

Understanding Corporate Social Investment practice in South Africa

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ABSTRACT

In this study, the researcher employed an inductive qualitative approach to explore the rationale and dimensions of corporate social investment (CSI) practice in South Africa. While the globalised CSI literature is robust, the South African literature is fragmented and insufficient, despite the growing social need for this type of funding in the context of South Africa. Thus, with this paper, the researcher fills this research gap by providing an exploratory analysis of the structure and evolution of CSI practice in South Africa. The motivation behind this research is to use the research to optimise the social impact that CSI participation can provide, as well as integrating corporate funding into the broader approach of addressing the country's poor socio-economic conditions.

In the study, the researcher covered a sample of 15 CSI professions operating in positions in either large South African corporations or established NGOs, with an average CSI experience of 13 years. The results of the inductive qualitative analysis show that the CSI functions operated using a traditional corporate function structure. The history and rationale of CSI practice have been key elements in defining current CSI practice. Initially, governmental regulation resulted in adherence strategies. However, growing social considerations have shifted CSI policy from adherence to impact. This has driven the growing sophistication in CSI practice in the country. The researcher breaks down this evolution and discusses the key strengths and weaknesses of each element to provide sufficient detail to the function. The findings are used to derive recommendations for CSI best practice. Internal commitment, sustainability, process management and key stakeholder relationships are prioritised in these recommendations.

The exploratory findings provide a baseline in accordance with which more statistically robust or comprehensive research methods can be used to assess the identified elements of CSI more thoroughly and in more depth. The research provides a generalised benchmark for corporations to assess their CSI practice against an established peer group, while providing ideas about improving their CSI practice going forward.

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LIST OF ABBREVIATIONS

Abbreviation Abbreviation description

**In alphabetical
order (This was
requested in
corrections**

BBBEE	Broad-based Black Economic Empowerment
CFP	Corporate financial performance
CIDA	Community Individual Development Association
CSI	Corporate social investment
CSP	Corporate social performance
CSR	Corporate social responsibility
EIA	Environmental impact assessment
ESG	Environmental, social and governance [factors]
FDI	Foreign direct investment
GDP	Gross domestic product
JSE	Johannesburg Stock Exchange
NGO	Non-governmental organisations
NPO	Non-profit organisation
PBO	Public benefit organisation
PPP	Public private partnerships
ROE	Return on equity
S&P	Standard & Poor
SDG	Sustainable Development Goals
SOE	State-owned enterprise
SRI	Socially responsible investment

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The role of corporations in civic society is as much a philosophical debate as it is a practical one. Corporations do not act in a vacuum and thus are consistently interacting with society through crucial stakeholder channels that ensure the entity as a going concern. Therefore, the question centres around whether corporations have an obligation, beyond their primary scope of business, to improve and develop civic society.

Clearly, large corporations have substantial influence in the regions that they operate. Great influence should come with great responsibility. The role of corporations in civil society is not a new debate. One common argument claims that it is the role of corporations to focus on financial returns as long as they play by the rules of the game (Mulligan, 1986). The opposing argument to this ideology is that it may not be an obligation for corporations to serve social interests but that corporations cannot survive if they ignore those interests (Hambrick & Snow, 1977).

In the 1980s, Sustainable Development was a mainstream focus of the United Nations. Environmental disasters, greenwashing labour practices and growth in the developing world posed a serious threat to the long-term sustainability of the planet (Coate, Alger, & Lipschutz, 1996). The Meadows Report advocated a zero-population growth policy to address this (Meadows, Meadows, Randers, & Behrens, 1972). The Brundlandt Report advocated that the poorest should take priority and that no development should take place that compromises future generations (Hoyos, Bermejo, & Arto, 2010). It was advocated that the industrialisation of the West cannot be sustainably or ethically transferred to the developing world, which is of particular importance to corporations operating in these regions (Tantawi, O'Shaughnessy, & Gad, 2009).

These reports ultimately resulted in the establishment of the Millennium Development Goals (MDGs) that later became the Sustainable Development Goals (SDGs). These goals outline the basis for ensuring global stability going forward. The UN further established universal

guidelines regarding human rights, labour practice and environment sustainability (Coate, Alger, & Lipschutz, 1996).

Corporate social responsibility (CSR) became prominent in the 1990s as societies' means of imposing responsibilities on the growing influence and power of corporations. Society rewarded corporations that promoted good corporate citizenship and penalised those who neglected it (Holliday, Schmidheim, & Watts, 2017). Beyond this, drawing on sustainable development ideology, society developed expectations about not just what corporations did but how they did it.

This understanding resulted in the first corporate responsibility model that highlighted the economic, legal, ethical and philanthropic role of business when operating within societies (Visser, 2006). The rise of socially responsible investing in the mid-1990s, which incorporated economic, social and environmental (ESG) factors in investment decisions, also put pressure on corporations to meet these responsibilities. This promoted the stability and credibility of economic and financial markets (Holliday, Schmidheim, & Watts, 2017), and has assisted in establishing corporate social investment (CSI) where firms actively use their influence and resources to impact society, not limited to their direct stakeholders, in meaningful ways.

The importance of CSI to corporations in emerging markets, specifically in South Africa, is that the sustainability of society at large is crucial to the sustainability of corporations. Poverty, institutional failures, inequality, skill shortages and infrastructure shortages characterise developing markets. These failures negatively affect the success and profitability of industry in these countries (Szirmai, 2015). Improvement in society improves profits by way of higher living standards, sustainability and stability that promote growth and equality. This supports all interests in civic society, where corporations have the greatest potential private resources to promote and fund these ideals.

1.2 PROBLEM STATEMENT AND RESEARCH QUESTIONS

Corporate social investment (CSI) is a great idea in theory, but it is difficult to execute in practice. An analysis of the available literature highlights the mutual beneficitation that CSI can provide to corporations, NGOs, governments and civil society. Thus, optimising the use of

these funds and implementation of these activities is crucial to addressing, in part, the socio-economic difficulties South Africa is facing.

To achieve this, one must first understand the conceptual framework of CSI. With limited credible information on the South African context, a globalised body of literature has been assessed that determines a better understanding of this mechanism. It identifies the theoretical mutual benefits of effective CSI programmes to societies and corporations. It further assesses identified weaknesses and deficiencies in the model that lead to sub-optimal allocation of resources to the detriment of all stakeholders. However, this literature is broad in context, published date, geography, ideology and socio-economic standards. For this reason, it may not accurately depict the South African context at this specific time in history.

Thus, given the potential impact of CSI, it is imperative to understand the current context-specific South African CSI landscape to determine whether it is accurately allocating these corporate funds to effective economic development. If weaknesses exist, it is important that reform measures be identified to address these limitations, with the aim of developing a more effective and impactful mechanism by which to put the necessary CSI funding to more meaningful use. This would be in support of the fight for greater socio-economic and sustainability outcomes to the benefit of South Africa as a whole.

Given the background and problem statement, the two central research questions of this paper are as listed below.

- What does the current CSI landscape look like in South Africa?
- How can this understanding improve CSI practice going forward?

To answer these two primary questions, they are broken down into secondary questions to address them comprehensively, as listed below.

- Why is CSI implemented in South Africa?
- What are the key elements of CSI practice in South Africa?

- What is the structure of CSI practice in South Africa?
- What lessons can this research provide to enhance CSI practice?

1.3 RESEARCH OBJECTIVES

Based on the defined research questions, the objectives of this research are to

- a) explore the rationale for CSI practices in South Africa,
- b) identify and describe the key dimensions of CSI practices in South Africa,
- c) combine these elements to develop a cohesive data structure of CSI practice in South Africa, and
- d) derive a roadmap for CSI development modelled on the above findings.

1.4 JUSTIFICATION OF THE STUDY

A key motivation for any development finance practitioner is to aid in the development of societies where the economic, technological, political and social barriers limit natural development. This limited natural development results in inequality and low living standards for large groups of people, which in turn threatens the economic stability of a country. Therefore, it is the role of these practitioners to find innovative financial solutions to attract funding to these societal areas. It appears that identifying ways to implement CSI more effectively will support and benefit this larger objective.

It has been made clear that there are severe socio-economic deficiencies in the South African context that need to be addressed. It is also evident that economic and financial development plays a crucial role in alleviating such economic deficiencies by channelling funds to sustainable development areas. Corporate South Africa has a unique opportunity to use their extensive resources in a mutually beneficial way by way of CSI funding. Improving this mechanism only serves to improve the country's socio-economic standards without being

overly reliant on government. Additionally, improved private cash flows reduce the government burden, allowing for more sustainable fiscal policy.

The literature suggests there may be merit to understanding and improving current CSI practice, which warrants further investigation. This research paper fills a research gap in the literature relating to the context-specific nature of CSI practice in South Africa. The paper will thus add to the relatively inadequate South African literature, while opening channels for further investigation into the topic.

Finally, the study has practical application. The paper provides experiential insight into CSI practice that can be used to understand and attain knowledge about CSI practice. This knowledge can be applied in CSI functions throughout South Africa to the benefit of all stakeholders, while incorporating CSI in the larger agenda of addressing the country's social ills. This can form a basis for a dialogue about CSI, both academically and practically, while opening channels for further innovation with regard to maximizing socially orientated financing beyond public administration.

1.5 ORGANISATION OF THE STUDY

The organisation of this study is set forth as follows:

- In Chapter 1, the researcher provides an introduction to the study to provide background, the problem statement, research questions and objectives, justification and any limitations of the study
- In Chapter 2, the researcher examines the global literature on the CSI conceptual framework. The review identifies key concepts, trends and empirical evidence to determine CSI's motivation mechanics, effectiveness and justification. The researcher also analyses the South African economic climate to justify such a mechanism in the given context. In addition, the researcher examines the limited South African literature to gain additional insight and justify the need for further investigation into CSI practice in South Africa,

- In Chapter 3, the researcher provides the methodology of the study and includes the research paradigms and the philosophical approach conducted to achieve the research objectives. This section details the data used, the methods used to collect and examine the data, the unit of analysis, the sampling approach and the analytical techniques used to identify any constructs and theories derived from the research conducted. This maximises the robustness and validity of the study's findings.
- In Chapter 4, the researcher documents the findings derived from executing the methodology in Chapter 3. These findings are discussed in detail to sufficiently explain the results and the research conducted, as well as to lay the foundation for any conclusions that can be drawn and recommendations that can be made from this research paper.
- In Chapter 5, the researcher derives conclusions from the results reported in the Discussion and Findings (Chapter 4). The researcher uses these findings to answer the research questions, while meeting the various research objectives identified in Chapter 1. Once these conclusions are identified, recommendations are provided to determine the practical applicability of the conclusions drawn as well as any additional research requirements to enhance the understanding and usefulness of the research topic.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

Global literature on the motivations, implementation and evaluation of CSI practice is comprehensive and broad. It is widely considered that CSI provides mutually beneficial outcomes to society, governments and corporations. Despite this global understanding, very little focus has been placed on South African CSI research. This is surprising, given the socio-economic conditions of the country and how economic outcomes can seemingly benefit greatly from effective CSI practices. The key theories, arguments, findings and empirical evidence are discussed in this chapter.

2.2 CORPORATE SOCIAL INVESTMENTS: A CONCEPTUAL FRAMEWORK

Global CSI literature is well developed and encompasses a broad and well-defined framework for CSI practice. This section is discussed in detail to cover the definition of terms and concepts, the conceptual framework, the role of government and civic organisations in the CSI model and the constraints and limitations of CSI.

2.2.1 Definition of Concept

The process of corporations investing in the social-economic community is called corporate social investment (CSI). This term is often confused with corporate social responsibility (CSR). Initially, these two terms were synonymous, referring to the philanthropic activities that companies exercised in communities in the form of spending money or time to benefit these communities.

CSR refers to a company's responsibility regarding all stakeholders, including uplifting the communities they serve and minimising their environmental footprint. (Holliday et al, 2017). CSR forms a broader part of the stakeholder model by which the business consider all main stakeholders equal and treat them as such. Sustainability of these key stakeholders is fundamental to ensuring the corporation's going concern and the corporation has an ethical obligation to ensure and promote the interests of these stakeholders (Hambrick & Snow, 1977).

The King Code III is a corporate governance framework report in South Africa which states that South African companies should implement this stakeholder model. South African regulations for listed companies state that listed corporations must apply the King Code unless they provide valid reasons as to why it cannot be applied. It is this King Code, together with significant public pressure, that may force companies to participate in CSR programmes, irrespective of whether or not they believe it can orchestrate significant change (Holliday et al, 2017).

On the other hand, CSI is defined as any social development activity undertaken by a business not implemented to generate profit. Thus, CSI allows companies to go beyond their direct stakeholders to facilitate change at a macroeconomic level. This allows companies to have larger potential socio-economic impact, as it is viewed as a proactive investment in the sustainability of the country and not a retrospective obligation to appease and maintain stakeholder relationships. Thus, CSI is focused on addressing socio-economic deficiencies to the mutual benefit of both industry and society at large (Holliday et al, 2017).

Corporations use a firm-based CSI model. This means that once companies have procured and allocated funds to CSI initiatives, they can choose which initiatives to directly invest these funds in. This model is unpacked in detail below.

2.2.2 Conceptual Framework

The key insights and evidence necessary for formulating the CSI conceptual framework are discussed in Sections 2.2.2.1 to 2.2.2.4 below.

2.2.2.1 Society's need for socio-economic intervention

Development financing is often underserved in developing economies, leading to socio-economic deficiencies. The reasons for this are discussed in Sections 2.2.2.1.1 and 2.2.2.1.2 below.

2.2.2.1.1 The free market debate and free market failure

The debate of whether free-market capitalism provides optimal social outcomes is a contested one. Those who agree point to the failure of communistic ideals as justification for the free market (Priestland, 2009). Those who disagree point to frequent market crises and volatility as an argument against allowing the market free reign. Most sovereign states adopted the rise of fiduciary capitalism to curb market failure by means of regulation and monitoring. (Jessop, 1997).

Despite this, many key social markets are under-served. Public goods, externalities and asymmetric information still occur, which reduces socially optimal allocation of resources. This explains limitations in key sectors like education, healthcare, infrastructure, social welfare and certain goods markets (Szirmai, 2015).

2.2.2.1.2 Social expectations for CSI

There is evidence that society plays a role in CSI practice. A study suggests that populations with older average ages, family-orientated philosophies and high donations are more likely to have firms participating in CSI compared to populations without these characteristics. Furthermore, these populations value these activities by way of stock market and consumer loyalty. The conclusion is that societal characteristics have a substantial impact on the level of CSI society demands (Attig & Brockman, 2017).

Similarly, another study suggests that communities with high social capital value CSI more than communities with low social capital. Therefore, communities with high social capital penalise poor CSI practice. These studies provide enough evidence to suggest that CSI is essential in communities with a strong sense of social cohesion or need (Hoi, Wu, & Zhang, 2018).

It was also argued that CSR should be considered in the realm of high politics as opposed to low politics, as was previously as the case. This suggests that there are political expectations and ramifications arising from a corporation's role in civil society, especially in areas of high social capital and political discourse (Bures, 2015).

Lindorff, Jonson and McGuire (2012) argue that minimisation of harm is just as valued as active social good. There is wide debate over socially and environmentally harmful industries, especially when they serve an important component of the economy. Dismantling these industries can have harmful effects on employment, growth and socio-political cohesion. Therefore, encouraging active engagement, participation and investment in these industries can greatly reduce the harm, while preserving the operational benefits of these industries.

2.2.2.2 Government's interest in CSI

Governments are elected to provide economic and social development where private markets fail. However, the assumption that government is efficient and effective in this provision is often overstated. The reasons for this are discussed in Sections 2.2.2.2.1 to 2.2.2.2.3 below.

2.2.2.2.1 The role of government and government failures

A key role of a central government is to use taxes and governing authority for the benefit of the civil society that elects them into power. A primary role of a democratically elected government is addressing the systemic deficiencies by means of long-term focused socio-economic reforms, financial infrastructure and correcting market deficiencies that occur through capitalistic business practices that perpetuate these issues. This includes the equitable redistribution of resources, the maintenance of common goods, the regulation of markets and the socio-economic upliftment of all citizens (Szirmai, 2015). The idea is that government can provide more equitable allocation of resources to mitigate and address markets' failure to do so.

However, substantial work in public choice theory shows that this may not be the case. The rational ignorance of the electorate, high levels of bureaucracy and rent seeking from politicians means that the government is not necessarily more efficient and may even be less efficient than market forces in these areas. This suggests that large bureaucratic governments may not always result in improved socio-economic outcomes.

Beyond this, governments often encounter capital rationing with regard to their expenditure. Trade-offs must be considered regarding prioritisation of the budget. Poor economic cycles can result in reduced flow into socio-economic initiatives. Traditionally, governments funded the public sector by way of taxes. This is known as the orthodox approach to government

expenditure. However, the classic approach, where deficits are used to fund development, with the economic growth and increased taxes being used to repay the debt. has become more popular. However, when the deficit is used to fund unproductive expenditure, the resultant debt crises and downgrades can have severe socio-economic effects.

Therefore, the flow of corporate funds into development is beneficial to government as it alleviates the burden on government budgets and allows for a greater flow of investment into socio-economic initiatives. Therefore, it is in the best interests of government to encourage corporate participation going forward. Acknowledging this, governments have attempted to incentivise, and even indirectly legislate, corporate investment in society by means of procurement incentives and tax rebates (Skinner & Mersham, 2008). These governments have also used public-private partnerships to attract private capital into foreign projects (Jackson & Hlahla, 1999). This gives a government a direct interest in CSI initiatives and their effectiveness.

2.2.2.2.2 Outcomes of CSI in emerging markets

Very few studies have been done on the role of CSI in development. The reasons for this are detailed later in this chapter. However, the findings of the few studies that are available are described in the paragraphs that follow.

Peng and Beamish (2008) found a positive relationship between foreign direct investment (FDI) inflows to developing countries and national social responsibility of corporations. The relationship did not hold for developed countries, thus suggesting that social responsibility climates are a factor in FDI decisions, which directly benefit sovereign development if managed properly.

In Nigeria, multinational companies' investment in community enterprise for water provision was examined. It has been found that partnering with local communities to attain socially and economically beneficial outcomes was the most effective process for achieving these aims. This process significantly improved water infrastructure, growth capacity and local maintenance systems to the benefit of the entire country (Nwankwo, Phillips, & Tracey, 2007).

Despite the limited literature, these findings show that incentivising CSI is an effective policy by government to improve development prospects. In addition, it shows that mutual collaboration between corporations is indirectly beneficial to governments achieving their mandates.

2.2.2.2.3 Public-private partnerships

Public Private Partnerships further emphasise the beneficial nature of public-private cohesion. Jackson and Hlahla (1999) express the value of Public Private Partnerships (PPP) in providing much needed financial resources to public projects by means of access to the capital markets. They advocate the use of a project finance model that separates finance, operations and returns among different parties to ensure efficiency, reduced agency costs and adequate incentive mechanisms to ensure the commitment of all parties. However, even at this early stage it was cautioned that politics and profitability would create conflict and that appropriate regulatory frameworks and communication would be necessary for such a policy to be successful.

Osei-Kyei and Chan (2016) assessed PPPs involved in large transport infrastructure projects in Sub-Saharan Africa. They assessed the Lekki toll road in Nigeria, the N4 toll road in South Africa and the Port of Maputo in Mozambique. Although these projects were all completed using PPPs, users have raised serious issues regarding repayment. The key flaw in these projects was the lack of stakeholder engagement that ultimately led to the user payment problems post-completion of the projects. The key recommendation of the paper is to incorporate stakeholder engagement as a key objective in completing large PPP projects. The paper further emphasises the need for strong public governance, an effective tender process and regulation. The paper states that although processes are adequate, there is room for significant improvement.

These studies highlight the potential value in a mutually beneficial strategic relationship between government and the private sector regarding socio-economic development. CSI can form a key component of this relationship, both as a funder and as a driver of economic prosperity, if interdependent relationships are maintained.

2.2.2.3 Corporations' interest in CSI

There are a number of ethical, managerial and financial arguments for why corporations would want to commit private funds to social development. These reasons are discussed in Sections 2.2.2.3.1 to 2.2.2.3.5 below.

2.2.2.3.1 Business ethics

Rossouw (2011) argues that business ethics is an important element of managerial discretion. He argues that incorporating ethics is crucial in commerce, education and training, with most corporate failures arising from ethical indiscretions. He argues that business ethics has several key components, namely

1. consideration of ethics in decisions.
2. contextual socio-economic issues in which the business operates,
3. corporate citizenship,
4. corporate governance,
5. social diversity issues, and
6. profession-specific elements.

Rossouw (2011) clearly highlights a link between business ethics and CSI. Thus, there is merit in the argument that the business may have an ethical and fiduciary obligation to implement CSI projects where there is a capacity to do so.

2.2.2.3.2 Corporate governance and stakeholder theory

Corporate governance is defined as the rules, regulations, processes and systems that govern how a firm is operated and controlled. The board of directors employs corporate governance as a strategy to protect stakeholder interests by regulating, monitoring and evaluating the corporation's operations to protect against agency costs.

Corporations use balance scorecards as a management tool to optimise business performance. Balance scorecards analyse operations from a financial perspective, a customer perspective, an internal perspective and a learning and growth perspective. It's aim is to optimise profits and

mitigate operational risk going forward. (Hansen & Schaltegger, 2018) However, despite wide acceptance of balance scorecards in different forms, failures in corporate governance mechanisms have had substantial financial consequences for shareholders. Enron and Steinhoff are examples from both the USA and South Africa of such failures.

Fiduciary capitalism argues that corporate leaders have an obligation to protect the interests of the shareholders they serve. This has often been used as an argument against corporations' role in society beyond profit generation. However, the financial effects of the British Petroleum oil spill and the South African Marikana crisis provide evidence that failure to account for social and environmental factors in corporations can have adverse financial effects on the bottom line.

Hansen and Schaltegger (2018) argue that balance scorecards have to include sustainability in their models as a means to incorporate economic, social and governance (ESG) considerations in operational practice and as a way to build value into good sustainability practice. To account for this, stakeholder theory is the primary approach taken regarding corporate governance including the environment and broader society. This involves ensuring the sustainability of all key stakeholders: government, suppliers, customers, society, employees and investors.

The need for CSI to benefit society has been discussed above. However, corporations have a motivation to invest in the societies they operate in as well. A growing sustainable economy results in more income and greater corporate sales of goods and services. More developed communities provide the necessary skills and technology that companies require to maintain competitiveness and productivity. Conversely, declining economic metrics indicate the opposite, which will affect profitability and may even affect the going concern of these entities going forward (Kleine & Von Hauff, 2009).

Kleine and Von Hauff (2009) best illustrate this by means of the sustainability triangle. The sustainability of a corporation is equally determined by the social, economic and ecological climate. Ensuring the sustainability of these factors results in the sustainability of the business as a going concern. Failure to maintain all three elements results in long-term deficiencies.

Similarly, a government's need for socio-economic funding means that corporations can benefit from incentives in the form of tender awards, procurement and rebates that directly affect the

firm's financial performance. This, however, requires good cohesion between corporations and government to be effectively managed or it can lead to forms of corruption.

The literature also shows that CSI has a positive effect on attracting and managing supplier relationships (Zhang, Ma, Su, & Zhang, 2014). An investigation into stakeholder perceptions theorised that regional procurement and engagement with stakeholders would improve the collective corporate climate by means of regional economic security and integration (Tsoi, 2010). Furthermore, CSR supplier engagement was found to be a useful mechanism to improve labour practices (Egels-Zanden & Fontana, 2018). Therefore, CSI supplier engagement appears to benefit corporations in the short and long term.

Arnaud and Wasieleski (2014) argue that CSR and CSI improve employee cohesion by the "internalization of social values, citizenship behaviours and co-operation". They further argue that employee involvement improves self-determination and encourages moral behaviour in the corporation, leading to greater "well-being, satisfaction and self-actualization". This was found likely to reduce staff turnover and improve efficiency, benefiting the corporation.

The literature also suggests that financing institutions value CSI. In a study done by Shi and Sun, it was found that high CSR scores resulted in lower bond covenants being attached to financing (Shi & Sun, 2015). The results of another study showed that positive and negative corporate social performance (CSP) factors affected the credit ratings of corporations. It is stated in the same paper that good CSP is rewarded with "relatively" high ratings (Attig, Ghouli, Guedhami, & Suh, 2013). Thus, good CSI practice benefits the corporation's capital structure, cost of capital and risk, directly benefiting the corporation.

2.2.2.3.3 CSI and management

Chen, Patten and Roberts (2008) compared corporate philanthropy to other social responsibilities of the firm: employee relationships, environmental practice and safety. They argue that CSI may be a measure to gain legitimacy, especially in negative cycles, in addition to providing proactive corporate citizenship. This means that CSI may provide benefits to corporations, even if those benefits are not always for altruistic reasons.

Manner (2010) shows that observable executive characteristics affect CSP. He argues that social responsibility programmes are highly discretionary. The paper shows that these executive characteristics have far more influence regarding positive CSP than as a reason to explain CSP failure. Yuan, Lu, Tian and Yu (2018) identified the relationship between business strategy and CSR. They found that the choice of strategy determined the level of CSR commitment. It was further found that CSR-orientated strategies reduced corporate risk and improved longevity.

Boardroom diversity was also investigated with regard to social performance. It was found empirically that age and gender diversity at boardroom level were key factors in social performance indicators, although these indicators were acknowledged to be limited with regard to their representation (Hafsi & Turgut, 2013).

Studies were also conducted on executive incentives for meeting social criteria. Hong, Li and Minor (2016) found that social bonus structures for executives were used and that these incentives were more likely to benefit shareholders than cost them through agency. Maas (2018) found that incentive structures for CSP did not automatically result in improved corporate financial performance (CFP). Maas (2018) further argued that stricter and more quantitative incentives were required to improve CSR practice. Pay-performance sensitivity incentives were found to reduce poor CSP but prevented exceptional CSP. Contrastingly, it was found that the duration of compensation reduced poor CSP and promoted long-term-orientated CSI (McGuire, Oehmichen, Wolff, & Hilgers, 2019).

CSR was also linked to a corporation's investment efficiency. Improved CSP was found to decrease investment cash flow sensitivity. It was also found to reduce market frictions and access to capital (Attig, Cleary, Ghoul, & Guedhami, 2014). Benlemlih and Bitar (2018) found that improved CSP reduced investment inefficiency. Corporations with good CSP had "lower information asymmetry and higher stakeholder solidarity." This is supported by Cui, Jo and Na (2018), who found a negative relationship between information asymmetry and CSR, due to greater information sharing.

2.2.2.2.4 Investors' perceptions

There is evidence to suggest that investors consider CSI in investment decisions. Although social responsibility investment (SRI) adoption did not significantly affect returns, it did significantly affect variability of returns (Mill, 2006).

It was found that CSR and sustainability reporting improved the informational environment for investors, validating the demand and use for these reporting standards (Lee, Palmon, & Yezegel, 2018). This explains why investors consider CSR in their investment, due diligence and decision-making, especially regarding reporting (Hsu, Koh, Liu, & Tong, 2019). Thus, it appears that investors benefit from investing in companies that meet these criteria.

Cox, Brammer and Millington (2004) found empirically that firms primarily use the strategy of exclusion for corporations with poor corporate social performance. Lozano, Albareda and Balaguer (2006) concur that negative screening was the primary strategy used when assessing social performance. Thus, companies' failure to meet social standards can hamper obtaining the investment required for business development.

2.2.2.3.5 CSI and financial performance

The abovementioned elements all have direct or indirect financial effects. Given the value these investment projects have on people's lives and company sustainability, financial markets should intuitively reward companies in equity markets that implement projects that positively impact on the communities they serve (Holliday et al., 2017). Corporations are inherently profit-focused. Triple bottom-line reporting and the inclusion of social and environmental impact disclosure, have resulted in companies broadening their decision processes and accountability (Holliday et al., 2017). However, it is commonly accepted that companies are unlikely to participate in activities unless it benefits such corporations in return.

The relationship between CSI and company performance has often been inconclusive and contradictory in terms of empirical findings. An investigation into Anglo-American mining found that there was no significant relationship between corporate social performance and corporate financial performance (Cho & Lee, 2017). In a study done in India, it was found that

CSI significantly and positively impacted the performance of the sample in the current and subsequent years of operation (Garg, 2016).

An Iranian study's results showed that there was an indirect link between CSR and company performance by means of brand building and competitive advantage. (Saeidi, Sofian, Saeidi, Saeidi, & Saeidi, 2015). Choi, Jo, Kim and Kim (2018) found that CSI improved branding by means of reputational value creation in business groups. They also found that CSI is a good strategy to buffer the market against negative financial information as a mechanism to improve business optics.

This suggests that CSI has a financial return through branding and long-term financial performance but is limited in the short term. This is problematic given the short-term orientation of most markets.

These studies suggest that on balance, stakeholders value CSI activities, more substantially in emerging markets. This directly or indirectly effects shareholder wealth, which is a primary concern of corporations. Therefore, the related literature suggests that corporations have an incentive to participate in CSI activities beyond purely philanthropic and internal monitoring mechanisms.

2.2.2.4 Analysing CSI implementation, measurement and evaluation.

The success of any CSI mechanism depends on the underlying processes that plan, co-ordinate, implement and evaluate the effectiveness of the projects being implemented. These processes are discussed in Sections 2.2.2.4.1 to 2.2.2.4.3 below.

2.2.2.4.1 Non-standardised CSI processes

Salazar, Husted and Biehl (2012) argue that CSI should be implemented using a project approach. This problem-solving approach is better able to assess the problem, identify unique solutions, assess the implementation and apply adaptive corrective techniques when employed. Salazar et al (2012) argue that randomised sample trials should be used to improve implementation, as it has been used effectively in medical and aid programmes. In addition, this established framework is a good starting point for CSI optimisation. However, they also

argue that CSI is not an exact science and standardised methods and metrics lack the robustness to be useful, given the uniqueness of projects implemented.

In an investigation into impact measurement in Europe and Northern America, it was found that between 62% and 76% of firms used some form of impact measurement (Maas & Liket, 2011). It was further found that enough statistical evidence existed to indicate that impact measurement improved through subsequent years of using metrics, while larger firms used more metrics. No comparable study has been done in an African context. However, the study contributors could not find any significant correlation between the impact measurements used, which supports scepticism about standardised impact models, as highlighted by Salazar et al (2012).

2.2.2.4.2 Standardised CSI processes

Alternatively, research into standardising CSI processes has been done. Work has been done on industry-specific sustainability frameworks. The published literature on these standardised processes is examined below.

Agle and Kelly (2001) argue that corporate social investment should be measured against three factors, namely intention, process and impact. They argue that focus on only one of these factors weakens the corporate social performance. This makes intuitive sense, as failure in leadership acceptance, implementation and evaluation will reduce efficiency and desired outcomes.

Environmental impact assessment (EIA) is a management and diagnostic tool used to assess the environmental impact of projects and decisions. It involves a process of screening, scoping, mitigating, monitoring and auditing the environmental impact of projects. This is a largely universal framework used to hold corporations accountable for their actions (Lion, Donovan, & Bedgood, 2013). There is no reason why this cannot be applied to social assessments and would act as an effective mechanism to integrate these considerations into strategic business decisions, potentially on a global scale, in an already proven framework.

Lisi (2018) investigated the use of corporate social indicators to improve corporate social investment in Italy. The group found that the use of corporate social indicators highly depended

on top level executive commitment and that the use of these indicators directly improved corporate social performance and indirectly improved corporate financial performance.

2.2.2.4.3 Social responsibilities indices

Another way of measuring CSI is by means of social performance ratings (also known as SRI indexes). These rating measures allow listed corporations to trade on certain indexes if they meet social and environmental criteria to the financial benefit of operating in SRI markets. Studies on the performance of SRI indices showed they have consistently underperformed to comparable market indices (Fowler & Hope, 2007).

Adam and Shavit (2008) argue that, although this benefits the firms assigned these limited-member listings, these listings do not encourage non-compliant firms to improve their social performance, with listing not considered a significant benefit relative to the cost of compliance. Adam and Shavit (2008) offer a theoretical solution to rank all listed companies by these social and environmental criteria publicly as a means of publicly pressuring firms into social action. Although this is beyond the scope of the paper, it does highlight that SRI indices have a long way to go to be effective instruments for encouraging good corporate citizenship.

2.2.4 The Role of Non-government Organisations in the CSI Model

However, this literature does not account for CSI outsourcing. Corporations using outsourcing to external parties to improve the efficiency of the CSI function is not new. Corporations can implement CSI by providing capital to socially invested entities to act on their behalf. These entities are discussed in Sections 2.2.4.1 and 2.2.4.2 below.

2.2.4.1 *The role of non-government organisations*

There are considerable constraints and costs to a firm implementing its own CSI programme. To this end, companies have started donating these funds to non-government organisations (NGOs) to execute CSI activities on their behalf. Currently, companies in South Africa choose between using either their own initiatives or NGOs for their CSI expenditure (Conradie, 1999).

Under South African law, a company has the choice between running internal CSI programmes under their direct control or indirectly investing these funds in Non-profit (NPOs) or Public-Benefit Organisations (PBOs). The latter two are usually bundled together under the term Non-Government Organisations (NGOs). The different NGO characteristics are set forth in the Non-profit Organisations Act of 1997.

NPOs and NBOs have very different legal requirements according to the Act. Non-profit organisations are easy to start and administer but are not exempt from donations or income tax. This limits the magnitude of the CSI donations to these organisations which, in turn, limits their overall effectiveness in achieving their socio-economic goals. PBOs are more difficult to initiate and involves many administration and disclosure requirements; however, once classified, they are exempt from all income and donations tax. Where these organisations maximise the impact of donations, these additional funds are often offset by the higher administration cost that limits their overall effectiveness.

2.2.4.2 Non-government organisation donor relationships

Van Dyk and Fourie (2016) analysed the importance of this relationship between donors and NGOs in South Africa, and identified the expectations in line with the relationship indicators, which are control and power, trust and commitment. These expectations are expressed in Table 2.1 below.

Table 2.1: NGO donor relationships

Relationship indicators	Donors’ expectations	NGOs’ expectations
Control and power	<ul style="list-style-type: none"> • Control mutuality • Sustainability and responsibility 	<ul style="list-style-type: none"> • Control mutuality • Acceptance of donor dominance • Possibility of future independence
Trust	<ul style="list-style-type: none"> • Skills and competence • Integrity • Mutual considerations 	<ul style="list-style-type: none"> • Allowance for NGO autonomy • Intentions • Skills and competence

Relationship indicators	Donors' expectations	NGOs' expectations
	<ul style="list-style-type: none"> • Willingness to donor involvement in decision-making process 	
Commitment	<ul style="list-style-type: none"> • Obligation to relate • Desire to relate and maintain • Loyalty 	<ul style="list-style-type: none"> • Affective commitment • Obligation to relate • Desire for long-term relationships • Cause commitment

This study results suggests that these relationships are well understood between civic organisations and the corporate environment. It further highlights that corporations are not averse to outsourcing their CSI activities if certain expectations are met.

2.2.5 Constraints and Limitations of the CSI Model

The CSI model is far less efficient than this literature suggests. Identifying deficiencies in CSI practice is the first process to addressing them by means of reform. The literature identifies various deficiencies in the current model that are discussed in Sections 2.2.5.1 to 2.2.5.3 below.

2.2.5.1 CSI constraints on government

Government often perceives CSI as a hindrance, seeing that these programmes are often not aligned with the socio-economic aims and objectives of governments. It is argued that the government should provide sufficient regulation and direction to focus corporate citizenship efforts. The main argument involves the importance of public-private partnerships as a mechanism for aligning CSI efforts with government initiatives. This can potentially scale and focus CSI initiatives to maximise their impact on civil society (Harmann & Acutt, 2003). This suggests that greater cohesion between corporates and governments can enhance CSI.

2.2.5.2 *Corporate constraints*

A qualitative paper focusing on Southern Africa by Hamann (2006) highlights that CSI needs to become less philanthropic and more aligned with business principles. This means that CSI needs to be more structured in terms of the objectives and must be action orientated with clear measures of success, with a particular emphasis on sustainability. This further emphasises the idea of social entrepreneurship, highlighting the point that profit generation and socio-economic development are not mutually exclusive. By promoting profitable solutions to socio-economic disparities, one can develop sustainable solutions to these problems. However, Hamman (2006) warns that these ideas need to be implemented properly to be sustainable. To date, this has not been done on any significant scale.

Each individual company implements its own CSI activities with a large amount of discretion and limited regulation. This means that the effectiveness of a company's investment in these activities is limited by its own budget and strategy. Budgetary constraints limit impactful CSI programmes in large corporations, due the lack of scale, which means that companies are investing in smaller disjointed projects rather than cohesively and collectively investing in larger projects that can have a broader and more scaled impact (Rampersad, 2015).

Moreover, companies often do not have the expertise to make effective decisions in respect of which investments will have the most sustainable socio-economic impact. With a company's priorities being to its shareholders, time, effort and resources provided for these projects can also be limited, reducing their overall effectiveness (Demetriades & Auret, 2014). Furthermore, many managers see these activities as public relations or regulatory tick-box exercises. Given socio-political expectations, a more meaningful way to affect the lives of people than these projects are aimed at what is needed, which currently is limiting commitment to real change (Demetriades & Auret, 2014).

CSI budgets are subject to executive discretion (Manner, 2010) and are therefore exposed to business cycles. Harrison and Berman (2016) found that CSR and, by extension, CSI budgets are sensitive to economic cycles. In poor economic conditions, CSR budgets are reduced, and corporate social investment is one of the most negatively affected areas. This reduces the amount of funding channelled into socio-economic development and longevity of CSI projects required to have significant impact.

2.2.5.3 *NGO constraints.*

Outsourcing CSI practice helps corporations to address the three major company-specific issues of a lack of expertise, a lack of time availability and scalability, as the NGOs are seen to have the skills and experience to use the funds for a civic purpose (Fowler, 1991). NGOs can further scale their operations by means of multiple donors. However, with the low level of monitoring and evaluation, it is difficult to determine whether this has improved the delivery of CSI. Thus, investigation into the validity of using NGOs is required to assess this further.

2.3 THE SOUTH AFRICAN CONTEXT

2.3.1 The Legacy of Apartheid

Patel (2012) argues that a lack of governance, institutional capability and funding in social welfare programmes in South Africa has resulted in the “non-realization of constitutionally guaranteed social rights.” She argues that it is the role of private participants and NGOs to hold government accountable by applying the necessary political pressure as well as the means and skills to ensure that these rights are maintained.

South Africa shares many of the challenges of other developing nations in Africa regarding oppressive systems aimed at enriching the few at the expense of the many. The previous Apartheid regime explains why South Africa faces many socio-economic disparities including unemployment, limited skills development, poverty, inadequate infrastructural development, limited financial inclusion and a gradual decline in purchasing power and equal economic opportunity. These disparities are interlinked and have a massive effect on the country’s long-term economic outlook, global competitiveness and equality (Le Roux, 2017).

The Apartheid regime resulted in lingering physical, mental and emotional barriers that cannot be removed simply and immediately. Although legal and governmental barriers were abolished in the early 1990s, economic and social barriers remain two decades later (African Development Bank, 2018). High, and rising unemployment (with over 50% of working-age youth unemployed), and a greater dependency on social grants for survival by approximately 30% of the population, have severely worsened the future economic outlook of South Africa (Trading Economics, 2018).

It is unrealistic to assume that these barriers could have been eradicated over this period, or that a peaceful transition would come without the costs of conflict, a lack of fairness and limitations for change (Westaway, 2012). However, more could have been done to mitigate these systemic issues and alleviate the high cost it still has on South African citizens. Socio-economic disparities have worsened since transition in 1994 (African Development Bank, 2018). Many commentators point to government failure for this state of affairs. However, the corporate sector cannot be excluded from taking some accountability, especially when these failures directly reduce the bottom line.

Corporate South Africa spent over R8.1 billion on CSI in 2017 (Brand South Africa, 2016). Despite this, there is little academic evidence to suggest that these initiatives have had a positive effect on the socio-economic issues which the country is trying to overcome.

There are well-known perceived issues and critiques of the current system regarding CSI practice in South Africa. Yet, surprisingly little has been done from a qualitative or quantitative perspective to assess, address and reform the current system. Thus, research into CSI improvement is desirable to address context-specific issues, to ensure corporate longevity and to promote global sustainability going forward.

2.3.2 The Socio-economic Condition of South Africa

In South Africa, the Apartheid system excluded the majority of citizens from access to basic human rights such as freedom, equality and opportunity. Even after transition, bimodal systems in all social goods and services arose with the wealthy few affording high-quality services and the majority being excluded or limited to welfare programmes. This has worsened equality and economic sustainability. Declining job prospects and institutional capacity further disempower civil society (Le Roux, 2017).

Table 2.2: South African economic indicators 2013 to 2018

	2013	2014	2015	2016	2017	Trend
Annual GDP growth (July)	2.5%	1.7%	1.2%	0.6%	1.4%	Flat
Inflation (July)	6.3%	6.3%	5%	6%	4.6%	Flat
Strict Unemployment rate (July)	25.3%	25.5%	25%	26.6%	27.7%	Upward
Youth unemployment (July)	53.2%	51.8%	49.9%	53.7%	55.9%	Upward
Export growth (July)	23%	0.09%	6.4%	3.5%	-2.74%	Downward

Source: Statistics South Africa (Trading Economics, 2018)

Table 2.2. highlights that South African growth has been flat over the past five years. The lack of beneficiation in the commodity industry means that the country exports raw materials and imports tertiary commodity products, significantly reducing the net value creation for the economy. The service element of the economy has also been stagnant over the medium term. Unemployment has worsened, with more than half of South Africa’s youth unemployed. This highlights that the economy has failed to create new jobs or absorb new entrants into the labour force.

Although the South African Reserve Bank (SARB) has performed well at limiting growth in inflation, inflation levels have been greater than GDP growth, resulting in stagflation. This reflects a gradual loss of purchasing power, which has reduced disposable income and consumption.

The World Economic Forum rated South Africa’s education system 136th out of 137 countries in 2015 and 2016 respectively (Baller, Dutta, & Lanvin, 2016). This suggests that the country is not developing sufficient skills required for economic growth. The government has removed artisan training, apprenticeship programmes and state technicians, to focus on university tertiary education. The university system has not been able to absorb these students, which has had a negative impact on the required skills and education.

The World Bank rated South Africa the most unequal society in the world in 2010, with a rating of 63.4, with the last estimate being 63 in 2014 (The World Bank, 2014).

A study by Rogerson (2010), he highlights the key strategic challenges of economic development in South Africa. A key challenge with regard to development is funding. Rogerson (2010) addresses the fact that the funding primarily comes from either the South African government or foreign donors in the form of concessions and grants. The foreign element creates a dependency and provides these donor countries with influence over activities in the country. Rogerson (2010) further highlights the lack of private sector involvement as an alternative form of funding for development. This suggests that channelling private sector funding into development projects should increase sovereign autonomy and bridge the gap between the public and private sectors in the country

This establishes the need for the flow of funds, expertise and innovation to fund socio-economic reform. Government is the largest and most influential player. However, this does not mean that alternative funding and expertise would add considerable value to socio-economic development. Thus, civil society is not interested in the who of socio-economic development but rather the what, how and how much.

2.3.3 The South African Government

The legacy of Apartheid clearly explains a large portion of South Africa's current issues. However, these deficiencies cannot only be attributed to the Apartheid system. Significant government failures, corruption, high wealth concentrations, bimodal education systems and structural barriers continue to maintain and worsen these issues (Roux, 2017).

Allegations of corruption, nepotism and state capture have damaged the credibility of the South African government. Political appointments and a lack of accountability in state-owned enterprises (SOEs) and institutions have resulted in bailouts, reducing the fiscal budget necessary for debt repayments (Le Roux, 2017). The sacking of Finance Minister, Pravin Gordhan, was seen as another indicator of the government's lack of regard for fiscal discipline, to which Pravin was perceived committed (Le Roux, 2017). Corruption allegations at all levels of government and the alleged and perceived involvement of the Gupta family have further damaged the country's fiscal reputation.

The above suggests that the South African economy has declined steadily and lacks global economic relevance. This paints an extremely negative outlook for South Africa, justifying S&P's concerns of a sustainable servicing of debt. Furthermore, the long-term decline and levels of perceived corruption suggest that the government has not been capable of rectifying the economic deficiencies in the country. Therefore, given this information, it is unsurprising and even justifiable that the country is on the brink of a sovereign credit downgrade. This constrains the South African government regarding socio-economic development.

Clearly, the government holds some responsibility for these deficiencies, and it is difficult to refute the fact that government is required to reform this system, given the tax that the private sector contributes to the fiscus. They are, therefore, incentivised to find creative financial solutions to funding economic development. The scope, influence and resources of large corporations make them an ideal partner in socio-economic development.

2.4 The Limited South African literature on CSI

South African literature on the subject under investigation is limited and incomplete. There are localised studies that provide useful insight, in part, investigating the holistic picture of CSI practice in South Africa. However, this literature is not enough to provide an accurate and holistic perspective of CSI practice in the country in order to answer the aforementioned research questions. The available literature is provided below.

2.4.1 Private Involvement in Socio-economic Development

In 2010, Houghton (2010) conducted a study on the effectiveness of PPPs in the city of Durban. She stated that "Since 1999 the Durban Growth Coalition has represented a significant endeavour to harness the power of collaborative efforts to achieve urban growth which reduces social and economic inequality and enhances the city and the province's economic position in the global arena." She further highlights the economic impact that the waterfront, dockland and urban revitalisation has had on employment. This has improved the perception of using PPPs in civic development in the city. It also highlights that PPPs have been applied and accepted in South Africa and have had a transformative effect on Durban's socio-economic conditions. Therefore, the literature suggests that PPPs and public-private relationships have a substantial role to play in South African development.

In South Africa, Community Individual Development Association (CIDA) University managed to mobilise significant corporate finances to fund disadvantaged student in tertiary education programmes. The results of the programme and lower cost per student then attracted other philanthropic education programmes (Raufflet, 2009). This shows the mutual value between civic organisations, society and corporations that is generated when these programs are effectively managed. These inter-relations detailed later in this chapter can have a significant effect on development.

2.4.2 The Relationship between Financial Performance and CSI

In South Africa, the Socially Responsible Investing Index (SRI) is a listing provided to companies that meet certain environmental, social and governance (ESG) criteria. It is designed to promote companies that provide good corporate citizenship and promote sustainable development by highlighting such qualities to all stakeholders. It was found that over short periods, such a listing had no significant effect on a company's valuation. However, it was found that over longer periods, SRI-listed companies had substantially higher return on equity (ROE) values and positive relationships between SRI and financial performance (Demetriades & Auret, 2014).

2.4.3 Implementation and Evaluation of CSI in South Africa

Rampersad (2015) conducted research into the monitoring and evaluation of CSI initiatives in the communities at which these projects were aimed. Rampersad (2015) found that many corporations use a five-point evaluation mechanism, namely inputs, activities, outputs, outcomes and impact. Rampersad (2015) further highlights that recent developments from the "Making CSI Matter" conference held in Johannesburg in 2014 have placed a larger emphasis on self-sustaining projects and reduced donor dependency.

However, the paper, and any other research into monitoring systems in South Africa, fails to mention any standardised approach for evaluating CSI outcomes, rather suggesting that such monitoring is a social science that requires nuance and experiential learning. There is no regulation or framework that formally and objectively tests the quality of CSI programmes or holds such programmes to any standard. This explains why there is almost no direct empirical assessment of the effect of CSI on South African society.

The lack of a coherent and standardised CSI evaluation mechanism suggests that the investors and customers value participation in CSI and not necessarily the impact that these projects are having on society. Evidence suggests that the positive relationships between performance and CSR may entice corporations to participate in CSI but does not ensure the quality of the projects being implemented. There also does not appear to be enough regulation to hold corporate CSI projects to any predefined standard.

Loannou and Serafeim (2014) analysed changes in mandatory reporting requirements with regard to corporate sustainable reporting in China, Denmark, Malaysia and South Africa. They found that the new regulations significantly increased disclosure of social and environmental activities. This increase in disclosure also significantly increased company valuations of the samples in question when they met the new requirements. The King Code III made independent assurance of CSI activities voluntary. Ackers and Eccles (2015) evaluated this and found that the policy has limited stakeholders from understanding and assessing the validity of a company's CSI practices. King IV is expected to make independent assurance mandatory, which is supported by this referenced paper. It is concluded that such a policy would provide credibility to stakeholders concerning CSI initiatives.

These studies slightly contradict the Rampersad (2015) study and highlight that regulation with regard to CSI is improving. Loannou and Serafeim (2014) highlight that company valuations increase when new requirements are met, suggesting that stakeholders do value the manner in which CSI projects are executed and the impact these programmes have. Mandatory independent assurance would potentially place more scrutiny on these expectations (Ackers & Eccles, 2015). This means that companies need to ensure that their CSI policies are of an adequate quality in an environment where doing so may become an effective competitive advantage or a regulatory requirement.

2.4.4 NGO Effectiveness

In a journal article by Conradie (1999), he argues that most NGOs in Southern Africa are unsustainable and that real considerations should be placed on consistent cash inflows that primarily places focus on the importance of developing and maintaining relationships with funders or donors over the long term. Without consistent cash flows, the NGOs cannot be long-term oriented, thus limiting their impact.

2.5 CHAPTER SUMMARY AND KNOWLEDGE GAP

CSI is a mechanism that consists of private entities investing in projects, with the aim of improving socio-economic conditions in the communities, regions and countries in which they operate. This is seen as a way to promote sustainability by means of good corporate citizenship. It is the private sector's way of assisting in improving socio-economic conditions to the benefit of all stakeholders. For this reason, investigations into CSI should be a socio-economic and financial necessity, especially in emerging economies.

South Africa's social and economic conditions justify the need for socio-economic intervention and investment. Financial investment in these areas can potentially address many of the systemic conditions that the country faces. CSI, in theory, channels corporate funding into these socio-economic areas in addition to more traditional development funding. Increased corporate stakeholder involvement and increased funding into social development or welfare have the potential to improve the scale and scope of projects aimed at addressing these deficiencies, thus improving social and economic outcomes. This makes investigating CSI practice in South Africa of considerable importance as a means to address the worsening economic climate and income disparities in South Africa.

Global literature provides an understanding of the key concepts, benefits, structures and outcomes of CSI practice around the world. It is clear from this literature that CSI is an effective mechanism for addressing economic deficiencies aligned with more conventional systems such as government. However, global literature cannot automatically be assumed to reflect South African CSI practice, as it ignores context in the form of localised factors.

This required the assessment of South African CSI literature. South African literature was limited and disjointed and thus did not provide a holistic enough portrayal of CSI practice in South Africa to draw meaningful conclusions. This results in a knowledge gap without enough evidence to suggest that the global literature generalises to the South African context. There is not enough evidence to derive an understanding of CSI practice from the local literature in isolation.

Thus, there is scope for an exploratory investigation into creating a holistic picture of CSI practice in South Africa. This will address the knowledge gap identified in this section. It will

further provide a better understanding of the South African CSI mechanism and the effect it can have on addressing the aforementioned systemic issues that the country faces. The research will additionally allow one to identify the extent to which the global literature generalises to the South African context.

Furthermore, the theoretical model derived from the global findings appears to be far from perfect. Thus, the first key learning is that CSI models must be continually assessed and critiqued to maximise the impact of this type of funding. Therefore, it is important to identify the key weaknesses in CSI practice in South Africa and the manner in which to address them. In addition, elements of best practice need to be identified to allow corporations to optimise the impact of their funded projects.

This allows one to understand CSI practice in South Africa. Such an understanding can improve how this mechanism functions, addresses deficiencies, promotes innovative thinking about corporate funding and mimics best practice to improve the scope, scale and efficiency of CSI in South Africa. The overarching aim of this is improving investment and, by extension, positive social outcomes in South African society

CHAPTER 3

METHODOLOGY

3.1 INTRODUCTION

In this chapter, the researcher presents the methodology employed in addressing the research questions and objectives (see Sections 1.3 and 1.4 above). He details the research approach, unit of analysis, sampling techniques, data collection and analytical techniques used in the study.

3.2 RESEARCH APPROACH

Literature on South African CSI is limited with reference to gaining a descriptive understanding of how it is practiced in this localised context. Due to established localised differences, it is not possible or sufficient to impose globalised findings on the South African context. Without a base, a descriptive and high-level understanding of CSI practice, one cannot identify and examine smaller elements aimed at improving its effectiveness.

Global literature is thorough in establishing theory of CSI practice. There are three methodological approaches to assessing the research questions. The first approach is quantitative, where it tests whether this global theory holds empirically in the South African context. The flaw of this approach is that it ignores localised factors. The second approach is purely qualitative, whereby expert individuals derive the underlying model but are not able to make empirical statements. The third approach is a mixed-methods approach, whereby both approaches are used to maximise benefits and mitigate deficiencies in both the first two models.

The qualitative approach is used to assess the context-specific elements of South African CSI practice in this paper. Despite a mixed-methods approach being more suited to the research, no quantitative analysis was conducted. The justification for this is practical in nature. The population of individuals suited to provide insight into CSI practice is very small. Given the resources of the study, the researcher was unable to attain a sufficient sample of the unit of analysis to draw statistically robust results, thus rendering any empirical results ineffectual. For this reason, no quantitative analysis was included in the paper.

However, a qualitative research approach was considered appropriate to address the research questions, while improving practical and academic understanding of CSI practice in the country. Qualitative research allows for the identification of key constructs, themes, structures and conditions of the phenomenon. No such holistic academic research exists at the date of writing for CSI practice in SA. This analysis provides insight into CSI practice that can assist in providing a holistic picture of the function going forward. It further provides insights into past and peer practices, which in turn provide experiential insight into the process.

Given the clear lack of academic local research in this field, it was considered a good starting point to investigate CSI practice using the qualitative approach. It is this descriptive insight that can be tested more robustly, should that be warranted. Beyond this, CSI practitioners can use it as an additional resource when thinking about CSI, acknowledging that the findings are generalisations based on a small subset.

3.3 UNIT OF ANALYSIS

CSI has already been defined as any project a company undertakes without any direct profit motive, which directly benefits the stakeholders and communities in which corporations operate and benefit from. The purpose, in this case, is the improvement of investment of CSI funds in social, economic, financial and environmental initiatives for the sustainability of South Africa and all the country's stakeholders, especially aligned with long-term corporate interests.

Therefore, the unit of analysis is individuals who have specific expertise regarding this model. To ensure credibility, CSI professionals with five years' or more experience were targeted so as to have sufficient experience to provide expert insight. Professionals in the top 40 corporations listed on the Johannesburg Securities Exchange (JSE) were targeted, as only sufficiently large firms have the capacity to run large CSI programmes and the larger firms have the greatest influence and means to improve the socio-economic climate by means of efficient CSI allocation. Finally, as the study is focused on the South African context, only South African corporations were targeted.

3.4 POPULATION, SAMPLING AND SAMPLE SELECTION

The key issue with the sampling used in this study is that CSI professionals are a relatively niche field in corporations. This makes the population of the unit of analysis small, presenting a challenge to observing a large enough sample to draw robust conclusions. The study requires specific knowledge of a model only known to that small population.

Preliminary assessments of the potential units of analysis revealed that the population of individuals who could provide descriptive insight was low. The ideal unit of analysis would be individuals who work in CSI practice, maximising experience levels and decision-making authority. These individuals were believed to have the greatest level of understanding of the processes needed to implement CSI practice, as well as the highest levels of experience to identify variations of CSI over time.

Listed companies are the only companies required to implement CSI. In addition, the top 40 listed companies account for over 70% of CSI spending. Of this, CSI functions in corporations are relatively small. There is generally only one senior manager in each corporation. This limits the population of the unit of analysis, described above, to about 50 individuals. This made attaining participation difficult and costly.

The small population and cost of attaining participation eliminated random sampling techniques that require a relatively large sample to draw statistical inference. The minimum of 30 observations was beyond the reach of the study for these sampling methods to be used. Therefore, a non-random sampling method was required for the research to draw insights.

It is acknowledged that this form of sampling is prone to sampling bias, which more statistical methods are designed to alleviate. This is the key problem with this form of sampling. Under non-random sampling, participants are selected on researcher judgement rather than random selection (Etikan, 2016). This judgement means that the sample may not be representative of the underlying population, reducing the external validity of the study's findings.

The second issue that needed to be addressed was the niche population. No other unit of analysis was perceived to have the first-hand experience and knowledge to answer the research question adequately. The small population size meant that these individuals had to be directly targeted.

Therefore, a purposive sampling technique was used in this research paper, meaning that participants were sought out based on predetermined criteria based on the research questions being investigated (Etikan, 2016).

The specific purposive sampling technique used is known as expert sampling. This is where individuals are selected based on a specific level of expertise in a specific profession or topic. The underlying assumption for this sampling was that these experts are “knowledgeable agents” who have the ability, articulation and honesty to express their perceived view of the truth and, given their proximity to the phenomenon, these views can be considered to represent the underlying constructs and structures being investigated (Gioia, Corley & Hamilton, 2013).

Although the nature of the study imposed expert sampling, this form of sampling has the benefit of using expert CSI testimony. The participant’s close association with and experience in the CSI function means that they are the individuals most likely to understand and articulate the underlying constructs, improving the probability of attaining internal validity. However, it is acknowledged that experts can also be biased.

To reduce bias, the researched attained 15 participants, in convention with exploratory qualitative research, to assess core commonalities and exclude individual bias. Additionally, care was taken in attaining the sample to represent different companies, sectors, managerial levels and stakeholders in the CSI process, as shown in the sample summery in Section 4.2, with the aim of creating a more diverse and representative sample to improve the probability of external and internal validity.

3.5 DATA COLLECTION

In alignment with the qualitative nature of the study, a qualitative measurement instrument tool was required to collect data. The research question attempts to gain understanding of CSI in South Africa that has limited academic information. Therefore, primary data needed to be collected. The key instruments applied to this case were field surveys and field interviews. Field interviews were considered the most appropriate method for the study.

The aim of data collection was to obtain information that provided an understanding of the overview of CSI, while exploring insights into CSI practice. The exploration of new constructs

and structures required the use of complex, open-ended questions. This is more suitable for face-to-face interviews than field surveys, which are more suited to short or closed-ended questions.

The reason for this is that interviews allow the participants to comfortably articulate their views verbally, compared to writing answers in a survey, which can be burdensome to the participants. Additionally, interviews allow the researcher to confine answers and probe responses at a deeper level, which is not possible using surveys. Thus, the use of interviews reduces survey fatigue and allows for greater flexibility when drawing exploratory insights (Wolf, Joye, Smith, & Fu, 2016).

Another key issue with the data collection in this study was time. The unit of analysis lacked time and thus any collection was required to be time-conscious to ensure participant buy-in. A semi-structured interview process was used to ensure that the interview process was reduced to below an hour with each participant to meet the needs of the sample.

To address this, the interview was structured around the research questions and objectives discussed in Chapter 1. This helped to reduce the time of the interviews, while keeping participants' views centred on the functionality of CSI practice. The interview process was not structured in any other way, allowing the participants flexibility to address the research question based on their experience and knowledge. This process improved the precision of the participants responses in answering the research question, which in turn improved the quality of the information collected.

The weakness of using interviews, compared to surveys, is the possible risk that the interviewer may bias the participants' views during the process (Lowe & Zemlianski, 2010). The risk that the researcher's preconceived notions can lead to leading questions and framing, which can result in measurement error, is always a possibility. These are acknowledged to be the key weaknesses of this data instrument, posing a risk to both the internal and external validity of the findings.

The interview process was designed to reduce bias. The open-ended nature of the interview questions meant that participants could provide responses based on the points they thought to be salient, limiting framing effects (Wolf et al., 2016). Care was taken to not ask leading

questions and the researcher was only involved to clarify ambiguity, to confine responses to the purview of the research question and to ask for elaboration on points originally brought forward by a participant (Wolf et al., 2016). Given the semi-structured confinement to improve precision, participants were given time at the end of the interviews to discuss any key areas of CSI not covered by the over-arching interview themes. This was done to reduce bias and improve precision, by including key themes not included in the structuring of the interview.

This process was seen as the most effective way to gather the necessary data within the resources available to the study. The design of the field interviews aimed to balance the precision that improves the quality of information collected and the flexibility that improves the scope of information collected, allowing for a more holistic and accurate collection of data on CSI practice.

3.6 ANALYTICAL APPROACH

researcher employed the Gioia et al. (2012) qualitative inductive analysis approach to analyse the qualitative data collected from the interviews. The Gioia et al. (2012) inductive approach balances flexibility and structure to provide academic rigour. The approach provides a transparent and logical analysis framework that reduces researcher bias and promotes an analytical flow of justification when deriving constructs from participant views. Consequently, the open-ended data collection design provided the necessary flexibility to draw on the participants' unconstrained views within the purview of the research questions. This provided the researcher with the necessary freedom to draw on new ideas and concepts necessary for gaining understanding of mostly unresearched organisational functions.

An inductive approach raises two key concerns, of which the first pertains to interpretation, seeing that interpretation can differ among researchers. This begs the question whether the findings reported represent the researcher's interpretation of the truth or the truth itself. To counter this requires a formalised systematic process that improves the structure and rigour of the study should be used, as argued by Gioia and Pitre (1990).

However, a second concern is that by constraining the analysis, the capacity of what can be learned from the research is reduced, as new knowledge has to be constrained in old knowledge (Gioia & Corley, 2011). This constrains the capacity to which the researcher can derive new

concepts and ideas, which is the purpose of exploratory research. Thus, there should be a balance between creative flexibility to attain new knowledge and the precision that allows for construct determination, theory building and academic rigour.

The inductive qualitative data analytical approach, as outlined by Gioia et al. (2012), is summarised in Table 3.1.

Table 3.1: Analytical process

	Steps	Process
Data analysis	Step 1	Perform initial data coding, maintaining the integrity of first-order (informant-centric) terms
	Step 2	Develop a comprehensive compendium of first-order terms
	Step 3	Organise first-order codes into second-order (theory-centric) themes
	Step 4	Distil second-order themes into overarching theoretical dimensions (if appropriate)
	Step 5	Assemble terms, themes and dimensions into a “data structure”
Grounded theory data articulation	Step 6	Formulate dynamic relationships among the second-order concepts in data structure
	Step 7	Transform static data structure into dynamic grounded theory model
	Step 8	Conduct additional consultations with the literature to refine articulation of emergent concepts and relationships

The data was collected from the defined sample in accordance with the data-collection processes outlined above. The interviews were recorded, transcribed, organised and safely stored. Once completed, the transcripts were analysed looking for key terminology and categories aligned with the research questions. These categories were then coded, with each statement given an individual code.

These categories were then compared with and contrasted across the sample to identify reoccurring or overlapping categories. The benefit of this approach is that it creates inter-observer reliability that determines consistency by means of commonality across participants. The greater the overlap in participant view, the greater the probability that the underlying constructs represent the truth (Young, Dank, Roper, & Caro, 1979).

Under this analytical approach, only common views were used in accordance with the reliability standard above. The compromise is that singular views that are true may be disregarded, reducing the quality of the findings. Alternatively, a lower threshold of commonality increases the possibility that incorrect views are included in the findings (Young et al, 1979). As this is an exploratory paper, despite less information being available, the higher probability of reliable information by means of commonality was considered the most appropriate method for this study. The inductive approach takes the same stance and is thus appropriate to the purpose of the study.

These reoccurring and overlapping categories were then defined as first-order concepts. First-order concepts represent common themes across the sample from the perspective of the unit of analysis. When determining first-order concepts, the participants’ views were grouped as presented in Table 3.2.

Table 3.2: Level of consensus of first-order concepts

Degree of consensus of first-order concept	Percentage of participants who agrees with the concept	Term used to represent level of consensus
All participants agree	100% of participants	“All”
Most participants agree	At least 75% of participants and less than 100% of participants	“Most”
A majority of participants agree	At least 50% of participants and less than 75% of participants	“Majority”
A minority of participants agree	At least 25% participants and less than 50% of participants	“Minority”
A few participants agree	Less than 25%	“Few”

Consensus above 75% was considered to be a fairly accurate representation of the underlying construct. In the case of a majority view, alternative minority views were presented, if available, to provide balance to the discussion. This was seen as a fairly transparent way to present the level of agreement of the underlying constructs, as a way to better address the quality of the findings.

The defined first-order concepts were then grouped based on their underlying characteristics to form theorised themes encapsulating the aggregate first-order concepts under each theme. These identified themes were defined as second-order concepts.

Once these second-order concepts were derived, they were aggregated to form key dimensions of the underlying structure. These were termed aggregate dimensions. These dimensions represent the key generalisations of the study. The dimensions were then integrated to form a theorised structure of the process, in this case CSI. The process is represented graphically in Figure 3.1.

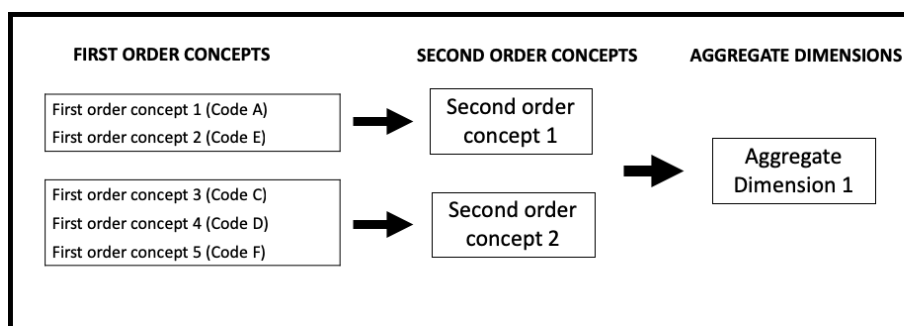


Figure 3.1: Graphical illustration of the analysis

Gioia et al. (2012) argue that the benefit of this approach is that it provides a transparent process of determining theoretical constructs from the participants' embedded views. It provides a rigour and structure to the abstract nature of exploratory research. The researcher can portray the full process of the reasoning used to gain theoretical insight in a manner that is graphically easy to comprehend and allows the researcher to portray all the relevant steps in forming those conclusions.

By highlighting the first-order concepts, representing the participants' common views, the researcher can justify how aggregating certain first-order concepts allows for the derivation of second-order concepts, which can then be used to justify the derivation of aggregate dimensions. This provides the required structure to justify the credibility of the findings in a transparent and reasoned manner. It also provides formalisation to the theory-building process necessary for academic rigour as specified by Gioia and Pitre (1990).

The implicit assumption of qualitative analytics is that the researcher can adequately, accurately and comprehensibly derive and interpret data to attain meaningful and truthful understanding

of the world. This is an unrealistic assumption. However, the benefit of this analytical method is that the findings portray the reasoning used to determine second-order concepts and aggregate dimensions. This allows the researcher to justify validity transparently by means of the written findings (Gioia & Corley, 2011).

Although this structure improves the scope and comprehensiveness of the findings, the analysis requires a high level of interpretation by the researcher in each step of the analysis, including the determination of coded categories and first-order concepts, the derivation of second-order concepts and the determination of aggregate dimensions. This interpretation will vary between researchers, resulting in further validity and reliability concerns (Noble, 2015). The design of this analytical approach assists in alleviating these concerns. The process is discussed below. However, these concerns cannot be completely alleviated without further studies.

The flow of reasoning in this approach allows one to determine whether the transition to the second-order concepts and the aggregate dimensions is reasonable and logical, given the evidence provided by the first-order concepts. One can then assess the logic and determination at each theoretical level. Even invalidation at any theoretical level does not invalidate the entire analytical chain, meaning that one can still gain partial insight from the study on CSI practice despite such invalidation. However, the determination of categories and first-order concepts is not transparent in the analysis, which means that interpretation can pose a risk to the validity and reliability at these points in the analytical process.

An important point to note is that the role of exploratory qualitative research is to posit theories and generalisations about phenomenon, constructs or structures based on reasonable evidence obtained from real world observations. The findings may be externally valid, but the methodological design does not allow the researcher to make that claim. Only the use of more statistically robust methods can determine the generalisability of the findings. As to reliability, the high level of interpretation means that only quantitative studies or repeated studies could prove the reliability of the findings. Given the established analytical approach used, repeated studies are possible, should it be required.

3.7 ETHICAL CONSIDERATIONS

In addition, ensuring rigorous ethical standards in qualitative research is crucial for the protection of the participants involved. Arifin (2018) derived key ethical considerations for when conducting qualitative research. These are confidentiality, initial engagement, the interview session, data analysis, dissemination of findings and data protection.

Based on these ethical considerations, the UCT Ethics Committee granted ethical approval for the research to be conducted. The information required was not considered sensitive enough to warrant further ethical measures. All participants signed a consent form acknowledging their rights during the process as detailed below.

All participants' identities and organisations' names were and will remain confidential. No direct examples, stated by participants, that could be related back to the organisation or individual in question were included in the findings in order to preserve the anonymity of the research process. This data was kept in a protected folder and only accessible to the researcher.

Participants were provided with the opportunity to disengage from the research process at any time. Participants were approached using public means or by means of referrals. Each participant was given a description of the study and the unit of analysis sought by the researcher. Details of the research process, institution and supervisor were also provided. Only participants who indicated interest were further engaged; formal arrangements were then made for their involvement in the study.

The participants approved the environment in which the interviews were conducted. It was very important that they would feel comfortable there. Participants were under no obligation to answer any question set forth in the interview and was able to end the interview at any time should they have chosen to. The researcher enquired throughout the engagement process as to the sensitivity of the information being provided and what could be reported. All participants also had the right to review their interview transcripts before they were used in any of the research analysis.

CHAPTER 4

FINDINGS

4.1 INTRODUCTION

This chapter lays out the findings in accordance with the methodology outlined in Chapter 3. A summary of the sample is provided to highlight the sample's characteristics and level of representation in terms of the overall population. The findings are then broken down into the aggregate dimensions. Each dimension is broken down into first-order and second-order concepts in line with the outlined methodology. The aggregate dimensions identified are the role of implementing CSI, governance and internal resources, implementation and the way forward.

The researcher set out four research questions.

- Why is CSI implemented in South Africa?
- What are the key elements of CSI practice in South Africa?
- What is the structure of CSI practice in South Africa?
- What lessons can this research provide to enhance CSI practice?

Section 4.3 addresses the rationale for implementing CSI, Section 4.4. details the key elements of CSI identified and Section 4.5 formulates these findings to derive a preliminary structure of CSI practice in South Africa

4.2 DESCRIPTION OF SAMPLE

The information on the sample used is summarised in Table 4.1 and discussed below.

Table 4.1: Characteristics of the sample

SAMPLE CHARACTERISTICS	
Sample size	15 people
Cumulative CSI experience of sample	197 years
Average CSI experience of sample	13 years
Senior managers	11
Middle managers	2
NGO managers	2
POPULATION REPRESENTATION CHARACTERISTICS	
Number of companies represented on the JSE top 40	11
Number of sectors represented	6
Expenditure of each company represented	>R50 million
Funds spent on CSI projects	>R500 million
Number of social areas represented	11
Number of projects represented	28

The sample consisted of 15 individuals with a collective experience in CSI of 197 years, an average of 13 years' experience for each participant. The sample consists of 11 senior and two mid-level CSI professionals. These participants represent 11 different top 40 companies on the JSE stock exchange. In addition, the sample also includes two NGO professionals who have experience in working with CSI functions and who act as direct implementers of CSI projects. The sectors that the sample represents are financial services, manufacturing, retail, automobile, agriculture and the civic sector. Each of these corporations or organisations spend at least R50 million per annum on CSI activities and thus provide in excess of R500 million to socio-economic development in South Africa.

The sample represents 28 separate projects focusing on 11 different social issues, namely education, black empowerment, nutrition, environmental conservation, entrepreneurship, healthcare, agricultural assistance, community development and safety. The projects implemented by the participants' organisations also are split between urban and rural geographies.

4.3 THE RATIONALE FOR IMPLEMENTING CSI

The data structure developed from the data analysis is presented in Figure 4.1 and highlights three motivations for CSI practice, namely coercive measures, social considerations and economic benefits, which are respectively discussed more fully in Sections 4.3.1, 4.3.2 and 4.3.3 below. The analytical chain used to identify the aggregate dimensions pertaining to CSI rationale is express in Figure 4.1. The data structure shows the flow from the development of the first-order concepts from the interview responses to the aggregate dimensions on motivations for CSI practice that were identified.

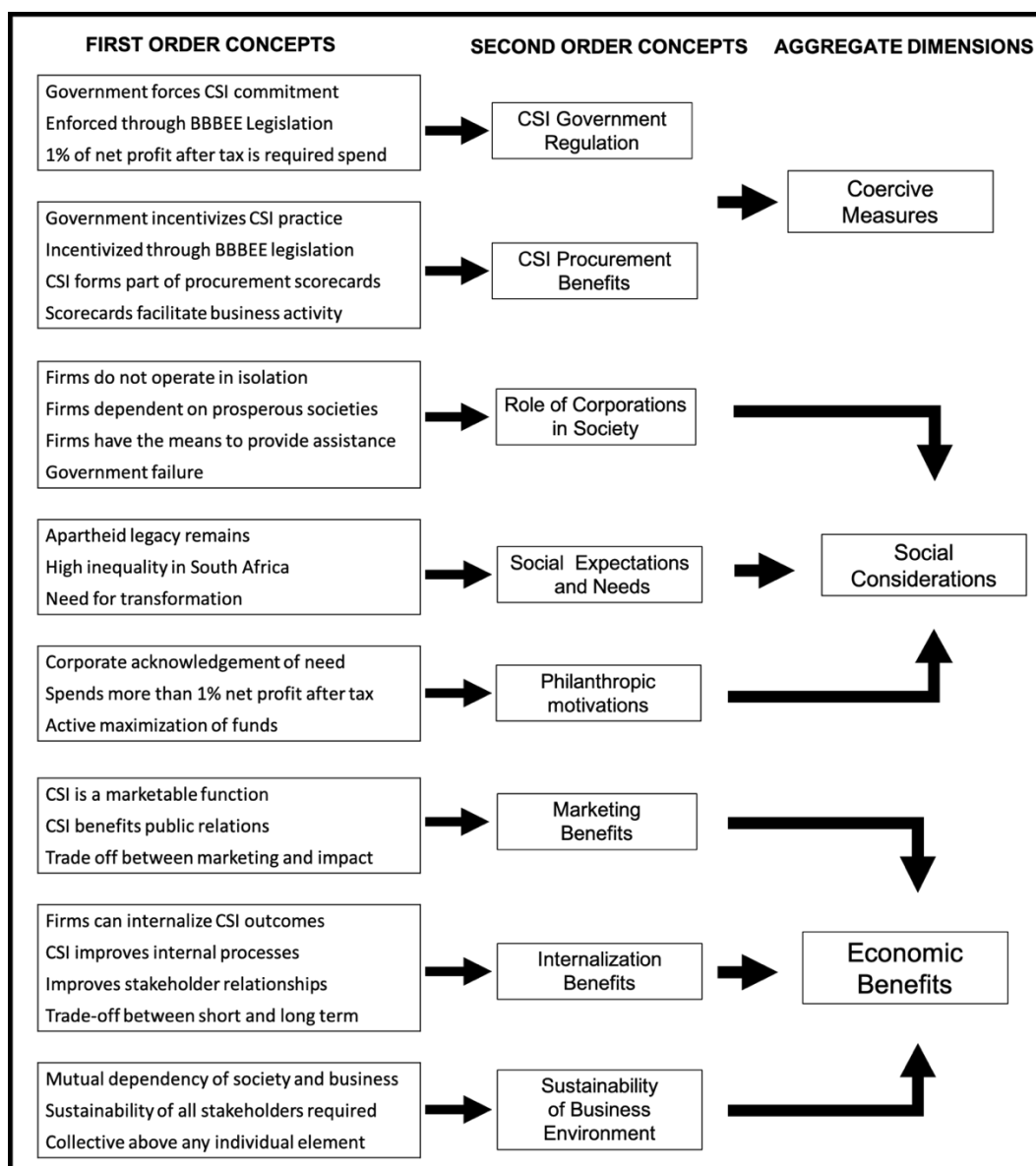


Figure 4.1: Data structure for the rationale for implementing CSI (Source: Developed from research data based on design of Gioia et al. [2013])

4.3.1 Coercive Measures

The first aggregate dimension identified regarding CSI rationale was coercive measures. The derivation of this finding is discussed below.

“CSI is a reality of doing business in South Africa”

All participants stated that there was a regulatory requirement to CSI. They stated that the South African Government passed regulation enforcing that “1% of profit after tax” had to be allocated to CSI activities. This is similar to the argument made by Skinner and Mersham (2008) that governments need to incentivise CSI practice to ensure that corporations make sufficient social investments to alleviate the burden on government. In this case, acknowledging the benefit of additional social investment, the South African Government made CSI mandatory, coercing corporations into providing this socio-economic assistance. This mandated spend is set forth in the Companies Act, Act no. 71 of 2008, validating the statements of the participants.

“A spend of 1% of profit after tax for CSI is simply about compliance with the law.”

The literature suggests that governments have attempted to incentivise CSI activities (Skinner & Mersham, 2008). However, the South African Government appears to be the first to have legislated it into business practice. The sustained economic decline and rising social inequality appears to be driving the need for CSI practice. Literature also indicated that a substantial investment in CSI is being made annually (Brand South Africa, 2016), which means at the very least the coercive measures are being effectively managed.

All participants further stated that their budget allocation was well above the 1% required and that their corporations would engage in CSI practice irrespective of whether the regulation existed or not. All corporations interviewed had CSI budgets between 1.3% and 2% of net profit after tax. This highlights that there are additional motivations beyond purely meeting regulatory requirements.

Additionally, all participants referred to Broad-Based Black Economic Empowerment (BBBEE) legislation aimed at encouraging transformation in the country, given its segregated

past. This is validated in the Broad Based Black Economic Empowerment Act: Codes of Good Practice on Broad Based Black Economic Empowerment, Act no. 1223 of 2018. Part of this legislation involves “*procurement scorecards*” that facilitate business activity primarily by awarding tenders to those corporations that score high on BBBEE codes of good practice. Social investment forms a small part of that scorecard and thus this encourages corporations to invest in CSI.

Most participants, however, noted that that social investment is only a small percentage of the scorecard. They stated that this regulation has become tighter and more difficult to achieve. For this reason, they stated that they are unclear whether the cost outweighs the benefit. A minority view argued that if corporations wanted to improve their BBBEE scorecards, targeting the other factors of the scorecard that hold significantly more weight, would be a better use of the financial resources available.

“CSI is not an effective enough strategy to score BBBEE points.”

However, both views consider the scorecard improvement as a useful secondary benefit of CSI practice. This aligns with the available literature in the sense that incentives affect behaviour, and this is no different for CSI practice (Skinner & Mersham, 2008).

This indicates that the South African Government has actively coerced corporations to invest in CSI and actively put measures in place to encourage CSI involvement. This provides evidence to suggest that there are coercive regulatory measures that serve to motivate corporations to participate in CSI activities.

4.3.2 Social Considerations

The second aggregate dimension identified regarding rationale for corporations investing in CSI was social considerations. The derivation of this finding is discussed below.

All participants indicated that South African corporations do have a responsibility to society. Three key reasons were provided to justify this claim.

The first reason provided highlights that corporations do not operate in a vacuum. Most of the participants argued that corporations rely on social communities as input providers in the form of labour and materials, as well as output takers in the form of goods and services. Thus, corporations have a responsibility to preserve and empower these communities to ensure that they are sustained and continue to play their role in the economic system. The second reason provided relates to the means and resources that corporations have. This puts them in a unique position to provide impactful solutions to social problems in a more scaled manner than individual citizens or civic bodies, to a mutually beneficial end.

This correlates with the views of stakeholder theory and fiduciary capitalism highlighted in literature (Hansen & Schaltegger, 2018). The available literature focuses on the sustainability triangle view that sustainability depends on government, society and business operating cohesively (Kleine & Von Hauff, 2009). However, literature also suggests that CSI holds benefits to other stakeholders such as suppliers (Zhang et al,2014), employees (Arnaud & Wasieleski, 2014) and funders (Shi & Sun, 2015). The true impact of CSI and stakeholder theory will need to be studied in more depth to ascertain the true extent of its impact.

“Business depends on society as much as society depends on business”.

These arguments favour a social view over the self-interested view of the role of corporations in society. The participants indicated that, although profit is the key driver of business (Mulligan, 1986), corporations cannot exist if they ignore the social and environmental interests of multi-faceted stakeholders, despite not explicitly being set up to provide for those interests (Hambrick & Snow, 1977). These arguments are also used to justify enlightened stakeholder views as required under the King Code III (Holiday et al, 2017) and ties into CSI governance detailed in Section 4.5. CSI is one element of corporations doing their part in addressing the issues of these stakeholders and ensuring long-term sustainability of the economic system. It further indicates a growing acceptance of the importance of business ethics in corporate practice discussed in literature, which further highlights greater acknowledgment of stakeholders (Rossouw, 2011).

A key argument is that CSI funding is small relative to the government fiscus. This means that CSI can simply not provide enough scaled impact to address the significant conditions that the country faces, even if used at its greatest efficiency.

However, a majority of participants believed that CSI is a small part of the socio-economic system. They argue that CSI projects, to some degree, address socio-economic issues such as inequality and inefficiency problems facing the country. They argue that although CSI contributions are small relative to government, these interventions do have an impact on beneficiaries by improving standard of living, purchasing power and personal lifelong growth. These factors are necessary for growth and development that impact the going concerns and growth prospects of the corporations.

CSI is “beneficial to the beneficiaries but it cannot be thought of as a vehicle for macroeconomic change”.

A few of the participants provided a reason that relates to government deficiency. Some participants point to Government failure in South Africa as a cause for the growing need for corporations to preserve the socio-economic climate that on which they rely to operate. Literature supports this view by pointing to political failings, corruption and state capture that have weakened the fiscus and reduced service delivery (Le Roux, 2017).

“Business needs to step in and address the failure in governance arising from corruption”.

Other participants simply point to the size of Government and argue that corporations can aid Government in addressing areas of weakness that are bound to arise given the scale of issues Government is trying to tackle. Given the aforementioned political failings, it lends more weight to the growing acceptance of stakeholder theory, where a cohesive approach is necessary to improving the economic climate. CSI can be a catalyst for improved and holistic economic policies going forward.

“Corporations can fill in the gaps that Government does not identify or cannot reach.”

The available literature provides evidence of declining socio-economic metrics that indicate that the government has failed to deliver development and growth to society. This government failure suggests that alternative financing is required. CSI has provided an element of this assistance in addressing this economic decline (Skinner & Mersham, 2008).

A majority of participants believe that the historic legacy of Apartheid remains and that large corporations benefitted from that injustice. This resulted in a concentrated level of wealth in the country in the hands of a select few. Thus, these corporations have a need to address that deficiency going forward. CSI is a way to redistribute some of that wealth to those who were systemically disadvantaged. Literature echoes these sentiments arguing that Apartheid economic constraints still remain (Le Roux, 2017) and will persist (Westaway, 2012). This is further exacerbated by the political and economic conditions that the country faces.

This will take “*many generations to fix*” and requires “*direct intervention from all stakeholders*”

Participants further indicated that social expectations play a role in CSI practice where South African companies that existed before transition are placed under huge social pressure to reform and improve equity. This supports the argument by Attig and Brockman (2017) that the social characteristics of a population substantially impact the level and quality of CSI provided. It further supports the argument that the level of social capital determines the level of CSI practice in a population (Hoi et al, 2018). Participants argued that past injustices have provided the South African society substantial social capital, which may serve as a key reason CSI practice was legislated to be mandatory in large corporations.

However, the dissenting minority view states that the average individual does not know the CSI work of large corporations, unless they are beneficiaries, and if society valued CSI they would have enquired more frequently as to its efficacy and impact.

In summary, there was also a strong admission that corporations acknowledge and empathise with the plight of many people in South Africa and actively want to help address this plight from a moral standpoint. This is evidenced by the budget allocations beyond regulation and by the corporate leadership’s active participation in CSI decision-making.

Others argue that CSI functions actively attempt to derive the greatest social benefit at the lowest financial cost, where the goal is impact and not returns, through “*inherent good*”. The participants who disagreed with this sentiment point to CSI being used as a “*tick-box exercise*” and a necessity of doing business as opposed to a genuine willingness for socio-economic change, although this is not the majority sentiment.

“CSI is about good corporate citizen and impacting the society the best we can with the resources we can spare.”

This indicates that corporations face social pressures regarding wealth disparities and realise they have a responsibility to improve socio-economic disparities given their available resources and interdependency on the socio-economic climate, even with limited resources available for social investment. The growing acceptance of stakeholder theory and wholistic benefits, provide another reason for why CSI practice is applied above regulations, especially in the current political climate.

This provides evidence to suggest that social considerations also provide a motivation for CSI participation.

4.3.3 Economic Benefits

The third aggregate dimension identified regarding CSI rationale was economic benefits. The derivation of this finding is discussed below.

The first benefit most participants identified was marketing. Effective CSI campaigns promote the firm’s brand and can be used to generate good public relations, thereby enhancing profitability. A majority of CSI functions fall under a marketing or human resources function and thus do not operate independently of these functions. Participants noted that being subordinated to these functions is restrictive in terms of the effectiveness of CSI due to reduced autonomy as well as differing outcome targets. The conflict between creating social impact and looking good needs to be coordinated better going forward.

“Every cent used to market us doing good, harms the good we are actually doing.”

However, they all agreed that CSI does improve both external and internal brand reputation. Externally, it shows engagement with society and a willingness to address systemic social issues. Internally it creates a more cohesive corporate culture that improves commitment and employee retention. Literature supports the view that CSI practice can be used for improving brand perception and handling negative marketing cycles (Choi et al, 2018). This supports a more cynical view that CSI practice is aimed at perception and not impact.

Another motivation identified was internalisation, whereby the majority of participants argued that one activity directly benefits the outcome of another. The argument made aligned with the reason why corporations play a role in society. Improving individual societies and socio-economic conditions improves “*access to resources*”, “*cohesion with stakeholders*” and “*sustainability of markets*”. This can be internalised in the form of skills, sales and investment. However, a distinction was made between short-term and long-term gains. Short-term gains, such as university scholarships, can justify internalisation fairly directly in the form of skills. Long-term gains, such as early child development or subsistence agricultural support, are harder to justify in terms of internalisation, given the focus on short-term results.

“It is much harder to sell a long-term vision than a quick fix solution”

Internalisation is a key point illustrated in literature, with evidence that it improves supplier relationships (Zhang et al, 2014), internal cohesion (Arnaud & Wasieleski, 2014) and financing (Attig et al, 2013). This further ties into stakeholder theory, whereby the sustainability and improvement of the collective value chain have financial and relational benefits that can be translated into returns.

Finally, the business case behind CSI practice says that society needs to prosper for business to prosper. A declining socio-economic climate results in a declining business environment. Therefore, it is essential for the private and public sectors to operate efficiently to ensure economic sustainability. Both the public and private sectors have resources to ensure this sustainability and therefore it is in their best interests to contribute. This is especially true if the public system is weak, resulting in a lack of public provision, as is the case in South Africa. Most participants acknowledged the business case behind CSI.

“If one stakeholder fails, we all fail.”

This illustrates the importance of stakeholder theory and CSI’s role in that process. Stakeholder theory is a social model that has resulted in financial beneficiation. In the previous section, it was presented as a social imperative to ensure sustainability. Here it is presented as a financial imperative to ensure the going concern.

Weak links in the value chain pose a risk to every link with related financial implications. In the case of South Africa, the community has declined for various reasons outlined above. The sustainability triangle theory argues that without this link, deficiencies occur with severe economic consequences (Kleine & Von Hauff, 2009). With a public system unable to arrest that decline, it has become an economic necessity for firms to ensure the maintenance of demand, growth and survival. CSI has become that mechanism to at least partially counteract that decline and sustain the economic system at large.

This motivation also aligns with the sustainability triangle theory whereby failure to consider ESG factors holistically in business practice can have severe financial implications in the future (Kleine & Von Hauff, 2009).

Despite majority agreement that CSI has marketing, procurement and internalisation benefits, participants were unsure whether CSI influences financial performance. Almost all the participants argued that these financial benefits are small in relation to corporate activities, limiting their impact on the bottom line. They argued that CSI falls under a very small part of marketing and HR strategies. Furthermore, they argued that the portion of procurement benefit associated with social investment is small in relation to the cost. Finally, they argued that most key social issues that they are socially investing in have long-term internalisation timelines. This makes returns limited and lagging, reducing its effect on the bottom line.

“CSI not having enough of a financial effect to be consider a key financial driver”

This provides evidence to suggest that economic benefits are a motivation for CSI practice even if these benefits are not necessarily large or immediately realised.

In summary, participants acknowledged that CSI holds benefits but that they are not captured in current metrics of financial performance. This perhaps reflects a problem in the way South African companies measure South African performance. Failure to address these issues in the past has led to socio-economic decline to the point where it has a current financial impact. Perhaps the growing role of CSI in South Africa is an indication that corporations are beginning to understand and invest in long-term sustainable strategies as they begin to see the importance of stakeholder theory and CSI as a financial and not only a social intervention.

4.4 THE KEY DIMENSIONS OF CSI PRACTICE

The analysis of the participants’ responses revealed three key dimensions of CSI practice, namely CSI governance, internal resources and operational capacity. The findings highlight a growing sophistication in CSI practice, but also reveals deficiencies in the function that require addressing going forward. These dimensions are detailed below and are justified based on the first-order concepts that the participants provided. The analytical chain used to identify the aggregate dimensions pertaining to the key elements of CSI practice is expressed in Figure 4.2.

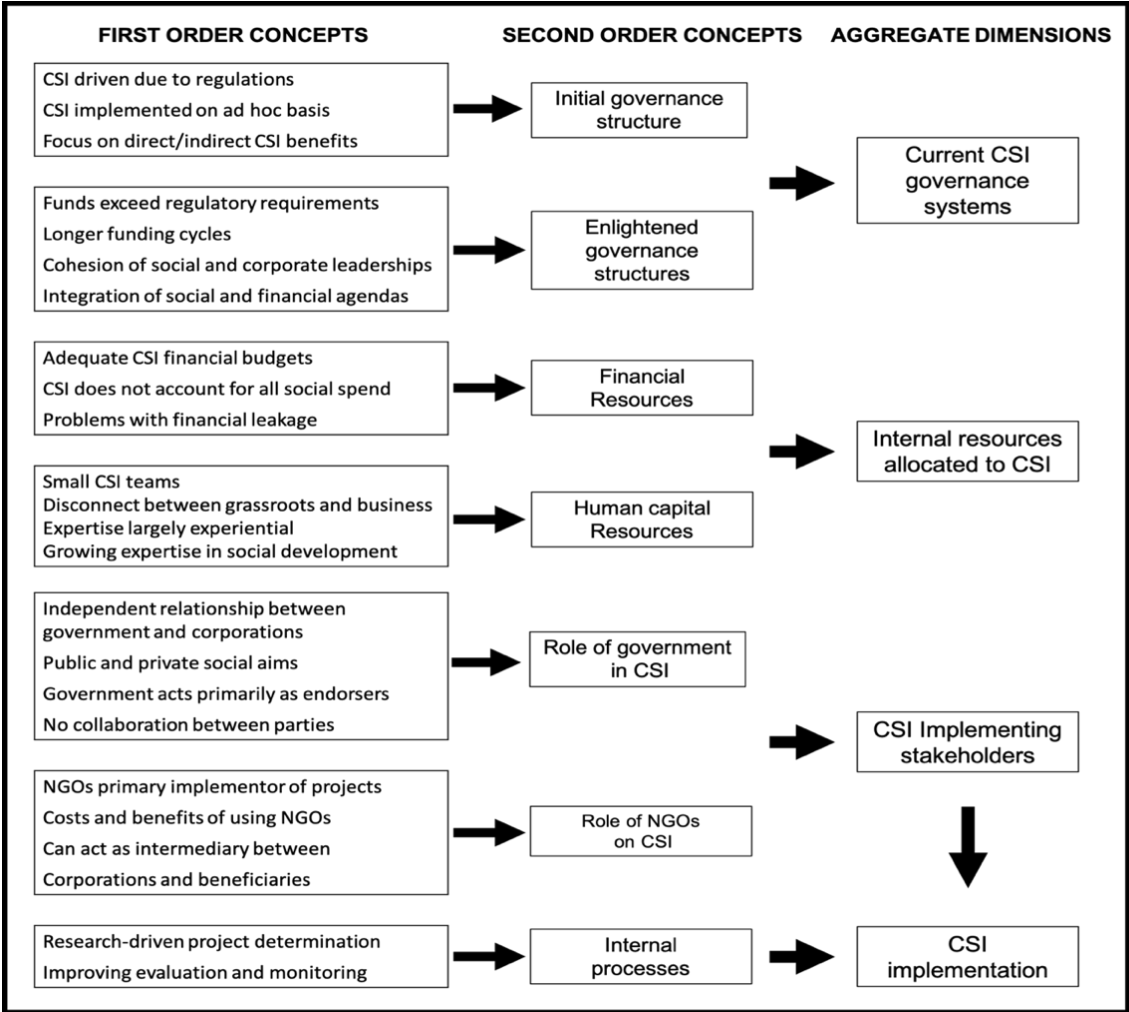


Figure 4.2: Key dimensions of CSI practice (Source: Developed from research data based on design of Gioia et al. [2013])

4.4.1 Governance

The first key CSI dimension identified was governance. The derivation of this finding is discussed in Sections 4.4.1.1 and 4.4.1.2 below.

4.4.1.1 Initial governance structure

The regulations pertaining to CSI coerced corporations to implement CSI at a baseline. Most participants stated that when regulations were implemented initially, the corporate leadership allocated the legislated 1% and CSI functions implemented projects on an “*ad hoc*”, “*charity-driven agenda*” aimed at “*simply meeting the legal demands*”. These projects were determined annually and were not linked to any long-term CSI or corporate strategy. Some participants indicated that some of their corporate leadership took control of the social agenda as a way to maximise the marketing, social, internalisation and procurement benefits associated with CSI. Leadership controlled the agenda and the CSI function was used solely for implementation of predetermined projects.

“There was no autonomy or collaboration between CSI practice and the leadership”

This links with the first motivation related to coercive measures discussed in Section 4.3.1. When regulations are provided, there is no incentive to go beyond adherence, as there is no additional benefit associated with the additional cost. Emphasis was on doing the bare minimum and thus the maximised benefits of the funds were not realised. This supports Harmann and Acutt’s (2003) argument that CSI was charity-driven in its infancy where no corporate resources or strategy were employed beyond funding, in keeping with the legislated requirements.

4.4.1.2 Enlightened governance structures

“CSI has developed since the days of adherence”

All the corporates represented began committing more than the regulatory CSI allocations. Furthermore, a large majority committed to longer funding cycles to ensure that medium-term projects could be implemented without the fear of budget reversals, to maximise their impact.

Participants further emphasised “*the give and take*” referring to growing healthy debate and negotiation between the corporate leadership and the CSI function, to ensure maximum social benefit, while aligning with the corporation’s over-arching strategy and philosophy. This combined the practical CSI implementation with sustainability of funding and corporate buy-in.

“CSI is only as effective as the people and processes that drive it.”

“We began to see the effect our projects could have on people, given our country’s conditions.”

“We began treating it like a business function where return was the improved lives of people. Working together allowed us to optimise social returns.”

All corporations represented in the sample spend beyond regulations and a large majority have projects periods of three to five years. Corporations with these characteristics can point to improvement in the effectiveness and longevity of projects in relation to past systems. Additionally, the majority mutual decision-making about and negotiation between the senior leadership and CSI teams on funding and focus areas are seen as an important factor in ensuring effective projects going forward.

“We have come a long way in improving the intricacy of CSI, but we have a long way to go.”

The leadership of these corporations started accepting the “*business case*” for CSI beyond purely philanthropic means, emphasising the importance of “*blended value propositions*” as a modern-day sustainable business practice. They argued that the social and financial elements must operate as part of the over-arching long-term strategy to ensure a sustainable economic climate going forward.

This supports the social and economic arguments made in Sections 4.3.1 and 4.3.2. As previously stated, stakeholder theory appears to be the key driver for activity beyond regulatory requirements. The above findings suggest that CSI has moved beyond the charity-driven adherence policies expressed by Hamman and Acutt (2003).

CSI leadership, medium-term strategy development and additional funding suggest that corporate leadership is taking CSI projects and outcomes more seriously. It is not unrealistic to suggest that this would not be applied without good reason. The implication is that corporate leaderships are acknowledging the links between social and corporate success, as highlighted in the available literature (Hansen & Schaltegger, 2018), and are acting to address that.

A smaller minority of the participants argued that social investment is about long-term corporate strategy and that it must be incorporated in the larger business case. They argue that the social function and corporate function should be integrated into one system and that CSI on its own is not enough for corporations to effect scaled economic development. However, incorporating social and environmental factors in decision-making, on par with profitability, is an important step for sustainable business. Frameworks have been designed to encourage this line of thinking, but so far these considerations are widely seen as secondary to the financial bottom line.

For this reason, funding will always be limited and unsustainable. This answers the question posed in Section 4.3.2 about long-termism. It seems that CSA has evolved beyond short-termism, but long-term social strategic thinking remains constrained to the medium term. This suggests that CSA has made strides in stakeholder theory adoption but has not entirely translated this into the business case for preserving the socio-economic climate over the long term.

The participants argued that by aligning social agendas and corporate agendas, one can potentially channel more money into social development, while making this funding more sustainable by generating returns from socially beneficial corporate projects. It will also provide business processes that will increase efficiency.

4.4.2 Internal Resources

The second key CSI dimension identified was internal resources. The derivation of this finding is discussed in Sections 4.4.2.1 and 4.4.2.2. below.

4.4.2.1 CSI Funding

Most CSI professionals acknowledge that they receive adequate funding beyond regulation. To support this claim, most of the participants pointed to the various additional social measures that firms take in the course of business that are not incorporated in the CSI budgetary amount. Examples of these are “volunteerism”, “ESG considerations” and “internal human development”, not to mention the goods and services they provide. For this reason, only considering CSI funding can significantly understate the resources that corporations provide to social investment.

This is a useful insight into how CSI is measured, as it suggests that corporations provide more than their quoted CSI spend. There is scope to investigate the impact of this invisible spend to truly gauge corporations’ CSI activities.

“I think people underestimated the social contribution big corporates provide. A lot of our work is never seen.”

A large issue with current CSI projects is the sustainability of funding and not the amount of funding itself. All the participants agreed that these projects are unsustainable without corporate funding. It was explained that these projects are not self-supporting and would be discontinued should the corporation withdraw their financial support. This over-reliance on corporate funding puts the sustainability and long-term impact of the projects being operationalised at risk.

“CSI is dependent on budgets allocated by head office. We are not a priority when times are tough.”

This appears to be a long-term global issue with CSI, as first argued by Fowler (1991). This finding also supports the limited South African CSI literature, with Conradie (1999) arguing that South African corporate donors are notoriously unreliable as there is no guarantee of sustained funding, limiting the impact of donations. However, this has improved since that article was published, with longer-funding cycles being the norm in current CSI practice. These medium-term commitments indicate a growing commitment to sustainable CSI practice.

However, it does not substantially improve outcomes. Socio-economic outcomes require longer cycles than the three- to five-year financial cycles currently provided by corporations. This is supported by literature, where it is argued that single-donor projects have limited longevity due

to that dependency (Rampersad, 2015). Even if projects are cycled, literature suggests that CSI spend is sensitive to the business cycle (Chen et al, 2008), further putting projects at risk of continuity.

Further investigation is required to determine mechanisms to improve the sustainability of CSI initiatives dependent and independent of the initial donor.

In the discussion of CSI funding, the issue of “financial leakage” was mentioned repeatedly by most participants. In this case, financial leakage refers to a reduction in the financial spend reaching the final beneficiary due to costs incurred along the way. The conflict between marketing costs and impact is seen as a primary form of leakage, as every rand invested in marketing the project benefits reduces the amount of funding reaching the actual beneficiaries. Some corporations have addressed this by ring-fencing CSI funding to exclude marketing costs as well as CSI personnel salaries to reduce the level of leakage. Another issue regarding leakage refers to the use of NGOs and third parties, which is discussed in more detail in Section 4.4.3.2.

“For me, every cent lost in delivering the project means someone is losing out.”

Further investigation is required to determine whether financial leakage is a big factor influencing CSI funds and, if so, what mechanisms can be applied to minimise this loss.

4.4.2.2 CSI Personnel

It is acknowledged that beyond meeting the regulatory requirements, CSI is not a large function in the corporations interviewed. For this reason, it is often not a primary concern in terms of staffing. All CSI functions have between five and 20 CSI professionals operating in the corporation, which is a small percentage of the employee base. It is acknowledged that this personnel count is insufficient to effectively execute CSI projects.

Most participants acknowledged that the key issue of CSI practice, in terms of personnel, is the disconnect between the corporate level decision-making and the grass-roots beneficiaries. Due to geographical, social and economic reasons, it is difficult for CSI functions to determine and implement adequate social projects on their own. Many CSI functions addressed this by using NGOs that allow them to leverage their human capital. In addition, the NGO’s personnel were

generally sufficient human capital for CSI to overcome the challenges above and implement their projects effectively. NGOs are discussed in more detail in later sections.

“Our partners are key in providing capacity and access”

A majority of participants believed that CSI functions have sufficiently skilled personnel. Participants acknowledged that this skill was largely “experiential” rather than academically trained. Given the practical nature of the function, this is not a weakness according to a majority of the participants. CSI management contains experiential requirements like engaging with the corporate leadership, managing stakeholders, aligning social and corporate aims, adhering to regulation and facilitating implementation. A key understanding of the explicit and implicit processes of implementing CSI in the corporation’s context is necessary to ensure the desired outcomes for the beneficiaries.

However, the majority of participants acknowledged the growing number of formal socio-economic qualifications. They believe that having access to these skill sets can improve CSI practice and corporate strategy going forward. They acknowledged that CSI lacks this formal socio-economic expertise and incorporating it in the practice can enhance the design, implementation and evaluation of CSI projects.

“There is so much talent. We need to be better at attracting it into CSI”

4.4.3 Operational Capacity

The third key CSI dimension identified was operational capacity. The derivation of this finding is discussed below.

This dimension involves key implementation partners and internal processes that determine the design and execution of CSI projects. The key implementation partners identified were government and NGOs. This section details the multi-stakeholder integration required for CSI implementation as derived from the first-order concepts provided.

Partnering with Government and NGOs provides justification for small CSI teams, as these partners provide accessibility, capacity, manpower and expertise to project implementation,

reducing the burden on CSI teams. Therefore, CSI teams largely play a role in project determination, financing, administration, monitoring and reporting, that do not require the same resources compared to if they were involved in the implementation themselves. Internal processes are used to design, implement and monitor projects, either by the implementing partners or internal application. This process is detailed in Sections 4.4.3.1 to 4.4.3.3 below.

4.4.3.1 Government's role in CSI

Most of the corporations represented acknowledged that they have commercial engagements with the South African Government. This makes intuitive sense, as these corporations provide a variety of services that the government can use to operate more efficiently and cannot provide, for example banking, logistics and retail goods. There appears to be an understanding that these PPP relationships are mutually beneficial to both parties and are *“necessary for growth going into the future”*.

Jackson and Hlahla (1999) highlight that PPPs are not new to South Africa and was seen as a major source of development going forward post-transition in 1994. Houghton (2010) provides evidence showing the positive effects of PPPs on infrastructure development in Durban. It was also shown that PPPs are growing in Africa, especially in the larger economic countries of Nigeria and South Africa. However, the key issues arising in this paper was the lack of stakeholder cohesion, especially between the public and private sectors (Osei-Kyei & Chan , 2016).

Additionally, most participants believed that CSI social focus areas and governmental focus areas align. Participants argued that the same conditions that create economic growth for Government aid in business development and growth. Thus, in theory these two stakeholders can benefit each other by collaborating in social development. These findings suggest that there are both an established relationship between corporations and government and mutual beneficitation to working together. This finding contrasts the literature, where Hamann and Acutt (2003) argue that CSI agendas and government agendas were misaligned, leading to a lack of cohesion. In this case, the agendas appear to be aligned, resulting in cohesion regarding alignment of social aims.

“We want the same things. Our problems are easy to see. There is no debate on what we need to fix in this country.”

However, participants admitted that CSI functions operate independently of Government. The sentiment appears to be that government involvement is necessary but not useful in CSI practice. Most participants indicated that government “approval” and “endorsement” is required for project implementation, especially at the local government level. This appears to indicate that Government do not trust corporations to implement CSI projects independently. A reason for this is portrayed in the literature where CSI is perceived to be a hinderance for Government (Harmann & Acutt, 2003). Thus, it appears that Government wants to maintain regulatory control of CSI initiatives.

For this reason, Government is required in the process, but engagement between the stakeholders is limited beyond regulatory approval, with participants pointing to weaknesses in both parties as reasons for this. A large minority of participants argued that Government is a large institutional machine with many moving parts. This makes it difficult for sustained engagement with personnel in different functions, limiting actionable engagement.

“I have never met the same [government] official twice. How do you form relationships like that?”

Another argument, given by a large minority, is that CSI functions are “small and disjointed”, making it difficult for Government to engage in all projects. This results in reduced scalability of proven social interventions by CSI functions, due to a lack of government resources. This further results in parallel but separate targeting of social areas that is an inefficient use of resources. All participants advocated that this relationship needs to be improved to enhance the effectiveness of CSI practice going forward.

“CSI projects are a drop in the ocean relative to the logistics governments face. Why would we be a priority?”

As previously discussed, stakeholder theory requires the cohesive and continuous engagement of the relative parties. Failure to do this appropriately limits the effect of the structure, reducing

potential outcomes. In this case, this seems to be a constraining limitation of CSI practice and needs to be improved.

Thus, Hamann and Acutt's (2003) argument that cohesion between Government and CSI must improve to enhance CSI practice appears to be correct. The only distinction is that they argue cohesion on ideological grounds, whereas the participants argue for cohesion regarding practical implementation and scalability going forward.

Although Government is primarily an endorser, there is evidence to suggest that improvement in the relationship between these two parties would provide additional operational benefits to CSI practice, leading to greater social outcomes and improved economic, social, political and business environments. This is a key area for improvement according to most participants.

4.4.3.2 NGO's role in society

A majority of participants indicated that they use NGOs as implementation partners for CSI projects. The minority of participants who do not use NGOs as implementers handle CSI projects internally. This is supported in the literature with Conradie (1999) arguing that the use of NGOs is determined by a contextualized need. The use of NGOs is discussed below.

The first argument made by the minority was that certain corporations had capacity internally and the projects were easier to implement from within. Examples provided were scholarships, where little administration was required, and financial inclusion, where banks had sufficient internal mechanisms to make credit available to beneficiaries. These participants argued that their social areas did not have NGOs that were aligned or had sufficient capacity to implement the projects, which forced the corporation to implement from within.

Finally, as discussed in Section 4.2.2.1, participants also argued that high leakage in NGOs means that using them can lead to the beneficiaries losing out.

"If we could use NGOs we would. Sadly, we can do it better and more efficiently in-house."

Those participants, in the majority, who use NGOs, argued that NGOs fill a crucial implementation role in addressing the gap between the corporation and the beneficiaries, in

addition to providing additional human capital, as mentioned above. NGOs provide corporations with crucial localised information regarding social issues and their contextualised solutions. This reduces the burden on small CSI teams and adds value to the CSI function in the form of better decision-making.

“NGOs are our eyes, ears and hands when it comes to beneficiaries.”

Beyond this, the NGOs have close ties to the beneficiary communities, which reduces implementation barriers. This established trust encourages community buy-in and reduces resistance to corporate outsiders.

Importantly, NGOs have established relationships with Government, with 80% of NGOs represented having long-term stable relationships with the jurisdictional government authorities. This reduces regulatory and political barriers to project implementation. Some of these NGOs are even partially funded by Government, resulting in a blended finance facility between the public and private sector, that which promotes sustainability and enhanced social impact.

This aligns with the literature where it is argued that the mutual beneficiation of corporations working with NGOs is enhanced when the relationships between these two parties are well understood and accepted (van Dyk & Fourie, 2016). This shows that NGOs play a key role in CSI and social activities. Despite this, there is limited academic research into how these entities operate and are evaluated. Without such information, no determination can be made to date on how effective NGOs are at achieving their aims.

In addressing the issue of a lack of credible NGOs, a small minority of corporations have established their own. These corporations have invested resources not just in the social projects but also in creating an intermediary NGO to fill this role. This active creation of an NGO implementer provides evidence to support the crucial role that NGOs play in CSI practice, confirmed by the participants who have established these non-profit organisations. One such participant argued that *“A key business strength is efficiency and capacity building, so why can we not transfer this knowledge to the non-profits?”*

From the NGOs' perspective, they are highly dependent on corporate donor funding. Participants who use NGOs agreed that their corporate funding has been the main reason why the NGO they support achieves its social goals, while these NGOs rely on donor funding to remain operational. NGOs generally only have one corporate sponsor, meaning that they depend on a single sponsor for survival. One NGO participant even stated that the NGO had to *"provide evidence of project completion before funding would be administered."*

With the change in governance and funding structures, these NGOs are funded in three- to five-year cycles. However, operational risk remains high. This finding is supported by Fowler (1991), who argues that as long as there is dependence on donations, these risks and constraints will remain. The use or establishment of NGOs appears to be the most effective form of project implementation, given current resources available to CSI functions. However, more needs to be done to improve the quality, sustainability and capacity of NGOs to improve their effectiveness going forward. This is seen as a key opportunity for improving social impact in the future.

This shows that the issues related to funding cycles not correlating with socio-economic cycles are linked to the sustainability and operations of NGOs in South Africa. It will benefit all parties to gain an understanding of how financial sustainability can be improved from the perspective of both donors and NGOs.

4.4.3.3 Internal processes

Most participants stated that they have clearly used statistics, academic research findings, data analysis, third-party experiences and internal experiential learning in the determination of projects. The most successful projects point to optimal use of these resources when implementing CSI practice. Participants acknowledged that using these resources has assist in improving CSI outcomes and in addressing social issues from a more informed standpoint.

Very few corporations do not employ any form of measurement and evaluation criteria with regard to their CSI projects. This despite there being *"no need for impact assessments"* in any of the legislation pertaining to CSI. Measurement and evaluation are usually done internally or by an NGO. The robustness of these measurements ranges from reporting funds allocated to highly complex statistical measurements. Common measurements are funds allocated,

beneficiaries reached and perceived impact. Few firms use or incorporate evaluation in the projects and even fewer adjust their projects to address issues identified during project execution.

Most of the organisations that the participants represented tend to use non-standardised approaches of measurement. The reason provided is the same as is provided in literature, namely that different social projects require different measurement, evaluation and design, and that a one-size-fits-all measure thus would not accurately capture any nuance (Salazar et al., 2012). Weak measurements that can be standardised, such as the amount of capital spent, provide little useful information about the actual success of the projects in terms of social impact.

“Every project is different. General measures don’t capture the nuance of the project.”

As CSI programmes become more sophisticated, better measurements and monitoring are designed with regard to the contextual project, and thus there is no standardised measure for social impact in South Africa. There is, however, evidence to show that measurement is improving compared to what was found in earlier South African studies on CSI measurement.

A large minority view in the majority of participants who use NGOs argued that the NGOs’ measurement and evaluation are more advanced than their internal corporate processes. Participants explained this by arguing that NGOs have more pressure to *“justify successes to donors”* in order to maintain funding. This means that they require more advanced monitoring and evaluation structures to improve project outcomes. The participants further argued that NGOs have a greater understanding of the social focus areas and thus have greater access to beneficiaries, which make it easier to monitor and measure the correct outcomes. A lack of information about NGO activity makes this information unverifiable to date.

“NGOs are specialists in social projects. Outsourcing services, like monitoring, to NGOs is easier as they are on the ground and have experience.”

Another issue concerning evaluation involves CSI personnel evaluation and reward. Only half of the participants were rewarded for the impact of their CSI projects. These participants stated that bonuses are available to incentivise behaviour. Evaluating and incentivising CSI

professionals on and for impact outcomes encourage them to ensure that the project has the best possible outcome for the beneficiaries, thereby improving the effectiveness of the function. Those that do not receive impact incentives could not give reasons for why this is not the case, but argued that it would be a useful tool to improve their commitment to CSI outcomes. Notably, corporations with weak measurement and evaluation had a high correlation to a lack of incentives.

“It’s an important management principle. Incentivising behaviour improves performance.”

This indicates that internal processes are improving over time. Effective use of implementation partners can reduce the burden on corporations, improving efficiency and reducing costs. It further appears that incentivising CSI personnel based on social outcomes is a useful strategy to improve performance and ensure the effective implementation and monitoring of the processes.

However, there is no body or regulation that verifies measurement or evaluation of CSI practice. Furthermore, there is no framework available on how to best design and assess projects. It appears to be counterintuitive to coerce CSI without regulating how it is managed. There is also scope to develop a framework to improve project outcomes by means of effective planning, either privately or publicly, going forward.

4.5 GROUNDED THEORY ARTICULATION OF CSI PRACTICE

Once all key concepts and dimensions were identified, these findings were used to derive a dynamic data structure of CSI practice in accordance with Gioia et al (2013). In line with Gioia et al. (2013), a dynamic inductive model was developed by creating linkages among the second-order concepts to explain the “deep” processes involved in CSI implementation from the static data structures in Figures 4.1 and 4.2. According to the methodology, deriving a data structure from second-order concepts allows one to identify the key linkages between these concepts, resulting in a holistic understanding of the process being analysed. This structure is portrayed in Figure 4.3 and discussed below.

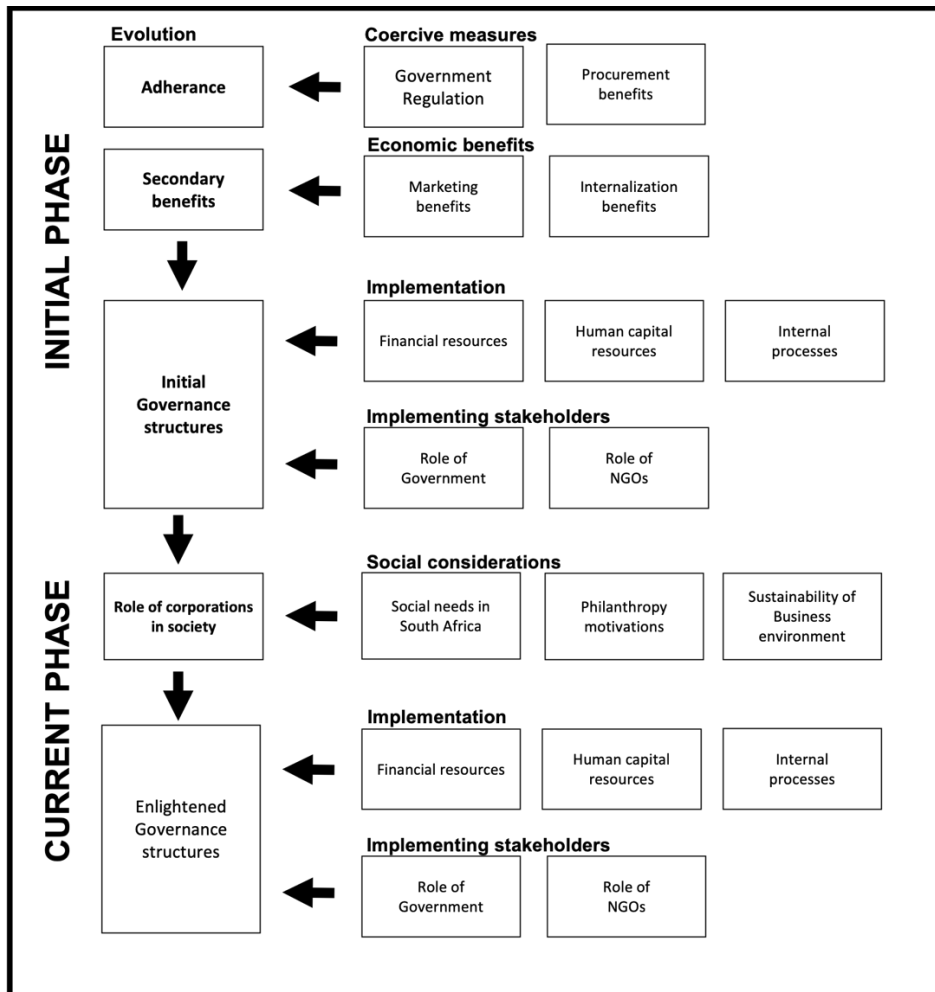


Figure 4.3: Data structure illustrating the evolution of CSI practice in defining the current CSI practices (Source: Developed from research data based on design of Gioia et al. [2013])

The data structure is broken down into two key phases, labelled the initial phase and the current phase. The initial phase still plays a key role in current CSI practice. Thus, it is important to include it in the structure to gain a comprehensive understanding. Furthermore, rationale behind CSI practice also plays a key role in CSI involvement and implementation and has even resulted in shifts in governance structures in the function. This means that their inclusion is also fundamental to understanding current CSI practices.

Figure 4.2 identifies three aggregate dimensions with regard to CSI rationale, discussed in Section 4.3, and are derived from eight second-order concepts. These concepts are included in the structure, in accordance with the methodology employed. Figure 4.3. identifies four aggregate dimensions pertaining to implementation, discussed in Section 4.4, derived from

seven first-order concepts. These concepts are also included in the structure, in accordance with the methodology employed.

How these concepts interlink to define current CSI practice is discussed using time as a variant. It is believed that this is the best articulation of the dynamic changes in CSI practice and how past and present CSI structures define modern practices.

Initially, the government coerced CSI by means of regulation (Section 4.3.1). This means that corporations are forced to invest resources in social initiatives. This regulation is still in place at the time of writing and is a key reason that CSI is implemented in SA. Therefore, regulatory adherence remains a key consideration for current corporate involvement in social projects.

At this time, the thinking concerning additional benefits in CSI practice encompassed procurement benefits (Section 4.3.1), marketing (Section 4.3.3) and internalisation of project outcomes (Section 4.3.3). Leaderships saw these as added benefits of participation. In hindsight, the literature and participants indicated that these benefits were overstated and have a relatively small financial effect under current financial measures.

In the initial phase, regulation was directly linked to initial governance structures (Section 4.4.1.1). Corporations’ primary response was adherence. Both legal adherence and the perceived financial benefits explain why corporate leadership maintained control of CSI activities and why limited focus was placed on the social impact of the projects implemented. This type of governance structure explains how CSI was implemented in this phase. The implementation structure is portrayed in Figure 4.4. below.

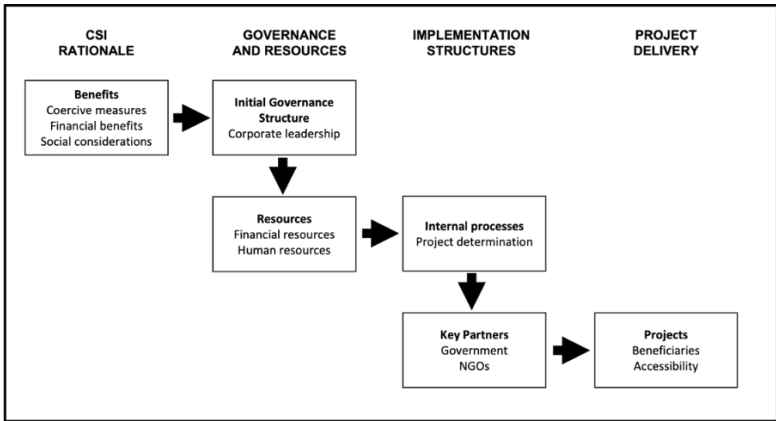


Figure 4.4: CSI implementation under the initial phase (Source: Developed from research data based on design of Gioia et al. [2013])

The structure of CSI practice was modelled on a traditional corporate structure that consists of a governance structure (Section 4.4.1.1), financial resources (Section 4.4.2.1), human capital resources (Section 4.4.2.2), internal processes (Section 4.4.2.3) and key partners (Section 4.4.3). The adherence policy explains why impact was not a key consideration of the structure and why CSI personnel were largely administrative. It further explains why evaluations and feedback channels were weak, as project outcomes were of considerable importance. Implementation partner relationships were one directional and functional rather than cohesive.

However, over time, socio-economic conditions worsened (Section 4.3.2). The lingering legacy of Apartheid remained and worsening economic indicators resulted in societal decline (Section 4.3.2). This further raised concerns about the economic sustainability of business in South Africa (Section 4.3.3). This is directly related to the change in thinking about the role of corporations in society and the interdependence of stakeholders for economic sustainability. This change in thinking coincided with the adoption of enlightened governance structures (Section 4.4.1.2) being implemented. These changes in governance structure explain the adjustments in implementation that define current CSI practice. The implementation structure is portrayed in Figure 4.5. below.

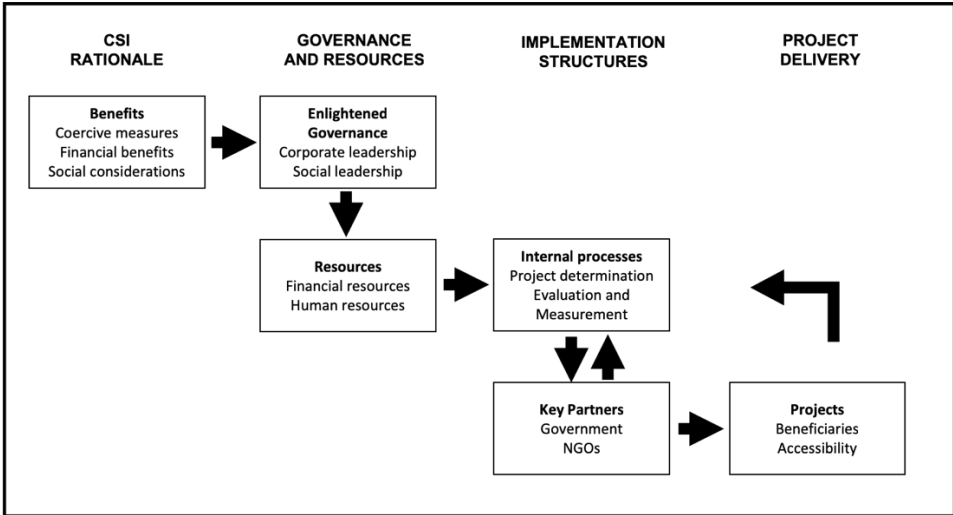


Figure 4.5: CSI implementation under the current phase (Source: Developed from research data based on design of Gioia et al. [2013])

Current CSI implementation has remained similar in structure with a few crucial developments. The growing social considerations have shifted the purpose of CSI from adherence to impact. To achieve this, CSI structures had to become more sophisticated. This required greater

integration between social and corporate leaderships, impact-driven policies (Section 4.4.1.2) and evaluation techniques to improve outcomes (Section 4.4.3.3). Furthermore, the role of CSI expertise in the function is becoming more relevant over time. Additionally, key partner relationships and support have also been improved, with multi-dimensional communication loops established to optimise the process to be as efficient as possible (Section 4.3.).

The important thing to note is that all the corporations represented in this paper lie between adherence and impact policies. For example, all corporations interviewed spend in excess of 1% after tax, but their process quality and project outcomes differ substantially. This shows that CSI functions can continuously improve in the pursuit of impact, while one must accept that lingering adherence policies and perceptions may still act as a barrier to impact optimisation. Recommendations to develop more impactful CSI programmes are discussed in Section 5.3, based on the findings presented, in achieving greater structural efficiency in designing, implementing and evaluating CSI practice.

CHAPTER 5

CONCLUSIONS AND IMPLICATIONS

5.1 INTRODUCTION

In this chapter, the researcher details the summary and conclusions of the study, policy recommendations aimed at improving CSI practice and recommendations for further studies arising from this research paper.

5.2 SUMMARY AND CONCLUSION

The researcher aimed to explore the role of CSI as a form of development financing in South Africa and to understand its characteristics. This was done with the belief that it will begin an academic dialogue about corporations investing in society and how this can provide much needed resources in socio-economic areas. The study has academic and practical applications, considering that the paper can be a foundation for academics and CSI professionals to understand CSI in more depth and actively develop innovations to enhance its effectiveness going forward. The greater the channelling of funds into social areas and the more sophisticated the use of these funds, the greater the chance of having significant and long-lasting sustainability for all socio-economic stakeholders in South Africa.

The researcher used an inductive approach to derive an understanding of CSI practice from 15 experienced CSI professionals across a diverse range of corporations and sectors. The inductive approach used is well established and was applicable to the nature of the research paper. The researcher aimed to provide a transparent and logical analysis framework that reduced researcher bias and promoted an analytical flow when deriving constructs from participants' views.

The researcher sets forth three major motivations for why CSI is implemented in CSI practice, namely coercive measures, social considerations and economic benefits. Emphasis was placed on how the changing corporate governance structures adjusted the weight of each motivation. The key elements of CSI practice were evaluated in the context of these motivations. Adjustments in CSI governance structures, defined by changing attitudes and motivations, have played a major role in the development of CSI practice in South Africa.

The other key elements in the context of the governance structures were funding, personnel, key stakeholders and processes. The general trend is a growing sophistication in CSI practice as stakeholder theory becomes more accepted and necessary in the South African context. Longer funding cycles, CSI leadership engagement and strategic emphasis portray a growing importance of social considerations in corporate decision-making. Key deficiencies remain in project continuity, public-private engagement, evaluation and long-termism that need to be addressed going forward.

These elements can be combined to determine a preliminary CSI structure. The derived structure resembles a traditional corporate function. The key distinction is that NGOs appear to be the primary provider of CSI activities to beneficiaries. This mechanism allows stakeholders to each specialise in their roles in the CSI mechanisms. However, a lack of evaluation and limited sustainability constrain the mechanism's effectiveness.

The final research objective will be addressed in the subsequent sections of this chapter, but it must be acknowledged that there is an evident learning curve and commitment to improving CSI. It is believed that this preliminary assessment identifies the potential of CSI and the role it can play in the context of South Africa if implemented and enhanced effectively.

5.3 IMPLICATIONS OF THE STUDY

CSI and social investment research are not a new global research field, as established by the literature study, but it is not complete. In South Africa, the research is limited and outdated. Thus, this research paper has theoretical, practical and policy implications both in South Africa and abroad.

Theoretically, the paper adds to the body of global knowledge of CSI practice, from a country not well represented. South Africa provides a distinct context, differentiated regulatory policies and unique social needs compared to most countries. This paper provides insight into how CSI interacts in this context, resulting in new perspectives that are crucial for academic study.

In the local context, this paper provides the first opportunity in several years to obtain a holistic understanding of CSI practices in South Africa. It is hoped that the preliminary analysis and

findings will portray the value of CSI practice and its further study in the South African context. Building on these findings can potentially improve these activities and, by extension, the impact on the beneficiaries themselves. Hopefully, this study can open a broader dialogue about how stakeholder theory can benefit the country beyond CSI, to improve economic outcomes.

Practically, the paper provides a collective insight into CSI practice in South Africa. Traditionally, companies design and implement their CSI activities independently and privately, making comparison and peer learning difficult. This paper provides an opportunity for corporations to benchmark themselves against the sample and findings to determine their level of CSI development. Furthermore, it allows corporations to learn from the sample and potentially use those lessons to enhance their own CSI practices. This aligns with the overall purpose of the research, which is to improve social outcomes. Improving CSI outcomes achieves that.

The paper also identifies key deficiencies in government policy in South Africa. Despite regulating CSI spending, Government's engagement with corporations regarding CSI practice had been limited. In addition, there is currently no regulating body or framework to guide the use and evaluation of legislated funds to ensure that they are serving their required purpose. This does not absolve corporations of blame in this failed engagement. It merely highlights that Government and private corporations need to engage more cohesively to address the worsening socio-economic conditions in the country.

5.4 CSI BEST PRACTICE

The findings imply a growing level of sophistication and understanding with regard to CSI practice. However, as highlighted in Section 5.2, there are still challenges to face in improving CSI practice. Section 4.5 identified a shift from adherence policies to impact optimisation.

This section summarises the elements of best practice detailed in the findings as a roadmap for CSI functions to improve their efficiency and impact. These principles are detailed in Figure 5.1 and discussed below.

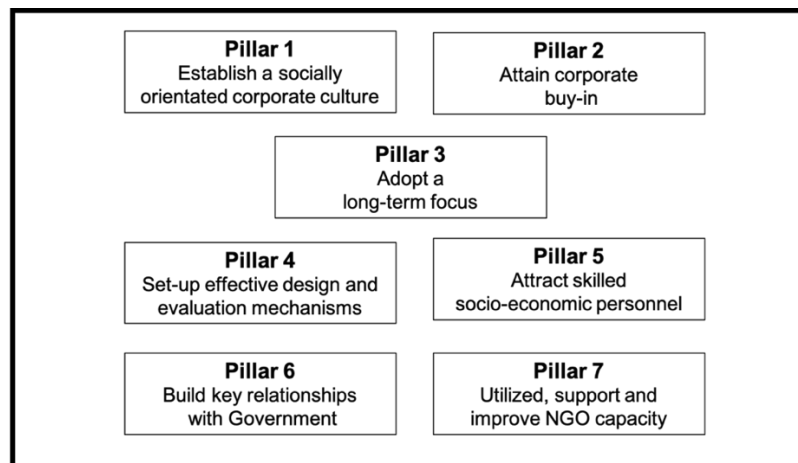


Figure 5.1: CSI best practice framework

The first pillar is creating a socially orientated corporate culture that ties into the CSI business case. This involves going beyond CSI and implementing policies that encourage social engagement, consideration and involvement. This culture assists in consolidating the need for CSI involvement as well as in making employees more aware and aligned with social issues that can be addressed going forward.

The second pillar is to establish corporate buy-in to CSI practice. It is key that the regulatory, economic and philanthropic arguments for CSI are established. The corporation's social and corporate leadership should engage in social focus areas and projects, as this allows the corporation to align corporate and social agendas, use different expertise and ensure cohesion. This will ensure longevity of funding and legitimacy, which is crucial to establishing projects and ensuring their sustainability.

The third pillar is shifting focus to the long term. Long-term funding results in the sustainability of projects by way of self-implementation or the use of NGOS. Long-term cycles increase scale and reduce uncertainty, as implementors can roll out projects fully in a specified time period, knowing that there will be guaranteed funding for the following period, reducing dependency and risk.

The fourth pillar involves attracting personnel with socio-economic expertise who have a strong interest in improving social outcomes to enhance the quality of and commitment to CSI practice. Beyond this, incentivising CSI personnel based on project outcomes and not corporate outcomes would align the interests between project success and personal success, which is

likely to improve commitment and, by extension, project outcomes. Additionally, integrating socially oriented personnel into corporate affairs can enhance the information and decision-making spectrum, thereby adding value.

The fifth pillar is design and evaluation. Corporations should do effective due diligence before investing in a social project, using the many useful resources detailed in this paper. CSI functions should develop medium- to long-term outcomes, goals to achieve these outcomes and measurements to ensure that the desired goals are being achieved. Adjustments should be made to the project if these goals and outcomes are not being achieved. This can be facilitated internally or by NGOs, depending on a corporation's philosophy.

The sixth pillar is government. The corporation has to have a key strategy for developing a relationship between the CSI function and Government. Jurisdictional government departments should always be engaged at the beginning of CSI project determination in particular geographical locations. Engagements should be made to establish a collective understanding of mutual social goals and how partnerships could better deliver on these goals. This can be conducted either internally or by NGOs.

The seventh pillar is enhancing NGOs. The best NGOs displayed throughout the research findings were the NGOs where corporations invested in both their development and their projects. This assisted in bringing in crucial human capital skills, establishing design/evaluation processes and implementation capacity in these organisations, which enhanced their effectiveness and relieved the burden on small corporate CSI functions. The specialising of NGOs and the role of corporations as funders and monitors, streamlines the CSI process and, in some cases, attracted additional donors. In essence, developing NGOs can be as, if not more, effective than simply providing additional funding to projects.

5.5 RECOMMENDATIONS FOR FUTURE STUDIES

The role of quantitative analysis is to test those findings with a degree of statistical precision. The aim of the research was to derive an exploratory understanding of CSI practice in South Africa. Using the above analysis, a theoretical model was derived, drawing on the experience and knowledge of the expert sample discussed. The researcher has attempted this with academic

rigour and it is now up to additional research to prove or disprove the model going forward (Van Maanen, 1979).

The sample of individuals interviewed is deemed to be sufficient to draw conclusions about CSI. The 13-years' average experience shows that these individuals have experiential understanding of both the administrative and operational mechanisms of CSI practice. They have also witnessed the evolution of CSI practice over time and thus could provide insight into the development of CSI practice.

The sample is also representative of 25% of the top 40 companies listed on the JSE, all of whom have contributed substantial amounts to social development in the country. The sample further provides insight from a variety of social areas and geographical locations where these projects are implemented, adding nuance to the results. Thus, the researcher has attempted to collect as valid a sample as possible, given the resources available.

Despite this, the small sample size and the nature of the research will naturally result in concerns about the validity of the findings. To address these concerns, two types of future studies are recommended to test the validity of these findings. The first type of follow-up study is a repeat study in a similar context. The analytical approach is well-documented and replicable, meaning a similar study could be conducted and the findings compared. This comparison could address concerns related to the high level of interpretation in the approach and can also address external validity concerns. The second type of follow-up study is an empirical study. The findings in this paper can be tested using more statistical methods to determine whether the findings are statistically valid. Additionally, any alternative research methodology that tests the validity of the findings is encouraged.

Given the limitations of the research, there is scope for investigation into the CSI model in more depth, as a way to better understand the mechanism. There is further scope for investigations into how to improve the model and enhance CSI, building on the findings in this paper. The findings provide experiential insight that can encourage an academic dialogue and prove useful to practitioners. This aim of this would be to gain an understanding of and improving CSI practice, given the important socio-economic role CSI can play in the South African context.

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APPENDIX A – INTERVIEW TEMPLATE

Interview investigating CSI practice in South Africa

Note to participant

If you have received this survey then you have agreed to participate in this study regarding CSI practice in South Africa. You have been selected due your current experience surrounding this practice and therefore are uniquely qualified to address this topic. Your participation is greatly appreciated. Please read the following information before answering the survey questions below.

Introduction

CSI has the potential to significantly increase development in the South African economic climate. In 2017, CSI amount to over R9 billion. Given the magnitude, it is important to continuously aim to improve the allocation of these funds. Therefore, there is scope to investigate the current CSI model in South Africa with the aim of improving the procurement and allocation of these funds for the benefit of all key stakeholders.

Research question

Therefore, the research questions are as follows:

- Why is CSI implemented in South Africa?
- What are the key elements of CSI practice in South Africa?
- What is the structure of CSI practice in South Africa?
- What lessons can this research provide to enhance CSI practice?

Data collection

This key instrument of data collection is a face-to-face interview. The interview consists of open-ended questions aimed at identifying the key structures of CSI practice in South Africa. The interview is aimed to take approximately 45-60 minutes.

Confidentiality

This study respects the confidentiality of all participants. All personal information as well as the information provided will be properly secured and will remain private both in the research process and in the written findings.

About the Research

This dissertation is a partial requirement for the completion of Master's degree in Development Finance at the Cape Town Graduate School of Business. This study is monitored and supervised by the Graduate School.

Research Student: David Perrie

Supervisor: Dr. Abdul Latif Alhassan

Co-supervised by: Dr. Nicholas Biekpe

Open-ended interview questions

Professional

1. What is your working title and what does it entail?
2. What is the company you represent?
3. How many years of experience do you have in CSI?
4. How much do you spend annually on CSI projects?

Role and motivations for CSI

5. Do Corporations have a responsibility in the development and sustainability of South African society?
6. What are the key costs and benefits of CSI practice on society?
7. What are the key motivations for conducting CSI practice?
8. Is there evidence to prove that the corporations CSI has improved social and economic outcomes in South Africa?
9. Can CSI mechanisms be improved in South Africa to enhance its effectiveness in achieving social and economic outcomes?

Funding

10. Do the firm's CSI activities have sufficient financial budgets available to operate and execute their projects effectively?
11. Are CSI projects sustainable without further corporate involvement in said projects?

Governance, human capital and processes

12. Who sets the CSI agenda in the corporation?
13. What are the key reasons for this governance structure?
14. Does the firm have sufficient human capital resources to operate and execute their CSI projects?
15. Does the firm utilize skilled personnel who have certified education/skills in social and economic development?
16. What research, design and evaluation processes does the corporation use when determining, planning and designing CSI projects?

Stakeholders

17. Does the firm make use of external stakeholders as a form of dispersing and implementing its CSI objectives? (e.g. NGOs, Government, etc.)
18. If so, how are these how are these stakeholders utilized? If not, why are they not utilized?
19. What are the key benefits and costs of external stakeholder utilization?

Societal focus areas of CSI

20. Please indicate which socio-economic areas your corporate focuses its CSI projects on and discuss them briefly?