretical basis, the authors refer to the relevant publics as stakeholders and claim that "legitimation strategies address the expectations of [these] stakeholders". As noted above, the slight differences in perspective between the two theories are not considered important either in the literature or in the context of this specific study.

The Public Relations view

There is a body of critical opinion which sees CSR as nothing more than public relations gestures “meant to ward off grassroots attacks by social activists” (Ullmann, 1985: 543). This is a flippant and simple explanation, but is one which on closer inspection goes to the root of Legitimacy Theory. For if a company is genuinely concerned about the effects of its actions on society it will demonstrate this through CSR. And, indeed, if the company isn't concerned about social welfare, but sees a need to provide CSR as a form of public relations then, in the opinion of management, there is a need to legitimise itself by pretending to be socially conscious. If providing CSR is a public relations exercise, it can be understood from a political economy perspective as a reaction to developments surrounding that company. Indeed, if a company senses a need to provide such information in an attempt at public relations it must be responding to the need to legitimise its actions (and indeed its existence to society). This is well illustrated by a survey in 'Boardroom', a South African publication for company directors. As one of the contributors writes: “In the corporate arena there appears to be three groups of players: those that quietly participate in the development of society from a moral perspective; those that argue that it is the responsibility of the state and do nothing; and those that visibly and tastefully exploit the opportunity with public relations panache” (Bjorkman, 1999: 11).

It appears from the above discussion that in spite of the fact that most CSR research has focussed on descriptive studies at the expense of theoretical ones, there is still a strong theoretical base from which this paper can draw. Before turning to an application of theory to results of the study, this paper will briefly consider the observations and conclusions drawn from studies of CSR in developing countries.

CSR Research in Developing Countries

Since this study is concerned with CSR trends in South Africa, some closer attention will be paid to studies undertaken on this topic in other developing countries. It

should be noted, however, that there has been a paucity of research on this topic in such countries. Most CSR research has tended to focus on the USA, Canada, the UK, Australia and Western Europe. Studies in developing countries do not seem to have moved far beyond mere descriptive works. However, if we are to compare the results of the South African study with those of studies in other countries, we would do well to consider the results of research in countries outside of the developed world. The studies tend to conclude that CSR in developing countries is at a low level (Gray et al, 1996).

India

In a study of CSR in India, Singh and Ahuja noted that very few such studies had been undertaken on the subcontinent. They looked at the annual reports of forty companies for the period 1975/76 and concluded that the level of social disclosure was related to **size and industry**. They found that larger companies and those in more politically sensitive industries were disclosing more than others. (This was supported by a later study of one hundred Indian public sector companies undertaken by Maheshwari in 1992). The authors argued that business firms “have a moral obligation to solve social and environmental problems” (Singh and Ahuja, 1980:151). In an Indian context they felt that businesses had accepted a role beyond simply making large profits for shareholders and noted that Indian society expected firms to work actively for national goals and for the broader interests of society as a whole. This was borne out by the fact that almost all firms in the sample produced some form of CSR, although the authors felt that only 40% of the companies provided what they considered to be adequate levels of social disclosure (1980: 167).

Hong Kong, Malaysia and Singapore

A study undertaken in Hong Kong found that it had the lowest reported rate of corporate social disclosure (some 6% of the companies in the sample) of any jurisdiction (Lynn, 1992). The rate of disclosure was also lower than other developing

countries. Lynn noted that other researchers had found that a quarter of Malaysian and Singaporean and 40% of Indian companies provided some form of CSR. The reasons for the low disclosure in Hong Kong were summarised into three factors: the lack of a consumer force; the absence of an indigenous political culture; and indigenous cultural attitudes. The study found that **industry sector** appeared to influence the level of disclosure, as did **foreign ownership**. The **low disclosure** was seen to have its roots in the fact that the factors mentioned above resulted in there being very little political pressure on companies to demonstrate that they were good corporate citizens.

Studies undertaken in Malaysia and Singapore supported the **size** and country of ownership effects on CSR in developing countries. Teoh and Thong suggested that the foreign owned companies were more likely to present CSR as a means of overcoming criticism that the company was exploiting the economic resources of the developing country (1984). Andrew et al (1989) lamented the lack of research into CSR in developing countries and suggested that **social disclosures in developing countries are not as extensive as those in developed countries**. Their sample of 119 listed Malaysian and Singaporean companies revealed that only 50% made social disclosures compared with the 98% and 85% of large UK and US companies respectively. The authors ascribed this to the fact that in many developing countries there were few pressure groups powerful and articulate enough to pressurise companies into reporting the social impacts of their activities (1989: 375).

Williams (1999) performed a study on countries in the Asia-Pacific region finding that organisations in Singapore, Thailand and the Philippines supplied a higher amount of disclosure than those in Hong Kong, Malaysia and Indonesia. Finding evidence to support the ability of a 'bourgeois' political economy perspective to explain CSR in this region, Williams concluded that organisations released CSR information in response to social rather than economic pressures.

South Africa

There has been a limited amount of CSR research undertaken in South Africa. Much of the research has been descriptive and has focussed almost exclusively on environmental reporting. Certainly there has been a lack of research into the trends of CSR of a large number of companies over time. KPMG commissions a yearly descriptive study which historically focuses on environmental reporting. The latest (2000) study expanded the net to include other forms of CSR. The results, which are discussed in a later chapter, found a relatively **high level of disclosure among South African firms**.

Savage conducted a descriptive study of the CSR of 54 listed South African companies in 1994. This is also further analysed in a later chapter. Savage found a high level of disclosure among South African companies – an observation which appears to be at odds with conclusions reached in other developing countries.

In her study of 200 companies throughout the world, Clare Roberts also found that the ten South African companies in her sample were fairly prolific disclosers – especially in the human resources and value added statement field (Roberts, 1990).

No published research appears, however, to have attempted to place South African CSR in a theoretical perspective. All CSR-focused studies have been highly descriptive and usually quite brief. The study reported in this paper hopes to address this imbalance in some way by extending the time period to cover 10 years and by trying to understand the CSR from a theoretical basis.

This chapter has presented a summary of the important CSR research relevant to the study of reporting practices in South Africa. After a general review which noted the characteristics found in the research to be associated with firms displaying a high level of disclosure, the chapter introduced a theoretical perspective to CSR research. This perspective, Legitimacy Theory, holds that firms provide CSR in an effort to attain a state of legitimacy in society. The theory has been empirically tested in a

number of studies to date, but as the latter part of the chapter argued, has had limited application to developing nations. Other studies to date of CSR in South Africa have found that companies here are fairly prolific diclosers. However, no attempt has yet been made to understand their CSR from a Legitimacy Theory perspective, and it is this which the research presented in this paper hopes to do.

The consideration of CSR research in developing studies leads now into the main section of the paper. The following chapter deals with the justification for the methodology adopted in the study and is followed by an analysis of the results.

University of Cape Town

Chapter Three

Methodology, Assumptions and Limitations

University of Cape Town

Methodology, Assumptions and Limitations

As Gray et al (1995b: 79) have noted, all methods of data collection necessarily “impose some structure on, and involve some simplification of, the phenomenon being examined”. As a result the researcher effectively constructs some new social reality with his method of study. For this reason it is considered necessary to discuss and provide reasons for the research methods used. This chapter seeks to highlight and justify the research methodology adopted in the study and to note any limitations which this places on the conclusions to be drawn therefrom.

Sample Selection

Gray et al (1996:87) note four approaches to sample selection previously used in CSR literature. These are: selection of the largest companies; a selection of large, medium and unlisted companies; a broad selection from the Top 1000 companies; and a selection of “interesting” or “best practice” companies. Each type of sample has its own value, but each offers the possibility of different inferences and none can be said to be totally representative of all companies in the population as a whole. Gray et al argue that a sample of large companies is more likely to demonstrate examples of CSR. Thus, in a study which seeks to track trends, identify innovations in and capture a lot of CSR, a sample of large companies seems to be recommended. A selection of large companies also allows for a greater degree of comparison with other studies undertaken – the majority of which drew their samples from the largest companies. Using large listed companies also makes obtaining the data required (annual reports for a number of years) more reliable (and indeed possible) than for other samples (Gray et al, 1996: 88). It was necessary to consult a number of different sources in order to obtain the data used in this study. Practically, it would seemingly not have been possible to obtain all the data for an extended period of time if the sample had included small companies or even those outside of the Top 100 listed entities in this country.

Companies in the sample were selected as follows. A schedule of the Top 100 companies (by market capitalisation) listed on the Johannesburg Stock Exchange (now the JSE Securities Exchange) was obtained. The list used was from a publication called the “Ernst and Young Excellence in Financial Reporting – Survey of Annual Reports by South Africa’s Top 100 Companies 1998”.

According to the survey the companies included in the list were the Top 100 by market capitalisation listed on the Johannesburg Stock Exchange at the end of September 1997. All companies were eligible for selection with the exception of companies which were purely holding companies of other listed operating companies.

Retaining only those companies which had been listed on the Johannesburg Stock Exchange since at least 1989 further reduced the sample. This was done for the obvious practical reason that the study was looking at companies over a ten year period. If financial statements were not available for a company over that period they were not included. Additionally, if the company was in existence at the time but was not yet listed, it was unlikely to be of a size or nature at that stage to make the ten year comparison meaningful. The sample comprised 56 company’s annual reports for ten years, a total of 560 annual reports. (Refer to Appendix B for a list of the companies included in the study as well as those in the Top 100 per the Ernst and Young Survey (1997) which excluded).

The reports themselves were obtained from the libraries of the University of Cape Town, Investec Bank Limited and the University of Pretoria. In the rare circumstance that one of the reports could not be obtained from one of these libraries, it was obtained from the company itself.

It is recognised that using the Top 100 listed companies as the population sample means that the sample has a bias towards large companies. Given the findings of previous CSR research this may mean that the level of disclosure found is significantly greater than would be the case if smaller companies were used. This limitation must be recognised upfront and care should be taken in extrapolating the results to any other group of companies. However, the Top 100 listed companies are

likely to be the standard setters for generally accepted practice in the country. Moreover, the Top 100 companies represent a large section of corporate South Africa (Mc Gregor, 1995), such that observations which are common to them tend to cover all the major industries in the economy.

Background data obtained about the companies to aid further analysis included industry sector and size as measured by market capitalisation. This information was taken from the JSE as noted in the Financial Mail Top Companies Survey for 1998.

A study of the history and political economy of South Africa over the period studied (1989-1998) was performed in order to construct a timeline of major events and to provide a framework within which to analyse the disclosures. (See Appendix A for the timeline of events). The events and framework were then compared to the total social disclosure pattern as well as the trends observed in an attempt to understand the disclosure from a political economy perspective.

Content Analysis

Following the approach used in similar CSR studies, the content analysis interrogation instrument was employed to record CSR across six main themes. The themes used were Public Affairs, Human Resources, Community Investment, Environment, Health and Safety, and Other. This method of analysis, which has been widely used in the literature (Gray et al, 1995b and Milne and Adler, 1999), is defined by Abbot and Mosen as “a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels and complexity” (cited in Gray et al, 1995b:80). Or, more simply, it is a research method which helps to make replicable and valid inferences from data according to its context. The value of using content analysis lies in the assumption that the extent of disclosure can be taken as some indication of the importance of the issue to the reporting entity.

There has been some debate about what constitutes the correct unit of analysis to be used in content analysis. Indeed the literature provides no overwhelming justification for the choice of any individual unit (Williams, 1999). The debate revolves around the extent to which each unit can legitimately be employed to draw the appropriate inferences. The preferred unit in the literature varies between words, sentences and pages. Number of words and sentences appear to be the choice when one is seeking to infer meaning as they lend themselves to exclusive analysis. Pages, however, tend to be the most used unit as this reflects the total space given to a topic and, by inference, the relative importance of that topic being examined. Pragmatically, pages are also the easier and more reliable unit to measure by hand (Guthrie and Parker, 1989, 1990; Gray et al, 1996:84 and Milne and Adler, 1999).

The proportions of pages disclosed were measured by one-eighth dissection of an A4 page. As mentioned later in this chapter the amount of CSR excluded photographs and graphics. The measurement was rounded to one eighth of a page in such a way that any CSR which occupied less than one eighth would nevertheless be recorded as one eighth. As a result, the measurement of CSR is not exact, but gives an indication of the trend within limited boundaries. The measurements were manually entered onto a datasheet which was captured into an excel spreadsheet. The spreadsheet was used to analyse total CSR per company, per year and per category. Throughout the analysis check totals were used to ensure integrity from source. The data was grouped by year, by topic, by industrial sector and by company which allowed the construction of total and average disclosure graphs. This enabled the identification of trends and characteristics which will be more fully discussed in the chapters which follow.

CSR Categories

It is necessary to establish some definition of what has been included as CSR. The study makes use of the definition of CSR contained in the introductory chapter. That definition is, however, necessarily broad. The problem with CSR is that, while most people intuitively know (within reasonable limits) whether a specific disclosure would fall into the CSR net or not, it is very difficult to provide an exact and limiting

definition. The decision as to whether an item meets the definition of CSR or not, must consequently be subjective and somewhat arbitrary. However, the actual categories used in similar content analysis studies are useful as a starting point. Following Gray et al (1995b), Guthrie and Parker (1989), Williams (1999) and the categories used in a similar study on the CSR of Anglo American (Griffith, 1998), it was decided to make use of the six categories named above.

As a substitute for a definition (or an expansion on the general definition already provided), examples of topics of disclosure which would fall into the different categories are provided below.

Human Resources (HR):

- Number of employees, staff turnover, length of service
- Employee benefits and training
- Affirmative action, disabled employees, racial and sexual equality
- Collective bargaining, industrial disputation, strikes, work stoppages, unionisation
- Consultation with employees and worker participation
- Thanks to employees
- Employment policies and objectives
- Redundancies and retrenchments.

Community Investment (CI):

- Charitable donations, scholarships and bursaries
- Facilities provided for communities (eg. hospitals, schools, etc.)
- Contributions to sports, arts and culture
- Small business development and black economic empowerment.

Health and Safety (HS):

- Number of fatalities, accidents or injuries
- Number of injury free days
- Compliance with health and safety regulations, NOSA certification, Occupational Health and Safety Act discussions, training of staff
- Product safety
- Toxic hazards to employees
- Health and safety policies.

Environment (E):

- Air, water, noise and visual pollution
- Waste recycling, energy saving and conservation
- Environmental policy
- Rehabilitation activities and obligations
- Contributions to environmental organisations.

Public Affairs (PA) and Other:

- Involvement in civil society initiatives other than monetary (eg. Business Against Crime, NEDLAC etc.)
- Consumer and supplier related CSR
- Other CSR which does not fit into the above definitions.

The study also documented cases in which companies provided a 'value added statement' (VAS) in their annual report. Since there is no statutory or professional accounting requirement in South Africa for ~~countries~~ ^{companies} to provide value added statements, this was included as an example of CSR in its own separate category. Most studies recognise the VAS as a form of CSR as it goes beyond ordinary financial accounting measures. A value added statement is defined for the purposes of this study as any presentation containing the six elements of a VAS as defined by

Deegan and Hallam (1991: 3). These elements are: turnover, bought in materials and services, employee benefits, dividend and interest payable, and amount retained.

The annual report

The study considers only CSR disclosed through the medium of the annual report to shareholders. Ideally all communication produced by an organisation should be interrogated if one is to capture all the CSR. This would include advertising, press releases, and in-house magazines, meetings with analysts and journalists, and separate social and other reports. The obvious practical problem which arises with such a wide construction is that it would be near to impossible to identify, obtain and interrogate all of a company's communications for any period. In keeping with the majority of the literature in the field, and for practical purposes, this study has looked only to the annual report as the primary focus of reporting.

There is some justification for this which goes beyond issues of simple pragmatism. The annual report is regularly produced by all organisations as there is a statutory requirement to do so. According to Gray et al (1996), Hines (1991) and Niemark (1992), the annual report also represents what is probably the single most important document in terms of the company's construction of its own social image. Moreover, the annual report is automatically sent to all shareholders. Additionally it also finds its way into the public domain and as such is read by a variety of other stakeholders. As Neu et al (1998) argue, annual reports are the primary information source for investors, creditors, employees, environmental groups and government regulators.

It can also be argued, as Guthrie and Parker (1989) do, that the annual report is the one communication medium to outsiders over which management has complete editorial control. Thus, analysing it enables one to draw better conclusions about management's objectives. There is also some research evidence to suggest that the annual report is considered to be the most reliable information source by stakeholders, is the type of information most actively sought by pressure groups (Tilt, 1994) and as such is the "preferred method for communicating" with a company's relevant publics

(Neu et al, 1998: 269). The credibility comes in part from the fact that auditors are compelled to read information published with the annual financial statements to ensure that it is not contrary to the evidence uncovered during the course of their audit. (See for example Statement SAAS 720 as issued by the South African Public Accountants' and Auditors' Board (1997) as well as International Standard on Auditing 720 (1994)).

Degree of Accuracy

The problem of arbitrariness in the decision as to what constitutes CSR and into what category an identified example of CSR should fall was overcome in some way by having only one researcher look at all the annual reports studied. This resulted at least in some consistency.

As a test of the reproducibility of the results, ten of the annual reports studied (randomly selected) were handed to another independent person who was asked to repeat the categorisation after having been briefed as to the requirements of the study. No significant differences were noted between the independent checker and the results produced by the writer for the reports selected.

It is recognised that the above procedures cannot vouch absolutely for the accuracy of the categorisation and measurement of all the reports studied. However, the measurements of total CSR and the categorisation thereof are not intended to be exact. This study seeks to establish some conclusions about the extent of, and trends in, social disclosure over time. As it is more concerned with general trends than exact measurements, the degree of inaccuracy which may have arisen is not considered significant to the conclusions reached. Following the approach of Gray et al (1996:86) in a similar study, the errors arising are considered intuitively (rather than claiming any statistical legitimation) to be within acceptable bounds.

Other considerations

A distinction was also drawn in the study between narrative text and pictures. Conceptually it is not possible to exclude pictures from the definition of CSR. The proliferation of high colour images and glossy, aesthetically pleasing annual reports should make it clear to any student of reporting practices that the package is an important part of the message. Indeed it can be argued that visual design and illustrations constitute a form of discourse (or rhetoric) in themselves, such that they help to assert the truth of the words they accompany. Finley Graves et al attribute this to the “all-pervasiveness of television and its mode of knowing the world” (1996: 58).

Pictures were, however, excluded from the measured amount of disclosure in this study for various practical reasons. Firstly, it is very difficult to determine whether a certain picture would represent CSR or not. This would certainly make measurements of CSR less consistent and accurate and subject to contention. Secondly, pictures are usually inserted to further illustrate or supplement narrative information already provided. Thirdly, the inclusion of illustrations would overly complicate the analysis. Is a picture equivalent to a page of disclosure? Or it is worth a thousand words as the old adage proposes? Finally, the exclusion of illustrations from the definition of CSR is in line with the vast majority of studies in this area. (For example Adams et al, 1998; Gray et al, 1995; Hogner, 1982; Neu et al, 1998).

Some studies of CSR make a distinction between mandatory and voluntary CSR. In line with the majority of the literature, however, no such distinction has been made in this study. The chief reason for this is that there is very little CSR which is mandatory in the South African institutional setting. The only possible example is the requirement (contained in the South African Companies Act) to give details about employee share trusts. This type of disclosure may be considered to fall into CSR in the field of Human Resources. However, for the purpose of the study such disclosure was not counted as CSR. Only voluntarily presented information fell into the CSR net with the result that a mandatory/ non-mandatory split would not make sense.

The King Code on Corporate Governance

A further measurement complication arises from the issue of the King Code of Corporate Governance. The impact of this report and its recommendations is discussed in Chapter 5 of this report. However, it is worth noting here that the listing requirements of the Johannesburg Stock Exchange from 1994/5 required companies to indicate their extent of compliance with the Code. In response companies included disclosures relating specifically to the recommendations of that Code in a separate section of the annual reports – usually entitled ‘Corporate Governance’. Some of these disclosures entailed forms of CSR. As a result of the fact that this is an almost mandatory (and very specific) form of CSR, any CSR-type disclosures made as part of the Corporate Governance reports were separately identified and analysed in the study.

Statistical analysis

The nature of the study is such that a statistical analysis was considered unnecessary. The main objective is to determine trends in CSR disclosure and to link that trend to developments in the political economy in an attempt to determine whether legitimacy theory offers an acceptable explanation of those trends. As such the study is not statistical. The volume of data collected makes it possible to compare the results of the study with the results of other research in the area. However, this is an interesting aside and is not the main focus of the study (although it may provide an area for future research). It was consequently considered that a statistical analysis of the data was not necessary.

Comparison with other studies

As an interesting aside the study will seek to determine whether conclusions reached by other researchers concerning the characteristics of maximum disclosing firms

appear to be supported by this sample. Specifically the observations concerning company size and industry sector will be considered.

Company size will be measured by considering the placement of companies within the Top 100 by market capitalisation. This is more fully discussed in Chapter 6. Additionally the companies in the study were divided into four broad industry categories based on their industry categorisation according to the Johannesburg Stock Exchange. (JSE). The four industry categories are: Retail, Mining, Industrial and Financial. Appendix B notes the industry categorisation per the JSE as well as the category into which a company was considered to fall for the purpose of this study. Finally the study sought to determine which companies operated in the 'Resources' sector of the economy. This includes any companies involved in exploiting or extracting the resources of the earth for commercial purposes (like fishing, mining, forestry and agriculture). This category was introduced in order to determine whether companies in this sector displayed a particular disclosure pattern. Again, Appendix B notes the names of companies which were placed in this sector.

This chapter sought to discuss and justify the research methods adopted in the study presented here and to note the assumptions and limitations inherent therein. This was considered necessary because it helps to place the results of the study in its proper context and allows informed conclusions to be drawn by readers in their analysis of the study and the consideration of what it claims to have achieved. By necessity the methods adopted will have influenced the results in some way, and readers of the study should be aware of this.

The next chapter turns to the topic of political economy and attempts to summarise the socio-political developments in the country over the period of the study and to provide an analysis thereof.

Chapter Four

**South African Political
Economy**

University of Cape Town

South African Political Economy

This study asserts that CSR is reflective of the political and social context in which it takes place. For this reason it is necessary to provide some background to developments in the history and political economy of the country in order to test the applicability of a political economy theory. This is what this chapter hopes to achieve - albeit in a summarised form.

After a brief consideration of the historical context which formed the basis of South Africa in the 1990's, a summary of social and political developments in the period of the study will be presented. This will be followed by a discussion of the political economy, including a consideration of the power of groups such as the labour movement. An analysis of the period of the study will then be provided from a classical political economy perspective which will then allow for the development of expectations for the trends in South African CSR.

A study of the socio-economic and political developments of the period was conducted through the use of general sources on recent South African history. Because the events are so recent there was not a large volume of analytical source material available. The opinion of many observers is that it is too soon (in historical terms) to have a reliable chronological history of the decade. For this reason the source material was somewhat limited. However, the ability to sketch the background was not materially impaired since the material which was found proved to be very thorough.

Appendix A contains a timeline of major events in the history of the country from 1989 to 1998. The following were the main sources consulted to construct the timeline: Burger (2000); Davenport (1991); Davenport and Saunders (2000); Hadland and Rantao (1997); Iliffe (1995); Muller (1993); Oakes (1998); Saunders (2001);

Sidiropoulos et al (1997); Silke (1997); Smuts and Westcott (1991); van Rensburg (1994).

The analysis of the events and political economy was aided by the works of Botha (1994); Davenport and Saunders (2000); Fine and Rustomjee (1996); Innes (1983), Lipton (1986); Nattrass and Ardington (1990); and Yudelman (1983).

South Africa pre-1989: Historical Context

Historians differ as to the origins of human settlement in the area today known as the Republic of South Africa. However there is some consensus that the southern-most tip of Africa was populated mainly with San and Khoi peoples, and it was these that the first European settlers came into contact with on embarking from their ships. South Africa was first 'discovered' by Portuguese sailors in the 16th Century under the command of Vasco Da Gamma. However it was only in 1652 that the Dutch set up the first European settlement in the country under one Jan van Riebeck at the Cape of Good Hope. Turmoil in European politics soon resulted in the settlement falling into the hands of the British who imposed direct rule from London. This antagonised the settlers who were mainly of Dutch and French origin. The disenchanted French and Dutch farmers (or Boers as they were to become known) began settling further east from the original settlement at the Cape of Good Hope. This soon led them to conflict with members of the Xhosa tribes who themselves had begun to move westward from the east coast of the country towards the approaching settlers. Many minor (and several serious) clashes broke out in subsequent years between the settlers and the Xhosa people on the frontier in the Eastern Cape. Dissatisfaction with the approach adopted by British commanders towards the situation led finally to a mass exodus by the Boers who left in several large groups on what became known as 'Die Groot Trek' (big exodus).

On this 'trek' the settlers (or 'Voortrekkers') faced violent clashes with indigenous settlers in the interior of the country who had themselves become dispersed as a result of violent internecine clashes referred to as the 'Mfecane'. Additionally the settlers

were never far away from the ever extending reach of British interests. An independent republic was set up in the area today known as Kwazulu-Natal after the 'Voortrekkers' negotiated the purchase of land from the Zulu people under Dingane. However the continuing troubles soon gave the British an excuse to annex the area and declare it a British colony.

Seemingly undeterred in their determination to escape the British, the 'trekkers' crossed over the Drakensberg mountains and moved further into the interior of the country, finally setting up two further 'Boer' Republics. However, once lucrative gold and diamond fields were discovered in these areas, both republics fell into the hands of the British after two bloody and bitter Anglo-Boer wars. With the all four colonies (the Cape, Natal, Orange River and Zuid Afrikanse Republiek) under British influence a form of self-rule was introduced under the oversight of an appointed Governor General. The four colonies were united into the 'Union of South Africa' in 1910 with the British government acceding to the demands of the settlers that the indigenous people of the country be excluded from the political process. Thus a system was set up which granted the vote (and political power) to the white decedents of European settlers at the expense of the majority of the inhabitants of the country. (In the Cape Colony there were some people of mixed-descent who were also enfranchised as they had held voting rights before 1910).

With their access to political power and economic interests now severely restricted, the disenchanted majority was left with very little control over their own lives. Gradually, opposition groups were set up, although in the early years they made very moderate demands and concentrated their efforts on convincing the British government to intervene on their behalf. After the end of World War 1, a delegation was sent to the Peace Conference at Versailles to plead for the rights of the indigenous inhabitants to be considered and protected in South Africa. This delegation was ignored and gradually the power of the European descendants became entrenched and the rights of the indigenous people in their own land was further eroded. A strong Afrikaner nationalist movement (with roots in the bitterness felt towards the British as a result of war atrocities committed against them) began to take hold. This resulted, in 1948, in an Afrikaner dominated government coming to power with the declared aim

of strengthening the position of this section of the population (at the expense of any others).

The government headed by the National Party (NP) held onto power for over forty years. In that time they entrenched racial discrimination in legislation and stripped the vote from all but white citizens. This policy, which was called 'Apartheid' (or Separateness), drew criticism from within the country and around the world. After gaining its independence as a republic in 1960, South Africa withdrew from the Commonwealth as a result of opposition to its policies from other member states. This fuelled an increasingly isolationist and arrogant 'go-it-alone' approach on the part of the government. A bizarre experiment in setting up racially-exclusive mini states within the country failed because the government was unwilling to give up any prosperous areas and instead created pockets of poverty in the form of notionally independent 'homelands'.

Opposition movements within the country gradually gained support as a result of the continued persecution and marginalisation of the majority of the population. Increasingly desperate, they began to advocate armed resistance and the violent overthrow of the government. This resulted in a heavy handed response from the state with the result that opposition parties were banned, restrictions placed on the freedoms of expression and association, and a highly militarised regime was introduced. South Africa also became caught up in the international ideological conflict of the time. Opposition movements espousing the extension of power and economic goods to the majority of the population found an ideological home in socialism and a practical champion in the Soviet Union (USSR) and Eastern bloc states. This resulted in support for the government from Western countries like Britain and the USA – although this was often covertly given as a result of opposition from inside those countries to the political policies of the government of South Africa.

Eventually it became clear that (for mainly economic reasons) the political experiment that was Apartheid was doomed to fail. Opposition from within and abroad had also intensified to a frightening degree. The reduction in tensions between the East and West in the 'Cold War' had left South Africa without any major ally in

what it saw as the fight against communism. The establishment began to liberalise from within and as tentative steps were taken towards reform the opposition took heart and mobilised its forces to achieve change. Finally the situation developed to a point where white political opinion had become amenable to the search for an amicable settlement of the political conflict as years of living under a state of siege and as international pariahs were becoming less bearable. (Davenport, 1991; Saunders, 2000, 2001).

Historical Summary from 1989

A detailed historical timeline of the period 1989-1998 is provided in Appendix A. This section contains a brief summary in order to provide a context for the analysis of the political economy which follows,

The period of focus for this study begins in 1989 when State President PW Botha suffered a stroke and was forced to step down in favour of Transvaal National Party (NP) leader FW De Klerk. In the general election which followed the NP returned to government with a reduced majority. The Organisation of African Unity (OAU) adopted an African National Congress (ANC) authored declaration at its meeting in Harare calling for negotiations between the government and progressive forces. In Europe the fall of the Berlin Wall marked the end of the threat of Communist expansion.

In February 1990 FW De Klerk announced the release of Nelson Mandela and the unbanning of the liberation movements. Namibia was officially granted independence from South Africa.

On 20 December 1991 multi-party negotiations (named CODESA) began with the objective of determining the procedure for drafting a new constitution. In February of 1992 the ANC announced that it was abandoning its armed struggle.

In March 1992 70% of the white electorate expressed its support for the negotiation process in a snap referendum. In the wake of this victory however, CODESA collapsed as ANC and government negotiators were unable to reach agreement.

In June 45 residents of an East Rand township called Boipatong were massacred by supporters of the Inkatha Freedom Party (Inkatha), a moderate mostly Zulu-based political movement, with the support of members of the police services. In the Ciskei 28 people were killed when homeland police opened fire on an ANC procession.

In the light of the mounting political crisis in the country, multi-party talks reconvened in April 1993. In the same year South African Communist members of the rightwing Conservative Party assassinated Party (SACP) General Secretary Chris Hani. On the day of the funeral thousands of protesters went on a looting and petrol bombing rampage – leaving seventy people dead. The armed wing of the extreme left wing Pan Africanist Congress (PAC) began a series of random attacks on whites, killing eleven people in a church in Cape Town. As if to give some much needed impetus to the transition process De Klerk and Nelson Mandela were jointly awarded the Nobel Peace prize in June. Then on the 25th of that month 2 000 members of the right wing 'Afrikaner Volksfront' stormed the negotiating chamber in Kempton Park with an armoured vehicle causing R700 000 worth of damage. All of this failed to weaken the resolve of the negotiators however and an election date was set for 1994.

On the 27th of April 1994 the ANC swept to victory with 63% of the vote in the country's first truly democratic election. On 10 May Nelson Mandela was inaugurated as President, with FW De Klerk and Thabo Mbeki as his deputies. Thus a new political regime had been ushered in which slowly began a series of reforms.

In 1996 the NP withdrew from the Government of National Unity just after the new constitution of the country had been drafted. This left the government entirely in the hands of the ANC and its tripartite alliance which immediately took steps to address the imbalances of the past, while at the same time maintaining a conservative economic policy.

The period after 1994 saw few dramatic developments, ending in 1998 with the submission to President Mandela of the report of the Truth and Reconciliation Commission (TRC). The report catalogued the gross violations of human rights carried out in the name of the Apartheid state. It also made mention of abuses in ANC military camps and called for compensation for victims of human rights abuses. The report ended on a positive note stating the hope that the experience of the past would help to prevent any such dastardly deeds occurring again.

The Economy

This section looks at the significance of the political changes of the decade for business in South Africa .

The country's move towards democracy during the 1990's forced business to attempt to eradicate the divisions of the past and come together in united bodies. The Associated Chambers of Commerce and Federal Chamber of Industry joined up to form the South African Chamber of Business (SACOB). In 1994 SACOB joined with the Afrikanse Handelsinstituut (AHI) to form Business South Africa. In this they were also joined by the National African Federated Chamber of Commerce (NAFCOC), the black-business umbrella forum.

In addition a framework for consultation between business, labour and government was set up already in 1993 when the NP government established the National Economic Forum. This was transformed by the new government into the National Economic Development and Labour Council (NEDLAC) which is still in existence today. As Davenport and Saunders note "[t]he pressing need at that moment was to enable business and labour to find each other, in harmony with government policy for the overhaul of an economy battered by years of structural mismanagement compounded by a decade of punitive sanctions" (2000: 630). The organisation brought the three pillars of the economy together to confront the challenge of achieving growth and development for the country in a turbulent, globalizing international economy

The ANC-dominated government itself had, upon accession, little to offer in the way of economic policy beyond a penchant for the toned-down socialism hinted at in the Freedom Charter. The Freedom Charter was a document, adopted by the 'Congress of the People' at Kliptown in 1955 as a wish list for a better country. It subsequently became something of a Magna Carta for freedom fighters in the years which followed. Its socialist intentions were inferred from the call for economic power to be in the hands of all the people. However, with international left-wing forces in disarray in the face of the collapse of communism in Eastern Europe, even members of the SACP were divided over their commitment to a command economy. The government was initially guided in the early days by a report prepared by the ANC Macro-economic Research Group in 1993. The report advocated a state-guided but market oriented ten year plan which was divided into two stages. The first stage (1993-1999) was to be characterised by heavy investment in infrastructural development. This would be followed in 1999 by a policy designed to sustain growth. The proposals were, however, set aside by government in 1997 in favour of its Growth, Employment and Redistribution Policy (GEAR) which reflected the ideas of economists from business houses like Nedcor, Old Mutual, Sanlam and SACOB. GEAR was sensitive to the demand by the private sector for an export-driven, market-related, anti-inflationary monetary policy. The policy laid particular emphasis on the privatisation of state assets and the lifting of exchange controls. While the policy came into quite heated criticism from the ANC's partners (The Congress of South African Trade Unions (COSATU) and the SACP) it was welcomed by business and found firm support in the statements made by various company chairmen.

GEAR did not deliver all the government had hoped it would. Even though many of the economy's ills were legacies of the past they tended to haunt the current administration. Growth was hampered by the delayed effects of economic sanctions as well as shortages of skilled labour which resulted from the years of racially restrictive education and training systems. It eventually had the odd effect of producing job-less growth in the economy (in fact it was more like job-shedding growth) which, for a movement which came into power on a promise of 'Jobs, Jobs, Jobs' was difficult to defend (Editors Incorporated, 1998). Nevertheless the government stood firm against

any opposition to the policy even making use of the moral force of President Mandela to chide its opponents into silence, such that the policy remains in force today (Davenport and Saunders, 2000).

Despite its intention to follow a conservative economic policy, the government remained committed to social upliftment. Its Reconstruction and Development Program (RDP) which was adopted in 1994 aimed to provide 2,5million jobs through affirmative action, along with one million houses, mass electrification, widespread land redistribution, free clinics and compulsory education (African National Congress, 1994). The program was initially presided over by a dedicated cabinet minister but in 1996 it was restructured and placed under the control of Deputy President Thabo Mbeki. The government announced that this was done in order to improve co-ordination and service delivery. However, some saw this as a sign that the objectives of the RDP were being downplayed in favour of GEAR.

Rather than being tempted by Keynesian deficit-led budgeting to boost the local economy the cabinet kept rigidly to the GEAR formula of deficit reduction. The policy saw large job cuts in the public sector (with government saying that it was not an employment agency) in an attempt to reduce debt and maintain international confidence in the economy and the strength of the currency. In the face of the collapse of Far Eastern economies (up to then shining examples of the success of conservative macro-economic policy) the Reserve Bank was forced to raise interest rates to defend the currency at a time when the demand for job creation required them to be lowered. This contributed to unemployment, but business supported the government and increasingly the fear of government policies which were unfriendly to business began to erode. Additionally the increase in unemployment left the trade union movement weaker, a position which was compounded by the unwillingness of government to heed their calls for a re-evaluation of GEAR.

It soon became apparent that the ideas of reforming the economy along socialist lines had been replaced by the ideal of Africanising the economy by encouraging black ownership of companies and developing a black middle class while at the same time protecting the rights of workers. These efforts were not aided by the economic

difficulties which South Africa faced. Despite the commitment to a market economy, the country seemed unable to attract sufficient foreign direct investment and, as a result of its 'emerging market' label reaped the results of any negative sentiment towards such economies. Often these were generated thousands of miles away in exotic and unfamiliar destinations. Indeed, the uncertainty resulting from the transition depressed internal confidence in the economy and made strong economic growth difficult to achieve. Business leaders pointed to what they saw as an inflexible labour market and the excessive power of the trade unions as an additional factor inhibiting growth. However it is clear that business has been favoured by government's economic policies and was certainly in a clearer and more conducive environment at the end of the period than it could have hoped in the years before the election of the new democratic parliament. This was the political economy within which business functioned in the period under review.

Labour

The Labour movement is one of the most important constituents in the political economy of the country. The relationship between business and labour is an important ingredient in obtaining an understanding of the pressures faced by companies. Labour's overt political role on a countrywide level in South Africa is quite unique. For labour has been involved not only in making decisions affecting them, but also, due to the political alliance with the ANC, in other aspects of government.

South Africa has one of the most highly unionised economies in the world (Van Rensburg, 1994). As a result of the peculiar political circumstances the trade unions are also highly politicised. In the years before black people were allowed to participate in any form of political organisation, the trade union movement was the only method through which they could achieve their political aspirations. Thus the unions became surrogate political parties. So much so that many of the important members of the ruling party after 1994 were trade unionists. When the ANC was unbanned in 1990 it drew on the resources and organisation of the trade union movement in order to set up a movement which was able to govern.

In the 1980's (and through to the early 1990's) the relationship between business and labour was often strained and confrontational. Business saw the high level of strike activity as an unnecessary impediment and cost which they were being forced to bear – whereas in reality the main grievances were with government. However the level of strike action fell dramatically after 1994 and relations between business and labour improved dramatically. The reasons for this will be explored below.

According to the 1995 South Africa Yearbook, there were 213 registered trade unions in South Africa (Van Rensburg, 1994: 231). Total union membership stood at to 3,2 million in 1996 which translates into 41% of those actually employed (and 23,7% of the economically active population). Three major umbrella trade union organisations account for the bulk of SA's trade union membership. They are:

- The Congress of South African Trade Unions (COSATU) 1,7 million members
- The Federation of Unions of South Africa with 500,000 members, and
- The National Council of Trade Unions with 220,000 members.

The largest individual unions are the National Union of Mineworkers (NUM: 300,000 members), the National Union of Metalworkers of South Africa (NUMSA: 179,000) and the South African Clothing and Textile Workers Union (SACTWU:200,000). All three of these unions are members of COSATU.

Labour in general got a better deal from the newly democratic government. Indeed, this was largely a result of their inclusion in the governing coalition. The right to strike was entrenched in South Africa's constitution of December 1996 and the new government passed a number of labour-friendly pieces of legislation. However the extent of strike action declined in the latter half of the 90's. The reason for this 'levelling off' is probably the political settlement in the country which removed the politicisation from much strike activity. Additionally, a number of important wage agreements were concluded which were widespread and ongoing indicating a better relationship between business and labour. The Labour Relations Act (LRA) of 1995 also established a statutory body know as the Commission for Conciliation, Mediation and Arbitration (CCMA) which was tasked with industrial dispute resolution at no

cost, administration of strike ballots and assisting in establishing industrial councils at places of employment. This also contributed to an atmosphere of better industrial relations in the country (Sidiropoulos et al, 1997). 1997 saw the number of man-days lost in industrial action drop to its lowest level since 1989 (refer to Figure 10 in Chapter 8). 1997 was the first full year under the LRA and many analysts attribute the low level of industrial action to the effectiveness of the CCMA and the LRA. Other forces at play include the high rate of unemployment with 80 000 jobs being lost in the formal sector in 1997 despite the economy growing by 1,7%. The fall in the international price of gold to below \$300 led to the closing and consolidation of many gold mines, although it also led to some innovative negotiating between business and labour including provisions for increasing production and productivity.

With a population of some 40 million people, South African unemployment is officially put at 34% of the economically active population of 14,5 million. (Although the International Labour Organisation estimates that it is closer to 25% as a result of employment in the informal sector.) Estimates are that the informal sector provides employment for between 1,5 and 2 million people, with activity highest in the Eastern Cape province. (Editors Incorporated, 1998). According to the South African Reserve Bank formal employment (excluding agriculture) in 1996 was divided into sectors as follows. Public sector 33,2%, Manufacturing 27,4% Trade 13,7%, Mining 10,8% Private Services 6,7% and Construction 6,2%.

The income of the country's inhabitants is also highly skewed. There is a tiny class of extremely rich and a massive class of poor people. Indeed, if income disparity is measured with the use of the Gini co-efficient, South Africa has (according to some calculations) the highest level of income disparity in the world (Nattrass and Addington, 1990).

This information provides some clues about the environment in which business is conducted in South Africa. The workforce is highly unionised with the result that business feels a large amount of pressure from labour. At the same time, however, the level of unemployment is very high with the result that there is a constant argument between business and labour about labour reforms which business believes

encourages unemployment. This also means that business has to make a concerted effort to divert attention from any unemployment producing initiatives. In South Africa (especially in the early 1990's) labour is a very important (and powerful) stakeholder.

Classical Political Analysis

This chapter now turns to a discussion of the political economy of the country from a classical (or Marxist) perspective. Besides providing some background for the study, this discussion will aid in the development of a Legitimacy Theory analysis of the CSR of the companies in the sample.

The political economy of the period 1989-1998 was essentially in a state of transition. At the beginning of the period it carried the characteristics of what has best been described as racial monopoly capitalism (Lipton, 1986). Indeed, as Fine and Rustomjee (1996) claim, the economy was dominated by the mining houses through a mineral-energy complex (MEC) which was rooted around the accumulation of funds. The racially skewed façade of the MEC meant that the most lucrative forms of employment were reserved for white workers while black workers were assigned the poorly paid, unskilled jobs. Some writers see the political economy of the time as being dominated by a three cornered struggle between capitalists desiring the cheapest, but most productive, form of labour; white workers struggling to keep their privileged position; and black workers seeking a way to earn a decent living (Saunders: 2001). In the South African context then the state-introduced colour bar had an important influence on economic relations. Indeed, a convincing (although unconventional) argument is proposed by Yudelman (1983) who argues that the South African state should be seen not simply as an instrument in the hands of class interests (as most Marxists see it), but as an independent actor in its own right. He proposes a triangular relationship between labour, state and capital in which the state utilised legislation and industrial disputation to increase its own power and legitimacy. Yudelman and others (Fine and Rustomjee, 1996) recognise the fact that business was integrally involved in the support of the system of racial capitalism. He notes the

“pervasive convergence of interest between and within the state and capital” (1983: 5). As a result of the concentration and homogenation of capital, the concentration of political power in the hands of the minority and the divided nature of the working class, neither state nor capital was able to dominate the other. This gave rise to a form of symbiosis in which there was a tacit consensus between business and state that accepted racial discrimination so that “it was not a question of whether to discriminate, but one of how to discriminate” (1983:35).

Over a period of a century, the South African economy had been transformed from small-scale competitive capitalism to conditions of large-scale monopoly capitalism. Economic power was highly concentrated in the hands of mining and financial houses. Savage observed in the 1980’s that economic life was “becoming dominated by fewer firms, fewer significant owners and fewer decision makers” (1987). This was borne out by McGregor in 1995 who showed that 76% of the market capitalisation of the Johannesburg Stock Exchange was controlled by a mere five companies. It was thus fertile ground for a state-business alliance with both having the power to influence relationships in the political economy, but none able to implement its wishes without the compliance of the other.

Now this was the situation in Apartheid South Africa. However, the period studied is one in which the system of racial capitalism began to falter and a political transformation began. By 1989 it had become clear to both government and business that the system of racial capitalism would not survive the onslaught of multi-faceted opposition. This opposition came from inside in the form of a worker-led movement, from outside in the form of military resistance and from international opposition in the form of sanctions and other diplomatic pressures. Additionally it had become apparent how short sighted the racial policies had been as economic growth was retarded by the lack of skilled workers and the militancy of a highly politicised workforce.

That business and government had become aware of this in the 1980’s already is clear from the tentative steps taken toward change. In 1985 Anglo American’s Bobby Godsell and a group of business leaders met ANC leaders in Lusaka. This was

followed by further meetings in 1987, 1988 and 1989. Even President PW Botha came to power as a reformer whose constitutional initiatives led to a breakaway party being formed to the right of the National Party. Botha was later to resort to hardline security-focused policies, but this was a reaction to the upheaval caused by the tentative steps taken towards change. Indeed the state was facing a massive legitimacy crisis with few international friends apart from fellow pariah states and was facing a groundswell of popular opposition. The international community had turned against it, deciding that while class discrimination was acceptable racial discrimination was not. The fall of the Berlin Wall in 1989 meant that the much vaunted communist threat had crumbled. Not only did this mean that the state could no longer justify military action on the basis of defeating communism, but the support of the United States could no longer be relied upon as part of its role in advancing the East-West polarisation. The USA had within a short time become the world's only superpower, while the Soviet Union was in turmoil. This also forced the ANC to realise that an armed revolution was becoming increasingly unlikely. The USSR and the Eastern Bloc states were no longer able to provide the same level of military support, and a negotiated solution thus became an option (Silke, 1997). The economic effects of sanctions were also beginning to be felt so that business took the opinion that Apartheid was no longer good for business. Even before De Klerk's landmark speech in which he announced the release of Mandela and unbanning of the liberation movements, business was openly calling for a move to multi-party democracy.

From a Marxist perspective business and the government realised that they had to adapt in order to survive. Disinvestment in the form of sanctions was a burden which proved to be painful to bear. Eliminating the racial system could help create a black middle class and was the only way to protect their interests. With the support of international capital (which they could only gain at the expense of Apartheid) it would be possible to salvage their position. The collapse of communism meant that the rhetoric of a worker's revolution and nationalisation stayed just that. COSATU and the SACP were cleverly co-opted by the new governing class which quickly moved to neutralise their independent political voice. Business had to move swiftly to ensure that their monetarist argument was accepted by government. As soon as it was clear

that the ANC would win massive support efforts were focussed on convincing the government in waiting not to attack capital. This was successfully accomplished.

So where was the political economy of the country at the end of the period being studied? It was at a place in which a black middle class was rising and where capital had managed to protect its privileged position. As Fine and Rustomjee (1996) observe the country was *still* dominated by a mineral-energy complex under the control of the mining houses. This gave rise to political and social characteristics which were still rooted in the system of accumulation centred around finance and the movement of funds. The main conglomerates (Anglo, Sanlam, Old Mutual, Liberty, Rembrandt) exercised oligopolistic control over the mining, manufacturing and financial sectors. Economic power was still largely in the hands of white capitalists and the trend of black economic empowerment had not progressed as far as had been hoped. Indeed even where it succeeded it did not spread the wealth, but rather enriched a few such that the distribution of wealth became even more skewed than it had been before. Unemployment has increased, but a class of black capitalists have emerged. The success of the government in bringing water and electricity, and in some case houses, to the people is acknowledged. But from a 'relations of production' point of view, nothing has changed. The rich are still in control of the means of production. As a result of the concerted effort of local and international capital, private capital has been unambiguously safeguarded by the new government. Government's economic policy was developed using the advice of conservative economists at the expense of its governing (and pro-socialist) partners. The government is filled with trade unionists and communists following neo-classical economic policies. Ironically the same agitators who once denounced the capitalist system are sitting in a government which follows conservative monetarist policies.

In a political economy such as this business had to ensure that its interests continued to co-incide with that of the new state. Demonstrating its commitment to upliftment and emphasising the good that business does in society was necessary to convince government that protecting capital would do more for economic growth and social welfare than embracing a socialist revolution would. In the latter years, when capital's position was protected, one would expect that business would start to decrease its

efforts of persuasion and having won the war will do only enough to ensure that government remains friendly to capital.

An expectation for CSR

Rather than simply seek to explain the trends in CSR from a political economy perspective once the data is analysed, this study will seek to set upfront some expectations for the patterns which are expected to emerge based on an analysis of the political economy of the country. If the results show some consistency with the expectations this will give even greater support for the approach as a suitable explanation for trends and characteristics in CSR.

Due to the fact that South African society is so politicised, it is expected that CSR levels will be higher in this country than in other developing countries. Indeed, a level higher than those of developed countries may even be found. Because South African society has historically seen such a high level of industrial disputation it is expected that Human Resources CSR will be most prevalent. Community Investment-type disclosures are expected to be the second most prevalent. This is based on historical factors and the recognised need for business to assist in building up the country. Environmental concerns are not expected to enjoy as much focus as they do in most other studies of developed nations. This is so because South African society has tended to be focused on other issues first. Political freedoms and economic development have enjoyed priority.

A further expectation is that CSR will show a high level (and possibly increasing trend) in the early half of the period. This is the expectation because in these years the focus was on remedying the errors of the past and demonstrating concern for society.

Additionally (and perhaps most importantly) business was extremely concerned that a new democratically-elected government would adopt socialist-inspired policies. In the mind of most people there was no doubt that the ANC would become the new government once a multi-party participatory government was introduced in the country. This was borne out by a myriad of opinion polls in the run up to the elections

(Silke, 1997). The fear of possible nationalisation of businesses and the adoption of capital unfriendly policies by the ANC would be expected to lead business to demonstrate to government the contribution that they were making to the social welfare of the community. While this fear may not have been realistic in the world of the 1990's there was nevertheless a large section of the population that held this fear. The ANC had not as yet clearly distanced itself from calls to nationalise the commanding heights of the economy contained in the Freedom Charter. Many years of NP-inspired propaganda, which had equated the liberation movements with the threat of communism, also weighed heavily on minds. This was exacerbated by the fact that the ANC formed an alliance with the SACP to fight the election.

Additionally there is much evidence to suggest that business benefited from Apartheid (Roberts, 1997), such that their overriding concern in political terms may then have been to demonstrate its contribution to the reconstruction of the country in order to avoid punishment at the hands of the new government.

After the political hype surrounding the 1994 elections (and especially once the new government was installed) the level of CSR is expected to have dropped. Indeed after business accepted government's investor friendly bona fides, and especially its commitment to GEAR, it is expected that CSR would fall further to its lowest point at the end of the period. Finally, within the Human Resources category it is expected that an initial upward trend will be reversed in line with the level of industrial disputation.

This chapter has presented the historical background to the study of CSR of South African companies between 1989 and 1998. It has provided an analysis of the political economy of the period and developed an expectation for the trends in CSR based on classical political economy. The discussion presented in this chapter is of vital importance to the study as it seeks to determine whether CSR was influenced by developments in the political economy. Specifically it asks whether management felt the need to provide certain types of CSR in an attempt to legitimise their actions (and indeed their existence) as institutions within that political economy. With the

institutional framework sketched and some expectations set, the paper now turns to an analysis of the results.

University of Cape Town

Chapter Five

Results: Trends in CSR

University of Cape Town

Results: Trends in CSR

This chapter aims to analyse the data produced by the study in order to identify the trends in corporate disclosure over time, in total and per category. It will attempt to analyse and understand those trends from a political economy perspective. In particular it will seek to determine whether legitimacy theory is able to offer a plausible explanation for the trends observed.

The chapter begins by analysing the instances of disclosure by category. A discussion of the prominence given to the different categories of CSR will be provided, noting the most and least popular categories of disclosure. Next the trend observed in total CSR by all companies in the study over the period will be presented. This trend and the trends in the different CSR topics over time will be discussed from a political economy perspective.

As explained in more detail in the methodology chapter, the annual reports of 56 companies were analysed for the ten years from 1989 to 1998. A content analysis interrogation instrument was then used to determine the amount of disclosure per category in each annual report. This information was collated, entered into a spreadsheet and analysed by year, by company, by industry and by topic in order to be able to draw conclusions about the trends in social disclosure in South Africa and the characteristics of disclosing firms.

Separate Reports

As noted elsewhere in this paper, the annual report was chosen as the medium of study. A further complication arose, however, as a result of this choice. Certain companies issued separate social and/or environmental reports to shareholders *with* the annual report. (In some cases this report was even included in a sleeve on the

cover of the annual report). For this reason the problem of whether or not to include these reports in the count of corporate social disclosures arose.

In the sample of 560 reports there were ten instances where a separate social or environmental report was found with the annual report. There appear to be strong arguments for the inclusion of these reports in the count as well as arguments against.

Since the reports were issued to shareholders with (and at times as part of) the annual report it seemed logical to include them in the count. Management clearly regarded these reports as a separate component of the annual report and in all probability issued a separate booklet in order to distribute the booklet more widely to other stakeholders who would also be interested in the report. Additionally issuing a separate booklet would have made the provision of a large amount of CSR easier. These separate reports were issued to shareholders *with* the annual report itself, such that they may just as well have been included within the pages of the annual report proper. Indeed, it could be expected that companies which issued a separate report would have made less CSR disclosures in the annual report proper than would have been the case if no separate report were issued. It seems unfair (and possibly illogical) then to exclude the number of pages in these separate reports from the count of CSR.

There are, however, some arguments against their inclusion. Firstly, one cannot be sure that the ten instances of separate reports which were found in the sample included all separate reports issued by all companies for the years included in the study. Only those that were found together with the annual reports in the library chosen could be included in my count. If, for any reason, the separate report of a company (or a number of companies) had been inadvertently excluded they would not make it into the study. This could have happened if, for example the company in question did not include the separate report in the package sent to the library. Alternatively a librarian may have disposed of the report, thinking that it was not part of the annual report, but was instead excess promotional material. Furthermore, some companies may not have mailed the separate report to shareholders, but may have included it with the report sent to libraries only. There was also no easy way to ensure the completeness of the sample of separate reports. For annual reports this was a

simple matter, as it was expected that each company would publish a report each year. However in the case of separate reports this was not the case and one or more could easily escape the attention of the researcher. Finally, the inclusion of separate reports within the tally of CSR had the effect of skewing the results in some categories. This was especially marked in cases where a company produced a voluminous separate report in a category with traditionally low disclosures. This occurred in 1996 when SASOL issued a 30 page environmental report. The inclusion of this outlier in the total for the year gave an average environmental disclosure for the year of 0,82 pages compared with an average of 0,18 pages for all the other years. This appeared at face value to indicate that 1996 was an exceptional year for environmental reporting. However, the exclusion of the Sasol report resulted in an average of 0,29 pages for the year which was more in line with expectations. In other instances the separate reports did not tend to skew the results as drastically. This is because the reports usually focussed on the areas of Human Resources and Community Investment – categories which traditionally had a high level of disclosure anyway.

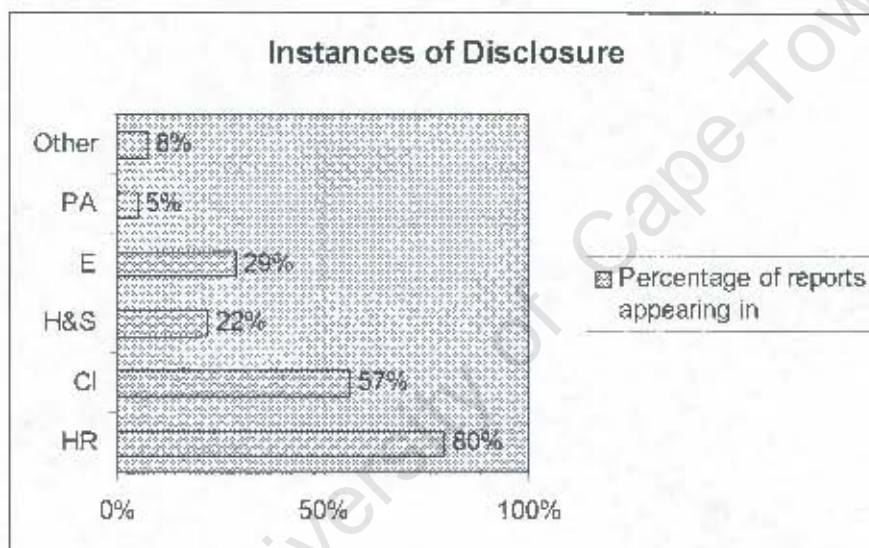
As a result of the fact that there appear to be cogent arguments both for including and excluding the separate reports in the tally of CSR, separate analyses were performed in each category for both sets of data. One which included the CSR in the ten identified separate reports, and one which excluded it. Where the two data sets gave markedly different results, both results will be presented and discussed.

Instances of disclosure per category

As was expected (due to the results of similar studies like Adams et al (1998), Gray et al (1995a), Griffith (1998), Roberts (1990) and the fact that South Africa has a highly unionised environment) the category with the highest amount of disclosure was Human Resources (HR). Traditionally this has been seen to be a focus of CSR in annual reports. This is probably because employees are important stakeholders of a business and are the group most affected by the companies' successes or failures. Additionally the high level of disclosure may be related to the political influence (and power) of trade unions and organised labour. As Figure 1 – Instances of Disclosure

shows, Human Resources disclosures appeared in 80% of all reports studied. Community Investment (CI) disclosures appeared in 57% of annual reports, with Environmental (E) and Health and Safety (HS) disclosures appearing in 29% and 22% of reports respectively. Public Affairs (PA) and Other disclosures appeared in less than 10% of all annual reports. This measure of the priority given to different topics indicates clearly that human resources and community investment disclosures were by far the most popular subjects for disclosure.

Figure 1



The second most popular subject for disclosure was Community Investment. This again is according to expectations for a number of reasons. Firstly, studies in other countries have shown that this topic is quite a popular category. However, the most important reason for this disclosure being so high relates to the country in which the study was undertaken. As a result of the country's turbulent history, South African companies feel a particular responsibility to the communities in which they operate. Indeed some commentators believe that companies are the only institutions with the capacity and flexibility to effectively respond to the challenges of economic and social transformation (KPMG, 2000). There is also a large amount of pressure on companies from the communities themselves. Traditionally the state neglected education and community facilities in traditionally (black) disadvantaged areas. For

this reason there was a lot of pressure during the period studied for companies to show concern for these neglected areas and make a positive contribution to society. As the period coincides with the transition to democracy there is expected to have been a large amount of pressure on these companies. Additionally the fears of nationalisation (at least in the early years) would have compounded the need to demonstrate that private business was making a positive contribution to society.

The areas of human resource and community investment give the best indication of the extent to which companies felt political pressures to account to society. This is due to the fact that the trade union movement is very strong in South Africa and the labour force highly politicised. Indeed, the first democratically elected government, which took power in 1994, was formed by a majority party which was an alliance between political parties and the largest trade union movement. The biggest fear that business had of the new political regime which was forming in the period of the study was that it would nationalise certain key businesses and indeed that it would adopt a pro-socialism anti-capitalist (and possibly anti-business) stance. If this was a legitimate fear it could be expected that companies would provide disclosure of the contribution which they were making to the communities in which they operated in order to avoid nationalisation and demonstrate the importance of business to the welfare of the country. Additionally, demonstrating commitment to their employees and fair treatment of them would not only prove further commitment to the upliftment of the country but would also serve to deflect political pressures from the trade union movement which had the power to influence government policy.

Figures 2 and 3 compare the total number of CSR disclosures per category for 1989 and 1998 - the first and last years of the study. Both indicate the emphasis given to human resource disclosure over other forms.

Figure 2

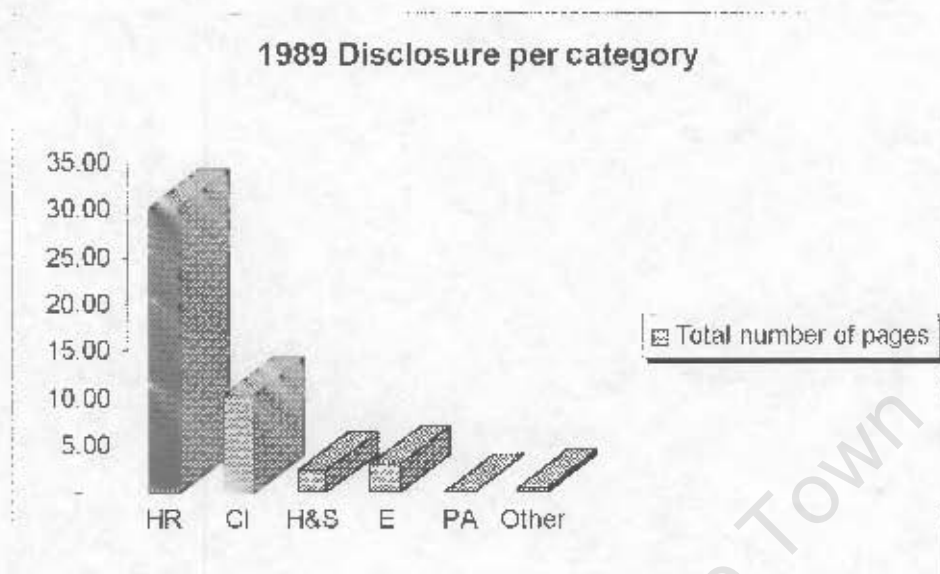
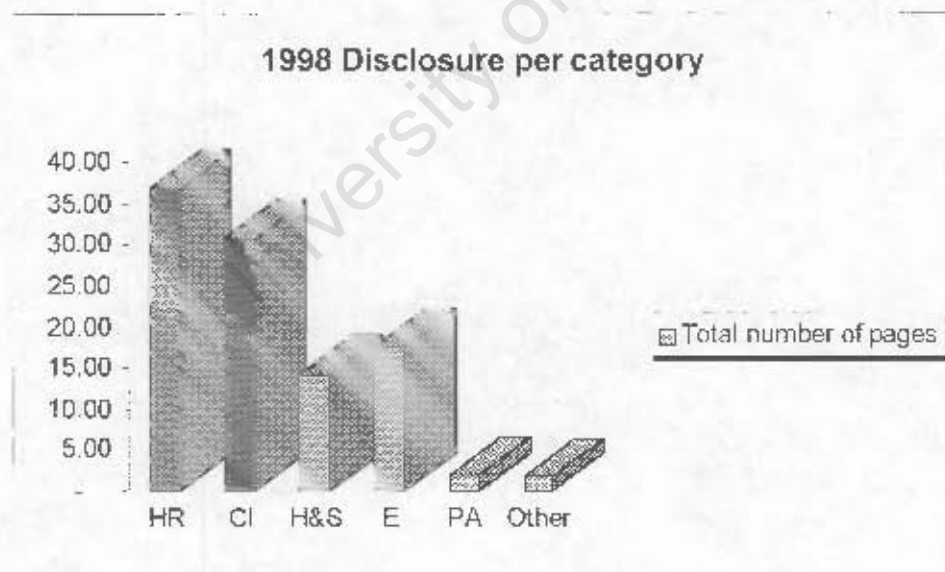


Figure 3



The graphs also provide some clues about the trend in social disclosure over time. As can be seen, Human Resources retained its importance, but it is also clear that Community Investment disclosure showed a large increase in the number of pages devoted to it. Health and Safety disclosure and that on the Environment also showed

increases with Public Affairs and Other remaining largely stagnant. What is most striking, however, is the increase in total number of pages devoted to CSR. This is partly a result of annual reports in general tending to be lengthier and partly a growing recognition by business of its role in society and of the need to provide stakeholders with more non-financial information in the annual report. (Note that the graphs above are based on information including separate reports in the tally of CSR. The results obtained with the other set of data (excluding separate reports) did not differ from those shown above).

Figure 4 shows the composition of disclosure in each year in terms of topic. It is apparent that the trend was to focus less on Human Resources and more on the Environment and Community Investment over the period. (Again there was almost no difference between the results obtained using separate reports and those obtained when omitting them).

Figure 4

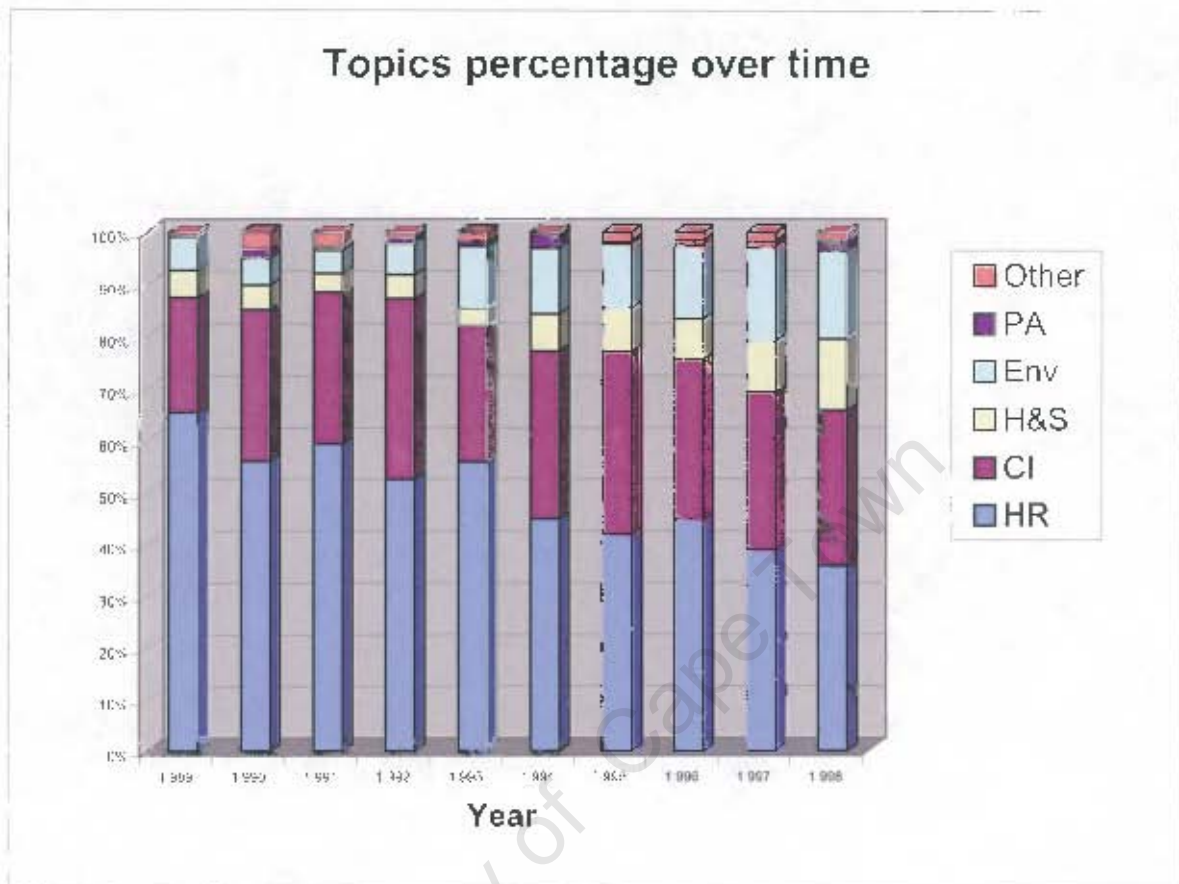
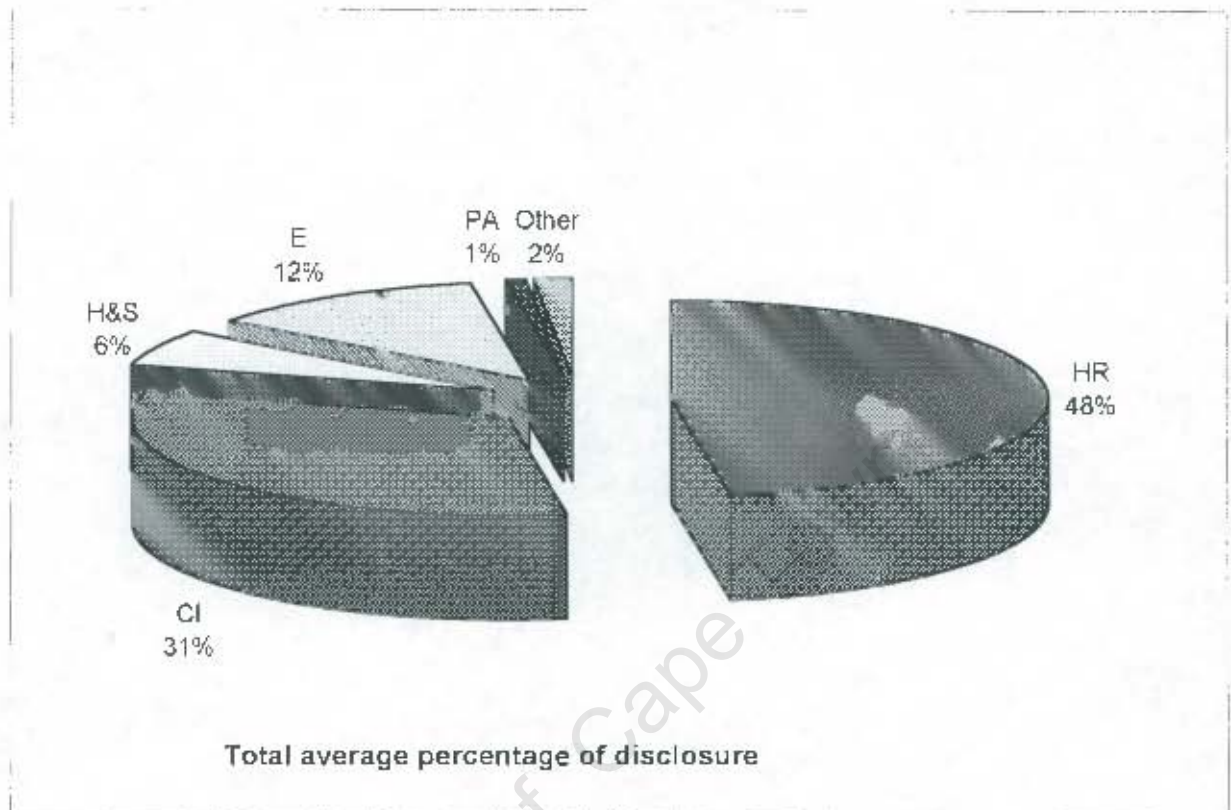


Figure 4 shows the shift in emphasis. While total number of disclosures increased over time resulting in increased pages for all categories, there has been a shift in terms of composition of the disclosure given. Whereas in 1989 Human Resources and Community Investment were totally dominant – almost to the exclusion of other forms of disclosure - by 1998 the disclosure pattern was more equally spread. The trends in disclosure will be more fully analysed below. What is important for now is to note the prominence given to Human Resource and Community Investment disclosure throughout the period studied.

Figure 5 shows the total number of pages disclosed per category as a percentage of the total CSR for all 560 reports. Again Human Resources reflects a large portion of the CSR disclosure.

Figure 5



Environmental and Health and Safety disclosure make up the third and fourth most important categories of disclosure. This is in line with other studies although many of them found this disclosure almost constant over the period of the study. The trend here appears to be one which more or less increases over time. Certainly from 1989 to 1994 there is a steady increase in the number of pages devoted to CSR with 1994 appearing to be a year of peak disclosure. An analysis of the trend per category will be provided in the following chapter.

What is also apparent from the above graphs is that South African companies appear to be very active corporate social disclosers. Certainly more so than those in other developing countries (see Andrew et al. 1989; Lynn, 1992; Singh and Ahuja, 1980). Again this can be explained by the particular political and social context in which business in this country operates. The vast majority of companies surveyed made at least some form of social disclosure. Indeed, in the 560 annual reports studied only 67 (or 12%) contained no disclosure at all. And, if value added statements are included as

a form of CSR, the number of reports in which no CSR appears at all drops to only 52 or some 9%. Only one company, Mutual and Federal, made no CSR disclosures in any of its annual reports for the ten-year period. This translates into 1,8% of the sample. When this is compared with Teoh and Thong's assertion that the highest number of disclosing companies found in a study in developing Asia was only 50% it is clear that South Africa's CSR was well ahead. Indeed even the US and UK had 2% and 20% respectively of companies providing no CSR (Teoh and Thong, 1989). And Gray et al (1996) argue that the CSR of Western European countries is sketchy and at a low level.

The average number of pages devoted to CSR per annum by South African companies in the sample was 2,44 pages if separate reports are included (2,27 if they are excluded). It does not appear from the literature that any other sample this large produced as high an average in any other country. (Indeed the count compares favourably with the average of 3 pages found by Adams et al (1998) in their study of the 25 largest Western European companies – and this was skewed by the very high level of CSR in German companies with all other countries' disclosure being at a lower level than that found here).

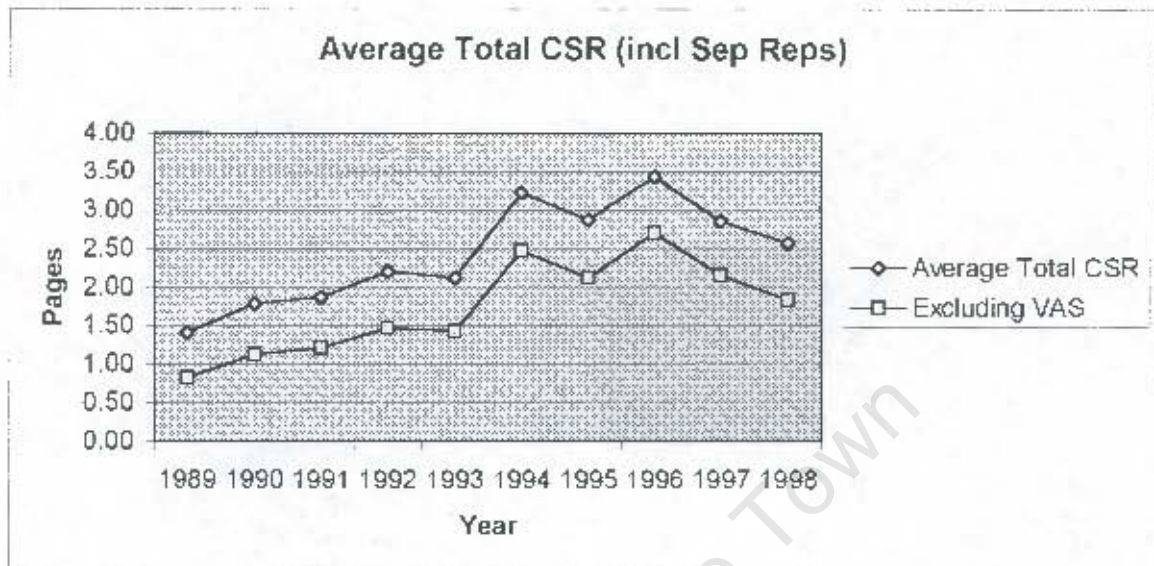
The insights and observations from an analysis of the instances of disclosure are supported by those from an analysis of the trends per category over time. It is to this that the paper now turns.

Trends in CSR over time

This section continues the analysis of the results of the study by looking at the trends in disclosure over time -- both in total and per category.

Figure 6 shows the trend in total CSR provided – both including and excluding the value added statement. (Note that the graph includes separate reports issued with the financial statements and has not been adjusted in any way).

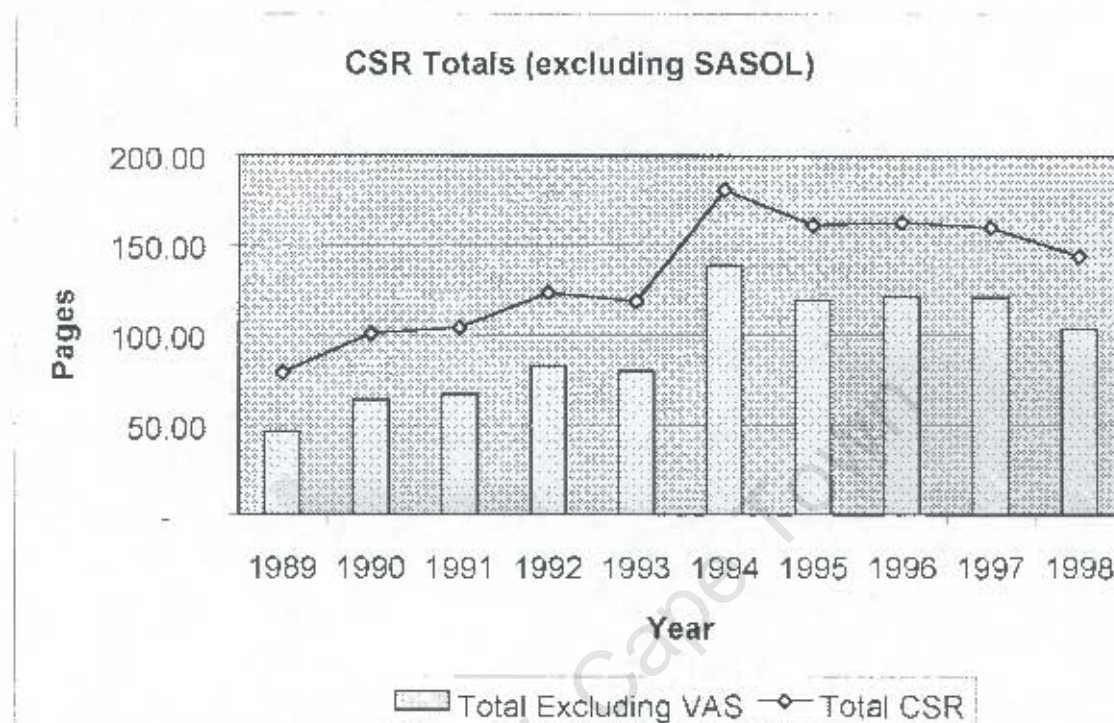
Figure 6



As a result of the obvious 'outlier effect' which the 1996 30 page environmental report produced by Sasol had on the trend shown above, the graph was redrawn from data which excluded this report and is presented below.

Figure 7 thus shows the trend in total CSR over time where the separate reports have been included in the count but with the Sasol 1996 environmental report excluded due to its skewing effect.

Figure 7



It is apparent that the inclusion or exclusion of the Value Added Statement (VAS) has very little effect on the trend since (as will be discussed below) disclosure in this category remained almost constant over the period of the study. The trend appears to be one which more or less increases over time. Certainly from 1989 to 1994 there is a steady increase in the number of pages devoted to CSR. 1994 appears to be a year of peak disclosure – this necessitates further analysis which is provided below. 1995 thus shows a slight drop but then the disclosure contains at a high level for three years before dipping slightly in 1998. The trend can be explained as follows.

1989 was the year in which the reformist State President FW De Klerk came into power in South Africa. This then can be seen as the base year from which the public gradually became aware of the impending political changes. President De Klerk assumed power with the expressed intention of liberalising the political scene. In 1990 he released Nelson Mandela, lifted the ban on political parties and began the process of negotiations - ushering in a new political paradigm. From the moment that his reforms began taking hold the country changed markedly. The focus moved to

making South Africa a democratic country in which all its citizens had a say. It became increasingly obvious that the reforms would lead to fully democratic general elections and ultimately to a black ANC government. Thus, business had to respond to the political pressures in the country. Specifically they had to negotiate their relationship through disclosure in their annual reports. Increasingly they showed that business was interested in uplifting the previously disadvantaged and that it was making a positive contribution to the country. Especially in the early years business had to work to counteract the threat of nationalisation. One way to do so was to demonstrate the good that business was doing for the majority - providing employment and benefits to their employees and meeting the needs of the communities in which it was operating, often addressing imbalances caused by the minority government's focus on the white population. Thus the instances of CSR in the sample show a strong increase culminating in a peak of more than 180 pages (or 3,21 pages of CSR per company) in 1994. This peak coincides with the year in which South Africa's first democratically elected government took office. It was a year of national unity and celebration. A Government of National Unity (GNU) was formed which brought together the ANC alliance, Inkatha and the National Party in a government headed by the conciliator Nelson Mandela. Indeed one of his Deputy Presidents was former president FW De Klerk. In response to the mood of national unity and reconciliation business took it upon itself to demonstrate its commitment to building the 'new' South Africa. This was seemingly done in part to fend off pressures to take action against business, and partially in response to the buoyant mood in the county and the extant discourse of unity, reconciliation and a proud South African patriotism. Business had to ally itself with the mood in society as to not do so would surely invoke a rebuke at the hands of society's representatives.

In the years which followed the new government gradually established itself and its policies and it slowly demonstrated that it would follow a largely conservative monetarist and capital-friendly economic policy. The government kept itself to fiscal conservatism and followed the recommendations of the World Bank and the leading industrialised nations. This gave comfort to business and it is argued that as this policy became entrenched business gradually realised that the threat of government nationalisation action had eroded. This may explain the slight drop in disclosure.

Once the fears of the new government fell (and once government had control of labour) the need for legitimization decreased somewhat. Additionally as more black investors became involved as shareholders in companies the political pressure on those companies concerned could be expected to drop so that the legitimization imperative became slightly less important. Still, business had to keep disclosure at a high level as it was still under pressure from certain forces within the country - like labour. Indeed the 1997 hearings of the Truth and Reconciliation Commission into the role of business under Apartheid would also contribute to this. At these hearings business was called upon to make presentations concerning their activities in supporting the regime of the day. There were admissions of complicity in Apartheid and apologies for the harm caused to people. Some commentators, however, felt that business did not go far enough (Electronic Mail and Guardian, 1997).

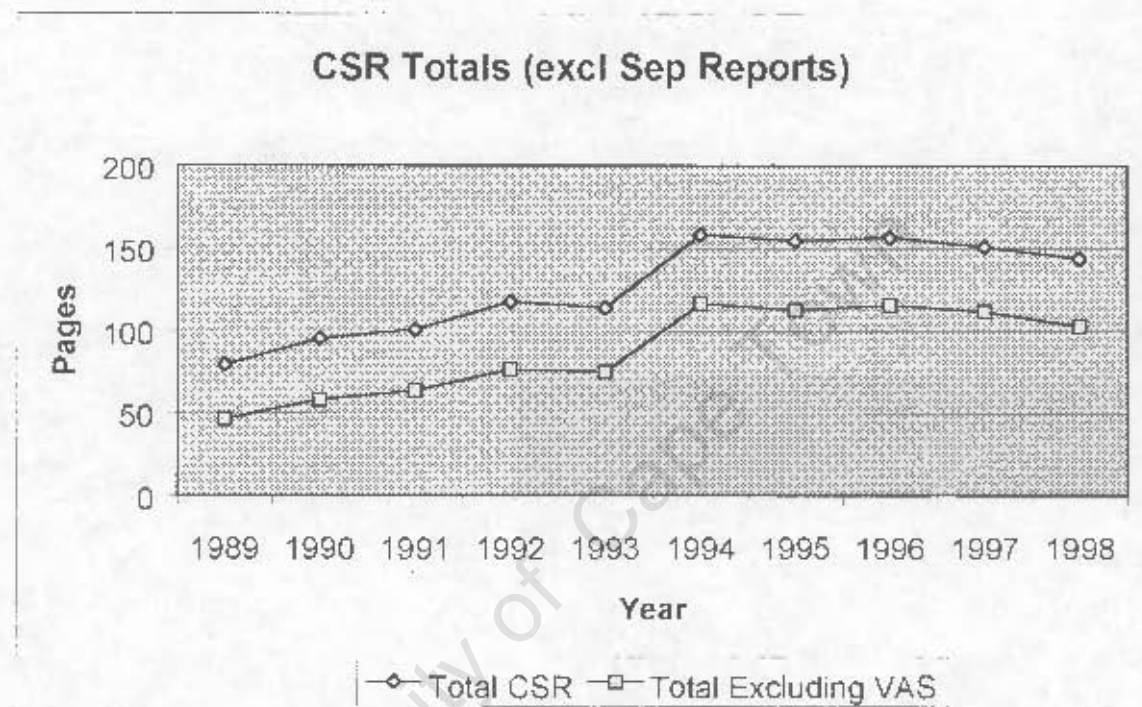
The political economy has certainly changed over the period. Increasingly business has been forced to see itself as having an indisputable duty to its employees and the communities in which it operates. This it has chosen to demonstrate through disclosure in its annual report. This disclosure has become established at a high level and business appears to be continuing to negotiate its relationship through CSR. The objective of the CSR appears to be to demonstrate the fact that it has accepted its responsibility in a social-leaning free market where business is allowed to continue independently as long as it shows willingness to fulfil its role as a social partner of the government.

Indeed the South African institutional setting has shown government, labour and business coming together in a partnership. The National Economic Development and Labour Council (NEDLAC) was formed as a forum to bring these three parties together to help form policies for the good of all the people. Business has been brought in as a partner working together with government for the upliftment of all South Africans (on the surface at least) and its disclosure demonstrates its fulfilment of this role.

Figure 8 shows the trend in total CSR provided using the data set in which all separate reports have been excluded from the sample. As is apparent the trend is hardly

different from that seen in Figure 7 which included the separate reports, but excluded Sasol's 1996 environmental report.

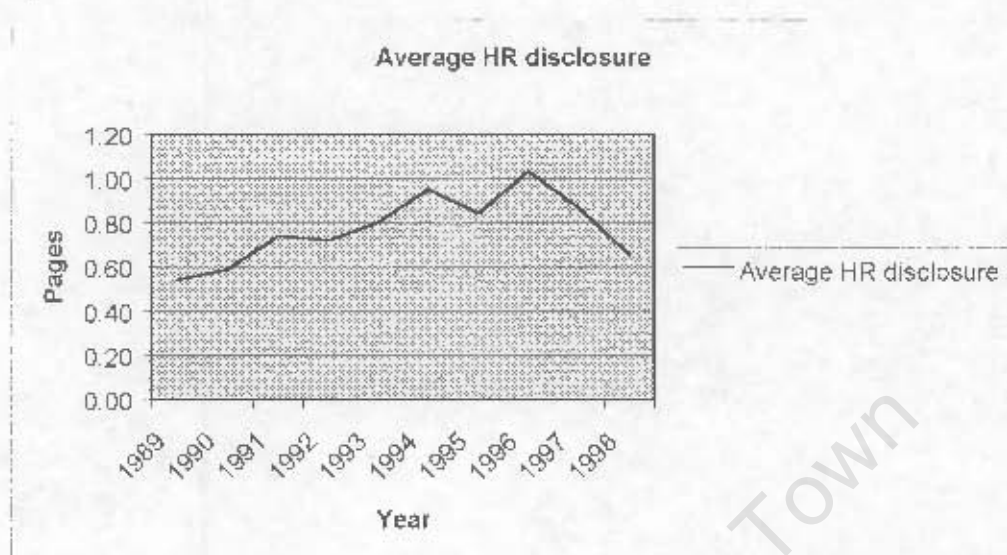
Figure 8



Trends in specific topics over time

Observation of the trends in topics over time helps to clarify the reasons (as understood from a political economy perspective) for the trend in general CSR. Figure 9 – Average HR disclosure below shows the trend in Human Resources or employee disclosure. (The graph has been drawn using the totals including separate reports. If these are excluded the trend remains exactly the same).

Figure 9



Employee disclosure shows a steadily increasing trend up until 1996. Thereafter it appears to be embarking on a decreasing trend. This is supported by Figure 4 which shows that Human Resources made up over 60% of total CSR in 1989 while it made up only 35% in 1998. Part of this can be ascribed to an increase in all topics of CSR with the smaller percentage in the latter years still representing a large amount of disclosure. The fact that there were more of all types of CSR resulted partially in the decline in HR's share. Still, there is evidence of an increase and then a decline. The trend can partly be explained by the factors noted under the general discussion above. That is, once the policy of the new government was firmly established there was less political pressure on companies.

However, HR disclosure is often related to relations between companies and their employees as well as to the relative power of the trade unions. Traditionally the trade union movement played a central role in South African politics. Indeed before the unbanning of the ANC trade unions were the vehicle through which the black population asserted itself politically. In South African strike action was more often than not politically motivated rather than employee specific. As the new government rose to power, however, a mainstream outlet opened itself to the black population for the assertion of their political will and aspirations. This weakened the trade union

movement. The movement was further weakened by the fact that the government (of which they formed a part) adopted a conservative economic approach in the form of GEAR. This decline in the power and strength of trade unions also resulted in less strike action. Indeed statistics from the National Productivity Institute showed that fewer working days were lost to strikes in 1997 than in any year since 1980. As the power of organised labour slipped business was under less political pressure from workers and thus the high level of HR disclosure became less necessary. It has been maintained at a relatively high level, but there does not appear to have been an urgent need in 1998 for business to negotiate its relationship with labour.

The figure below demonstrates the decreasing level of industrial disputation from 1989 to 1997. This appears to indicate that management felt less and less pressure from labour – especially after 1992. (The information on which the graph is based was supplied by the Department of Labour and Andrew Levy and Associates (Central Statistical Services, 1997 and Davenport and Saunders, 2000).

Figure 10

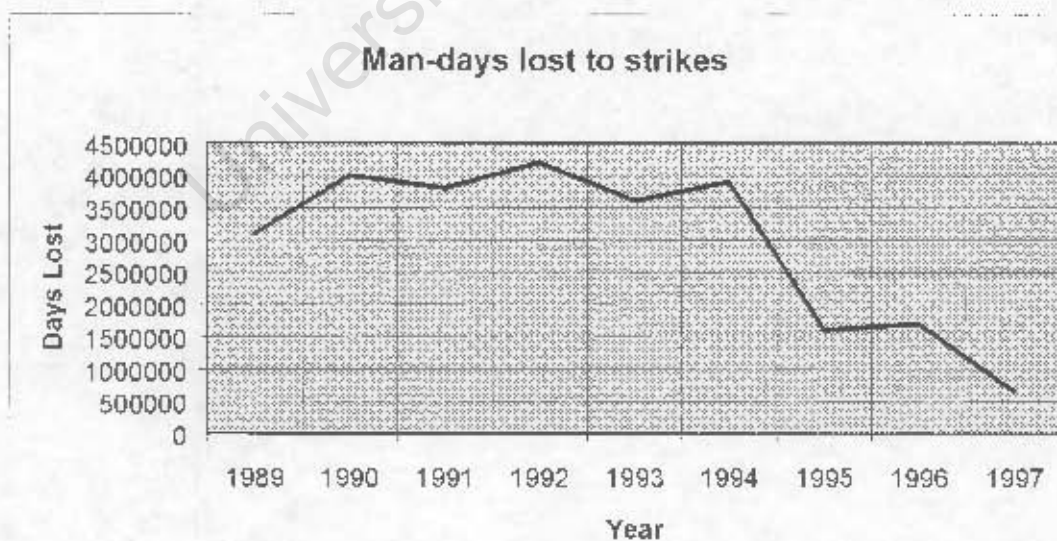
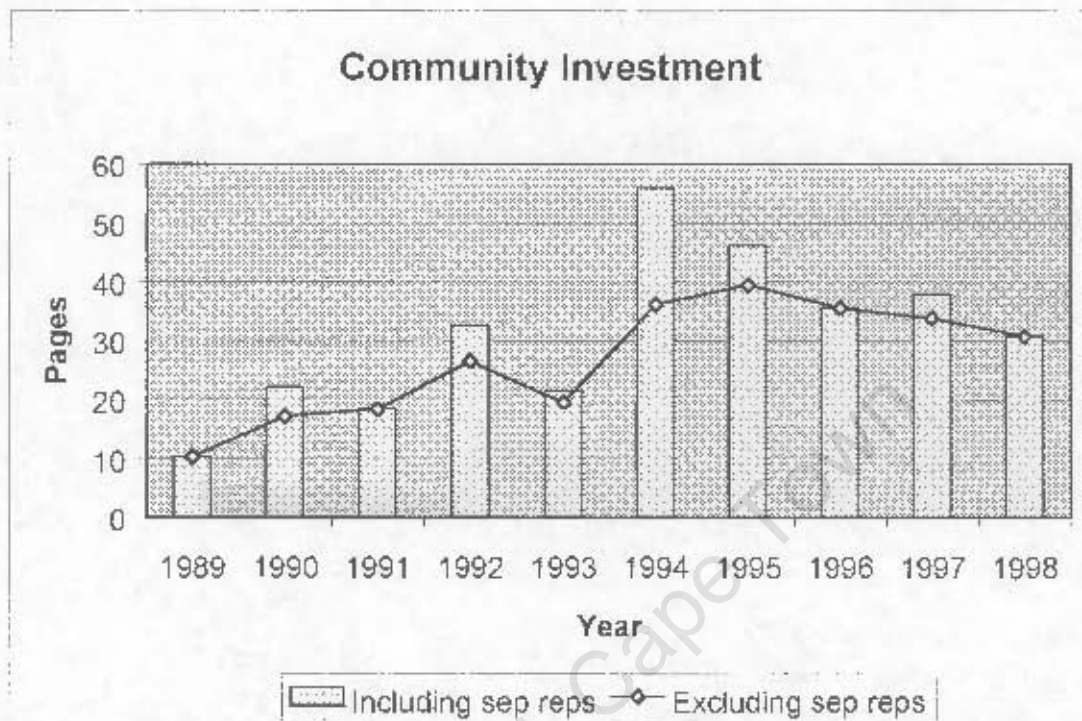


Figure 11



The trend in Community Investment disclosure appears to be similar to that of total CSR with an increasing trend over the period. 1994 shows a peak, which falls off somewhat in the following few years. The comments made in the section on total CSR apply equally to community investment disclosure. Business has been required over the period to take on some of the traditional burden of the state and demonstrate its commitment to the upliftment, development and needs of the communities in which it operates. As figures 2 and 3 above have shown, by 1998 Community Investment disclosure had become almost as important as HR disclosure. Indeed in 1994 when it reached its peak, the number of pages of Community Investment disclosure exceeded that devoted to Human Resources.

The main blocks on the graph in figure 11 represent the total number of pages devoted to Community Investment CSR in the sample including the separate social reports. The line indicates the totals if separate reports are omitted from the count. As is apparent there is little difference in the trend with the count uniformly less.

However, one marked difference is the fact that under the second set of data the Community Investment disclosure reaches its peak in 1995 (rather than 1994) before beginning to fall slightly. The explanation for the trend does not, however, alter.

Figure 12

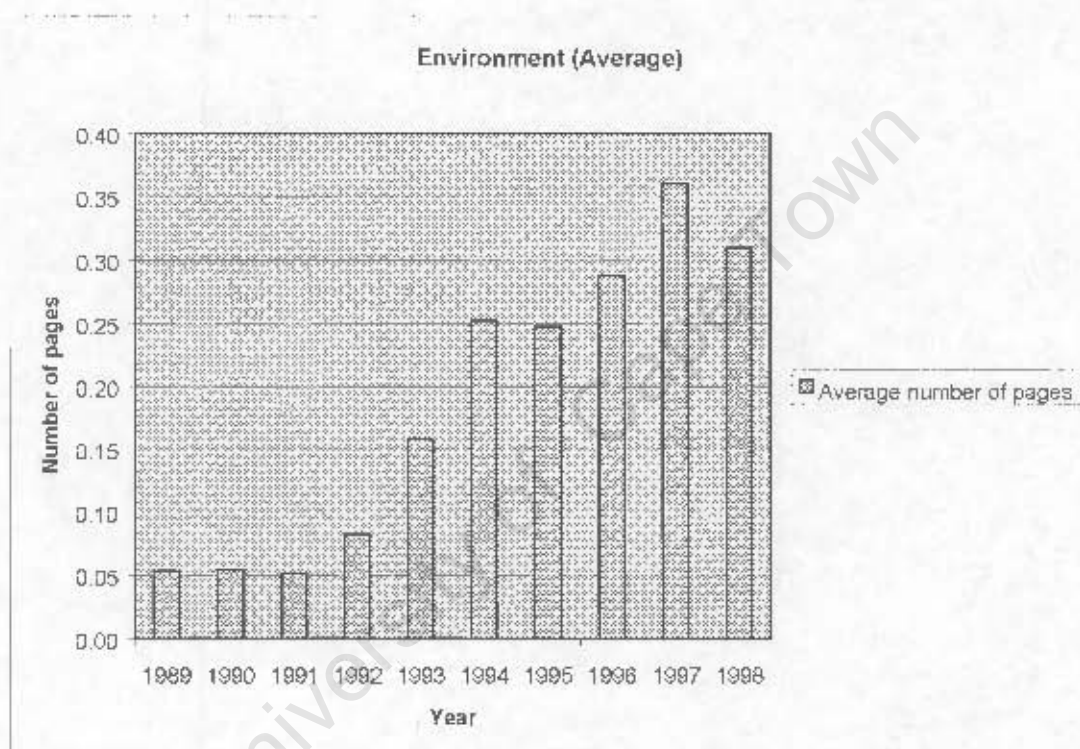


Figure 12 looks at the trend in environmental disclosure using the data set in which separate reports are excluded from the count of CSR. If separate reports are included the skewing effect of Sasol's 1996 report makes this appear to be the year of maximum disclosure. However the general trend (if 1996 is excluded) is very similar to the one presented here.

Environmental disclosure shows a vastly increasing trend and is still at a high level in 1998. Indeed it has remained the third most important topic for CSR and has increased its relative share of total CSR from 6% in 1989 to 17% in 1998. This is in line with observations made by other studies in other institutional settings. The focus

on global warming, deforestation and pollution is very much a child of the latter period. Today, however, environmental disclosure has become more and more important as concern over the environment has increasingly entered the political domain of the country. The number of environmental action groups in civil society has increased since 1989 (De Villiers, 1996). Increasingly it has become accepted that business has to take an interest in sustainable development. This has had an influence on companies which in turn have been forced to make environmental disclosures to react to political pressures. Another possible reason for the increase is related to the general move by business to become more socially responsible and increasingly recognise its responsibility to society as a whole. As South African politics begins to normalise it can also be expected that business will feel more pressure to provide disclosure on the effects of its activities on the environment. As the political pressures for democracy have been fulfilled political activists could switch their attention to other issues. As the country improves further this can be expected to increase. When one has to worry about fundamental human rights, crime, violence and poverty, environmental concerns become less important. The focus on conservation is mainly a First World concern. It is easier to think about such issues when one's stomach is full. It is less so when the main concern of many of society's members is where their next meal is going to come from.

Environmental reporting does not appear to be a major component of CSR over the period. As indicated in Figure 5 it made up only 12% of the total disclosure over the period. This is different to the trend in countries like the US, where environmental disclosure is more important (Gray et al, 1986). The reason for this appears to be that referred to above -- namely that social issues other than the environment tended to dominate. For much of the period of the study the socio-political debate centred around issues of political power, human rights and violence rather than environmental issues. Savage concurs with this, noting the lack of effective environmental legislation and pressure from interest groups as additional reasons for the low level of reporting (1994: 3). Indeed this may give some support to the Ethical Relativism argument proposed by Lewis and Unerman (1999) as South African society did not regard environmental issues as importantly as American society may have over the same period.

Figure 13

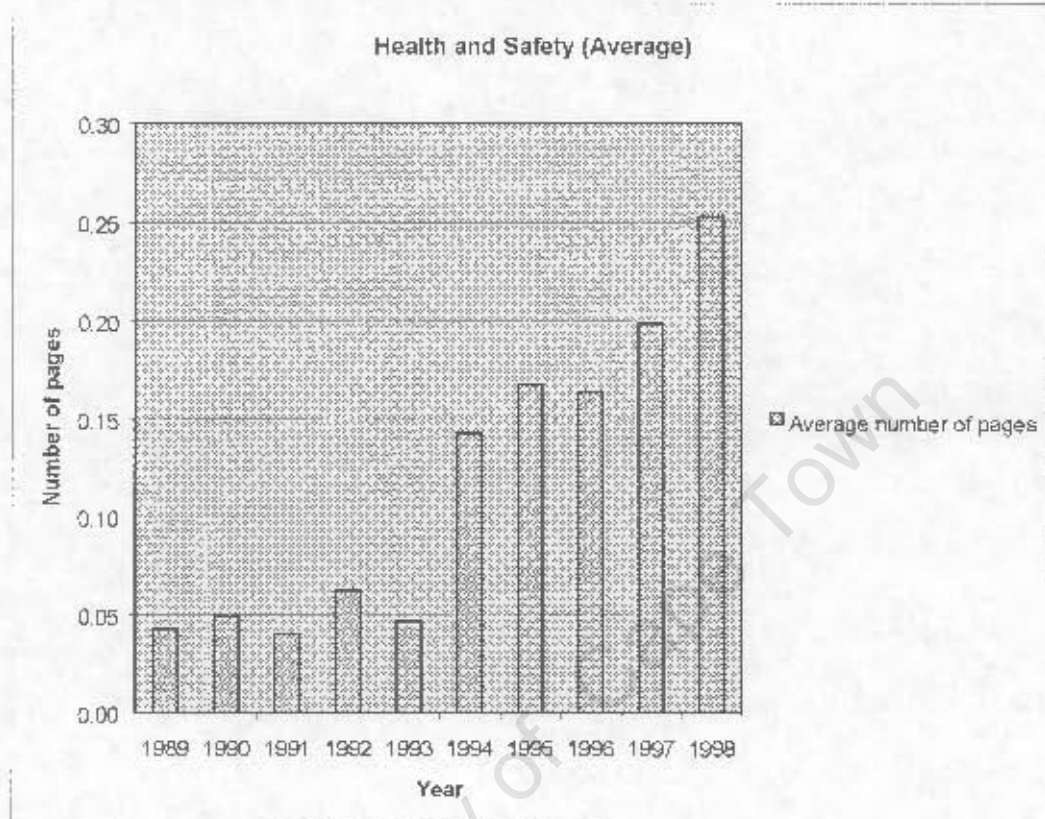


Figure 13 indicates that Health and Safety disclosure has remained at a fairly low level, but has also shown a steady increase over time. 1998 was the maximum disclosure year with relative importance increasing from 5% in 1989 to 14%. In line with the move for businesses to accept its responsibility to employees and the community, health and safety disclosures have become more important. The increased concern is also related to the increased focus on corporate governance issues as discussed below. (Note that the graph using the data set which included separate reports and that using the data excluding them are identical).

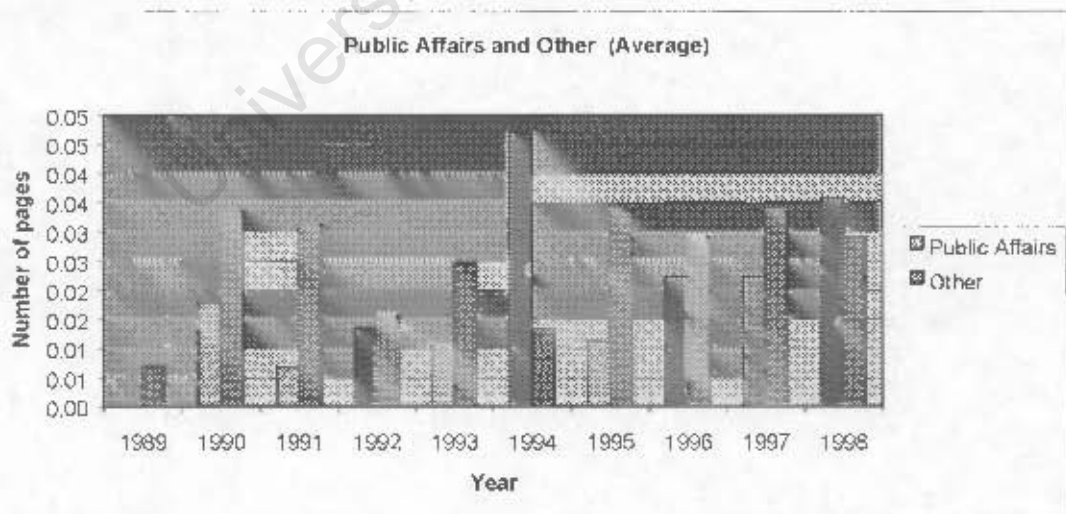
Public Affairs disclosure was also measured over the period. This disclosure related to the involvement of business in public life. This could take the form of participation in Nedlac, or in other initiatives such as Business Against Crime. An example comes from South African Breweries (SAB) who seconded their Chief Executive Officer,

Meyer Kahn to the SA Police Services. Public Affairs disclosure remained at a relatively low level although in 1994 it reached a peak of some 3 pages in total.

The category 'Other' was introduced to catch all disclosures which fell into the definition of CSR, but which could not be categorised into any of the other categories. An example of CSR in this category is the customer disclosures made by retail-focused companies like ABI, Metcash, Sappi and Pick 'n Pay. Other specific disclosures of interest in this category will be discussed below with the observations from individual companies. No significant inferences can be drawn from this category due to the low number of pages and the broad range of disclosures included within it.

Figure 14 shows the average number of pages devoted to Public Affairs and Other disclosures. The graph was produced using total CSR including separate reports. The graph produced from the other data (that which excluded separate reports) differs only slightly and has not been presented here.

Figure 14



Value Added Statements

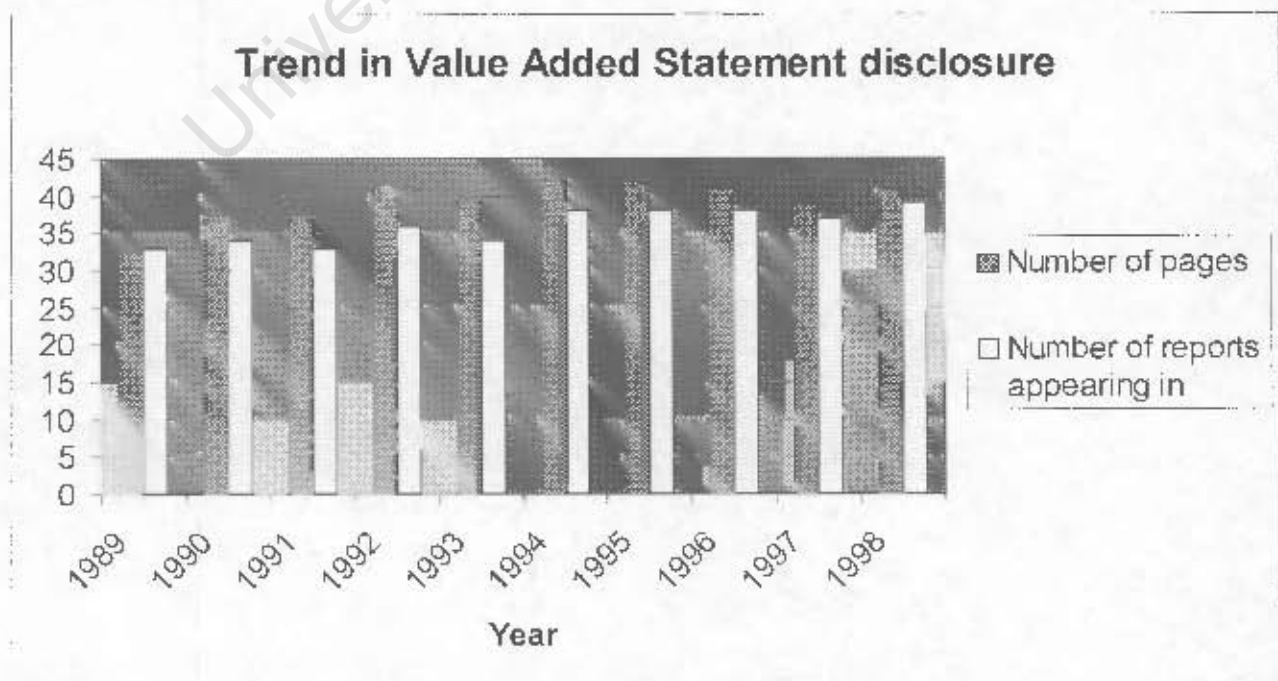
Value added statements are a popular form of disclosure for SA companies - appearing in 64% of all the annual reports studied. Certain studies contained in the CSR literature include the value added statement in the count of CSR. The reason for this is that the statement is voluntary and is a report designed to report to stakeholders other than shareholders. This is because it tends to emphasise the large proportion of the value going to employees and categories other than shareholders. Indeed the very concept of "value added" has its roots in CSR as it seeks to show the enterprise as a corporate citizen which adds value to the society of which it forms a part. Moreover certain authors (for example Gray et al, 1995a as well as Deegan and Hallam, 1991) have held that the value added statement provides a means for a company to negotiate its relationship with society and is indicative of a response to social and political pressures. Possibly even pressure on legitimacy of the enterprise. In the South African context the disclosure is widespread. This can be seen as a response to the high levels of political pressures faced by companies (especially from labour, but even perceived pressure from government) and the need for them to show themselves as responsible corporate citizens. As Savage notes in her brief 1994 paper, the value added statement may be a tool for management to communicate with the powerful and sophisticated trade unions (1994: 2). The high level of value added statement disclosure appears to fit in well with the high level of human resource and community investment disclosures. Indeed the prevalence of value added statements refutes the observation of Gray et al that the provision of these statements is "strictly a European phenomenon" (1996: 116).

The study appeared to indicate that companies in South Africa are uniform or constant disclosers of value added statements. That is, companies which provided value added statements in one of their annual reports tended to provide value added statements in all of the reports thereafter. Unlike Gray et al (1995a) this study did not find that the incidence of value added statement disclosure fluctuated over time. In fact only 5 companies in the sample had sketchy patterns of value added statement disclosure. This uniformity is apparent from the graph below (Figure 15). The graph demonstrates that disclosure of value added statements remained fairly constant over

the period of the study displaying only a slight increasing trend. The cynical observer may conclude that South African companies used value added statements less as a tool in negotiating legitimacy and privilege in society than as a way to score points in financial reporting competitions where the provision of such statements met with the approval of adjudicators. Whether this is true or not, it appears as if the disclosure of value added statements in the sample studied cannot help with the formulation of significant conclusions about the applicability of the political economy theory. That is, besides the support that the high incidence of disclosure may give to the argument that companies in South African are clearly subject to a large amount of political pressures.

Figure 15 shows both the number of annual reports in which value added statements appeared per year, as well as the total number of pages devoted to the statements. There is little difference between the two – both in terms of trend and absolute values. This is a result of the fact that most value added statements fill one page of the annual report. A few filled two.

Figure 15



The King Report on Corporate Governance

In November 1994, in response to developments around the world, and as a reaction to a number of highly publicised corporate failures, the Institute of Directors in South Africa produced a report which became known as the King Report on Corporate Governance. Taking its cue from a similar report produced by the Cadbury Committee in the United Kingdom, the report made recommendations about best practice for directors in exercising corporate governance. The report went to the heart of the agency problem which arises in large corporations in cases where ownership and management are divorced from one another. The report applied to all listed companies, parastatals and 'large' private companies. The Johannesburg Stock Exchange lent its support to the report and the 'Code of Corporate Governance' which the report codified. Indeed, it became a listing requirement that companies disclose in their annual reports their extent of compliance with the recommendations contained in the Code.

Recommendations included the following: companies were to have a non-executive chairman of the board, along with at least one other non-executive director. The roles of CEO and chairman were not to be vested in the same person. Audit and remuneration committees were to be formed and these were to be chaired by non-executive directors. The report advocated the principles of openness, integrity and accountability, and emphasised the fact that the democratisation and internationalisation of South Africa had brought about a re-analysis of the identity of stakeholders and their informational needs. (A stakeholder is defined in the report as a person, entity or group that has an association with the company). The report thus gave recognition to the existence in South Africa of a form of 'stakeholder capitalism' noting that companies were increasingly being forced to consider the needs of stakeholders such as the government, their employees and customers, in addition to shareholders. In addition to the recommended practices, the Code called for various disclosures to be made in the annual report. Areas to be covered included: comments on the ability of the company to continue as a going concern, comments about internal controls and something referred to as a 'report to stakeholders'. (King Committee:

1994). Following the publication of the report, the South African Institute of Chartered Accountants (SAICA) produced a series of guidelines to directors to assist them with carrying out their duties in line with the best practice recommended in the report. A guide entitled 'Stakeholder Communication in the Annual Report' suggested that companies provide objective communication, directed at all stakeholders covering both positive and negative aspects. The following types of information were suggested in the category of CSR:

- **Employment.** A discussion of staffing issues, new jobs created, retrenchments, affirmative action policy, employee benefits etc.
- **Environment.** Protection policies, compliance with consumer and government standards, potential liabilities for restoration and litigation costs etc.
- **Social Responsibility.** Activities and programmes of upliftment and improvement, large donations made or intended (De Villiers, 1997).

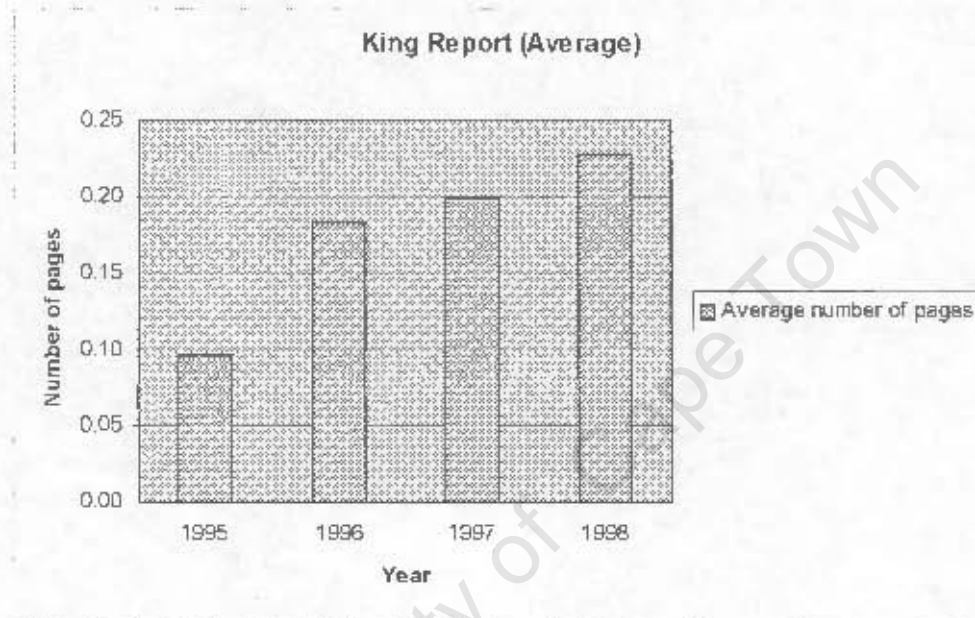
Whilst not all companies complied with these recommendations, and indeed few complied with all of them, the guide certainly gave further impetus to the provision of CSR. In practice companies introduced a separate section into their reports entitled 'Corporate Governance' in which they addressed aspects of the Code. The CSR contained in these sections of the report was commentary on the topics referred to in the SAICA guideline above.

In response to this the study introduced a category to count CSR information provided by companies in that section of their annual reports which dealt with the recommendations of the King Report. This CSR was measured separately as it is to some extent less voluntary disclosure. As already mentioned companies also tended to provide all their corporate governance information in one report which addressed the recommendations of the King Committee, and this was usually provided in addition to, rather than instead of, other CSR.

Figure 16 below shows the number of pages devoted to King Report disclosures in the field of CSR. Most companies introduced a separate section in their annual reports from 1995 onwards entitled 'Corporate Governance'. This section dealt with their compliance with the recommendations of the Code as well as related disclosures. CSR

disclosures made by companies in this section of their annual reports included worker participation in governance, affirmative action and ethics. (Note that the graph below includes a count of only the CSR-related topics of King Report-related disclosure).

Figure 16



As can be seen above the 'King Report-related' CSR has shown a clear increasing trend since it first appeared in 1995. The average number of pages devoted to it is still small though - at approximately a quarter of a page. The emphasis on 'stakeholder communication' may seem from this tally to have been largely ignored in practice. However, the Report does appear to have had some impact in other areas of CSR, contributing to an environment in which CSR provided in other sections of the annual report tended to increase. This can be seen from the fact that the average number of pages of CSR presented post-1994 is greater than that in the period before.

This chapter has presented the results of the study into CSR reporting practices of some of South Africa's Top 100 companies. It was found that Human Resources and Community Investment disclosure are important topics for the providers of CSR in South Africa. This can be explained by the particular political circumstances over the

period of the study which envisaged a role for business in contributing the social upliftment of the country during a time of enormous political change. This was borne out by an analysis of the trend in CSR over the period (both in total and by topic) which showed that disclosure increased dramatically and reached a peak in 1994 – the year of the country’s first democratic general elections. Finally a discussion of the role of the King Report on Corporate Governance in influencing CSR was provided, along with the assertion that the publication of this report helped contribute to the environment of greater disclosure.

This study has yielded a very rich set of data for analysis. There are a number of reasons for this. Firstly it is the first time that such a large study (covering such a large number of companies and years) has been undertaken in South Africa. Secondly the period over which the study was performed was a very politically charged period in our history with the country undergoing the most significant transition in its history as a vast change in the political and social order came about. The fact that the study was based in South Africa meant that there was much political pressure and activity against which to evaluate the adequacy of a political economy perspective in explaining the trends in and characteristics of the CSR. The study also allows one to determine whether conclusions reached by the body of previous research from studies in other countries applies to South Africa. This is especially relevant in the characteristics of companies that provide CSR which will be discussed in the following chapter.

Chapter Six

Results: Other Observations

University of Cape Town

Results: Other Observations

This chapter considers whether conclusions reached by other studies concerning the characteristics of high disclosure companies have found support from this sample. Although the purpose of this study was to identify trends in total CSR and not to analyse individual companies, an analysis of the results allows some interesting comparisons to be drawn. Additionally, it looks at some specific examples of disclosure found in the sample and at the companies showing the highest and lowest levels of CSR.

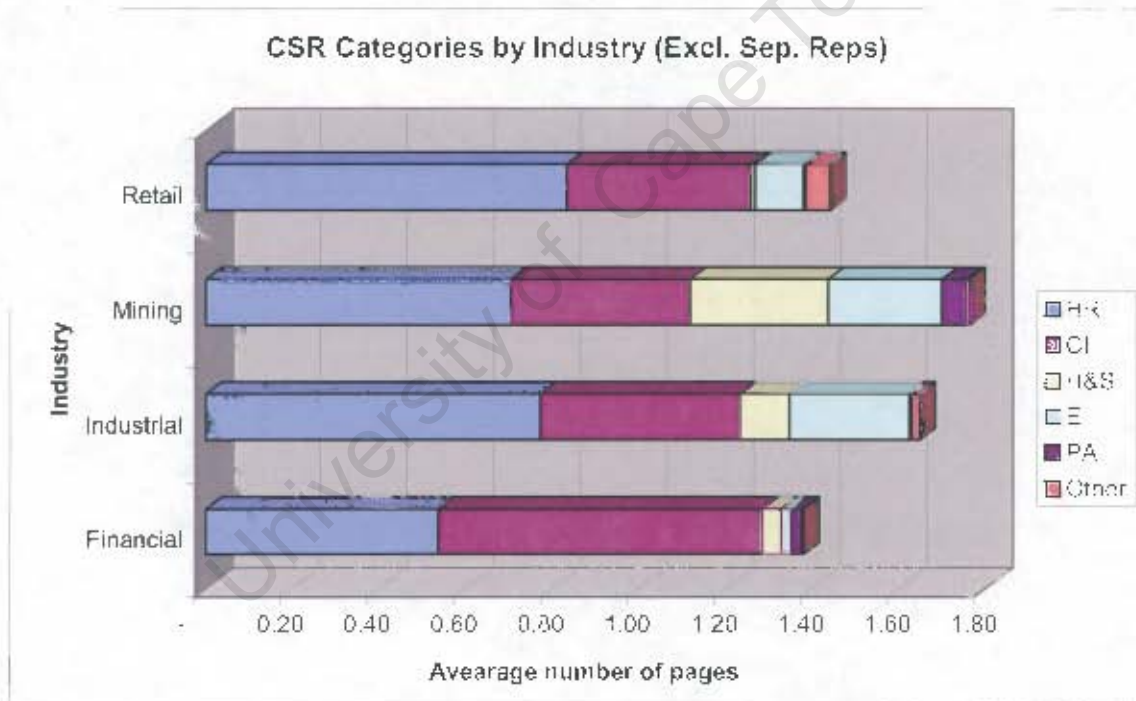
Comparison with other studies

As mentioned in Chapter 2 most studies in the field of CSR (especially in the earlier years) analysed the CSR provided by companies and sought to determine trends from the results (Matthews, 1997). They used these to produce a list of the characteristics of maximum CSR disclosing firms. A sub question of this study was whether those characteristics appeared to apply to South Africa from the sample in the study. The first variable appeared to be industry, with resource and mining companies tending to show the most CSR.

Figure 17 below categorises CSR provided by companies in different industries. A simple four way split was used in order to get information about the characteristics of high disclosure companies and to go some way in making the study comparable with other studies in the field of CSR. As has been shown by other studies (Adams et al, 1998; Cowen et al, 1987; Roberts, 1992; Singh and Ahuja, 1980; Williams, 1999), industry does appear to have an effect on the amount of CSR provided by a company. The mining and industrial sectors show the largest average number of pages devoted to CSR. As is apparent from the graph this is a result of the Environmental and Health and Safety disclosures, with levels of HR and CI not differing markedly between industries. This is consistent with the findings of other studies which have suggested

that this may be a result of the fact that companies in these sectors are subjected to greater political pressures and threats to legitimation. In the case of South Africa, gold mining has traditionally been the mainstay of the economy. For this reason mining companies tend to be under the most political pressure. This may account for the relatively high level of CSR found by this and other studies (for example KPMG, 2000). Additionally it is clear that by far the largest environmental disclosure comes from these two sectors. The industrial sector includes some companies like Sasol and Sappi which are engaged in highly sensitive operations which accounts for some of the high level of CSR here. (Note that the data used for this graph has been adjusted to exclude the effects of separate social reports).

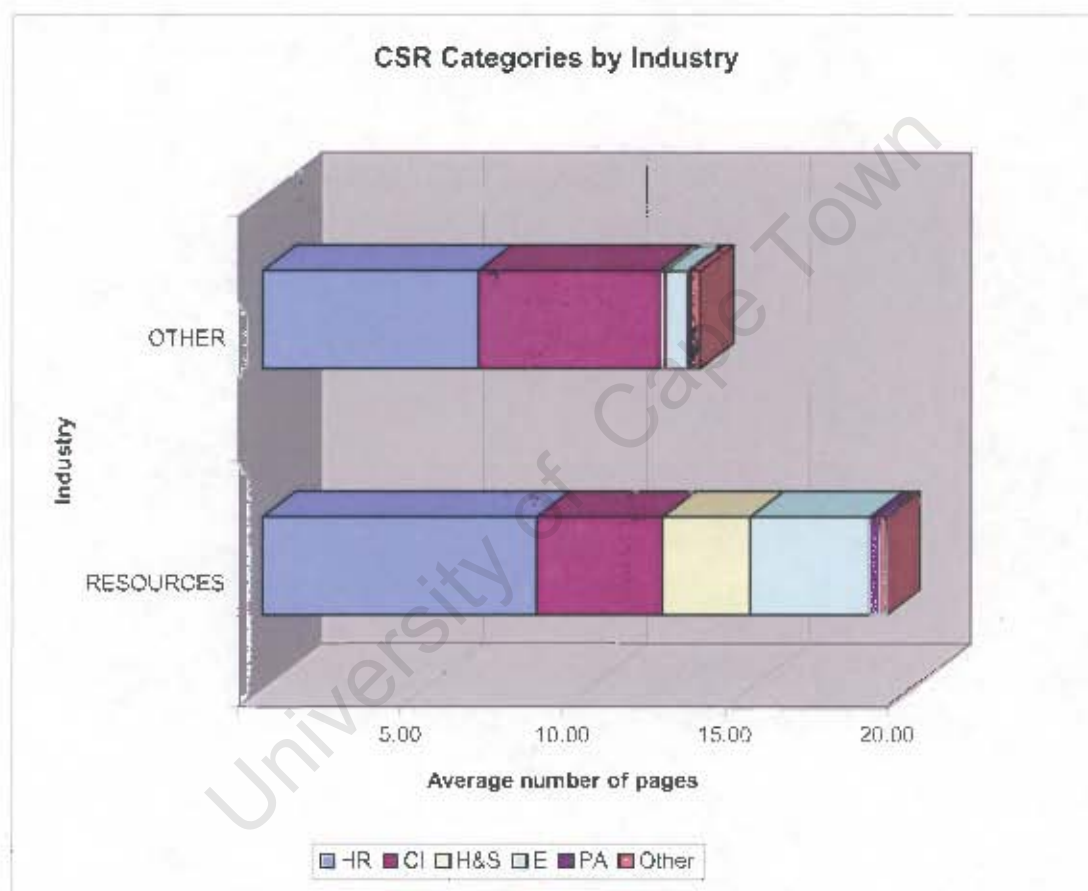
Figure 17



A legitimacy theory perspective would suggest that companies in highly sensitive industries would provide a large amount of CSR. An example of a highly sensitive industry is the resources industry. The Resources Industry is defined as the industry involved in utilising the resources of the earth, be it in mining, forestry or agriculture. Certain resources companies were included in the category 'Industrial Products' above. Figure 17 – CSR Categories by Industry (Excl. Sep. Reps) was redone in order

to obtain a split between companies in the resources sector and other companies in the sample. (The companies which fell into the 'Resources' category are shown in Appendix B. The category is similar to the "sensitive" category used by Adams et al (1998) as it contains companies likely to be highly politically visible (Patten, 1991)). Using the total average yearly disclosure per category to determine amount of discourse and relative importance, the figure below was obtained.

Figure 18



It is apparent that as expected, the resources sector far outranks the 'other' sector in terms of total CSR provided. This is in line with the expectations of legitimacy theory, as resources companies tend to be subject to much higher levels of political pressure especially in environmental terms. Thus it is apparent that the level of environmental disclosure is much higher in companies that form part of this sector. Additionally many of these companies are quite highly labour intensive which can subject them to a large amount of pressure from labour unions. Community Investment disclosure

appears to be higher amongst companies outside of the resources sector. (It should be noted, however, that this is a legacy of the early years of the study. In the last 3 years the average number of pages devoted to the topic was equivalent in the two groups). This observation may indicate that when it comes to demonstrating its commitment to the upliftment of the community, all companies in the country feel equal pressure to do so in order to legitimate their actions. Additionally the provision of such a large amount of environmental disclosure may force the resources companies to reduce the pages devoted to other CSR.

Evidence of a Size effect?

The Top 10 companies were identified in terms of average CSR disclosure over the ten year period. They were as follows (from best discloser): Sasol, Pick 'n Pay, Liberty Life, Anglo American, Samancor, AECI, Cadbury Schweppes, Murray and Roberts, Sappi and Stanbic. (If separate reports are excluded from the tally then Stanbic and Liberty fall out of the top ten and are replaced by Safren and De Beers).

The identification of the top ten lends support to the industry effect on CSR with 7 (or 9 if separate reports are excluded) of the top ten coming from the industrial or mining sectors. Indeed half of the top ten (excluding separate reports) come from the resources sector. Another characteristic of high disclosure companies identified in the literature is that they tend to be larger firms. Indeed (as noted in the literature review) Adams et al (1998), found what they termed a 'super-large effect', in terms of which companies defined as 'super-large' tended to provide the most disclosure.

The top 20 disclosing firms were thus selected and their position in the Financial Mail Top 100 list by market capitalisation was ascertained. An average was taken of their position on the list in 1989 and 1998 to determine the rating. Where the company average came out such that it placed in the top 50 this was considered to be a large company. (In the 1998 list a company with a market capitalisation in excess of R4billion would place in the Top 50). This is admittedly a somewhat crude measure since all the companies in the sample would probably be considered by most studies

to be large companies. However, this enables one to test for a size effect within larger companies (as well as for Adams' 'super-large' effect). The test found that 11 of the top 20 disclosing companies had average positions of 50 or less. This does not give support to the size effect since one would expect half of the companies to come in under 50 in a random sample. In addition it is apparent that, of the top 10 disclosing companies only 4 are considered to be among the larger companies. It thus appears as if this study has not found support for a size effect on CSR within the top 100. Although it is certainly felt that the top 100 would disclose more than other companies. Perhaps then, it does not appear to have found support for Adams et al and their 'super-large' theory.

Deegan and Hallam also found a size effect in the propensity to provide disclosure of Value Added Statements. Their study (1991) found that when compared to a control group, firms which presented Value Added Statements tended to be larger. Again here this study has not found support for this hypothesis among the 56 companies tested. Using average ranking for the years 1989 and 1998 as above, it found that of the 38 companies which provided value added statements in their annual reports, only ten had an average ranking of less than 50. Again this is not to suggest that the disclosure of value added statements would not be higher among other smaller listed (and unlisted) entities.

Other South African studies

In 2000 KPMG Inc in South Africa issued a report on its study of CSR in South Africa for the year 1999. This was the seventh such annual report which initially only tracked environmental reporting in South Africa. However, the 2000 study introduced other categories of CSR for the first time. For this reason it was considered valuable to compare the results of their study with those reported on in this paper.

Observations that were of interest from the KPMG study include the following. The authors noted that there certainly appeared to be pressure on companies to provide CSR in the South African institutional setting. This was said to be linked to

companies maintaining their legitimacy in society or protecting their licence to operate (KPMG, 2000). The pressure to disclose was seen to emanate from social forces and professional bodies which emphasise the right of stakeholders to information, as well as the emphasis on transparency which is contained in local legislation such as the Constitution of the country, the Promotion of Access to Information Act and the National Environmental Management Act (KPMG, 2000: 2).

The KPMG study used as its sample the Top 100 Industrial companies according to the Financial Mail as well as the Top 48 listed mining companies and some other listed public companies. The study found that reporting tended to focus (in order of decreasing frequency) on the environment, health and safety, employees and the community (2000: 1). This differs quite markedly from the trends noted in this study. The reasons for this are as follows. Firstly, the sample was for 1999 whereas the study focussed on the period 1989–1998, we would thus expect some differences, especially an increasing focus on the environment. Secondly, the KPMG report was heavily skewed towards the mining industry as it included the top 48 listed mining companies in South Africa in its sample (of a total population of some 150). Finally the KPMG study did not measure the extent or quantity of disclosure, but merely asked whether the annual report disclosed anything about a certain topic or not. Thus it determined incidences of disclosure rather than volume.

The KPMG study found that mining companies consistently outperformed industrial companies in terms of CSR (especially in the environmental disclosure). This conclusion is supported by the results of the study presented here. Additionally, both studies found that King Report linked disclosures showed evidence of improvement from year to year. KPMG found that SA Breweries, Pick 'n Pay, Iscor, Eskom, Sasol, Sappi and Amplats were the top disclosers of CSR information. The information obtained by this study for 1998 was therefore isolated and analysed for comparison with KPMG's results. All except Amplats and Eskom appeared in the Top 10 as well. The reason that these two did not appear is that they were excluded from the scope of the study by virtue of the fact that they were not listed for the full period 1989 - 1998.

Savage (1994) conducted a study of the CSR of 54 of the 115 largest JSE listed companies in South Africa for the 1992/3 year. She found that Human Resources disclosure was by far the most dominant form of CSR noting that this appeared to be a result of companies taking some responsibility for the inequalities in society in the wake of Apartheid. Savage found that HR disclosure appeared in 89% of reports at an average length of 2,6 pages. This was followed by Community Investment disclosure which appeared in 72% of reports in 1992 at an average of 0,8 pages. Environmental disclosure ranked third, appearing in 63% of reports at an average of half a page. This compares with the study reported here as follows. HR disclosures were found in 80% of reports studied, the average was less than Savage's coming in at 0,7 pages (or at 0,9 pages if Health and Safety disclosures are included – Savage had no separate category for these). Community Investment was found in 57% of reports (average 0,6 pages) and Environmental disclosure in 29% (at 0,2 pages on average). The conclusions appear to be broadly in line. The reason for the differences is that Savage looked at one year, while this study took an average over ten years. As the disclosure tended to increase from 1989 onwards it is expected that Savage would have found a higher level of CSR in her 1992/3 sample. Additionally Savage's sample was different from the one used in the study. However the broad conclusions are supported here.

It is also interesting to note to what extent companies' efforts in providing CSR are having the desired effect. A study by the Institute of Directors in South Africa (IDSA) noted that the following companies were perceived by its members as the most socially responsible corporate citizens: Anglo American, SA Breweries, Nedcor, Pick 'n Pay and First National Bank (Bjorkman, 1999). It is interesting to note that only Anglo American and Pick 'n Pay were selected by this study as part of the ten most prolific disclosers over the period. Additionally, some of the most prolific disclosers according to this study (notably Liberty Life, Samancor and AECI) are not mentioned in the Institute of Director's study. This may be a result of the fact that some firms in highly sensitive industries are required by society to provide a lot of CSR and so don't get credit for doing what is expected. Only those that appear to have gone beyond what is expected may be seen as highly socially responsible. The result may also indicate that the annual report is not the only way that companies can demonstrate

their commitment to society. Additionally it seems to support the contention of one of the authors of the IDSA study that many highly responsible companies have not exploited their activities with enough 'public relations panache' to be noticed.

Specific Company Examples

This section now takes a closer look at some of the examples of CSR disclosure found among the firms in the sample.

South African companies appeared to respond in a clear way to political pressures. Almost all companies responded to the developments of 1994 by increasing disclosure and identifying with the feeling of unity in the country – placing themselves on the side of the progressive forces. Indeed even in the latter years when the trend towards providing goals, missions or objectives statements at the beginning of annual reports became evident most companies tended to include some CSR objectives. AMIC, for example included the following under its objectives in 1995: “to have cognisance at all times of the environments in which the group operates to ensure that its policies and practices contribute to the better development of the overall social and economic structure”. And Pepkor noted in 1995 that it was “committed to equal opportunities for all” and that “as a responsible corporate citizen” was “involved in satisfying the needs and aspirations of the changing communities it serves”. Wooltru appeared to prove through its disclosure just how diverse an audience the annual report was meant to reach when it used the first page of its 1996 annual report to pronounce its mission – in English, Zulu and Sotho. Indeed its 1994 annual report quoted the words of newly-inaugurated President Mandela: “Never, never and never again shall it be that this beautiful land will again experience the oppression of one by another”.

Other company's annual reports showed signs of a response to social pressures which appear to be in line with the expectations of legitimacy theory. The following section

includes some interesting observations gathered from the study of the sample and relates these to conclusions formed by this study and others.

Lowest disclosure companies

Country of ultimate ownership was shown by the literature to have an impact on the level and type of CSR provided. Since all companies used in the study were locally listed entities the ability to test this was limited. However as the next section, which looks at companies with zero disclosure, shows there still appears to have been some country-specific effects.

Given the history of the country and the extremely politicised nature of civil society (especially when compared with the USA or UK), South African companies were expected to provide more CSR than their counterparts in other countries. This was especially expected to be the case in the 1990's when most of society was concerned with the unfolding constitutional developments. Not only was South Africa expected to have a higher level of CSR than developing countries, but it would also be expected to exceed the average level in developed countries too. Three specific examples appear to indicate that this may be the case.

The lowest levels of disclosure were found in the annual reports of Richemont, Lonhro and Minorco. These three companies were all international rather than locally focussed business. Lonhro was a UK registered company and as such provided only information on charitable and political donations. This was not counted as CSR since there is a requirement in the UK that companies provide this information. Minorco was a company registered in Luxembourg. Its CSR averaged less than one quarter of a page over the ten year period. Richemont, a Swiss-based company dealing in tobacco and luxury goods, provided almost no CSR at all. An exception to the norm of zero disclosure arose in 1992 when the company provided one eighth of a page of CSR. Commenting on the tobacco banning initiatives of the European Union the company noted that it employed in excess of 29 000 people. This appears to provide an

excellent example of a legitimization imperative - deflecting attention from the damage caused by tobacco by focussing on the employment provided by the company.

The low level of disclosure apparent in these three foreign registered companies appears to be related to their limited involvement in the country and its politics. If they were to be subject to any attack by the South African government or pressure groups in the country, they could withdraw with a minimum amount of harm being done.

Insurance company Mutual and Federal also provided a low amount of CSR in its annual reports. The reason for this is more complex to determine, but as an insurance company it would appear that its primary responsibility was to its policyholders and that there was not a perceived need on behalf on management to legitimate actions to society as a whole. Moreover, the company has a bad record of disclosure generally and is consistently rated 'poor' in the Excellence in Financial Reporting survey. (Ernst and Young, 1998). It can thus be seen as exception to the general rule – a company which for some or other reason did not follow the disclosure pattern set by other companies.

Another company that appears to be an exception is CTP Holdings which provided only one-eighth of a page of CSR in its 1992 report – and no other CSR at all. CTP Holdings in general displays a very cavalier attitude toward reporting to shareholders and other stakeholders. Of all the annual reports studied CTP's were by far the sparsest in terms of disclosure and presentation. It was clear that management did not devote much time or resources to the production of the reports. Year on year these reports looked exactly the same. They were stark, narrative documents such that one would hesitate to use the term most often applied in describing listed company reports, viz "glossies" to refer to theirs. It appears that the management of CTP do not consider the annual report to be an important document in negotiating management's relationship with society. CTP provide only that disclosure which is required by law and may possibly then use other media to legitimate their actions where considered necessary. Being a media group which controls most of the freesheet newspaper market in the country, one could posit that management would be able to use that

medium to serve its needs with the result that they do not see the annual report as important in intra-society dialogue in their specific case.

Both CTP and Mutual and Federal have been very profitable for their shareholders. Possibly then their management may hold a similar view to Milton Friedman's that a company's purpose is to make as much money for its shareholders as possible. And that social responsibility is a task best left to government.

The high disclosing companies

High disclosing companies in the sample include AECI, Anglo American, Liberty Life, Pick 'n Pay, SASOL and Samancor

AECI is a company in the sensitive chemical and oil industry, and as a company with close links to the state, sought to align itself with the objectives and policies of the emerging democratic government. As early as 1991 it stated as one of its objectives the active participation "in improving the quality of life in South African society by fostering education and training for all races". By 1992 this was expanded to include: "ensuring a satisfying work environment with diverse and challenging career opportunities". Its CSR average over the period came in at 4,5 pages (the fifth highest if separate reports are excluded). The fact that Anglo American at one time controlled the company may have influenced this disclosure somewhat, or at least instilled a degree of social concern. As an example of management responding to pressures on the company, the 1995 report mentioned details of an environmental disaster at an AECI plant. This annual report had a special emphasis on CSR with an unprecedented 6,6 pages being devoted to it including the highest yet number of pages on the environment for the company at 2,6. Additionally the CSR pages which were titled "Responsible Care" were placed at the beginning of the report –a rare occurrence and one of only a few encountered in the sample.

Anglo American is a company which has historically provided a large amount of CSR through the medium of its annual report. The total CSR provided averaged 4,8 pages

per annum over the ten years of the study and peaked at 8,5 pages in 1997. If separate reports are excluded from the count, Anglo produced the third highest number of pages of CSR over the ten years.

Anglo is recognised as a very important contributor to social responsibility programmes. Its Chairman's Fund paid out some R53 million to 978 different initiatives in the year to March 1997 with 70% of the funding going to education (Ryan: 1999). Although Anglo displayed a history of CSR provision throughout its lifetime, the 1990's were a period of maximum disclosure. This was analysed in another study as follows. "There were several reasons for this: the new government called on business to help rebuild the country, and in the early days business was very fearful that a new government would introduce a policy of nationalisation. Business had to show its commitment to social upliftment to avoid the threat of government forcing it to make contributions through legislation. This has continued to the present day with business announcing a plan to donate 1% of its market capitalisation to a job creation fund - and Anglo committing itself to contribute even more. Thus, CSR during this period showed a dramatic increase" (Griffith, 1998). Anglo recognised the value of providing CSR, stating in its 1995 annual report: "Investment in people and communities has always been recognised by the Anglo American Corporation as part of its wider role in society".

Anglo American is South Africa's dominant business grouping, at one time controlling (according to McGregor, 1995) 44% of the market capitalisation of the Johannesburg Stock Exchange (now the JSE Securities Exchange). Where business in the new (post-1990) South Africa has come under criticism for the benefit it derived from the policies of racial discrimination, Anglo American bore the brunt of this criticism as a result of its sheer size and influence. When business was called upon to make submissions to the Truth and Reconciliation Commission on its role in supporting the Apartheid regime, Anglo's submission drew the most attention and criticism of any in the three day hearings (Electronic Mail & Guardian: 1997). Indeed Stefan Kaner writes how in the mid to late eighties "Anglo American directors discussed the fear that their company would be remembered as the IG Faber of

apartheid” (Kaner, 1993). This was a reference to the company that, through slave labour, became the industrial backbone of the Third Reich.

So how would we expect a company concerned with legitimising and dissociating itself from Apartheid to react? In exactly the way Anglo has, by increasing its CSR and by focusing on its contribution to society - both in terms of charitable bequests and hands-on involvement. In the days when unemployment (especially on the mines) had become a big issue, Anglo responded by emphasising the benefits which its employees enjoy - clearly deflecting attention from its contribution to unemployment through downsizing and the closing of mines.

Liberty Life is also a special case – another large contributor to social responsibility. Chairman Donald Gordon is a philanthropist who developed a special fund to contribute to social responsibility in the country. Liberty is one of the institutions which publishes a separate social report. Their contribution to social welfare is one of the characteristics which sets Liberty apart from other companies. The 1998 report notes that through the fund, the group had contributed R250 million to social responsibility activities since 1990. Reporting on these activities is certainly a way for Liberty to demonstrate the fact that its existence is good for the country.

Pick 'n Pay is another company known for its contributions to social responsibility. It too issued a separate social report in 1994 and 1997 and provided the second most CSR over the ten year period. As a company which is very consumer oriented, close to ordinary people and dependant on the goodwill of members of society for its profits, it certainly seems to tie in to a legitimacy theory perspective for the company to provide vast amounts of CSR. Doing so legitimates the company in the eyes of the community and encourages members of the community to support the company. Additionally, Pick 'n Pay experienced an extremely damaging strike at many of its stores in 1994. The 22-day strike by members of the South African Clothing, Catering and Allied Workers Union (SACCAWU) cost the company R70 million. In response to this the company's annual report of that year included almost 7 pages devoted to Human Resource disclosures. (This includes the pages in the separate 'Social Report' included in the sleeve of the annual report). This appears to be a clear reaction of

management to a legitimacy threat from employees. The company goes to great lengths to identify with the community it serves and uses its annual report to do so. It seems clear that this is an exercise in legitimation. As chairman Raymond Ackerman writes in the 1997 annual report "[a]t Pick 'n Pay we believe it is our duty to exercise a measure of responsibility towards the communities in which we trade, in return for the rights and privileges we enjoy".

Manganese mining company Samancor provided a total of 46.75 pages of CSR over the period of the study. This placed the company in fourth position if separate reports are excluded from the count of CSR. This appears to be a clear example of a company in a highly sensitive industry providing a large amount of CSR to manage its relationship with society. Indeed the disclosure may betray an attempt to deflect attention from negative effects flowing from the company. The 1993 annual report reported on a number of fatal accidents as well as a reduction in employee numbers. This was followed in 1994 by CSR which more than doubled in quantity and remained at this high level for the next three years.

As already mentioned Sasol provided a 30 page environmental report in 1996. The average disclosure amounted to 9 pages per annum if the 1996 report is included and to 6 pages if it is excluded. This seems to be related to the fact that the company operates in a highly environmentally sensitive industry. This is borne out by the 1993 report which mentions some 'bad news disclosure' in the form of a methane explosion at the Middebult Colliery. Sasol produced the highest number of pages of CSR over the ten year period of any company. It retains its top position even if the separate reports are excluded from the measure of CSR. As a company involved in mining and industrial production, it is highly exposed to environmental criticism. In addition it plays a major role in the South African economy. In the years of isolation and sanctions the company led the country's attempts to provide alternative energy sources to crude oil. Already in the 1950's it managed to develop a process to extract fuel from coal. This meant that the company was of major strategic importance. As a company with government shareholding Sasol management (which had been appointed by the previous regime) suddenly found itself with new masters in 1994. Thus, it can be argued that management had an incentive to demonstrate that it would

be loyal to the new government and its policies and concerns. This may have been the impetus for much of the disclosure. Sasol, again, is a company which chooses to brand itself as a company which is concerned about the environment and about social welfare. It seeks to show itself as an entity which is good for the country as a whole. As such it uses CSR to focus the attention of the relevant publics on the good that it is doing. At the same time the environmental disclosures may mask the damage that its exploration and factory air pollution is doing to the environment. All of these appear to be in line with the expectations of legitimacy theory.

Other Observations

Western Areas goldmines, while not a maximum disclosure firm provided an interesting insight into the objectives of CSR. In 1991 its annual report included the following. "We care for our employees, we care for their safety and well-being, we are conscious of their needs and aspirations, we respect their dignity, we recognise and reward ideas and performance and encourage participative management". Additionally from 1991 to 1994 the company included in its annual reports a comment on its contribution to the national fiscus. A clear example of a company seeking to demonstrate its worth in a politically sensitive environment. In the years running up to the election of 1994 there were still fears that the new government would follow a policy of nationalisation. Given comments made by members of the ANC, the dominant role played by mining in the country, as well as the experience of other African countries like Zambia, the mining industry appeared in those years to be in the greatest danger of being nationalised. The response of Western Areas appears to be a clear example of a legitimisation strategy.

The case of Harmony Goldmine is also one which appears to support a legitimacy theory argument. Harmony was subject to a large amount of public pressure and scrutiny after a slimes dam disaster at its Merriespruit mine in 1995 which left a number of people dead. The company responded by increasing its CSR. Providing the 'bad news' disclosure in its report relating to the disaster and the settlement paid

amounting to over R54 million, the company increased the number of pages devoted to CSR and even placed its Human Resource disclosure on the first page of the report.

The disclosure of Implats gradually increased over the period from half a page in 1989 to five pages in 1998. This company, being involved in platinum mining had to come to an agreement with the Bafokeng tribe who were the owners of the mineral rights on the mined land. The company went to great lengths to point out in the 1994 reports, its political neutrality, support for government's RDP programme and its contribution to the economy of the North-West province. In 1998 when conflict with the Bafokeng had resulted in the company being subject to litigation, two pages of the annual report were devoted to the matter, including presenting management's point of view. This appears to be a clear example of a case where management sought to use the medium of the annual report to negotiate its relationship with society and provide legitimation for its actions.

Both Harmony and Implats tended to make some 'bad news' or negative CSR disclosures. Other studies have shown that few companies give negative disclosures and focus instead on positive 'good news' CSR (Guthrie and Parker, 1990; Hogner, 1982; Skinner, 1994). The evidence from the CSR in the sample used for this study tends to support this view. It seems as if companies will only provide 'bad news' CSR when it is unavoidable because the news is already public knowledge and to do so would be more harmful than not to. This certainly seems to apply to the Merriespruit disaster at Harmony.

A characteristic of the CSR observed that lends support to the legitimacy theory perspective is the trend towards providing CSR on small business development in general and Black Economic Empowerment in particular. The empowerment of black business was a clear objective of the ANC government, with tender procedures being altered to require evidence of this in all companies tendering for government projects. A large number of companies provided evidence in the annual reports of black empowerment initiatives. These included Usko, SA Breweries, Altech, CG Smith and Amic. Additionally companies like Anglo American and Sasol disclosed evidence of the special efforts made to promote business transactions between their operations and

small and emerging businesses. Anglo started up their Small and Medium Enterprise Initiative (SMEI) in 1989 and, up to the end of March 1999, had placed R780 million worth of business through the SMEI. Sasol indicated in its 1997 report that it had placed R25 million worth of business with black vendors during that financial year.

It is apparent then that the CSR of many of the individual companies can be understood from a political economy perspective as a response to political, economic and social conditions in society. In a country like South Africa, where politics forms (and formed) such a large part of our life, this conclusion can be more clearly drawn than has been the case in studies of companies in other countries. Not only does the trend in the provision of CSR appear to support a legitimacy theory viewpoint, and conform to expectations developed using that theory, but the individual companies in the sample also provide evidence of the applicability of Lindblom's legitimation imperatives. The CSR appears to be aimed at educating the public, changing its perceptions, manipulating those perceptions, and changing expectations of social performance in the South African institutional setting.

This penultimate chapter has sought to determine whether the conclusions reached by other CSR studies have found support here. The conclusion that industry appears to have an influence on the amount of CSR provided. No firm evidence for a size effect was found amongst the companies in the sample, although it is recognised that the ability of this study to test for a size effect was severely limited by the fact that it was limited to Top 100 listed companies (which are by definition all large companies anyway). The conclusions of other studies of South African CSR have been broadly supported by the observations from this study. Finally, the chapter looked more closely at the highest and lowest disclosing companies and at some specific examples of disclosure found in the reports considered. It appeared from the analysis provided in the chapter that the Legitimacy Theory perspective was able to provide some explanation for the observations made.

Chapter Seven

Conclusion

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Conclusion

The study described in this report analysed the CSR disclosure in the annual reports of fifty-six of South Africa's Top 100 listed companies for the period 1989-1998. It sought to evaluate that disclosure in order to infer something about the motivations of management in providing the CSR. In particular the study sought to determine whether legitimacy theory was able to offer a plausible explanation for the trends observed. The hypothesis of the study was that CSR disclosure made by the firms in the study over a ten year period was provided in reaction to developments in the political economy of the country, and that it was motivated by, and indicative of, corporate needs for legitimacy.

The study began with a summary of the important literature in the field of CSR. While the body of literature was found to have been mainly concerned with describing reporting practice and identifying the characteristics of firms providing CSR, there have been some attempts to understand the practice from a theoretical perspective. Of most interest to this study was the Political Economy perspective. This holds that trends in CSR are related to developments in the socio-political and economic environment in which companies operate. Indeed the provision of CSR can be seen as a reflection of (and contributor to) social conflict over the allocation of resources. Legitimacy theory takes this perspective further by suggesting that CSR is provided by companies as part of their attempts to legitimise their activities, their existence in society and indeed the economic system itself. Other studies reviewed in this paper have suggested that Legitimacy Theory is able to offer a plausible explanation for the motivations of management in providing CSR (Adams et al, 1998; Gray et al, 1990; Hogner, 1982). Although one study asserted that a more robust theory was required (Guthrie and Parker, 1989).

The majority of the CSR literature to date has focussed on developed countries and has, in recent years, shown a preoccupation with environmental disclosure. Moreover

research that has been performed in developing countries has suggested that CSR enjoys little prominence there. This study sought to determine whether this was also applicable to the South African institutional setting.

Content analysis was used to categorise the amount and type of CSR provided in each of the 560 reports analysed by major theme of disclosure. This was used to establish trends in total CSR and that by category over the period of the study. The trends were then compared with major developments in the socio-political and economic terrain and in the political economy of the country. Additionally the study sought to determine whether the conclusions drawn in other studies concerning CSR practice were supported by the data obtained. Specifically it sought to determine whether size and industry appeared to have an influence on the volume and type of disclosure provided.

South African companies were found to be prolific disclosers. Over the ten-year period, the average number of pages devoted to CSR by all companies in the sample amounted to 2,44 pages each. Only one company in the sample provided no CSR in any of its annual reports. The high level of CSR disclosure found in the sample appears to be at odds with the results of similar studies in other developing countries which found CSR to be at a low level. Indeed the level of CSR appears to compare favourably with (and to even exceed) that provided by companies in developed countries. The reason for this appears to be related to the political economy of the country over the period studied. The period corresponds with the transition to democracy in South Africa and to a time when business was called upon to demonstrate its commitment to re-building the nation. Indeed in the early period (up to 1994) there was a fear amongst business people that a new government would nationalise businesses and follow a socialist economic policy. In response to this, CSR disclosure was found to be at a high and increasing level. The maximum disclosure level was found in 1994 when the first democratically elected government took office. This can be seen as a response to the need for companies to legitimise their existence by identifying with the mood of national unity in the country and to demonstrate to the new government their important contribution to society. Once the new government became entrenched and the uncertainties about its economic policies

were removed, the legitimacy threat receded somewhat. This was accompanied by a levelling off and slight decrease in the level of CSR. This is consistent with the results of other studies of CSR which found that levels waxed and waned in response to events and to the perceived need for legitimacy by companies resulting from these events.

The study found that Human Resources disclosure was the most popular form of CSR. This was followed by Community Investment disclosure, then Environmental Reporting and Health and Safety. The high level of Human Resources disclosure found is consistent with the findings of other research in this area and appears to have been provided in reaction to the demands of the powerful labour movement in the country. This was supported by the high incidence of value added statement disclosure – traditionally seen as a tool to communicate with employees, and by its correlation with levels of industrial disputation in the economy. Community Investment disclosure appears to have been provided in response to the need for business to demonstrate its social commitment in a time of political uncertainty.

★ Environmental disclosure showed an increasing trend, but appeared to rank lower in priority than it did in other studies (especially those conducted in developed countries). This is thought to be related to the fact that South African society was more concerned with other socio-political issues.

An analysis of the data produced for the study appeared to support the conclusion reached by other researchers that industry group has an effect on the amount of CSR provided. However, the data did not appear to support a size effect on the level of CSR. Although it is recognised that since the sample contained only large (Top 100) listed companies, it is possibly more correct to note that it found no evidence for a 'super-large' effect.

limitations There were certain limitations to the research which should be borne in mind by anyone who seeks to use the study to draw conclusions about CSR practice in South Africa. The most important limitations were imposed by practical considerations relating to data availability and the feasibility of the research. Since the study was confined to 56 companies in the Top 100 of those listed on the Johannesburg Stock

Exchange the conclusions reached may not apply to all companies. The study measured the absolute amount of narrative disclosure provided in annual reports and correlated this with developments in the political economy of the country. No attempt was made to determine the emphasis placed on the CSR – nor the proportion of the annual report which the CSR comprised. Nor were illustrations included in the measured amount of CSR – even though this may be important in conveying meaning. Additionally it is recognised that companies provide CSR through other media and in ways than the annual report, therefore the conclusions of this study do not apply to all information released concerning the effects of an organisations activities on society. Finally, the fact that it was not possible to be sure that the study identified all separate CSR reports issued by in the sample imposed an additional limitation. While it is not considered likely that a large number of reports were omitted for this reason, the inclusion of all these reports in the tally of CSR could have altered the observed trends and conclusions reached.

The study of CSR in a South African setting has proved very interesting due to the rich political economy in the light of which the data could be analysed. Additionally it is the first time that such a large study (covering such a large number of companies and years) has been undertaken in this country. The period over which the study was performed was highly politically charged as the country underwent the most significant transition in its history and a vast change in the political and social order came about. This made for a very interesting ‘laboratory’. It was also the first time that an attempt was made in South Africa to understand the trend in total CSR from a theoretical perspective such as legitimacy theory. The study appears to indicate that the theory is able to offer some convincing explanations.

Future research could extend the sample to the present day to determine whether the conclusions reached are supported. It may be particularly interesting to determine the level of CSR provided by Black empowerment companies and analyse this from a legitimacy theory perspective. Because the legitimacy of these firms has almost been established from the time of formation, the theory would suggest that there would be less impetus to provide CSR. Future research may also focus on the quality of information being produced so as to provide guidance to those who are using it, and to

determine whether the introduction of accounting standards on CSR would be of any value. Finally it may be interesting to assess in a South African context just how useful the various stakeholders find the vast amounts of CSR provided by local firms to be. After having addressed the question of why companies spend resources on the provision of CSR, it may be interesting to attempt to discover what return those resources are actually generating.

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Appendix A

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Appendix A - Historical Timeline: 1989 - 1998

1989

In January incumbent State President PW Botha suffers a minor stroke and resigns as leader of the ruling National Party (NP). By August, following a confrontation with his cabinet, he is forced to step down as State President in favour of Transvaal provincial NP leader FW De Klerk.

In September a (racially-exclusive) general election is held. The NP loses 27 parliamentary seats. 16 to the right wing Conservative Party (CP) and 11 to the newly formed centre-left Democratic Party. It retains its majority however, narrowly escaping a hung parliament.

The Congress of South African Trade Unions (COSATU) calls a strike in protest against the general elections. 3 million workers stay home.

On 21 August, the Organisation of African Unity (OAU) adopts an ANC-authored declaration in Harare calling for negotiations with the 'Pretoria regime' on condition that political prisoners be released, political organisations unbanned and the State of Emergency repealed.

De Klerk is sworn in as State President on 20 September and undertakes to tackle discriminatory legislation, release political prisoners, end the State of Emergency as soon as possible and to work out acceptable constitutional proposals. In a symbolic gesture to indicate his goodwill, he opens public beaches to all races on the 16th of November.

Walter Sisulu and seven other high-profile political prisoners are released. Other political detainees begin a hunger strike and political demonstrations are permitted for the first time in South African cities.

Elections held in Namibia in November are won by Sam Nujoma's South West African People's Organisation (SWAPO).

In Berlin the wall separating Communist East and Capitalist West falls. The toppling of this symbol of Communism causes knock on effects throughout Eastern Europe as countries throw off the mantle of socialist government.

1990 In his opening address to a joint sitting of the three houses of parliament on 2 February, De Klerk announces the unbanning of the ANC, PAC, and SACP. He undertakes to release large numbers of political prisoners who have not been found guilty of common law offences and announces a moratorium on all death sentences. De Klerk announces that it is his government's intention to open negotiations with black leaders to develop a new constitution based on a universal franchise, equality of all citizens and the protection of individual rights.

On the 11th of February Nelson Rolihlahla Mandela is unconditionally released from prison after 27 years.

Namibia gains independence from South Africa on 21 March.

In May government ministers meet members of the ANC to discuss conditions for the opening of full negotiations. After a

second preparatory meeting for constitutional talks in August, the ANC agrees to the formal suspension of guerrilla activities.

In September the National Party opens membership to all race groups and the government approves three models of education that open the way to multiracial schooling.

1991 In April, the Labour Relations Amendment Act of 1991, termed the "first post-apartheid statute" based on tripartite negotiations between labour and the private and public sector, becomes law. The 1986 package of trade sanctions on iron, steel and gold coin imports from SA is lifted by EC foreign ministers.

On 20 December the multi-party conference on procedures for drafting the new constitution of the country starts its sessions. The conference is called the Convention for a Democratic South Africa (CODESA).

Apartheid statutes are repealed as the US lifts sanctions against the country and political exiles begin to return. The General Assembly of the UN unanimously urges all nations to restore sporting, cultural, scientific and academic exchanges with SA on the basis of progress made towards ending apartheid, while also encouraging countries to review and lift remaining economic sanctions.

Parliament scraps the Population Registration Act that has classified South Africans by race since 1950, although the existing register remains in place until a non-racial constitution has been drafted and implemented.

Workers stage a massive stayaway to protests against the introduction of Value Added Taxation on basic foodstuffs.

1992 February. After a secret meeting with the government, the ANC abandons the armed struggle. In return government agrees to the release of all remaining political prisoners and the return of remaining exiles.

In response to mounting hostility from right-wing elements in the electorate, and after losing a crucial bi-election to the CP, De Klerk calls a referendum of White voters for 17 March. The government receives overwhelming support (almost 70%) to continue the negotiation process.

The ANC allows CODESA to run into the ground, after government stands firm on demands that it be given veto powers in negotiations, and begins a program of 'rolling mass action' on 16 June.

17 June. At least 45 residents of a settlement on the East Rand, Boipatong, are massacred by alleged Inkatha-supporters. Reports emerge that the attackers had been brought to the scene in police trucks. The ANC breaks off all negotiations demanding an end to government-sponsored terror attacks.

3 August. A two-day general strike begins causing substantial production losses in many areas apart from mining, agriculture and the public sector.

Government announces a major restructuring of the police force and the creation of an independent body (under Judge Richard Goldstone) to investigate police complicity in serious crimes.

September. Armed forces of 'independent' homeland Ciskei fire on an ANC procession killing 28 people and wounding 200. The ANC blames the government for complicity. Government agrees to establish an enquiry and to reduce the powers of the 'independent' homelands. After a summit between Mandela and De Klerk a 'record of understanding' is signed which results in the resumption of negotiations.

In November the ANC announces a proposal for the formation of an interim government of national unity after elections which would include major parties that won seats. Government welcomes the proposal and suggests talks to draft an interim constitution, set an election date and set up a transitional executive committee to oversee key cabinet posts during the transition.

A National Economic Forum (later renamed Nedlac) is launched comprising organised business, labour and government with a view to seeking consensus on economic growth and social development

1993 Multi-party talks reconvene in April with the white right-wing joining forces with homeland leaders and Inkatha to form a pressure group. SACP leader, Chris Hani, is assassinated outside his Boksburg home, by members of the right wing Conservative Party. The country is plunged into uproar resulting in protests throughout the country and a plummeting Stock Exchange. On the day of the funeral thousands of marchers engage in looting, petrol bombing and torching of trains and private vehicles. Seventy people lose their lives.

The armed wing of the PAC, APLA, begins a series of random terror attacks on whites. In the middle of an evening service in Cape Town, gunmen burst into the St James Church killing 11 and injuring 55 people.

De Klerk and Mandela are joint recipients of the Nobel Peace Prize for their contributions to the transition process in the country.

25 June. About 2 000 members of the newly formed 'Afrikaner Volksfront' led by the AWB's Eugene Terre'blanche, drive an armoured vehicle through the plate-glass frontage of the World Trade Centre and trash the negotiating chamber causing damage of R700 000. 25 members of the AWB are later arrested.

On 17 November multiparty negotiations are completed with the election date set as 27 April 1994. The interim constitution is approved by the tricameral parliament in December. The country is divided into 9 new regions each with its own regional assembly. Any party obtaining 20% of the vote in the national election is to be entitled to a vice presidential position. Any party with 5% or more is to be entitled to representation in the cabinet.

1994

March. In the wake of continued political violence and deaths in Kwazulu-Natal, a State of Emergency is declared and troops dispatched to the area. On the 30th Inkatha stage an armed parade through Johannesburg in protest against the draft constitution. The parade ends in a violent confrontation at ANC headquarters in which 53 people are killed.

The militant right wing suffers a severe setback as some 2 000 armed AWB members enter the Boputhatswana capital, Mmabatho, in an attempt to defend the unpopular Mangope

government. The South African army soon restores order and oversees the departure of the defeated militants, re-integrating the region into South Africa. Just days before the scheduled start of the general election, the white right launches a final attempt to derail the process by going on a bombing offensive. The resulting violence, in which 21 people are killed, fails to disrupt the elections.

On the 21st of April Inkatha's Buthelezi is finally persuaded to contest the elections in return for the enhancement of the status of the Zulu king. The late entry forces election officials to issue Inkatha stickers to be manually adhered to the bottom of ballot papers.

27 April. The ANC seizes a decisive victory in the 1994 national elections, obtaining 62,7% of the vote for a new national assembly, while also winning legislative majorities in seven of the nine newly-delineated provinces. The NP obtains control of the Western Cape legislature, and Inkatha emerges as the dominant party in Kwazulu-Natal. Of the 19 parties participating only 8 obtain seats in the national assembly.

10 May. Nelson Mandela is inaugurated as President with Thabo Mbeki and De Klerk as his deputies.

South Africa is readmitted to the OAU, Non-Aligned Movement, the Commonwealth and SADC and retakes its seat at the UN General Assembly

1995

President Mandela attracts some harsh criticism for his failure to act decisively to prevent the execution of activist Ken Saro-Wiwa in Nigeria.

In June the Constitutional Court declares the death penalty to be in contravention of the constitution. Despite numerous calls for its re-introduction, the government refuses to introduce legislation to legalise it.

November. Local government elections are successful held throughout the country except for the Western Cape and Kwazulu-Natal. Elections in these provinces take place in May 1996.

In December, 17 members are appointed to the Truth and Reconciliation Commission (TRC) under Bishop Desmond Tutu. The commission is to obtain submissions on human rights violations, to consider requests for and grant amnesty, and to provide a report on its work to the country.

1996

The NP withdraws from the Government of National Unity to form a parliamentary opposition as the constitution is completed and submitted to the Constitutional Court for ratification.

Former apartheid-era Colonel Eugene de Kock is convicted on 89 counts of murder and other crimes. His trial, lasting 18 months, reveals some of the horrific acts carried out by the security forces in defence of the previous regime.

Government announces that it will transfer diplomatic recognition from Taiwan to the People's Republic of China. While this draws the wrath of Taipei, which immediately withdraws aid projects, it is considered wise if the country wishes to obtain a permanent seat in a reconstructed UN Security Council.

In June finance minister Trevor Manuel announces the government's new macro-economic policy, laying emphasis on privatisation. The Growth, Employment and Redistribution Program (GEAR) draws criticism from the government's alliance partners (Cosatu and SACP) who claim that they were not consulted on its development.

10 December. President Mandela signs the new constitution into law in a ceremony at Sharpeville.

1997

NP secretary general Roelf Meyer, who left the party in protest at its refusal to regroup in order to attract black voters, forms a new political party with disaffected ANC leader Bantu Holomisa. The United Democratic Movement (UDM) has Holomisa as leader and Meyer as deputy. It finds support in the areas of the Eastern Cape that were part of the former Transkei and Ciskei homelands.

Judge Ismail Mohamed becomes the first black Chief Justice of the country as he succeeds incumbent Michael Corbett.

In June COSATU embarks on a nation-wide strike to demonstrate support for its demands that the Basic Conditions of Employment Bill entrench a 40-hour week and 6-month maternity leave on full pay as non-negotiables.

In August De Klerk unexpectedly resigns as leader of the NP on the grounds that it is in the best interests of the party. He is succeeded by the uninspiring Van Schalkwyk who presides over a massive decline in the party's support base.

Mandela announces that he will resign as ANC leader at the end of the year and will not serve a second term as president. At the

December ANC congress he is succeeded as ANC president by Thabo Mbeki, the current Deputy President, who is elected unopposed.

1998 US President Bill Clinton and his wife Hillary pay an official visit to the country in March.

In July President Mandela marries Graca Machel on the occasion of his 80th birthday.

In August two people are killed and 27 wounded in a bomb attack on Planet Hollywood, an American restaurant in Cape Town. A supporter of an organisation called Muslims Against Global Oppression claims responsibility in retaliation for US air attacks on Sudan and Afghanistan. The Truth Commission hears of the former government's secret projects to produce chemical and biological weapons including the development of substances designed to affect black persons only.

In October, Bishop Tutu submits the extensive report of the TRC to President Mandela. Protests are voiced from both FW De Klerk and members of the ANC, but the report is accepted by the president.

The summit of the Non-Aligned Movement is held in Durban and South Africa assumes the presidency of the organisation.

Appendix B

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Appendix B – List of Companies

This Appendix contains a list of the companies included in the sample, in alphabetical order, as well as the industry sectors of which they formed a part. The 'Industry' column contains the industry categorisation according to the Johannesburg Stock Exchange (JSE). The 'Sector' column is the industrial sector to which the company was considered to belong for the purpose of this study. The sectors were: Retail, Financial Services, Mining and Industrial. Where the company name is associated with an 'R' in the 'Resources?' column then that company was considered to operate in the resources section of the economy.

Company name	Industry	Sector	Resources?
ABSA Group Limited	Banks	Financial Services	-
Adcock Ingram Limited	Health	Retail	-
AECI Limited	Chem & oil	Industrial	R
African Oxygen Limited	Chem & oil	Industrial	R
Altech Limited	Electronics	Industrial	-
Amalgamated Beverage Industries Limited (ABI)	Bev & hotels	Retail	-
Anglo American Gold Investment Company Limited (Amgold)	Min hold	Mining	R
Anglo American Industrial Corporation (AMIC)	Ind hold	Industrial	-
Anglo American Plc	Min hold	Mining	R

Company name	Industry	Sector	Resources?
Anglovaal Holdings Limited	Min hold	Mining	R
Anglovaal Mining Limited (Avmin)	Mining	Mining	R
Barlow Rand Limited	Ind hold	Industrial	-
Cadbury Schweppes (South Africa) Limited	Food	Retail	-
CGS Foods Limited	Food	Retail	-
CG Smith Limited	Ind hold	Industrial	R
CTP Holdings Limited	Print and package	Retail	-
De Beers Consolidated Mines Limited	Diamonds	Mining	R
Fedsure Life Assurance Limited	Life assurance	Financial Services	-
Foschini Limited	Retail	Retail	-
Gencor Limited	Min hold	Mining	R
Goldfields of South Africa	Gold	Mining	R
Harmony Gold Mining Company Limited	Gold	Industrial	R
Highveld Steel and Vanadium Corporation Limited	Steel	Mining	R
Impala Platinum Holdings Limited (Implats)	Platinum	Mining	R
Investec Limited	Banks	Financial Services	-
Iscor Limited	Steel	Industrial	R
Kersaf Investments Limited	Bev & hotels	Retail	-
Liberty Group Limited	Insurance	Financial Services	-

Company name	Industry	Sector	Resources?
Lonrho Africa Plc	Ind hold	Industrial	-
Metro Cash & Carry Limited (Metcash)	Retail	Retail	-
Metropolitan Life Limited	Assurance	Financial Services	-
Minorco SA	Mining hold	Mining	R
Murray & Roberts Holdings Limited	Ind hold	Industrial	-
Mutual & Federal Insurance Company Limited	Insurance	Financial Services	-
Nampak Limited	Print and package	Retail	-
Nedcor Investment Bank Limited	Banks	Financial Services	-
Pep Holdings Limited	Retail	Retail	-
Pepkor Limited	Retail	Retail	-
Pick 'n Pay Stores Limited	Retail	Retail	-
Pretoria Portland Cement Limited (PPC)	Building	Industrial	R
Rembrandt Controlling Investments Limited	Ind hold	Industrial	-
Richemont Securities AG	Ind hold	Industrial	-
Safmarine and Rennies Holdings Limited (Safren)	Ind hold	Industrial	-
Sage Group Limited	Banks	Financial Services	-
Samancor Limited	Manganese	Mining	R
Sappi Limited	Paper & package	Industrial	R
Sasol Limited	Chem & oil	Industrial	R

Company name	Industry	Sector	Resources?
Standard Bank Investment Corporation (SBIC)	Banks	Financial Services	-
South African Breweries Limited (SAB)	Bev & hotels	Retail	-
South African Druggists Limited	Health	Retail	-
The Tongaat Hullett Group Limited	Sugar	Retail	R
Tiger Oats Limited	Food	Industrial	-
Trencor Limited	Transport	Industrial	-
USKO Limited	Information tech	Industrial	-
Western Areas Limited	Gold	Mining	R
Wooltru Limited	Retail	Retail	-

Companies in the Top 100 per Ernst and Young (1998) excluded from the study.

The following Top 100 JSE listed companies by market capitalisation according to the 'Ernst & Young Excellence in Financial Reporting – Survey of Annual Reports by South Africa's Top 100 Companies 1998' were excluded from this study as had not been listed since at least 1989.

African Harvest Limited
African Life Assurance Company Limited
Anglo American Platinum Corporation Limited
The Bidvest Group Limited
Biliton Plc
Board of Executors Limited
Capital Alliance Holdings Limited
Carson Holdings Limited
Computer Configurations Holdings Limited
Coronation Holdings Limited
Datatec Limited
Dimension Data Holdings Plc
West Driefontein Goldmining Company Limited
Duiker Mining Limited
The Education Investment Corporation Limited (Educor)
Firstrand Limited
Alexander Forbes Limited
Hosken Consolidated Investments Limited
JD Group Limited
Johnic Communications Limited
M-Cell Limited
Millennium Entertainment Corporation Limited
MIH Holdings Limited

New Africa Investment Limited
New Clicks Holdings Limited
Omnia Holdings Limited
Nu Clicks Holdings Limited
Omni Media Corporation Limited
Polifin Limited
PQ Holdings Limited
Primedia Limited
Profurn Limited
Real Africa Durolink Holdings Limited
Real Africa Holdings Limited
Rehold Limited
RMB Holdings Limited
Shoprite Holdings Limited
Softline Limited
Supergroup Limited
Theta Group Limited
Tiger Oats Limited
Tiger Wheels Limited
Tigon Limited
Woolworths Holdings Limited.

Appendix C

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Appendix C – Glossary of Terms

This Appendix contains a glossary of important terms and abbreviations used in the study with which readers may not be familiar. Many of the items listed here relate to the chapter on South African Political Economy.

African National Congress (ANC) – political movement formed in 1912 as the South African National Native Congress. Originally moderate, the organisation campaigned for minor reforms in the early years, but gradually became more militant after being banned by the government. After its unbanning in 1990 the movement ended the armed struggle and won the first democratic general elections in 1994.

Afrikanse Handelsinstituut (AHI) – organisation formed to represent the commercial interests of Afrikaans business people in the country.

Agency Theory – theory concerning the relationship between shareholders of a company (as principal) and its managers (as agent). The theory mainly involves an understanding of the costs of resolving conflicts between principals and agents and aligning the interests of the two groups.

Annual Report – the report sent to shareholders of a company (and other interested parties) which contains and accompanies the Annual Financial Statements for the financial year. Such reports provide an account of the activities of the company and other commentary. They are often lengthy documents, including illustrations and photographs and are usually professionally presented.

Congress of South African Trade Unions (COSATU) – South Africa's largest and most influential umbrella trade union organisation with 1,7million members. Formed in 1985 it claims to be at the forefront of the struggle for democracy and worker's rights. In the 1994 elections it formed an alliance with the ANC and SACP to

campaign under the banner of the ANC. This alliance (the Tripartite Alliance) remains in force today.

Convention for a Democratic South Africa (CODESA) – name given to the first set of multi-party negotiations held to prepare for the drafting of a new democratic constitution for the country.

Corporate Social Reporting (CSR) - the process of communicating the social and environmental effects of an organisation's economic actions to society. This study has focussed on the CSR provided by companies through the medium of their annual report to shareholders.

Externalities - the consequences of economic activity which are not reflected in the direct costs borne by the individual or organisation enjoying the benefits of the activity. These are what some CSR seeks to quantify or explain.

Gini Coefficient – a statistical formula developed to measure the degree of concentration or inequality. When applied to the income distribution of a country it provides a measure between 0 (perfect equality) and 1 (perfect inequality) of income disparity. The formula is based a graph (the Lorenz curve) showing the percentage of the country's wealth (on the y-axis) and the percentage of the population (x-axis). The higher the percentage of the countries wealth that is in the hands of a small section of the population, the higher the Gini coefficient.

Government of National Unity (GNU) – name applied to the first government of a democratic South Africa which was set up after the 1994 elections. So-called because it included in the cabinet members of all parties which obtained 5% or more of the total votes in the election.

Inkatha Freedom Party (Inkatha) – politically moderate party with a major support base amongst the Zulu speaking population of the Kwazulu-Natal province. Established in 1975 under the leadership of Dr Buthelezi, it was a member of the

Government of National Unity formed after the 1994 elections. Before this its supporters were involved in violent clashes with members of the ANC.

Johannesburg Stock Exchange (JSE) - the market on which shares in South African limited companies are listed and traded. The name has now been changed to the JSE Securities Exchange.

Legitimation - specific actions undertaken by organisations which are aimed at justifying their right to exist in society and continue with their economic pursuits.

Legitimacy Theory – theory concerning the motivation of managers in providing CSR which proposes that it is provided as a reaction to political, economic and social factors, and that disclosures aim to legitimise the company's actions. When there is a (actual or perceived) disparity between the value system of companies and those of society at large there exists a threat to the company's legitimacy. Company managers thus take action to seek legitimation of their objectives. (This theory develops Political Economy from the 'classical' perspective).

National African Federated Chamber of Commerce (NAFCOC) – organisation founded to represent the interests of Black business people in South Africa.

National Organisational Safety Association (NOSA) – association formed to promote organisational health and safety in industry. This body carries out checks at workplaces and certifies safe work environments.

National Party (NP) – political party founded in 1914 which championed the cause of Afrikaner Nationalism. The party came to power in 1948 under DF Malan and continued as the ruling party in South Africa until 1994. As a reformed national movement the party participated in the Government of National unity with the ANC after the first democratic elections.

National Economic Development and Labour Council (NEDLAC) – forum established for consultation between labour, business and the government on economic and labour policy matters.

Organisation of African Unity (OAU) – organisation of African states founded in 1963 in Ghana when 30 nations signed its charter. It aimed to promote pan-Africanism and unity among the people of the continent, to defend African sovereignty and eradicate colonialism. Considered to be the voice of post-colonial Africa, it was a strong opponent of the South African government in the years of Apartheid in fora such as the United Nations. Now with over 50 member states the organisation has been renamed the African Union.

Pan Africanist Congress of Azania (PAC) – political party formed in 1959 after a breakaway from the ANC led by Robert Sobukwe. The break was caused by a debate over the methods to be adopted in opposing the Apartheid government, with PAC members advocating a more extremist, confrontational approach. The party achieved the height of its popularity in the days of the pass campaigns and the Sharpeville massacre. Gradually the ANC replaced it as the voice of the disenfranchised and support diminished. Today the party is represented in parliament by a handful of MP's.

Political Economy Perspective – theoretical perspective which holds that the economic domain cannot be studied in isolation from the institutional framework within which economic activity takes place.

There are two different stands of this perspective. The 'bourgeois' strand perceives the world as essentially pluralistic with components of society seeking to pursue their self-interest, and that self-interest being limited by the rights of other components. The 'classical' strand focuses on class interests, structural inequity, power relationships in society and the role of the state in social conflict.

South African Council of Business (SACOB) – umbrella organisation for local chamber of commerce organisations and a campaigner for the interests of business.

Most of the members were historically drawn from the White English speaking section of the population.

South African Communist Party (SACP) – political movement formed in 1921 campaigning for socialism in South Africa and against imperialism and racial domination. It became involved in the struggle against Apartheid with many leading members of the ANC and trade union movement having membership of this party. Entered into the Tripartite Alliance with the ANC and COSATU to campaign for the 1994 elections under the ANC banner.

Stakeholder Theory – theory concerning CSR behaviour which holds that since a company's continued existence is dependent on the support of stakeholders in society, the company must adapt its behaviour to gain approval from those stakeholders. A stakeholder is any group or individual that can be influenced by, or can itself influence the activities of an organisation. Corporate disclosure is seen by this theory as part of the dialogue between the company and its stakeholders. (The theory develops Political Economy from a 'bourgeois' perspective).

Top 100 – this category refers to the 100 companies listed on the Johannesburg Stock Exchange (JSE) with the largest market capitalisation. (Market capitalisation is calculated by multiplying the number of shares in issue by the market price of those shares). The Top 100 referred to in this report are those per the "Ernst and Young Excellence in Financial Reporting – Survey of Annual Reports by South Africa's Top 100 Companies 1998". These were the Top 100 according to the market price at the end of September 1997.