

**AN UNDERSTANDING OF CORPORATE SOCIAL  
INVESTMENT WITHIN THE CONTEXT OF THE SAPPI  
FOREST PRODUCTS DIVISION IN SOUTH AFRICA**

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Figure 1 Mbali Gumede, 4 November 2005. Ntokaneni Village, bordering Comrie Plantation.  
Donnybrook.

**“All men dream, but not equally. Those that dream by night in the dusty recesses of their minds, wake in the day to find that it was vanity, but the dreamers of the day are dangerous men, for they may act upon their dreams with open eyes, to make it possible” (Lawrence, 1926).**

## Abstract

This research which makes reference to Sappi South Africa is grounded in a South African context, within the forestry industry. The aims of the study are to-

1. Provide a description of corporate social investment (in a Sappi/ South African context) from a theoretical, corporate and legislative perspective which will describe current Sappi CSI activity, its implementation, measurement and the driving force behind them.
2. To articulate a sound understanding without judgement of the current status of corporate social investment based upon the application of (1) above.
3. To position Sappi's CSI approach on a macro government/ corporate power scale which will facilitate rich understanding concerning the long term sustainability of Sappi's CSI approach on the corporation, the forestry industry and the South African economy.
4. To distill a consensual interpretation that is more informed and sophisticated than previous constructions within Sappi Forest Products Division.

The qualitative research is descriptive. A single case-study method has been adopted.

Corporate Social Responsibility (CSR), as a late twentieth-century American movement, is a modern manifestation of an ancient debate amongst philosophers and theologians in many lands and cultures about the morality of commerce itself (Hood, 1996). Friedman (1962) quoted in Anshen (1980:10) argues that business should not and must not deviate from its profit orientation and that it should be concerned only with its economic performance. Friedman supported the notion 'the business of business is business' and adds, as quoted in Smith (1990:60), that to suggest corporations should have a social responsibility is to fail to understand the way in which the market is and must be played and asks, 'if business does have a social responsibility other than making profits for shareholders, how are they to know what it is? Frederick *et al*, (1998:36) argue that Corporate Social Responsibility balances power with responsibility, responds to public needs and expectations and can contribute to correcting societal imbalances implicit in most economies.

Smith (1990:89) suggests that the social control of business is achieved by either virtue of moral obligation, market forces and legislation, or, manipulation, inducement and force. Beesley and Evans (1978) quoted in Smith (1990:54) note 'there is recognition of the growth of corporate power and the consequent perception of relative shift from government to companies as the source of social improvement and the means to promote specific items of social welfare.' On this basis it may therefore be concluded that societal responsibilities should be shared between government and business, and in this way power balanced and a healthy pluralistic state developed.

The vision of Sappi's Corporate Social Investment program is to be instrumental in empowering and creating opportunities for both personnel and their dependent communities in order to address their self-defined needs. Sappi's CSI activity is concentrated on education and community development, environmental preservation and conservation, social welfare and arts and culture. CSI practices are driven by morality, enlightened self-interest and by the South African Government. If the

corporation had only started trading in 2005 would the CSI vision be driven by the same 'gears', or would the moral obligation and enlightened self-interest become less apparent?

It is recommended that the Sappi CSI initiative must embrace CSI and uplift it to the next level by implementing the change management process, outsourcing at least the rural CSI initiative and expanding into a more brand orientated CSI strategy. Sappi also needs to make strategic CSI alliances with other organizations.

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## **List of acronyms**

**ANC** - African National Congress

**BBBEE** - Broad Based Black Economic Empowerment

**CEO** – Chief Executive Officer

**CHAMSA** - Chambers of Commerce and Industry South Africa

**CSI** – Corporate Social Investment

**CSR** – Corporate Social Responsibility

**DBSA** – Development Bank of South Africa

**DTI** – Department of Trade and Industry

**eds** – editors

*et al* – et alii

**FSA** – Forestry South Africa

**FSC** - Forestry Stewardship Council

**GEAR** - Growth, Employment and Redistribution

**GRI** - Global Reporting Initiative

**JSE** - Johannesburg Securities Exchange

**KZN** – KwaZulu Natal

**MD** – Managing Director

**NAFCOC** - National African Federated Chamber of Commerce

**NBI** – National Business Initiative

**NCT** – Natal Corporative Timbers

**NGO** – Non Government Organization

**NPO** – Non Profit Organization

**PBO** - Public Benefit Organization

**PDI** – Previously Disadvantaged Individual

**RDP** - Reconstruction and Development Program

*s.a* – sans annum

**SA** – South Africa

**SAGA** - South African Grantmakers' Association

**Sappi** – is no longer an acronym but is now used as a brand name similar to Nike or Coca-Cola

**SGS** – Society General Surveillance

*s.l* – sans loco

**SMME** – Small, Micro and Medium Enterprises

**SRI index** - Socially Responsibility Investment Index

**UF** – Urban Foundation

**WWF** – World Wide Fund

## **Latin Glossary**

*Ad hoc* – as and when necessary

*Ceteris paribus* – all things being equal (pronounced ‘kayteris paraboos’)

*Et alii* – and other

*Sans annum* – without year

*Sans loco* – without place

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## **Chapter 1**

### **Introduction**

The research focus and context will be discussed. Key research questions will be presented together with the goals of the research. Thereafter a brief description of the remaining chapters will be provided.

#### **1.1 Research focus and context**

As South Africa celebrates its' twelfth year of democracy, it is highly appropriate to reflect on the extent to which corporate South Africa has contributed to addressing the societal imbalances and the economic status of the country through social investment initiatives (Rockey, 2004). With reference to Sappi, this dissertation concerning the role of business in a post-Apartheid society to correct societal imbalances is critically important and timeous.

Throughout South Africa, charitable giving is widely practised by individuals, community organizations and businesses. The corporate sector plays an important role, commonly lending support to worthy causes in cash or product donations and even 'sweat-equity'. Typically, this support varies considerably between countries, between industry sectors, and from one business to another (Rockey, 2004). In South Africa, the business contribution to community development is termed Corporate Social Investment (CSI).

According to Rockey, (2004:1). For some companies, CSI is a relatively new notion that is only now attracting management's attention For others, it is not only a familiar concept but has been actively supported and refined over several decades (Rockey, 2004). Early practitioners typically came from the banking, mining and oil industries (Rockey, 2004). As CSI has become increasingly recognized for its valuable role, there has been a discernible change to companies' approach and in the range of companies embracing social investment (Rockey, 2004).

This dissertation will discuss CSI within the forestry sector of the South African economy and will focus upon Sappi, relevant parts of the forestry industry and aspects of South African government regulation.

The Sappi Group is an international organization operating in South Africa, Europe, Asia, Australia and America (Sappi Group, 2004). The Sappi Group, founded in 1936, is the world's largest producer of coated fine paper and dissolving pulp (Alexander and Oldert, 2004). The Group is now listed on three stock exchanges namely, those of Johannesburg, London and New York (Alexander and Oldert, 2004). The contribution to the group as a percentage of geographical turnover is as follows:

- Europe 43%
- North America 30%
- Southern Africa 14%
- Asia and other 13% (Alexander and Oldert, 2004).

The scope of the dissertation will be restricted to South Africa and almost entirely on the Sappi Forest Products Division as most of the Sappi Group activity in South Africa arises from this division.

## **1.2 The research questions**

This dissertation will present an empirical discussion in the form of a case – study to answer the following research questions:

1. What is the current Sappi CSI implementation policy?
2. What is the current Sappi Forest Products CSI activity?
3. How is Sappi's CSI being measured?
4. In the year 2005, is the driving force behind the Sappi Forest Products CSI initiative mere philanthropy, holistic invested interest or to support a social imperative?

These questions serve to guide the study and to facilitate the fulfilment of the research goals. The primary and secondary research goals have been identified below. The purpose of this study is to achieve these goals using qualitative research methods.

### **1.3 The Goals of the research**

A research project allows for the application of theory to investigate the subject matter. It also enables the researcher to apply research procedures in order to illuminate an issue and contribute to a greater understanding of the subject (Hussey and Hussey, 1997). The purpose of this research is to review existing knowledge and to create an understanding of CSI within the context of the Sappi Forest Products Division. The primary goals for this research project have been identified as follows:

1. To provide a description of corporate social investment (in a Sappi/ South African context) from a theoretical, corporate and legislative perspective which will describe current Sappi CSI activity, its implementation, measurement and the driving force behind them.
2. To articulate a sound understanding without judgement of the current status of corporate social investment based upon the application of (1) above.
3. To position Sappi's CSI approach on a macro government/ corporate power scale which will facilitate rich understanding concerning the long term sustainability of Sappi's CSI approach on the corporation, the forestry industry and the South African economy.
4. To distill a consensual interpretation that is more informed and sophisticated than previous constructions within Sappi Forest Products Division.

The following secondary goals for the research project are:

- To create a document from which future readers can extract relevant descriptions and understandings.
- To contribute to the body of knowledge on social responsibility issues.

This case study has the potential to promote CSI awareness amongst the employees of Sappi Forest Products Division and as such may provide a base from which CSI can be developed. It will further serve as a document which can contribute to further studies on CSI and ultimately to the upliftment of the South African economy.

#### **1.4 Overview of the remaining chapters**

Chapter two will ground the dissertation focus in both past and current literature. In chapter three the research methodology will be discussed in detail. This will provide the reader with the context of the study and the paradigm within which the remainder of the dissertation must be read. In chapter four the empirical findings will be presented. This chapter will begin by focusing on what and how Sappi is investing socially, thereafter the discussion will mature and address why Sappi is socially responsible. The research findings will then be discussed and recommendations made.

## Chapter 2

### Literature review

Consensus within the literature about the role of business in society is limited. Past theories tend to create a more negative, anti-business attitude (Smith, 1990). This is largely due to the fact that, historically, businesses have behaved in an unsustainable manner (Smith, 1990). Academics have documented and described this and suggested a more long-term approach to guide business as to what they should be doing (Smith, 1990).

Contemporary literature acknowledges the efforts made by larger business entities concerning sustainability (Smith, 1990). This literature is more positive in nature (Smith, 1990). The peer reviewed literature or literature that has been accepted by accredited academic institutions will create a cushion of understanding and will ground the research focus in theory to maintain academic rigour.

The literature review will introduce a broader concept of social responsibility and what this means for business. Thereafter the focus of discussion will be sharpened to the point of social investment. The difference between the two phrases is not in principle but rather in practice, Corporate Social Investment tends slightly more towards people living in communities rather than the environment (Smith, 1990). CSI is a dynamic process of transformation involving all aspects of sustainability, some more than others. Rockey (2005:186) defines CSI as any social development activity that is not undertaken for the purpose of generating business income. Rockey explains that this definition implies that CSI is external or extraneous to the organization's daily activities, and is therefore not a part of the company's core operations.

The 'old' versus the 'new' social contact will then be debated. The discussion will then focus on the community as a stakeholder and philanthropy today. Power, responsibility and accountability along the business/government interface will then be described to give the reader a sense of understanding concerning 'the balance of powers' and its effect on social responsibility and essentially community upliftment.

Measuring the impact of CSI initiatives is then addressed. Forms of social control with reference to the South African context will then be discussed. This part of the review will prepare the reader and provide a foundation for understanding when the research findings are described and discussed. Finally a theoretical framework for transformation has been included which will serve to aid both the researcher and reader when recommendations are suggested towards the end of the dissertation.

## **2.1 The paradigm of Corporate Social Responsibility**

Corporate Social Responsibility (CSR), as a late twentieth-century American movement, is a modern manifestation of an ancient debate amongst philosophers and theologians in many lands and cultures about the morality of commerce itself (Hood, 1996). Hood (1996) questioned whether economic competition was the enemy of compassion and community or whether commercial activity was a necessary evil or a desirable good and to whom do merchants and traders owe their loyalty?

Below various social responsibility paradigms have been extracted out of literature and briefly presented. The study of these paradigms is not the focus of this dissertation. They have been included for the purpose of creating a historic perspective and foundation upon which this research can take place.

The Aristotelean approach begins with the idea that we are, first of all, members of organized groups. We have shared histories and established practices governing everything from eating and working to worshipping. We are not, as favorite folklore (historically accepted social norms) would have it, first of all individuals- that is, autonomous, self sustaining, self-defining creatures who, ideally, think entirely for themselves and determine what they are (Hood 1996). The 'self-made human' is a social creature, and 'makes it' by being an essential part of society, however, innovative or eccentric that person may be. To say that we are communal creatures is to say that we have shared interests, that even in the most competitive community our self interests are largely defined in terms of our mutual interests. To think of the corporation as a community, is to insist that it cannot be, no matter how vicious its internal politics, a mere collection of self-interested individuals. To see business as a social activity is to see it as a practice that both thrives on competition and

presupposes a coherent community of mutually concerned as well as self-interested citizens (Hood, 1996).

Hood (1996:193) summarizes that the philosophical myths that have grown almost cancerous in many business circles as the neo-Hobbesian view that business is ‘every man for himself’ and the Darwinian view that ‘it’s a jungle out there.’ These approaches are direct denials of the Aristotelean view.

Major portions of Old Testament books such as Deuteronomy contain rules for business practice (International Bible Society, 1984). In Deuteronomy Chapter 13, verse 28, God instructed Moses, who then spoke to the people of Israel:

“At the end of every three years, bring all the tithes of that years produce and store it in your towns, so that the Levites (who have no allotment or inheritance of their own) and the aliens, fatherless and the widows who live in your towns may come and eat and be satisfied, and so the Lord your God may bless you in all the works of your hands.”

Clearly God did not create earth only for those who are blessed with the ability to understand and do business or exclusively for those nurtured in a ‘golden cradle’. There is a place on earth for everybody and all must be considered.

In a pluralistic social system the interests of all social groups are considered. These groups may include investors, labour, rural communities government and corporate management. Davis *et al* (1980) quotes Gardner’s (1969:40) description of pluralism as a society capable of continuous renewal, characterised first by variety, alternatives, choices and multiple focuses of power and initiative. In both a monistic (society organized into one institution) and an anarchical state (society organized into an infinite number of persons), the interests of all members of society cannot be accommodated (Davis *et al*, 1980).

### 2.1.2 The meaning of social responsibility in business

The meaning of social responsibility in business is ambiguous (Smith, 1990). In considering it, one is presented with a similar conundrum to that experienced by Alice in the story of Alice in Wonderland, when Humpty Dumpty replied: ‘When I use a word, it means just what I choose it to mean – neither more nor less’ (Smith, 1990). Votaw (1973) quoted in Smith (1990:53) illustrated the ambiguity surrounding social responsibility, as follows:

“It means something, but not always the same thing, to everybody. To some it conveys the idea of legal responsibility; to others it means social responsible behaviour in an ethical sense; to still others the meaning transmitted is that of ‘responsible for’, in a casual mode; many simply equate it with ‘charitable contributions’; some take it to mean socially ‘conscious’ or ‘aware’; many of those who embrace it most fervently see it as a mere synonym for ‘legitimacy’, in the context of ‘belonging’ or being proper or valid; a few see it as a sort of fiduciary duty imposing higher standards of behaviour on business at large.”

Beesley and Evans (1978:18) describe social responsibility as an evolutionary concept of social well-being. Beesley and Evans have explained this concept further by quoting Shocker and Sethi (1973):

“Any social institution, and business is no exception, operates in society via a social contract, expressed or implied, whereby its survival and growth are based on: (I) the delivery of some socially desirable ends to society in general, and (II) the distribution of economic, social or political benefits to groups from which it derives its power. In a dynamic society, neither the sources of institutional power, nor the needs of its services are permanent. Therefore, an institution must continually meet the twin needs of legitimizing and relevance by demonstrating that society requires its services and that the groups benefiting from its rewards have society’s approval.”

This approach emphasizes a corporate concern with its own legitimacy in its areas and methods of operation, and willingness to be held accountable by society where that legitimacy is in dispute. The central issue is ‘how’ and in what form the societal contract emerges and how it changes. Beesley and Evans (1978:18) further describe

social responsibility as an implicit bargain by quoting Chamberlain, (1973):

“The implicit bargain obviously cannot encompass all the relationships of a complex society...It addresses itself only to a broad definition of how far different and even incongruent values will be allowed to co-exist alongside values of style and national purpose, behavioral patterns and accepted uses of coercive authority which are recognized as primary.”

Shocker's and Sethi's concept emphasizes the establishment of a congruence of company actions with the needs and values of society. Chamberlain is more concerned with the degree of discretion afforded to the various groups. As the relative power of different groups changes, so will the terms of the implicit bargain (Beesley and Evans, 1978).

### 2.1.3 The old versus the new contract

The idea of corporate social responsibility in the United States began in the latter part of the twentieth century. Corporations at that time were being criticized for being too big, powerful and antisocial. Efforts were made to curb corporate power through antitrust laws and other regulations. A few far sighted business executives advised the business community to use its power and influence for broad social purposes, rather than for making only the highest possible profits (Frederick *et al*, 1988). From this point, businessmen began to give more consideration to the notion of a 'contract' between society and business.

Based on the literature presented in part 2.1 it can be suggested that the old contract relates more strongly to the neo- Hobbesian and Darwinian views. It is further strongly associated with society in either a monistic or anarchical state. The dominant reason behind this relationship is that whilst these approaches are more concerned with the 'self' rather than others, this leads to the creation of monarchs and economic imbalances. Those that are not part of these dynasties are not catered for, and live without structure or guidance, by their own rules. This eventually leads to a position of anarchy as described in section 2.1.

It can be suggested further that the new contract relates to the Aristotelean and biblical views and is associated with a more pluralistic societal state as mentioned at the end of part 2.1. This approach is not inward looking or self centered and because of this, the needs of all people are considered.

The business-society interface is a dynamic one. Social will changes over time as needs and interests of society become known or are satisfied. The nature of business also changes as the parameters and rules of an operation are revised. The criteria that govern the popular assessment of the trade-off between costs and benefits of business may be modified. In this fluid situation, there is, at any given time, a prevailing set of expectations for business behaviour that can be viewed usefully as a 'contract' between society and business (Anshen, 1980).

Anshen (1980:8) describes this new contract as a shift in the perceived relationship between economic and social benefits or between the 'quantity of life' and the 'quality of life'. In terms of the past contract, society accepted that business should operate freely in response to the motivation of profit maximization, subject only to marginal constraints. Economic growth, feeding a rising standard of living, was widely accepted as the source of all progress – social as well as economic. In the new contract, business began to acknowledge the dynamic interface between business and society which did not feature on the accounting records. Friedman (1962) quoted in Anshen (1980:10) argues that business should not and must not deviate from its profit orientation and that it should be concerned only with its economic performance. Friedman supported the notion 'the business of business is business'. Friedman (1962) adds, as quoted in Smith (1990:60), that to suggest corporations should have a social responsibility is to fail to understand the way in which the market is and must be played and asks, 'if business does have a social responsibility other than making profits for shareholders, how are they to know what it is? Can self-selected private individuals decide what the social interest is?'

Heilbroner (1976) in Smith (1990:61) admires Friedman's 1962 position, without being reconciled to it and asks, 'Should not stockholders be allowed to do with their money as they see fit? But, more importantly: Should corporations be allowed to play God'? Heilbroner continues to identify three major failings of Friedman's 1962

position; there is little evidence of pure profit maximization in the real world. For example, General Motors lowered its car prices to drive Chrysler and Ford out of business. Secondly, Friedman's 1962 position assumes that the rules of the game can be established without cheating, in spite of the influence of business. Heilbroner cannot accept the assumption that government makes the rules independently of business or that business will willingly acquiesce to such rules if it has no part in making them. On this point Heilbroner concludes that Friedman's proposals are not anything more than a license for business to define its 'social responsibility' behind the respectable screen of the government. Thirdly, based upon Friedman's model of modern capitalism, Heilbroner asks "can Friedman realistically claim that the rights of shareholders should predominate when the stockholder is no longer a significant source of venture capital but 'merely a passive holder of certificates of varying degrees of risk and potential return', with little knowledge of the real performance of the corporation? Surely the other stakeholders deserve some return (Heilbroner, 1976)?"

Clearly Friedman's approach would be more attractive for the 'haves' than for the 'have-nots'. This could be a reason for all the criticism. Unless a decision is taken democratically, the age old notion of 'He who pays - say's' will continue to predominate society. Rationally there can only be a more holistic approach once a company is earning above average returns on the investment. Perhaps the Friedman approach has merit for smaller business entities, start-up businesses and businesses experiencing marginal returns on invested capital. McGuire (1974) quoted in Certo (1980:515) summarizes the arguments for and against social responsibility. This summary is presented in Table 1.

<b>Major arguments for social responsibility</b>
It is in the best interest of the business to promote and improve the communities around the business.
Social action can be profitable.
It is the ethical thing to do.
It increases the viability of the business system as per the mentioned 'iron law of responsibility.'
It is necessary to minimize government regulation.
Sociocultural norms require it.
Laws cannot be passed to satisfy every need. Therefore business must contribute to societal responsibilities.
Promotes long-run profits – the stock market will view the company less risky and open to public attack.
Promote long-term economic upliftment.
<b>Major arguments against social responsibility</b>
Business plus government equals monolith, a more pluralistic position would be preferred.
Social actions are difficult to measure.
It violates pure profit maximization, if such a notion exists!
The cost of social responsibility is too high and would increase prices too much.
Business may lack social skills to solve societal problems.
It would dilute more retrospective purposes of business.
It would weaken national balance of payments because the price of food would need to go up to pay for social programs.
Business already has too much power. Such involvement would make business too powerful.

Table 1. Major arguments for and against Corporate Social Responsibility (McGuire, 1974).

Frederick, Davis and James (1988:40) support McGuire (1974) by arguing that Corporate Social Responsibility lowers economic efficiency, creates internal confusion and unjustified public expectations, gives too much power to business and places responsibility on the corporation rather than on the individual. Frederick *et al*, (1988:36) argue that there are positive spin-offs too, as Corporate Social Responsibility balances power with responsibility, responds to public needs and expectations and can contribute to correcting societal imbalances implicit in most economies.

#### 2.1.4 The community as a stakeholder

An integrated relationship exists between business and the community (Smith, 1990). Businesses have an interest in the surrounding community to satisfy an inherent need to survive and prosper. These needs are, amongst others, to source labour and management, and to service various links in the supply chain (Smith, 1990). The community relies on business for employment, living income and to render services (Smith, 1990). These services may include health care, education, security, developing sporting skills and housing (Rockey, 2003). This is a synergistic relationship and the interested parties cannot operate without the other (Laszlo, 2003).

Another critical stakeholder is the environment. All businesses have a stake in the environment, especially those businesses concerned with primary processing where the environment is the dominant stakeholder, for example the businesses in the mining, forestry and agriculture sectors (Rockey, 2003).

Sustainability requires an investment approach to community partnerships. It requires a deeper interest in and understanding of the issues and concerns of the community as a whole- that is a systems approach. Furthermore, a creative method of partnering is needed that addresses community concerns and their root causes (Laszlo, 2003). Rockey (2003:8) develops the concept further and adds that today addressing community concerns is no longer only about philanthropy and empathy. Corporations now embark on such programmes because they make business sense. Hood (1996:20) echoes this notion by suggesting that philanthropy is no longer considered a sacrosanct element of a 'social contract', in which corporations have a duty to serve stakeholders through giving and other activities. Philanthropy is undertaken now largely because of direct, tangible returns a firm and its shareholders can expect to receive in the long-term.

Together with top management buy-in, strategic philanthropy is implemented differently by different firms. For some corporations, it involves the introduction of formal cost-benefit analyses which set performance goals for social or charitable activities and carefully track progress towards these goals. For other corporations, strategic philanthropy simply involves ongoing consideration of how philanthropy ties

into the firm's need to attract good employees, enthusiastic investors and loyal customers (Hood, 1996).

## **2.2 Power, responsibility and accountability**

Sethi (1971), quoted in Smith (1990:49), observes that the twentieth-century corporation has replaced the church as the dominant social institution in the lives of citizens of the industrialized nations. Most people agree that business has much social power. It influences many areas of society from consumer safety to community progress. This kind of influence equates to social power. Beesley and Evans (1978:25) note that the approach to questions concerning power, responsibility and accountability depend on three factors: a prejudice in favour of a pluralistic society in which there is a strong preference for creating conditions for individual exchange; a recognition that questions of power in society and its distribution ultimately are at issue and an acceptance of limitations of present methods of securing social improvement.

In the same way that physical assets are an economic resource, power is a social resource. It may be used for good or evil, and for social gain or social loss. It is subject to abuse and corruption, but also is an agent for responsible social improvement (Davis *et al*, 1980). Sethi (1971) suggests that digressions by business merely illustrate the extent of corporate power and why this would be undesirable if accountability and responsibility were limited. Bell (1974), quoted in Smith (1990:49), supports Sethi (1971) in a more negative manner and observes that corporate power is the predominant power in society and the problem is how to limit it. Heilbroner (1976), quoted in Smith (1990:49), echoes this notion by observing that if people are asked what is bad about corporations, they will refer to the degradation of the environment and surrounding communities or the abuse of the consumer.

Power is essentially the manifestation of the ability to influence the activities of others without being commensurately influenced oneself. Heilbroner (1976), in Smith (1990:49), argues that it is this power, exercised without accountability which has been the underlying problem of business in the past. Beesley and Evans (1978:25) comment further that corporate responsibility has always been thought of in the

context of power or the relative freedom from constraints. It derives partly from a structural position defined by other people's expectations and partly from command over resources.

If business social responsibilities could be avoided or reduced to insignificance, business decisions over the short term would certainly be easier. Social responsibilities are difficult to determine and apply. But what are the consequences of responsibility avoidance? If responsibility arises from power, then the two conditions tend to stay in balance over the long run and the avoidance of social responsibility leads to a gradual erosion of social power. This is the iron Law of Responsibility. In the long run, those who do not use power in a manner that society considers responsible will tend to lose it (Davis *et al*, 1980).

Laszlo (2003:17) explains that the meaning of corporate responsibility has matured. The new ethics is market-driven or 'if you want your business to succeed, here is a new set of performance standards that must be met', for example being value-based. It originates from changing social expectations as expressed by consumers, employees, investors, business partners, local communities, and environmental activists. The new ethic is referred to as 'planetary' because it expands the code of business conduct to the world. It encompasses a company's responsibility for society and the environment, and shifts the moral basis of action from abstract questions of right and wrong to a consideration of whether a company is operating sustainably.

### 2.2.1 Balancing corporate power and accountability

In an attempt to monitor and channel corporate power, and to encourage responsible business, corporations are held accountable (by government, industry and society) for, and are required to report on, all corporate social contributions (both negative and positive). In America and South Africa this may take the form of an initial social audit conducted internally and by external committees. An annual sustainability report is then drafted and forwarded to all interested groups. Davis *et al* (1980:132) define a social audit as 'a systematic study and evaluation of an organization's social performance, as distinguished from its economic performance'. In the definition 'social performance' refers to any organizational activities that affect public welfare.

Of course this definition is generic and each company would customize the definition to fit its operating context. This could mean that aspects of the environment could be included. Certo (1980:527) suggests four more prominent social responsibility measurements:

- **The economic function area:** or the extent to which the company is producing products or services that people need. This measurement gives some indication of the economic contribution the organization is making towards a society. For example, maize may be considered more valuable in Ethiopia than calamari.
- **The quality of life area:** whether or not the organization is degrading or improving the general quality of life. Practices such as employing people from local communities that surround the corporation's area of operation and making positive contributions to environmental sustainability would communicate a more positive impact.
- **The social investment area:** or the degree to which the organization is investing both money and manpower to uplift communities. This could include contributions towards education and health.
- **The problem solving area:** or the extent to which the company deals with the social problem rather than the symptom. It is more important to teach people how to catch fish than to give them fish.

The manner in which these measurements are made will depend on the nature of the business, annual targets versus actual results, company policy and legislative requirements. Once the audit is complete the results should be communicated to all stakeholders. Based on the South African King Report on Corporate Governance, 2002, Wixley and Everingham (2002:145) suggest that every company should report at least annually on the nature and extent of its social, transformation, ethical, safety, health and environmental management policies and practices. Below three reporting initiatives have been introduced. The purpose here is to make the reader aware of these initiatives only. Details concerning the background, rationale and content will not be presented which will ensure that the dissertation focus is adhered to. The board usually determines what is relevant for disclosure. In this regard and in the context of

this discussion, companies should ensure that policies defining social investment prioritization and spending and the extent of initiatives to support black economic empowerment, particularly procurement policies and investment strategies, must be clearly defined and explained (Wixley and Everingham, 2002). Rockey (2003:8) identifies many other local and international initiatives that are collectively pulling the corporations in the same direction. For example, The Global Reporting Initiative (GRI) is an international framework for providing comprehensive information to stakeholders on its economic, social and environmental performance (Global Reporting Initiative, 2002). The Socially Responsibility Investment Index (SRI index) on the Johannesburg Securities Exchange (JSE) was launched in the first quarter of 2004. The SRI index criteria identify the indicators which companies must meet in order to show that they have integrated sustainability practices across the 'triple bottom line' (Johannesburg Securities Exchange, 2003). The Global Compact is a United Nations charter which further encourages corporations world wide to embrace a set of values in the areas of human rights, labour standards and the environment (Rockey, 2003).

Initiatives like the SRI index and the GRI provide a vehicle for investors who wish to target companies that adhere to certain social and environmental standards. The index includes questions specifically related to CSI spending and therefore has a direct influence on the scope of CSI budgets. Other influencing factors include fluctuating profit margins, and industry charters. These have elevated the status of CSI for many companies, particularly those in industrial sectors where CSI features are a part of their transformation scorecards (Rockey, 2004).

### 2.2.2 Measuring and evaluating the CSI impact

Rockey (2004:202) suggests 'if you can't measure progress, you can't be sure you are making any impact.' Measuring the progress of CSI initiatives is difficult due to the long-term nature, number of stakeholders and non-tangible type of return on investment. For example a businessman may choose to invest one hundred rand to make a ten percent return over a five year period. A corporate social investment is not as defined - the return is often difficult to measure because of its long-term nature. This has brought about the need for to identify and set appropriate intermediate goals

en route to the broad objective of social and economic upliftment. These might usefully take the form of performance indicators, which might be quantitative (so many people passed matric) or more qualitative (people are more HIV aids conscious) (Rockey, 2004).

The more important question is whether the relevant CSI program can be self-regulated and community driven once the surrogate Corporate has withdrawn funding and staff. If the answer is 'no' then all indices and other social responsibility measures have limited value for two reasons. Firstly, from a business perspective the corporation could be investing in a bank and earning a generic 6% rather than throwing money down a dark hole. And secondly the community has not been uplifted and the corporation has not participated as a socially responsible member of society. Therefore the primary objectives of corporate social responsibility would not have been met and valuable resources (time and money) exhausted. This situation then becomes an opportunity cost that over time will cause regression rather than progress. If CSI programs cannot become self regulatory over a reasonable period, funding will return to its philanthropic and 'sunk cost' state. Companies need to determine where to draw the line and whether or not to accept this position and continue with support indefinitely until confident that the project is sustainable. This situation is being avoided now by 'teaching communities to fish rather than buying fishing rods.' Education is therefore recognised by most corporations as critical to holistic invested interest.

### **2.3 Forms of social control**

Smith (1990:89) suggests that the social control of business is achieved by either virtue of moral obligation, market forces and legislation, or, manipulation, inducement and force. The discussion that follows will describe moral and market forms of social control. Thereafter the issue of legislative control will be addressed in more detail.

The social control of business by virtue of moral obligation represents society exerting power through conditioning, which results in self-regulation (Smith, 1990). The term moral obligation implies that managers will be guided by social norms and

self regulation involves more than conscious management decision-making on the bases of defined criteria (Smith, 1990). But self-regulation also involves the unconscious guidance of what society expects and is what society expects within defined management criteria necessarily the 'right' practice (Smith, 1990)? Managers are conditioned in such a way that constrains their behaviour. So the extent to which they have discretion on social issues depends on circumstance and social conditioning limitations on all choice behaviour (Smith, 1990).

The market as a mechanism for the social control of business is society exerting power by inducement. Simply stated, it is a method by which society rewards corporate socially responsibility with profits and irresponsibility with losses (Smith, 1990).

South African forestry corporations such as MTO (Mountain To Ocean) Forestry, Mondi and Sappi have 'volunteered' to conform to the criteria defined by Forestry Stewardship Council (FSC). The goal of FSC is to manage the world's forests by establishing a worldwide standard of recognizing and respecting principles of forest stewardship (Society General Surveillance, 2003).

FSC is a standard that regulates forestry corporate behaviour by compensatory power. Expressed simply, if the FSC council is not satisfied that the respective plantation meets the requirements of a 'well managed forest', the corporate responsible will soon be without a market. On the fly page of the book *Movers and Shakers*, there is an insert that states, 'all papers used by Bloomsbury Publishing are natural, recyclable products made from wood grown in sustainable, well managed forests (Bennis *et al*, 2003)'. On product labelling, especially on timber products, read, 'The wood in this product comes from well managed forests, independently certified in accordance with the rules of the Forest Stewardship Council (Society General Surveillance, 2003)'. To date these forms of social control has been extremely effective and corporations world wide have invested to meet the social requirements such as those developed by the FSC.

Legislation dealing with business represents society exerting power by force (Smith, 1990). This is also known as condign power or 'business has to act within the law or

face sanctions'. Recognition of this within society ensures legitimacy for the corporation, provided it is generally believed that the legislature and judiciary are effective, that is, that there are suitable laws which are adequately enforced (Smith, 1990).

How much government regulation should be accepted? Davis *et al* (1980:231) suggest that the constitution of the United States of America has assumed a position of minimal intervention with market forces whilst stressing individual rights and equality of individuals. This approach combined with social philosophies of social pragmatism, social Darwinism and work ethic suggest that the best government is the least government (Davis *et al*, 1980). Other countries have adopted the more socialistic approach of Karl Marx. This latter approach may be necessary when a situation of gross societal imbalance exists where wealth and ultimately power needs to be re-distributed?

Silk and Vogel (1976), quoted in Smith (1990:53), suggest 'the doctrine of corporate social responsibility emerged in America, precisely because it is seen by many businessmen as a way of reducing the role of government in their affairs'. Beesley and Evans (1978), quoted in Smith (1990:54), note 'there is recognition of the growth of corporate power and the consequent perception of relative shift from government to companies as the source of social improvement and the means to promote specific items of social welfare.' On this basis it may therefore be concluded that societal responsibilities should be shared between government and business, and in this way power balanced and a healthy pluralistic state developed.

### 2.3.1 Social responsibility in the South African context

This section will briefly describe a historical perspective or a time line of CSI and related political events in South Africa which will serve to create a holistic perspective and further ground the dissertation focus in a South African context. Political movements that contributed to social change in an 'Apartheid' South Africa and in the new South Africa will be mentioned followed by an introduction to the Broad Based Black Economic Empowerment (BBBEE) Act and BBBEE strategy. Thereafter this section will introduce the notion of industry and company charters and balanced scorecards.

CSI has had a relatively short but dynamic history (Rockey, 2004). In 1937, following the 'Carnegie Poor White Investigation', government established a Department of Social Welfare. Before this time social initiatives were practiced by churches and private organizations. CSI was almost pure philanthropy at this stage (Rockey, 2004). In 1961 George Goyder introduced social auditing to promote corporate responsibility and proposed that companies should regularly and systematically publish accounts of their social impacts and financial performance (Rockey, 2004). In 1972 Meyer Feldberg, then professor of business at the University of Cape Town, exhorted business leaders to learn from their United States counterparts' model of uplifting communities in which they operated (Rockey, 2004). In 1976 South Africa saw the establishment of the Urban Foundation (UF). This was the first large-scale corporate commitment to the plight of the disadvantaged. The UF focused particularly on housing tenure security and education. By 1995 the UF had mobilized R1.8 million for housing, trained 20 000 teachers and built 2000 classrooms (Rockey, 2004). In 1977 the Sullivan principles were introduced as a voluntary code of conduct for the United States and their business partners operating world wide. The Sullivan Code provided values to promote social, economic and political justice using the term 'Corporate Social Responsibility' (Rockey, 2004). By 1983 the Development Bank of South Africa (DBSA) was established to provide finance for large development projects. Over the last decade the bank has concentrated itself to changing from an 'Agency of Apartheid' to a strategically focused finance institution (Rockey, 2004).

Rockey (2004:6) comments that the CSI style at this stage (pre-democracy) was characterized by:

- Donated cash to Non Government Organizations (NGOs).
- Supported by many projects.
- Maintained a very low marketing profile.
- Focused on selecting projects to support, based on funding applications received.
- Housed CSI separately from business operations.

Whilst CSI was evolving, so too was the political climate which was building momentum to create a new democratic regime. This was driven by the fact that during the apartheid era, the well-being and choices of a significant portion of the population were severely compromised (United Nations Development Programme of South Africa, 2003). Movements like NAFCO (National African Federated Chamber of Commerce) since 1964 and the RDP (Reconstruction and Development Program) since 1990 were committed to building a new South Africa (Murinik *et al*, 2004).

Post 1994, under a democratic government, facilitated further CSI development. The South African Grantmakers' Association (SAGA) was launched as voluntary non-profit association of organizations and individuals involved with development funding. The association now has a membership of over 105 organizations (Rockey, 2004). The National Business Initiative (NBI) arose as a Non-Profit Organization (NPO) that uses business leadership and resources to meet the challenges of a country in transition. Through the mandate of 150 member companies, it focuses on competitiveness as a key to sustained growth (Rockey, 2004). In 2001 the Code of Best Practice for South African NPOs was developed by the Directorate of NPOs of the Department of Social Development to guide institutions to make an investment rather than a mere donation (Rockey, 2004). Later in 2002 the World Summit on Sustainable Development in Johannesburg brought together 21,340 delegates representing 191 governments, NGOs, the private sector, civil society and academia. At this summit South Africa tabled six priority issues: water access; health and

HIV/Aids; energy; food security; education and technology. The style of CSI has matured. Rockey (2004:19) suggests that CSI today-

- provides an integrated framework for internal management and reporting’;
- uses formula-based CSI budget determination, often based on meeting charter based requirements.
- Aligns CSI with the business, and provides defined business benefit;
- Puts concrete developmental objectives in place that are ‘output-based’,
- Focuses on high-profile industry-specific projects that are corporate driven’
- Offers transparency of achievements, lessons, definitions and amounts of money spent, and
- Uses partnerships over longer periods, with terms dictated by companies.

The GEAR (Growth, Employment and Redistribution) strategy of 1996 and CHAMSA (Chambers of Commerce and Industry South Africa) established in 2003, under the leadership of Nelson Mandela and other African leaders, created the momentum that has supported the post 1994 ANC (African National Congress) efforts to balance societal inequities and redistribute wealth (Murinik, Smith and Dube, 2004). This strategy that has been adopted to correct social injustices and redistribute wealth has a long-term nature. Professor Lovemore Mbigi (Lecture, 2005) at Rhodes University argued that these programs were ineffective because the process would take too long and threaten the leading party’s position. The Professor suggested that no political party can lead without a strong economic base and that if the ANC is to be a strong leading party the whole process of economic re-distribution needed to be speeded up in every necessary way. Less radical views would support a more gradual transformation, that is - more sustainable and without regression. Despite the opposition from extremists, South Africa is slowly making progress largely through the efforts of ‘big – business’ under the influence of a new democratic government.

In January 2004, in a South African context, the Broad Based Black Economic Empowerment (BBBEE) Act was approved by Parliament (Department of Water Affairs and Forestry, 2005). The act was passed to ensure, ultimately, the

redistribution of power but also to address inequalities resulting from the systematic exclusion of the majority of South Africans from meaningful participation in the economy. BEE is a tool that is being used to broaden the country's economic base, and accelerate growth, job creation and poverty eradication (Department of Trade and Industry, 2004).

As part of the government's BEE strategy, Codes of Good Practice have been developed. The purposes of the codes (which are based on the BBBEE Act) are to assist and advise both the public and private sectors in their implementation of the objectives of the BBBEE Act. The Codes of Good Practice provide principles and guidelines that facilitate and accelerate the implementation of BBBEE in a meaningful and sustainable manner (Department of Trade and Industry, 2004). Government recognizes that its BEE strategy will not be effective if it does not have the support of the private sector. In this regard sector industries are being encouraged to generate BEE charters in order to establish partnerships between government and the private sector. Targets that are contained within the industry charter must be in line with the recommended targets as set out on the Codes of Good Practice. Thereafter a company specific charter based upon the BBBEE Act, the Codes of Good Practice and the Industry Charter can be established (Department of Trade and Industry, 2004).

The legislation makes provision for a BEE scorecard in terms of which companies' transformational efforts are measured, based on a range of relevant activities. For the purposes of this dissertation, the focus is on, and the relevant area to be discussed is, the residual element that is CSI initiatives which constitute 10% of the whole score. Targets set out on the company specific scorecard are aligned with the relevant industry charter targets which are in turn aligned with the targets set by the Codes of Good practice. This residual element of the scorecard allows industry to invest in and measure social initiatives like health, education, poverty alleviation and community development. The total contribution towards these initiatives is calculated relative to the net profit earned by the enterprise. Initiatives that do not promote the empowerment of black people are specifically excluded (Department of Trade and Industry, 2004).

## 2.4 The change management process

**The following description serves to provide the context upon which recommendations will be made in the discussion chapter:**

It is important for the literature review to include a practical aspect of corporate social responsibility as to how a company should embrace corporate social responsibility and how to understand the community.

The problem that many corporations are facing today is not one of acceptance but one of how to transform the business paradigm from profit – maximization to holistic invested interest whilst still creating profits. The purpose of change management process (figure 2) is to provide a structure upon which organizational paradigms can be shifted. Laszlo (2003:163) has described the change management process in five phases.

What is unique about the application process, which begins at top management level, is that it centers on the role of stakeholders – both economic (market driven) and those outside the traditional value chain such as communities and the environment.

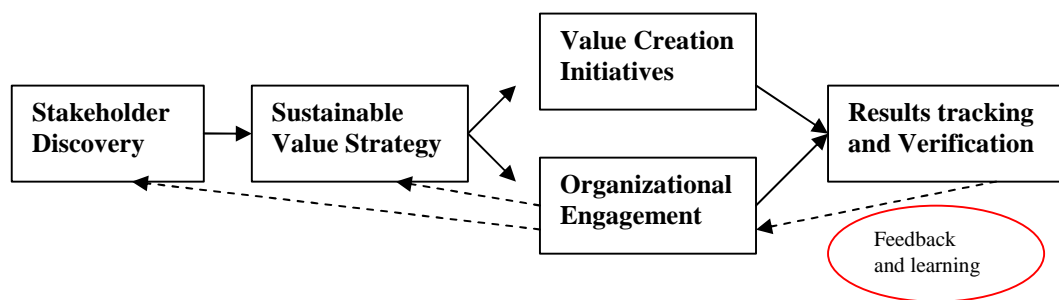


Figure 2. The change management process (Laszlo, 2003).

Figure 2 is explained in Table 2. Each phase is broken down into relevant disciplines and key outcomes per phase. It is important to remember that the implementation of the change management process is not purely in the context of the business and relevant stakeholders. The rules of the process are primarily subject to government

forces which are in turn subject to socio-economic forces and influences from more powerful political and corporate figures.

<b>Phase</b>	<b>Relavant Discipline</b>	<b>Outcomes</b>
<b>Stakeholder Discovery</b>	Discipline 1: Understand current value position. Discipline 2: Anticipate future expectations. Discipline 3: Set sustainable value goals.	Managers see the larger system in which the business operates, including economic, social and environmental dimensions. They have defined key emerging issues and stakeholder impacts relevant to the business.
<b>Sustainable Value Strategy</b>	Discipline 2: Anticipate future expectations. Discipline 3: Set sustainable value goals. Discipline 4: Design value-creation initiatives. Discipline 5: Develop the business case.	The leadership has a shared vision of value creation for shareholders and stakeholders. An agreed-upon roadmap for how to achieve the vision includes a strategic fact base, objectives, prioritized capacity gaps, value creation initiatives, open issues to address and stakeholder metrics.
<b>Value-creation Initiatives</b>	Discipline 4: Design value-creation initiatives. Discipline 5: Develop the business case. Discipline 6: Capture the value.	Projects and activities are undertaken to create measurable shareholder and stakeholder value in line with the strategy. These projects and activities address supply chain, operations and customer delivery. They involve key management processes such as how investments are approved and how managers are compensated.
<b>Organizational Engagement</b>	Discipline 5: Develop the business case. Discipline 6: Capture the value. Discipline 7: Validate results and capture learning Discipline 8: Build sustainable value capacity	The business unit heads and line managers understand and buy into the strategy and are clear about what they need to do to achieve it. Value-creation initiatives are implemented with cross-functional teams, co-led by line management.
<b>Results Tracking and Verification</b>	Discipline 7: Validate results and capture learning Discipline 8: Build sustainable value capacity (a metadiscipline for all phases)	Quantified financial, social, and environmental benefits are tracked with internal and external verification. Benchmarking is conducted relative to peers and relative to emerging sustainability standards and codification programs. The results are effectively communicated to all stakeholders and captured in a data base for statistical purposes.

Table 2. A description of the key transformation processes by phase, relavant discipline and outcome (Laszlo, 2003).

The phasing (refer to table 2) gives the process sequence, the discipline describes the action that must be taken and the outcome is the result of the action taken. The integrated process is dynamic and complex because-

- of the disciplines are not specific to one phase. For example the discipline to build a business case is relevant to three phases.
- cultural barriers may be experienced. For example a German company may have difficulty relating to a Zulu community.
- time barriers may be experienced. Companies may move and management may change before real long lasting relationships have been established.

Carmichael and Drummond (1989:52) suggest that no one company can be expected to meet all the needs of the community, nor even most of them. The objective of a transformation process model is not to 'play government' but rather to enable the business to define those specific needs which can be met through mutual benefit. To do this, it must be determined what the core competency of the business is and who its stakeholders are. If all stakeholders gain, all stakeholders must take part. Stakeholders who exist either as shareholders, staff, customers, suppliers and the community surrounding the core and non-core company purpose, must be identified and must play an active role.

#### 2.4.1 Understanding the community

Building a relationship with communities who surround corporate operations is difficult. This is usually because business people have a different approach to the way business is conducted compared to how members of the local community would do it. Mbigi (Lecture, 2005) suggests that in South African there are two conflicting socio-business models. The European model is competitive and profit driven. The African model is social and politically driven. In many cases in South Africa corporates involved with CSI, who have adopted a more European approach are trying to uplift people who relate better to a spirit of 'Ubuntu' which translated means 'I am because of what you are'. The communities tend to be more group orientated and inter-dependent where as corporates tend to be independent and target driven.

Furthermore, many of the community dwellers are rural people living day to day with a very basic education, minimal health care facilities, without electricity at subsistence levels. Carmichael and Drummond (1989:62) suggest that as a result it is not surprising that -

- community groups ask for computers when they don't have electricity;
- community groups may direct funding requests to the wrong person;
- the form of the request, even if directed to the right person, may appear hopelessly unbusinesslike and be lacking fundamental information;
- a project that is enthusiastically proposed by a community group or by the respective company may lose momentum and diminish within three months; and
- members of the community will not necessarily think or act like business people.

It is important to note that these issues are not solved in a year or even three years. Sustainable economic upliftment is a long-term process which demands empathy, passion for change and an understanding of the community 'way'. Carmichael and Drummond (1989:64) echo this notion and prescribe that in order to facilitate understanding company staff and communities of people should spend time together in order to become sensitized to each others' differences. Bridges are built by people, not by money. The more personal contact there is between corporate members and community members, the stronger the relationship will be and over time, the more effective the CSI initiative will be.

## **2.5 Conclusion**

The literature review introduced the broad concept of social responsibility and what this means for business. Thereafter the idea of the 'old' versus the 'new' social contact was explored. The discussion then focused on the community as a stakeholder and upon CSI today. Key social elements of power, responsibility and accountability along the business-government interface were then described to give the reader a sense of understanding concerning 'the balance of powers' and their

effect on social responsibility and community upliftment. Measuring the impact of CSI initiatives was then addressed. With reference to the South African context forms of social change, social upliftment and social control were discussed. This part of the review has provided a foundation for understanding the research findings. Finally a theoretical framework for transformation was detailed.

## **Chapter 3**

### **Research methodology**

This chapter will present the philosophical assumptions underpinning this research. The assumptions to be discussed will include the research type and the research paradigm. The chapter will then discuss the strengths and weaknesses associated with the selected research method. The scope of the case study site will be described and explained. Thereafter the empirical techniques that were adopted to collect data as well as the methodological constraints are explored in detail. Internal and scientific rigour will be described and finally ethical considerations will be addressed.

#### **3.1 Type of research**

The purpose of the research is to describe phenomena as they exist. The descriptive research will be used to identify and obtain information about the particular subject.

The research process will be a qualitative approach which is subjective in nature and involves an examination and reflection of perceptions in order to gain an understanding of social and human activities (Hussey and Hussey, 1997). Van Maanen (1983:9) defines qualitative techniques as ‘an array of interpretive techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world’.

The research will be more basic rather than applied in nature. Hussey and Hussey, (1997: 13) summarize applied research as research designed to apply its findings to solving a specific, existing problem. Sekaran, (1992: 7) describes the purpose of conducting basic research as one to generate more knowledge and an understanding of phenomena that occur and to build theories based upon research results. This research is primarily being conducted to improve the understanding of CSI issues in the context in which the Sappi Forest Products Division operates. It is thus classified as basic research.

### **3.2 The research paradigm**

Guba and Lincoln (1985:105) describe a paradigm as a set of basic beliefs. They further present a paradigm as being a representation of a world view that defines, for its holder, the nature of the 'world', the individual's place in it, and the range of possible relationships to that world and its parts that an individual may have.

The research to be conducted will take place in a phenomenological paradigm. According to Cohen and Manion (1997: 151) 'Phenomenology is a theoretical point of view that advocates the study of direct experience taken at face value; and one which sees behaviour as determined by the phenomena of experience rather than by external, objective and physically described reality'. Remenyi (1996: 27) states, 'unlike a positivist paradigm, the phenomenologist does not consider the world to be objective but instead focuses on the primacy of subjective consciousness.' The phenomenological paradigm allows each situation to be treated individually and its meaning as a function of the circumstance and the individuals involved.

Remenyi (1996: 27) comments that, as a phenomenologist, the researcher will not be independent of the research but will be an intrinsic part of it. The phenomenologist also believes that the world can be modelled, not necessarily in a mathematical sense, but also as a verbal or diagrammatic or descriptive model (Remenyi, 1996). This research will look beyond the detail of the situation to understand the essence and will construct a meaning in terms of the situation being studied.

Remenyi (1996: 27) suggests 'the phenomenologist understands that the world is not composed of a single objective reality, but rather is composed of a series of multiple realities, all of which should be understood and taken into account.' This phenomenological research will not lead to law-like generalizations in the same sense as that of a positivist but, using socially constructed views, will create an understanding of the research focus which will add to a body of knowledge and facilitate learning and development.

Guba and Lincoln (1985:105) construct a tangible understanding of a paradigm as being a function of ontological, epistemological and methodological assumptions.

The discussions that follows, will serve to unpack the preferred research paradigm further in terms of ontology, epistemology and methodology in order to create a more transparent understanding of the chosen paradigm.

### 3.2.1 Ontology

The ontological stance adopted to support the research paradigm is one of reality portrayed as a social construction rather than a more objective stance which would describe ontology as a concrete structure (van der Mescht, 2002). The ontology can also be described in a more Aristotelean fashion. These questions may ask:

- What is the form and nature of reality?
- Therefore (or assuming that this question can be answered because there is a reality - however natured or in whatever form), what is there that can be known about it (Guba and Lincoln, 1994)?

Guba and Lincoln (1985:108) describe the ontological question in the following way: “if a ‘real’ world is assumed, then what can be known about it is “how things really are” and “how things really work”. The ontological issue is multi-faceted in nature for a number of reasons:

1. Reality is socially constructed – human beings make their own reality in a co-constitutional relationship with other human beings and their environments. This could be a biased reality.
2. Reality may not be known - even by the infield experts or theorists.
3. The real perspective may not available to the researcher.
4. Reality can be contested depending on peoples’ experiences.
5. Reality is unstable, that is, continuously changing and can thus never be absolutely known.
6. Reality is value bound – humans bring deeply felt and espoused values to interactions. These shape the way we interact and make sense of what is happening (van der Mescht, 2002).

The strength of this research is significantly dependent on the ontological rigour. It is the responsibility of the researcher to describe and interpret how this reality has come to be constructed and to consider the implication of these constructs (van der Mescht, 2002).

### 3.2.2 Epistemology

The epistemology or the nature of the relationship between the knower and what can be known, is intersubjective and a combination of informed decisions (Denzin and Lincoln, 1994). Epistemology is also described as the relationship between the enquirer and the topic (Dr C. Smith, Lecture, 2004).

As an interpretist using socially constructed views, can the absolute truth become known? This challenge has been accepted from an emic (insider) perspective (Guba and Lincoln, 1985).

The writer of this dissertation, has one year of experience in the Sappi Forests business unit, does not sit as an executive board member of the division and is not involved in CSI. Despite this position, the Sappi divisional perspective could be biased by its circumstances and responsibilities. Thus a reasonable 'distance' has been maintained between the writer and the topic.

### 3.2.3 Research procedure

To support the ontology and epistemology of the phenomenological paradigm, a more descriptive and interpretive research procedure must be used. The single-case study method was chosen as the procedure which would best facilitate inter - subjective description and discussion and further act as a catalyst to create a sound understanding of the research focus. Dr C. Smith, (Lecture, 2004) commented that, 'a case study is appealing, as it creates an integrated whole that encompasses complexity'. The case study purpose will be:

- Intrinsic – the case will be investigated for its own sake.

- Instrumental - there is no intrinsic interest in the case itself. (Dr C. Smith, Lecture, 2004)

This will be a descriptive case study rather than an explanatory case study as the theory will guide the collection of data (Yin, 2003). The basic design of the case study will include-

- developing the theory;
- designing a data collection protocol;
- preparing, collecting and analyzing the data; and finally
- drawing single-case conclusions (Yin, 2003).

Earl and Mouton (2001:277) suggest four criteria for judging the quality of qualitative research. These are:

- **Confirmability:** or, ‘the degree to which the findings are the product of the focus of the inquiry and not of the biases of the researcher’ (Earl and Mouton, 2001). The researcher did not observe an actual CSI program being implemented and then write a subjective summary of what was thought to be the “Sappi CSI story”. All literature was sourced from either peer reviewed journals, published literature, South African government websites and company memoranda. Interviews were recorded using a Dictaphone and then transcribed directly word for word. Notes, which could be considered as a subjective means of collecting data, were not taken for two reasons-
  1. it opens the interviewers choice as to what is recorded ; and
  2. by default, because taking notes is too slow and not all the data would be gathered.

Additionally the interview candidates were all provided with the questions before in the form of a preliminary schedule to ensure that no ‘off the cuff’ answers were collected. This method may have invited answers which were ‘over prepared’ or ‘doctored’. Nevertheless the net value of this exercise was a positive contribution

towards the case confirmability.

- **Credibility** – or, ‘the degree of compatibility between the constructed realities that exists in the minds of the respondents and those that are attributed to them’ (Earl and Mouton, 2001). The degree of credibility is threatened by the fact that the researcher and respondents did not experience more than five hours together (face to face) discussing the interview questions. Despite this drawback the researcher is confident that the constructed realities that exist in the minds of the respondents and those that are attributed to them are compatible because the interviews were taped and not summarized by hand. The actual words spoken to create a context around the point were also captured. Interpretations were constantly scrutinized and related to one another in a year long process of triangulation. (This notion of objectivity became more apparent towards the end of the dissertation when government, industry, and Sappi perspectives culminated together in the discussion chapter).
- **Transferability** – or, ‘the extent to which the findings can be applied in other contexts, or with other respondents’ (Earl and Mouton, 2001). The findings of this case study could be generalized if the domain and context of the subject were similar. That is, if the focus of the generalization had a similar magnitude to that of the Sappi Forest Products Division and if the focus was inherently South African. If these criteria were not met, a generalization about the focus would be incorrect. All corporates and industries that have a stake in the South African economy are faced with the challenge of long lasting sustainable socio-economic transformation. In this sense and if the context of the focus is similar enough, it may be acceptable to generalize.
- **Dependability** – or, ‘if the research were to be repeated with the same or similar respondents (subjects) in the same (or similar) context, its findings would be similar’ (Earl and Mouton, 2001). *Ceteris paribus* the outcomes would be similar because of the nature of the South African forestry industry and economy. However, if the case study research were to be conducted earlier or later than the current research then the outcomes would not be as dependable.

### 3.2.3.1 Strengths and weaknesses associated with the selected case study method.

The case study method is well established in the qualitative research tradition. As a research methodology, it is especially responsive to research questions of ‘why’ and ‘how’ (Winegardener, (s.a.):18). The case study will first answer more ‘what’ and ‘how’ questions then, as it matures - more ‘why’ questions will be addressed. The case study method also offers a flexible yet integrated framework for a holistic examination of a phenomenon in its natural state (Winegardener, (s.a.):18). The CSI phenomenon will be examined at ‘face value’ within context because the CSI initiatives are changing in a changing environment the research method needed to be flexible and allow for integration. Therefore the chosen method of research is highly suitable.

The design of a case study can be customized to address a range of research questions and types of cases and to incorporate a variety of data collection, analysis and reporting techniques (Winegardener, (s.a.):18). A variety of methods were adopted to collect data therefore a research design which required a more uniform manner of collecting data would not have been suitable.

The case study method is particularly appropriate for applied research related to contemporary issues of people in the real world (Winegardener, (s.a.):18). This case study is people orientated and CSI is primarily concerned with people. The Sappi Forest Product Division CSI initiatives do not only make business sense, but also contribute to the overall national effort to correct societal imbalances and uplift the South African economy.

Winegardener, (s.a:14) states that one of the frequently cited limitations of the case study method, especially the single-case study method, is the difficulty in generalizing the findings. Yin (2003:46) continues, ‘a benefit of multiple-case studies is that they are generally considered to strengthen or broaden the analytical generalizations. This is based upon the hypothesis that a generalization based on five cases has more value than from one case. Feagin, *et al.* (1991:31), argue that it is considered legitimate to generalize based on the degree to which a case is representative of some larger

population. *Ceteris parabus*, a generalization could be made which would be absolutely correct. Unfortunately, the reality is that if a single-case context is compared with another single-case context, they will rarely be identical. Thus, a generalization in this regard could only serve as a guideline.

The issue of generalization as a weakness of the research method is of limited application. This is because the goal of this research is to create an understanding of CSI within the given context, not to create a platform upon which to generalize. Stake (1995) supports this notion by suggesting that the idea of a case study (especially the single-case study) is rather to optimize the understanding of the research focus rather than to generalize.

### **3.3 The scope of the case study site**

The population of the research has been restricted to the Sappi Forest Products Division, to the communities which surround its operations, to the forestry industry and to relevant aspects of the South African Government. The research scope does not include the whole Sappi Group which is multi-national because each division operates in a different legislative climate with different CSI approaches. Other South African forestry companies, such as Mondi, MTO Forestry and Masonite, have been excluded for practical reasons, including time constraints and access to data. Again, the goal of this dissertation is not to generalize but to create an understanding. If too many cases were to be included - each with a different context - the level of understanding could be compromised and the degree of generalizability would increase. At this point the dissertation would start to lose value.

The Sappi Forest Products Division operates three business units - Sappi Kraft, Sappi Saiccor and Sappi Forests. Collectively the three business units have the goal to sustain and grow:

- The businesses themselves which include six mills, 4950 employees and the surrounding communities.

- Approximately 465 000 hectares of the environment and the surrounding communities (Sappi Group, 2004).

Once the status of the divisional CSI had been developed and understood, the research then shifted towards the larger South African Forestry Industry CSI position and finally towards the government CSI position. The goals of this research are listed on page three; the main participants of the research have been listed as:

- The Sappi Forest Products Division
- The South African Forestry Industry
- The South African Government

Due to the operating extent and magnitude of Sappi Forest Products Division, the potential for the division to make a difference to the South African economy as a developing country is exponential. These differences, will for example contribute towards job creation, higher living standards and sustainability issues. This description serves to provide the context in which the qualitative research and subsequent discussion will take place.

### **3.4 Data collection techniques adopted**

Data was collected using three methods:

1. Semi-structured interviews with Sappi personnel and Sappi contractors. Most of the Divisional data (Sappi documentation) was captured in this way (refer to Annexures A, and B). The interviews with contractors (refer to Annexure F), provided a contractor perspective on outsourcing Sappi CSI initiatives.
2. Electronic questionnaires (refer to Annexures C, D and E). Data captured, was used for the purpose of making inferences in the discussion chapter.
3. Internet searches on the Google website.

All information concerning the Department of Trade and Industry, global reporting guidelines, industry charters and scorecards and aspects of Sappi's social stakeholder

engagement was sourced from the internet as listed in the reference list.

The industry and government data was obtained through the use of electronic questionnaires and by searching on relevant websites on the internet. The research was hermeneutic or more interpretive (Hitchcock and Hughes, 1995) and dialectical (Guba and Lincoln, 1994) as the research tested the truth by description and discussion. All data was collected between the 1 February and 30 October 2005.

Data was collected at the Sappi Group Head Office in Johannesburg to create an understanding of the larger CSI picture within the defined scope. This empirical data was collected in a semi - structured interview (make reference to Annexure A) with Andre Oberholzer (Group Head of Corporate Affairs) on 23 May 2005. Gummesson (2000:127) comments, 'During informal interviews, questions are not put in any pre-established order. The selection of questions is governed instead by the actual situation confronting the interviewer; it is a probing technique'. All the questions were pre-established; their purpose was to inform the interviewee and to provide a guideline. In the actual interview the interviewee judged the moment and climate and showed high levels of emotional intelligence. The 'umbrella' interview was forwarded to the interviewee prior to the encounter to facilitate rich discussion and argument. The interview of two hours duration was extremely intense. Questions asked in this interview were mostly 'what' questions. A Dictaphone was used to ensure that all data was captured and to allow uninterrupted discussion. The nature of the information collected included:

- An individual reconstruction, coalescing around consensus.
- Company memoranda, including the Sappi Limited Board Paper on Corporate Social Responsibility for 2003 and 2004, Sappi Donations Policy (Draft) 2005, the Sappi CSI budgets 2005 and the Sappi Limited CSI Report 2002/ 2003.

Data captured on the Dictaphone was then transcribed onto a hardcopy and broken down to facilitate further investigation. A supplementary interview then followed. This interview (refer to Annexure B) was conducted on 10 August 2005 in New Germany outside Durban with two Sappi Fine and Waste Paper Public Affairs

Officers - Zelda Schwalbach and Mark Alban. This combined interview served to add finer detail whilst maintaining an executive interest. Once again the participants were provided with the questions before the interview and a Dictaphone was used to record the interview. The data was then transcribed onto a hard copy which created further understanding in itself. This is because whilst typing the hard copy relationships between activities became known.

Semi-structured interviews were conducted with two of the more dominant Sappi contractors in KwaZulu Natal (KZN) on 12 September 2005, to ascertain what their role was now and what they felt their role should be concerning CSI (refer to Annexure F). These candidates are listed in Table 3.

<b>Contractor</b>	<b>Operating area</b>	<b>Number of employees</b>
Five Star Contracting	KZN	±400
Howe forestry CC	KZN	±300

Table 3. Contractors who provided feedback concerning the contractors role in the Sappi Forest Products CSI initiatives.

Secondly data, needed to be collected from both the South African Government and South African Forestry Industry. The reasons for investigating these two sites were to collect additional data to assist in making inferences concerning:

- The industry CSI expectations of Sappi?
- The government expectations of the industry and of Sappi?

The questions above must be asked to create a holistic understanding of ‘why’ and ‘how’ Sappi is practicing CSI. These questions were answered as far as possible by sending out electronic questionnaires to the candidates listed in Table 4 and by conducting extensive Google searches on the internet. These internet searches created a broader understanding for the researcher which facilitated further inquiry and informed questioning directed towards the candidates listed in Table 4.

<b>Name of candidate</b>	<b>Entity</b>	<b>Position</b>
Mike Edwards	Forestry South Africa	Executive Director
Roger Godsmark	Forestry South Africa	Assistant Director
Dinga Mncube	Sappi Forests Business Unit	Managing Director
Judith Barrington	Sappi Forests Products Division	Business Support Officer to the CEO of the Sappi Forests Products Division

Table 4. The interviewees who made valuable inferences towards the dissertation focus.

### 3.4.1 Methodological constraints

Saunders, Lewis and Thornhill (2000:252) suggest that human bias is a major threat to the interview method of collecting data. The researcher used the following methods to minimize human bias:

- Being prepared and well read about the interview topic.
- Providing the interviewees the questions before the interview.
- Listening carefully to responses.

Although the data was collected over a nine month period, the time allocated to interview candidates was always limited. The Johannesburg interview was two hours long while the New Germany interview was one and a half hours long.

## 3.5 Ethical considerations

Permission was obtained from Sappi top management to do research. Permission was granted primarily because the Group Head of Corporate Affairs, Andre Oberholzer, believed there was potential for synergy between the research and the CSI initiatives - as the researcher would produce a dissertation and Sappi would benefit by being provided with an objective view of the 'Sappi CSI story' at minimal cost.

Most of the documentation describing the Sappi CSI activity was either provided by

the Group Head of Corporate Affairs or sourced from the Sappi website. People were interviewed personally and were given time to prepare so that they would feel more comfortable in the interview and not pressurized to talk about issues which they did not have information. The electronic questionnaires gave the respondents time to give full answers in their own time. Any questions that candidates did not feel comfortable answering were excluded in the course of the interview..

This research report will be made available to the Sappi Group Head of Corporate Affairs and will then be distributed to stakeholders as required. A copy will also be made available for the Rhodes Investec Business School and the Rhodes University Library.

### 3.6 Conclusion

In Chapter three the theoretical and philosophical assumptions underlying the research methodology were reviewed. The research design was also discussed. In Table 5 the major decisions taken to conduct this research have been summarized.

<b>Level of decision</b>	<b>Choice</b>
Research type	Descriptive
Research paradigm	Phenomenological
Ontological assumptions	Reality is socially constructed
Epistemological assumptions	A sufficient degree of 'distance' to create an acceptable perspective.
Research strategy	Single-case study
Research technique	Semi structured interviews, electronic interviews and internet searches.
Organization	Sappi Forest Products Division
Timeline	1 February to 30 October 2005
Subject	An understanding of Corporate Social Investment within the Sappi Forest Products Division

Table 5. Summary of the research design

## Chapter 4

### Research findings

In this chapter research questions 1, 2 and 3 will be answered. These questions are basic and the findings themselves answer these questions. Research question 4 will be answered in the discussion chapter where further inference was necessary. Findings have not just been presented to answer the research questions. Other interesting data has been included to create a holistic understanding and a sense of contextual correctness. To avoid confusion, the researcher has clearly indicated when a research question is either being answered, or is providing a background for a research question to be answered in the discussion chapter. The researcher has also clearly indicated when a description will be used as a foundation upon which a recommendation will be made.

Sappi has a long history of demonstrating its policy of being a caring company through its varied and many investments in, and support of, the communities where it has an impact and through its educational, environmental and charitable work. Figure 1 has been included on page ii to illustrate simply the transformation prospects involving Sappi and the surrounding communities. Here the young pine seedling and young girl represent potential for future synergistic growth. Requests for support and projects identified for support are received at corporate, divisional, regional and mill sales office levels. In general, requests and decisions are co-ordinated at all these levels with and by Corporate Affairs teams for South Africa, Europe and North America. Sappi's efforts are focused on supporting multi-year programmes thereby creating long-term relationships and sustained impact (Oberholzer, Interview, 2003).

This description concerning the research findings is concerned almost exclusively with CSI at corporate level and below within the borders of the Republic of South Africa. Much CSI activity is focused in South Africa because of the current socio-economic climate and to support the transformation efforts of the government. Other areas of the Sappi Group do practice CSI but not to the extent of investment as experienced in South Africa where the majority not minority of the population need to be uplifted.

The research findings are presented in a three phase approach. Firstly, the discussion will provide a basic foundation based almost entirely on company memoranda. These findings will provide the reader with a solid foundation concerning:

- ‘what’ the CSI vision, mission, policy and strategy entails
- ‘what’ CSI initiatives are currently in practice
- the CSI budget.

The discussion will then mature into a phase which begins to question the *status quo*. Here the researcher relied more on semi-structured interviews as the source of evidence. Topics of discussion include-

- the selection of projects;
- how the needs of the community are communicated;
- the duration of project funding; and
- the divisional CSI success factors and the role of contractors.

This phase will also present the empirical findings which describe the driving force behind the divisional social initiatives and how these initiatives are being measured. Inferences that were made in the final stage of the research will follow, to describe-

- the relationship between government, industry and the Sappi division;
- mushrooming industry charters; and
- the new forestry industry charter and its relationship with the Sappi Forest Products Division (Sappi South Africa).

Evidence with regards to the relationship between the government BEE scorecard, the forestry industry scorecard and the divisional specific scorecard will then be presented. Finally, the difficulty of building a multi-national scorecard which would serve the entire Sappi Group is briefly described.

#### 4.1 The Sappi approach to social investment

Much of the forthcoming data was sourced from Sappi Limited documentation on social issues. Although these reports represent the entire group, the principles, vision, mission, strategy and policies apply mostly to South Africa where most of the social upliftment investment occurs. This is also the major operating domain of the Sappi Forest Products Division. Therefore the evidence sourced from this report and similar documents are extremely relevant to the dissertation focus.

The **vision** of Sappi's CSI program is to be instrumental in empowering and creating opportunities for both personnel and their communities in order to address their self-defined needs. The **primary mission** of the program is to promote and support specific and sustainable development projects in order to effect meaningful change and to benefit targeted communities, especially the disadvantaged. Its **secondary mission** is to provide *ad hoc* donations for development organizations or charities within the framework of the CSI vision. The program also aims to encourage employees and communities surrounding Sappi operating units to become involved as partners in group-funded projects (Sappi Limited, 2003).

Sappi's CSI **policy** is well-established and is focused on supporting development in the communities surrounding Sappi operations. Community development projects are in turn, focused on education, literacy and skills development in particular, with added support be given to health, welfare, the arts and general cultural activities. Sappi's CSI **policy**, then, is to demonstrate commitment and good corporate citizenship through both investment and direct action. As a matter of **policy**, Sappi does not fund or sponsor for the sake of media exposure, but chooses to concentrate on developing unique, much-needed development and environmental projects in consultation with the communities involved. These projects discussed further below are designed and implemented with a view to making a real and tangible difference to the communities in which they are situated and have inherent flexibility to ensure long-term sustainability (Sappi Limited, 2003).

Sappi's CSI **strategy** is carefully-defined and supported by a dynamic and flexible implementation agenda. In line with policy, **strategy** is synergistic with the group's core business and demonstrates a practical focus on the enablement and upliftment of the communities from which it draws its labour. Sappi considers CSI to be a powerful tool which enables individuals from disadvantaged communities to acquire or upgrade skills and provide a vehicle for broad-based development. This is the primary objective of its CSI programme (Sappi Limited, 2003). Other strategic CSI objectives include

- empowering, enabling, and developing the communities in which Sappi's operations are based;
- providing educational resources and facilities for disadvantaged communities and for the country's youth, particularly in the disciplines of mathematics, science, computing and technology;
- providing educator enrichment programmes, particularly at rural forestry schools;
- supporting the goal of universal literacy in South Africa;
- initiating and supporting environmental preservation, conservation and greening programmes;
- supporting community-based job creation, health and social welfare programmes;
- supporting community-based HIV/AIDS programmes in the areas from which the group draws its labour force and to foster the development of South African arts and culture (Sappi Limited, 2003).

As well as benefitting communities and the environment as a whole, Sappi's CSI program is designed to strongly align with the business strategy and for the programs activity to reflect the businesses core competencies and concerns. In this regard Sappi's core competency lies in the production of pulp and paper. Therefore Sappi is committed to developing future generations of engineers, scientists, mathematicians, technologists and computer specialists. Maintaining biodiversity is equally important to ensure long-term sustainability. To this end Sappi supports preservation and greening projects which have multiple functions, such as protecting the environment and enabling communities to earn a viable living within that environment. This kind of approach has been found to be far more successful than preservation programs that do not take into account the real needs of the community in the area. HIV/AIDS has the potential to impact negative on the core business of the division. Therefore a

further contribution to **strategic alignment** is that of HIV/AIDS awareness and prevention programs. These are considered extremely important as increased staff turn-over will dilute Sappi's competitive advantage and potentially lead to unsafe working conditions (Sappi Limited, 2003). Sappi does not support commercial sport activities to build the brand, but soccer fields may however be built on plantations or Sappi may supply soccer balls to minimize the frequency of fires on the plantations (Alban, Interview, 2005). When Sappi provides soccer balls relationship is built between the division and the local communities who enjoy playing soccer. This minimizes the incidents of arson fires on the plantations.

**The following description serves to provide the context upon which recommendations will be made in the discussion chapter:**

Sappi's **brand strategy** and its CSI program are synergistic. In general, the brand strategy is to promote Sappi as a South African-based international paper group, providing the best quality fine paper for all communication purposes. Paper products are now being customized to meet retail expectations and are positioned in this way (Sappi Limited, 2003). The brand is firmly positioned on the values of quality, technological innovation, sound business principles and corporate governance. This is done by positioning the divisional products in the market to support the prevailing cost leadership-differential strategy and by subscribing to a host of sustainability programs and corporate governance guidelines. These values reflect Sappi's commitment to sustainable business, the business environment, the people it employs and the communities from which they come. The CSI programme supports these values inculcated in the brand and strengthens the brands overall positioning (Sappi Limited, 2003).

**The following description serves to provide the context upon which recommendations will be made in the discussion chapter:**

Sappi has made CSI indirect **strategic alliances** with other 'big businesses'. One of these strategic alliances was with Microsoft. Sappi and Microsoft worked together to create a resource centre along the KwaZulu Natal North Coast to 'bridge the digital divide' between the wealthier social class and the previously disadvantaged. A great

deal of software for the resource centre was sourced from Microsoft. Although Sappi does not have a strategic alliance with Microsoft, Sappi facilitates applications to Microsoft for software (Alban, Interview, 2005). Dell has since agreed to provide Hardware. Sappi has also made a subtle strategic alliance with regard to WWF (World Wide Fund) SA (South Africa) and has partnered with both WWF and with Mazda (Oberholzer, Interview, 2005). Sappi is careful when making strategic alliances as the balance between funding and brand recognition must be found. Further more, unless both partners are trying to position their brands in the way, synergy can be difficult to find (Oberholzer, Interview, 2005). This will often be the case when the marketing of the brand is based on core-competency and core-company values. Questions concerning Sappi's position on CSI strategic alliances can be read in Annexures A and B.

#### 4.1.1 **Research question (1):** What is the current Sappi CSI implementation policy?

Sappi's **implementation policy** is to customize CSI projects that are tailored to meet the needs of the communities in which they are based and to do so in close consultation with the community right from the start. In South Africa, implementation is done exclusively through an independent NGO and PBO (Public Benefit Organization), some of which Sappi has helped to establish. These organizations are situated in local communities and are able to bring the benefit of the programme quickly and cost-effectively to people at community level. As a result, implementation costs are minimized and there are tax benefits concerning section 21 funding to people at community level. Implementation plans are developed in consultation with organizations and communities at the concept phase of a program and are reviewed annually (Sappi Limited, 2003).

**The following description serves to provide the context upon which recommendations will be made in the discussion chapter:**

Sappi prefers not to use contractors to implement CSI projects. Alban (Interview, 2005), comments,

It's difficult because contractors are not within the company so the capacity to control what they do, the capacity to ensure that programs are run in the way we want to run is diminished because we don't have that form of authority over the contractors. So that becomes a little difficult, but that's something that possibly we should look at!

In South Africa, Sappi draws its labour mainly from five of the nine provinces, namely Gauteng, Mpumalanga, KwaZulu Natal, Eastern Cape and the Western Cape. The CSI projects are focused principally in the areas surrounding its forests, mills and offices in these provinces (Sappi Limited, 2003).

#### 4.1.2 **Research question (2):** What is the current Sappi CSI activity in South Africa?

The extent of CSI is an internal decision that is taken by the Group Head of Social Affairs together with the Public Affairs team. Requests from the community are usually made in writing. The proposal is then scrutinized to check whether it meets the selection criteria. The Public Affairs team then checks if there are funds available, and a decision to accept or reject is then taken (Schwalbach, Interview, 2005). Through sound internal measures and strict social project selection criteria, questions concerning the scope of Sappi South Africa's CSI, apart from budget approval, rarely get to shareholder level. In this way shareholders seldom need to worry about allocation of resources (Oberholzer, Interview, 2005). Social thinking and implementing is done by personnel directly involved with CSI. Other personnel who are involved with core – business do not give much consideration to social issues unless audited as criteria to be met on a codification program.

A decision has been made to keep the allocation of CSI resources 'in-house'. Although some companies prefer the notion of a CSI foundation, Sappi believes that such an approach dilutes the value that the brand gets for doing CSI because then it would be 'The Sappi Foundation' doing CSI and not Sappi. A further reason why this approach has been rejected is because the running of the foundation becomes an overhead cost which tends to use resources that could have been invested in a social project.

Whilst the CSI team remains 'in-house', these overhead costs can be leveraged off the existing infrastructure (Oberholzer, Interview, 2005):

We need to be seen putting money back into the community, to help the community, to say thank you to the community. The reality is, that in South Africa, if you are the big partner, if you are the big guy on the block, if you have wealth then you should put something back into the society around you because it is not sustainable to create wealth for yourself when everything around you is decaying (Oberholzer, Interview, 2005).

Sappi's CSI activity is concentrated on education and community development, environmental preservation and conservation, social welfare and arts and culture. As the need for CSI has become more prevalent, Sappi has both increased its support for existing projects and initiated new projects (Sappi Limited, 2003). The more major new long-term and *ad hoc* projects that have been planned and initiated in conjunction with local communities since 1999 include –

- the renovation and upgrading of the **NR Mandela Inanda Seminary** in KwaZulu Natal in 2001. CSI funding was desperately required to restore the school. Sappi responded to a call by former president Nelson Mandela to assist in this process. Sappi then contributed R2 million towards the restoration project, R100 000 of which was placed into a Maintenance Trust Fund to ensure funding for on-going maintenance. Sappi then sponsored the development of a comprehensive business plan aimed at making the seminary both financially independent and sustainable;
- the establishment of the **KwaDukuza Resource Centre** (bridging the digital divide) on the KwaZulu Natal North Coast in 2002. In 1996, Sappi identified the need for a broad-based educational resource centre surrounding its Stanger and Mandeni mills. After extensive consultation with schools community leaders and organizations, the KwaDukuza Resource Center was developed. The innovative concept focuses on self-empowerment, self-study and school syllabus support. Resources and facilities encompass a TechnoLab, Digital Village, Reference Library, a TeleVideo Centre, a conference centre and a learner resource centre and
- the participation in the **Greening of Soweto Initiative**. In 2002, the greening of the historical Hector Pietersen Memorial was recognized as an official legacy project at the World Summit on Sustainable Development. This and other projects that form

part of the Greening of Soweto have provided a long lasting environmental legacy for the community (Sappi Limited, 2003).

Many existing projects have been significantly expanded and enriched during the past five years. The following projects will be bulleted and briefly elaborated upon below including two from education and community development, two from the job creation initiative, one from the environmental and conservation initiative, one social welfare and one art and culture project.

- Education and community – **Penreach** (established 1994) in Nelspruit. Based at Penryn College, Penreach encompasses teacher development workshops, early childhood development training, school development training, information and networking development and environmental education programmes (Sappi Limited, 2003).
- Education and community – **PROTEC** (established 1984) is a supplementary career development program for high school learners in grades 10, 11 and 12, particularly in the disciplines of science, engineering and technology studies. Now with branches in Gauteng, Mpumalanga, KwaZulu Natal and the Eastern Cape, PROTEC is making an invaluable contribution to the education and training of tomorrow's scientific and technological leaders. (Sappi Limited, 2003).
- Job creation - **Project Grow** provides for historically disadvantaged communities to supply timber to the Sappi Mills, and in so doing provides sustainable livelihoods for many rural communities in KwaZulu Natal. Sappi provides the seedlings, training, financial assistance and a guaranteed market for these small growers. Sappi invests approximately R4.8 million annually to support the project. This project is a significant employment generator and contributor to socio-economic upliftment (Sappi Limited, 2003).
- Job creation– The **Ixopo Bee-Keeping Project** (established 2001) is another example of integrated environmental management that benefits both nature and local human populations. The project was developed in order to accommodate the traditional harvesting of honey on Sappi's Sutton Plantation. The project was also to formalize the harvesting process in order to reduce the risk of forest fires, as well as to enable the local communities to develop a commercial honey-producing enterprise. Twelve members from the local communities were equipped and trained in the methods of commercial bee keeping and honey production. Sappi also granted permission for the

bee keeping group to access Eucalyptus plantations, sponsored a basic business management course and provided each bee keeper with an initial set of hives. (Sappi Limited, 2003).

- Environmental preservation and conservation also referred to as CEI (Corporate Environmental Investment) – **The Sappi/ WWF (World Wide Fund) SA (South Africa) Tree Routes Partnership** is a five year programme began in 1999 currently being implemented together with the WWF for nature. The initiative is an integrated community/ ecotourism effort with a goal of sustainable economic development.
- Social welfare project – The **SOS Children’s Villages** organization provides permanent home-based care to homeless and orphaned children. This care is provided in small, family-type groups in custom-built villages across the country. Sappi (since 1997) supports three SOS Children’s Villages in Pietermaritzburg, Port Elizabeth and Nelspruit. Sappi knows the importance of nurturing children to give them the best chance as adults one day who could potentially make valuable contributions to the division (Sappi Limited, 2003).
- Arts and culture project – The **Sappi Garden Festival**, established in 1999, is now one of the Lowveld’s premiere springtime events. The festival has become known for its exciting line-up of exhibitions, workshops, nature walks, arts and cultural events and family entertainment. The festival is further an example of the lighter side of Sappi’s CSI programme, demonstrating its commitment to developing socio-economic relationships on all levels (Sappi Limited, 2003).

As part of Sappi’s broader CSR, program money is also donated to local NGOs and PBOs to support their upliftment activities. Donations differ from CSI with regards to the funding approach but are similar in principle. Donation funding is for a more finite period where as CSI tends to be more on-going (Sappi Limited, 2003).

At a donations function held in Johannesburg, 20 September 2005 donations totalling R570000 were made to:

- Child welfare – The Abraham Kriel Maria Kloppers Children’s Home JHB (Johannesburg), Childline (JHB), Girls & Boys Town (JHB), Johannesburg Child Welfare Society, The Help-Net Fund (JHB) and the Reach for a Dream Foundation (JHB).

- The Blind – Blind SA, JHB Society for the Blind, SA Guide Dogs Association for the Blind (JHB), Services for the Blind (JHB), SA Library for the Blind (Grahamstown) and the SA National Council for the Blind (Pretoria).
- Physical and mentally handicapped – St Giles Association (JHB), Little Eden Society (JHB), Cluny Farm (Pretoria) and Woodside Sanctuary (JHB).
- Welfare and HIV/AIDS – Hospice Association for the Witwatersrand (JHB), Masakhane Youth Centre (Paarl), Age-In-Action (Western Cape), Alex Crises Committee (Alexandra), CANSA (Pretoria), Ruth Pregnancy Crises Centre (Edenvale) and Order of St Johns (JHB).
- Education and skills development – Progressive Primary School (Braamfontein), Foundation for Community Work (Western Cape), Study Trust (JHB), Nieman Society of Southern Africa Fund (JHB), SA Institute of Civil Engineering (JHB) and Intsika Skills Beneficiation Project (Springs).
- Environment – the Soul Foundation (JHB) (Sappi Limited (a), 2005).

The Sappi Group Head of Corporate Affairs, Andre Oberholzer, commented at this function that ‘good business practice includes support for the social and developmental aspirations of the societies and communities that Sappi operates in.’ He then paid tribute to these humble care-givers by concluding that Sappi believed that the donations being made were going to worthy organizations who have dedicated their commitment to serving society’s many and diverse needs (Sappi Limited (a), 2005).

#### 4.1.2.1 Sappi CSI Funding

Sappi’s funding objective is to effect meaningful change by providing equitable access to resources and opportunities in response to identified needs in which the group operates, focusing on education, literacy and job creation. Sappi prefers to focus on supporting communities within a twenty kilometer radius of plantations and operating units. Sappi also prefers to form long-term partnerships on a number of leading projects. In this way projects tend to become more sustainable and self-sufficient. CSI funding is usually provided on an annual basis as a percentage of profit. It is renewed and is subject to review. Some funding is made for a number of years and is paid in predefined annual portions, while some is made indefinitely on an annual basis (Sappi Limited, 2003). Because Sappi operates in an ever changing

business environment it is difficult to commit to long-term funding if the project is perceived as high risk or as a project that will not become self-sufficient. The notion of finite funding is in transition with the view that all projects ultimately need to become totally independent. Funding criteria are clearly defined as follows:

- Investment funding should benefit communities, groups of people, organizations or institutions.
- Funding is only considered after thorough investigation of the relevant projects and / or programmes and is only granted if long-term benefit to the community is ensured.
- Continued funding depends on Sappi's evaluation of the achievement of the project or programmes defined goals (Sappi Limited, 2003).

Certain applications cannot be funded by Sappi. Sappi will not fund -

- individuals or small groups acting in their personal capacity;
- political parties or groups with any partisan political agenda;
- the sectarian activities of any religious organization;
- profit-making organizations;
- professional fund-raising organizations;
- Church buildings projects, unregistered organizations and bodies that cannot show financial statements;
- institutions or bodies that are exclusive or practice any form of racism and
- conferences, overseas travel, trust funds, study assistants or sports days, except if these are deemed by Sappi to be of national or political importance and synergistic with the groups business focus (Sappi Limited, 2003).

Applicants who meet the funding criteria must submit a formal proposal. The submission must include the following detail:

- Background information on the organization and project.
- Its aims and objectives.
- A certified copy of the organization's constitution with a list of trustees and staff together with an annual report.
- The organization's registration in terms of Section 30 of the Income Tax Act (PBOs) or Section 18a of the Income Tax Act.

- Nature and detail of the organization’s registration, for example NPO (Non Profit Organization).
- Supporting information which will help Sappi understand the organization (Sappi Limited, 2003).

In Table 6 the CSI costs for the year 2004 (estimate) and the year 2005 (budget) have been summarized. For comparison purposes the investments made in Europe, America and Southern Africa have been included. In the context of this dissertation CSI has adopted slightly broader definition which accommodates an environmental aspect. However due to the extent of environmental investment (Sappi Limited (b), 2005) within the South African CSI portfolio it has been tabulated separately. The total CSI in South Africa has been divided into two parts- a more social aspect (money spent on people and closely related initiatives) and the environmental aspect concerning areas that surround Sappi operations.

<b>Sappi Limited CSI</b>	<b>2004 (R)</b>	<b>2005 (R)</b>
<b>CSI Southern Africa (excluding SA)</b>	<b>1.8 million</b>	<b>1.9 million</b>
South Africa CSI (people orientation)	8.5 million	7.9 million
South Africa CSI (environmental orientation - CEI)	4.2 million	3.4 million
<b>South African CSI portfolio</b>	<b>12.7 million</b>	<b>11.3 million</b>
<b>CSI Europe and North America</b>	<b>6.8 million</b>	<b>6 million</b>
<b>Total CSI for Sappi Limited</b>	<b>21.3 million</b>	<b>19.2 million</b>

Table 6. A tabulation to illustrate Sappi’s CSI in South Africa in relation to CSI of the Group (Sappi Limited (3), 2005.)

Major contributions to CSI South Africa (excluding the environmental initiatives) are: education (PROTEC and Penreach) and job creation (Beekeeping and Project Grow) whilst the World Wildlife Fund SA is a major contributor to the Sappi’s CEI. South African CSI amounts to 60% of the Group social investments. This can be strongly

related to the fact that in South Africa it is not the minority of people that need to be uplifted, but the majority. Whilst this scenario exists, the CSI weighting can be expected to be greater in South Africa.

Sappi supports the fundamental lesson ‘teach people to think and understand first - overtime they will buy their own blanket.’ Some proposed projects lack the drive and commitment to succeed. To protect the interests of Sappi, materials and educational support is preferred rather than indefinite payments into paying for project running costs (Schwalbach, Interview, 2005).

The issue of tapering off funds is in transition at the moment. This is an issue which requires high level of situational, cultural and emotional intelligence. When should Sappi push the ‘chick’ out of the nest? In some cases other funders become part of the initiative, which means that if Sappi withdraws, the impact on the initiative is diluted. On the other hand at this point Sappi would also lose the naming right. To avoid projects becoming ‘a never ending funding site’ or to avoid funding being treated like the ‘dole’, projects are carefully selected in the first place (Olberholzer, Interview, 2005). In addition to this, Sappi is now in the process of taking on projects for defined periods only. As discussed in 4.1, Sappi is in the process of shifting from a position of continuous funding to one of finite funding. All stakeholders are aware of the ‘cut-off’ date so preparations to take over these projects can be made.

#### 4.1.3 **Research Question (3): How is the Sappi CSI impact being measured?**

Sappi is one of 51 companies listed on the SRI index (Social Responsibility Investment Index) developed by the Johannesburg Securities Exchange (Sappi Limited (d), 2005). The SRI index is structured along the three ‘pillars’ of the triple bottom line, namely environment, society and economy. The index states that if a company is truly practicing integrated sustainability, all pillars must be in place. To score on the index, data is disclosed with respect to the extent to which the company has engaged sustainably with stakeholders in relation to targets as set by the pillars. In terms of CSI, the SRI index measure includes checking that company policy has made provision for monitoring and continuous improvement on social issues and ensuring that policy commits to stakeholder involvement on social issues when

relevant. The SRI index measure also includes monitoring management and performance. In this regard the documented targets, initiatives or programmes to address external empowerment (BEE, social investment and job creation) appropriate to the companies size and business are reviewed (Johannesburg Securities Exchange, 2003). Sappi's CSI policies, strategies, implementation plans and actual projects are all documented and in line with the index criteria.

In the Sappi context the index is still in its early stages. Interested Sappi staff rarely use the index as a measure of social responsibility because of its executive level nature and because they are more concerned with meeting a budget plan on which they are directly appraised. Teething problems have been experienced by interested staff members. The first problem is one of acceptance, as the index is seen as just another investment vehicle; but is it the best one? Other issues include the fact that rules and criteria keep changing and there is a great deal of duplicate effort which puts unnecessary strain on related staff members (Oberholzer, Interview, 2005).

The latest Sappi initiative regarding a CSI measure is the creation of a Sappi specific balanced scorecard. An internal team with expertise in each category has set up the scorecard based upon the generic DTI (Department of Trade and Industry) scorecard, and future forestry sector transformation charter. The CSI component of the scorecard will evaluate Sappi's contribution to the nominated areas, namely education, HIV/AIDS, health, welfare, environmental conservation, arts and culture. Empowdex (an economic empowerment rating agency) (Nietsky, 2005) was then commissioned by Sappi to **verify** the scorecard (Mncube, 2005). The generic Empowdex scorecard weights indirect investment or community development and BEE enterprise development, as a percentage of post tax profit, as ten percent of the whole transformation score. This is similar to the DTI weighting (Nietsky, 2005) and expected Forestry Sector Charter weighting. The Sappi specific scorecard is expected to adopt a similar approach. As at 8 November 2005 the scorecard had not been posted to the Sappi website and was still under executive review, but it is expected to be available before the end of the year. The CSI contribution towards transformation is thus not yet measured using a company specific scorecard, but is expected to adopt this form of performance measure in the not too distant future.

The practical measurement of the impact a given project makes will depend heavily on the specific project dynamics. Some projects are more difficult to measure because the yardstick which accountants are comfortable with cannot be used. Social projects deal with people impact which is often not measured by numbers (Alban, Interview, 2005). The reality is that social upliftment programs do not fit perfectly into a financial managers' 'Gordon's Growth Model' or 'Capital Asset Pricing Model.' Social returns are more long-term and less tangible. However, funding is regarded as an invested interest and so returns need to be made and recorded. To this end, before projects are started, pre-determined goals are set-preferably within a time period (if the project is of a finite nature). This in turn acts as a yardstick once the allocated time has elapsed. The notion of 'more intangible returns on funding' will be described by referring to the social initiatives described in section 4.1.1:

- **NR Mandela Inanda Seminary** – The goal of the seminary's re-development program is by 2005, the school as a whole will produce graduates with a well-rounded education, consistently high pass rates and a solid background that will prepare them for tertiary education and for future successful careers. The return: over 8000 girls have studied at the school to date and Sappi is privileged to be part of the preservation of this part of history, while simultaneously helping the future for the next generation of Inanda graduates (Sappi Limited, 2003).
- **KwaDukuza Resource Centre** – Sappi identified the need for a broad-based educational resource centre in the areas surrounding its Stanger and Mandeni mills in KwaZulu Natal. The return: since then 6214 members have registered and an average of 300 people use the center per day. With reference to the broader community, 5332 members have attended literacy classes and the centre has become a focal point of life for the greater Stanger community (Sappi Limited, 2003).
- **Greening of Soweto Initiative.** In 2002, the need for the historical Hector Pietersen Memorial to be 'greened up' was recognized as an official legacy project at the World Summit on Sustainable Development. The return: Sappi has since participated, this project together with other projects has contributed towards the 'Greening of Soweto' and has provided an environmental legacy for the community (Sappi Limited, 2003).
- **Penreach** – Sappi recognized the need to assist educators and administrators in its rural-forest schools with skills upgrading. The return: now serves more than 1100 educators in more than 300 partner schools. This indirectly benefits not only the 150

000 learners in the schools from which the teachers practice but their communities as well (Sappi Limited, 2003).

- **PROTEC** - The stated objective is to promote technical education amongst those from disadvantaged communities, particularly in the disciplines of science, engineering and technology studies. The return: by the end of 2002, a total of 2800 learners had been through the programme since its inception and between 79 and 84% of these candidates had been placed either in tertiary education institutions or in employment (Sappi Limited, 2003).
- **Project Grow** – The goal of is to provide sustainable livelihoods for historically-disadvantaged rural communities. The return: over 8600 farmers currently participate in this project (Sappi Limited, 2003).
- **Ixopo Bee-Keeping Project** - The goal: to accommodate the traditional harvesting of honey on Sappi's Sutton Plantation and the formalization of the harvesting process in order to reduce the risk of forest fires, as well as to empower the local communities to develop a commercial honey-producing enterprise. The return: twelve members from the local communities were equipped and trained in the methods of commercial bee keeping and honey production and the bee keepers have since started re-investing 30% of all earnings into their business entities which are now becoming sustainable (Sappi Limited, 2003).
- **The Sappi/ WWF (World Wide Fund) SA (South Africa) Tree Routes Partnership** - The primary objectives of the partnership are to secure the South Africa's sensitive forests and wetland areas from destructive development, to foster a symbiotic relationship between local people and the environment and to create a platform for a sustainable long-term eco-tourism industry in which local communities have a secure stake. The return: WWF SA has undertaken the following community-based projects, to name a few; Karkloof Tourism and the Cwebeni Community Tourism initiatives (Sappi Limited, 2003).
- **SOS Children's Villages** - The aim of the SOS villages is to enable children to grow up in a situation as close to that of a 'normal' family as possible. The return: together with tree-planting ceremonies, beach-clean-ups and basic environmental exposure these children are being afforded the opportunity grow up in conditions that will allow them relative happiness and hope (Sappi Limited, 2003).
- **Sappi Garden Festival** – The aim: to create long-lasting relationships with society by promoting arts and culture in areas where Sappi has a very strong presence. The return: a broad mix of exhibitions, nature walks, arts together with a local feel, has

made the event a unique reflection of place, people and culture (Sappi Limited, 2003).

At divisional level, the CSI measure is conducted annually. With a focus shift from localized implementation to planning the allocation resources for the division, typical points of discussion will include:

- Has all CSI activity been reported according to Sappi policy?
- Has planning (daily/weekly/monthly/annually) been conducted – and do these plans demonstrate ways to better utilize scarce resources?
- Were the allocated resources of the previous year used in the best possible way or were monies and other relevant inputs channeled in a manner that will create synergy between Sappi and its stakeholders?
- Were all CSI requests handled in a professional manner?
- Were CSI budgets adhered to – is there budget variance and why?
- Were all resources allocated in a responsible manner or were the values of Sappi and all relevant corporate governance concerns adhered to?

CSI measurement at divisional level is much more tangible. It is at this level that ‘needs and wants’ meet the reality of ‘scarce resources’. Staff that are involved, carry the responsibility of addressing the reality with the optimized resources that are available.

Corporate level CSI measurement is mostly concerned with communicating Sappi’s holistic approach to shareholders, societal stakeholders and government and to potential investors. As Oberholzer (Interview, 2005) explains, ‘if you do CSI as a company it is never philanthropic because its not your own money you are using but shareholder money; only if you are a private individual do you become a philanthropists...because you are donating your own personal wealth. What we are saying is that it’s acceptable if Bill Gates doesn’t want people to know how much money he’s giving away - it’s his own money; he can do with it as he likes. But it’s not OK for Sappi to give shareholder money away, and hide the facts.’ In this regard social investment activity is displayed in the Sappi Annual Report and in the Sustainability Report.

#### 4.1.4 Research Question (4) (background):

##### What are the driving forces behind the Sappi (South Africa) CSI initiatives?

An in-depth description will follow which will first address this issue from a voluntary and moral perspective which drives CSI internally. Thereafter the discussion will look at the external CSI driving forces which are obligatory and governed. All relevant aspects of government (external) regulation including legislation, sector charters and scorecards and company specific charters and scorecards must be unearthed now to facilitate a richer discussion chapter.

Sappi began its CSI focus by recognizing the needs of the country and then needs of people living in communities that surround Sappi operations (Oberholzer, Interview, 2005). The reality is that Sappi makes an impact upon those people living in these communities and has a responsibility to offset these impacts. In order to address the issue of that impact, it is in Sappi's interest to engage with those stakeholders and demonstrate that it is a caring company (Alban, Interview, 2005).

Another major CSI driver is simply enlightened self-interest (Alban, Interview, 2005). Sappi runs CSI initiatives not only because of the moral obligation to uplift people, but it also makes business sense. Sappi is not driven by machines that run on unlimited resources. Skilled people drive the business with scarce resources. If the business is in it for the long term, the pool of talent cannot continue to be sourced from the minority of South Africans. Also, resources like soil nutrients, water and biodiversity must be managed sustainably. The broader definition of CSI encompasses these demands on business today which act as a 'gear' that contributes to driving the Sappi CSI programme.

Currently the government is not regulating CSI initiatives with legislation. However, the broad based codes of good practice encourage the development of industry sector specific transformation charters and scorecards in order to achieve the objective of the BEE Act 53, 2004 either directly by means of equity transfer, preferential procurement, enterprise development or indirect empowerment through CSI programs (Department of Trade and Industry, 2004). These direct accelerators are important in

a sense that if a company is not proactively contributing to the transformation effort by means of equity transfer and affirmative action towards previously disadvantaged people, the company runs the risk of losing its market and suppliers. Recognition is given to direct efforts if they concern black people only. This government action is now in place with the goal to shift economic power (which is different to democratic power) from the minority to the majority and to shift economic responsibility from the government to the corporate world. The more indirect measures are gradual economic up-lifters with the goal of uplifting previously disadvantaged people in poorer communities. Points can only be gained for the balanced scorecard if indirect upliftment has targeted black people (Department of Trade and Industry, 2004).

South Africa has recently seen the emergence of, amongst others the Financial Sector Charter, Information and Communications Technology Empowerment Charter, the South African Petroleum and Liquid Fuels Industry Charter, the Tourism Transformation Charter and the Broad-Based Socio-Economic Empowerment Charter for the South African Mining Industry. These industry sector charters, inherent sub-sectors and all enterprises that belong to those sectors, use the charter and scorecards to demonstrate to government and society their commitment towards black economic empowerment and transformation.

The Forestry Sector Charter is still in the initial and preliminary stages of its development. In its development, the working group, consisting of knowledgeable forestry sector role players from the FTTP (Forestry, Timber, Pulp and Paper) cluster and other stakeholders are expecting to finish the sector charter early in 2006.

The forestry sector charter is essentially government-driven by the Department of Water Affairs and Forestry which leans more towards the forestry aspect and by the Department of Manufacturing which deals more with the pulp and paper industry. Together they have asked the forestry industry to direct the charter development process (Edwards (a), Electronic Questionnaire, 2005). The charter is expected to be sub-sector (Forestry, Sawmilling, Pulp and Paper) specific and not generic for the whole. In this regard, the working group and interested parties are expected to develop scorecards that are customized to promote optimal transformation within the sub-sector (Edwards (a), Electronic Questionnaire, 2005).

The final sector delineation was still unresolved on 29 July 2005. Seven working groups had nonetheless been established. These are the:

- Delineation Working Group
- Finance and Funding Working Group
- Growers/Forestry Working Group
- Fibre working Group
- Sawmilling Working Group
- Pole and Charcoal Working Group
- Contractors Working Group

In terms of the Working Group preparing the forestry sector charter, attention has been given to the following:

- (1): Key Principles to be embodied in the Forestry Charter.
- (2): An analysis of the current status of BBBEE in the Forestry Sector;
- (3): Development of a vision for the sector for BBBEE.
- (4): Identification of the challenges confronting the Forestry Sector in relation to achieving its vision and recommendations as to how these can be addressed (Edwards, 2005 (b)).

Since this meeting the Forestry Working Group has agreed on the following charter vision;

“to create a fully representative, more inclusive, more profitable and growing Forestry Sector that contributes to the sustainability and wellbeing of the Industry and all its existing and new participants and that can make a significant impact and contribution to rural development and poverty alleviation” (Edwards (a), Electronic Questionnaire, 2005).

The expected social impacts of the charter are planned to take place between 2006 and 2014. These impacts, amongst others, are expected to include greater involvement by PDI's (Previously Disadvantaged Individuals) in the industry, whether it be in the form of equity ownership, management, or as suppliers and involvement in small grower schemes, increased skills levels in rural areas, increased numbers of black

SMME (Small Micro and Medium Enterprises) businesses and an increase use of black contractors (Godsmark, Electronic Questionnaire, 2005).

The CSI component of the charter transformation scorecard is expected to be generic with the DTI's (Department of Trade and Industry) scorecard guideline. In addition to education and skills development, HIV/AIDS programmes, health, welfare, environmental conservation and arts and culture – items may include housing and related services, life skills education and grazing rights for rural cattle owners. The weighting will be 10% and will not change because of the governing Codes of Good Practice which the industry has adopted as a guideline (Edwards (a), Electronic Questionnaire, 2005).

The constituents of each sub-sector, for example Sappi South Africa, Mondi and Masonite, are concurrently and with the aid of consultants or with an internal working group - developing company specific charters and transformation scorecards. The Sappi scorecard (which was internally constructed but externally guided) is expected to be available by the end of 2005. There has been debate concerning the nature of the scorecard. Sappi is a trans-national and operates in countries with different legislative approaches. Because of this, a trans-national scorecard was not possible as Sappi Limited could not accommodate all stakeholders – including all stakeholders in Europe and America (Barrington, Electronic Questionnaire, 2005). Therefore a South African specific scorecard was needed.

## Chapter 5

### Discussion of results

In Chapter 4 research questions 1, 2 and 3 were answered within the scope of the research goals (refer to section 1.2 and 1.3). To refocus the reader, research questions 1 – 3 are restated and answers given in summary below:

1. What is the current Sappi CSI implementation policy? To customize CSI projects in consultation with communities to meet their needs.
2. What is the current Sappi CSI activity in South Africa? Sappi's CSI activity is concentrated on education and community development, environmental preservation and conservation, social welfare and arts and culture.
3. How is the Sappi CSI impact being measured? The practical measurement of the CSI project impact will depend heavily on the specific project dynamics, that is, returns are measured against specific project goals.

In this chapter Sappi's CSI funding approach based on the findings presented in 4.1.2.1 will be discussed. Thereafter research question 4 will be answered based upon findings presented in sections 2.3.1 and 4.1.4. Finally recommendations will be suggested.

#### 5.1 A discussion of Sappi's CSI funding approach

Due to the nature and extent of the operations (mills and plantations), Sappi is very much part of South Africa's communities and environment (refer to Table 6, page 56). This context relates strongly to the CSI budget for South Africa which is weighted 70% (community) to 30% (environment). These fundings, whether recorded as more environmental or social, are inter-related and mutual beneficial. Education will help people understand environmental issues and the environment will in turn, if managed sustainably continue to feed the community.

Concerning the notion, in transition, of finite funding, this will motivate project stakeholders proactively to make every effort to ensure that the project 'grows legs'.

In the same breath this position can be disadvantageous as internally within Sappi, it is difficult. It means that Sappi will commit year on year certain amounts of money, never absolutely certain what the budget will be. Budget uncertainties are a function of running a Division in the real world; breakdowns, acts of God, market fluctuations and currency value deviations all contribute towards the budget variance margin. The CSI budgets are also indirectly subjected to the forces of reality. Three years ago the budget for the corporate affairs department may have so many million, next year it could be significantly less, and if Sappi has already committed to payments of x through the period, difficulties may be experienced (Alban, Interview, 2005). This can be seen in the budget variance between 2004 and 2005 (refer to Table 6, page 56). Currently the Ixopo Beekeeping project and the Resource center are being ‘weaned of Sappi’s milk’. Community stakeholders are now ploughing a percentage of their profits back into the entity. This is the target milestone that all Sappi projects need to achieve. At this point, real social upliftment has taken place.

**5.2 Research Question (4): In the year 2005, is the driving force behind the Sappi CSI initiative mere philanthropy, holistic invested interest or to support a social imperative?**

**The following discussion serves to provide the context upon which recommendations will be made:**

To maximize the score in the CSI 10% weighted component, Sappi too will continue with CSI efforts as specified by the scorecard. This initiative may be morally driven, ‘just business sense’ or to support the social imperative of BEE. Mncube (Electronic Questionnaire, 2005) commented, “we have been doing CSI ever since Sappi began (1936) - has this really empowered people? Perhaps to a small extent! But areas where I feel real and lasting empowerment can be delivered are enterprise development, preferential procurement, skills development and employment equity!” There is clearly support for the more direct – accelerated transformation approach which is in line with the approach which has been adopted by government as described in the balanced scorecard for broad based BEE.

Although CSI is not seen as a major contributor to transformation (with a 10%

weighting) - CSI programmes that are black - specific are useful to a company because they contribute to the balanced scorecard result and over time sustain the human and primary resource pool, both necessary to do business.

Since Sappi's inception, the company has adopted a socially responsible attitude towards business practice. At that early stage the reason for creating a CSI vision was moral instinct and enlightened self interest, as stated in Chapters 2.1 and 4.1.4. A discussion will follow to answer the question with regard to the driving force behind Sappi's CSI asked on page two. **'If Sappi had only started trading in 2005 would the CSI vision be driven by the same 'gears' or would the moral obligation and enlightened self-interest become less apparent?'** Both will always contribute to the driving force behind social responsible business because of the natural phenomenon which dictates that people and businesses prefer to survive for longer than shorter periods. Both morally sustainable thinking and sustainable business practice allow for longer survival periods or longer periods of 'above average returns' – this is a given phenomenon! The CSI driving force based upon the moral and business principles may be to support the social imperative of black economic empowerment (refer to Figure 3).

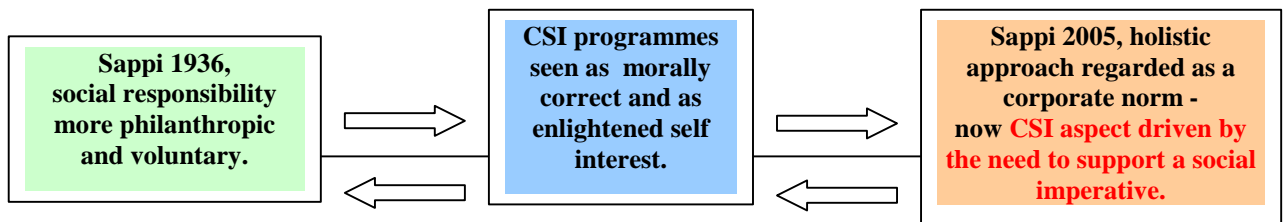


Figure 3. Model of a progressive understanding of Sappi's CSI approach

Figure 3 was developed by the researcher to guide the reader and facilitate further understanding of the discussion. The contents of the model are based on literature (refer to section 2.3.1) and on the research findings (refer to section 4.1.4).

The first phase, (shaded a soft green) was when CSI efforts were mostly philanthropic and voluntary. Over time, the socially responsible business put on the 'CSI = morality + holistic invested interest hat', (shaded a light blue). Now, in 2005 the need for CSI has become more widely accepted, that is, commitment towards BEE and

transformation (described in section 4.1.4) as the social realities of the country are better understood (shaded a soft peach colour).

Assuming that the government and current corporate approach is correct, it will be sustainable and holistic. If this assumption is not correct however, power may not be redistributed, the countries economic base not broadened, and growth, job creation and poverty eradication not accelerated as envisaged by the Broad Based Black Economic Empowerment Act. This will impact negatively on the long-term sustainability of the country, the forestry industry and Sappi.

### **5.3 Recommendations**

To make recommendations one must consider what the impact of the CSI approach adopted by Sappi will be on the long-term sustainability of the corporation, the forestry industry and the South African economy.

Sappi needs to embrace CSI initiatives if the corporation intends them to be a long term empowerment tool. The sustainability behind ‘blind government support’ must be questioned because ownership without knowledge is a volatile situation. To dilute Sappi’s risk (the risk that the government may become more powerful) – Sappi needs to balance the power scale in a subtle way. This does not mean marginalizing support for the transformation effort. It does mean embracing CSI programs (despite their 10% weighting on the scorecard) more than ever before to ensure the long term sustainability of the Sappi South Africa operations in a pluralistic market (as discussed in Chapter 2.3). This must be a knowledge based approach which accommodates the accelerated empowerment initiative. The Sappi CSI initiative must embrace CSI and take it to the next level by-

- implementing the change management process;
- outsourcing at least the rural CSI initiative;
- expanding into a more brand orientated CSI strategy;
- making strategic CSI alliances with other organizations; and by
- encouraging further research to be done

The discussion that follows will address these five recommendations. The Sappi CSI team has not communicated the CSI vision effectively across the spectrum which will facilitate greater employee participation as discussed in Chapter 5. When operational employees hear ‘community forum’ they think non-production therefore ‘soft issue’. Sappi needs to embrace the change management process described in Chapter 2.4. This will facilitate-

- buy-in from employees who are not directly involved with social issues, which will ensure that the whole organization rather than a group of employees engage in the social responsibility paradigm. Also, CSI ought to become a line management budget item reinforcing buy-in and value to the brand.
- further stakeholder discovery; and
- the extension of the Sappi/ community interface.

The greatest success factor in Sappi’s CSI programme has been identified as Divisional management support (Alban, Interview, 2005). The CSI team involved in the planning and implementation are emotionally invested in the projects. The CSI team is passionate, driven and determined to make a sustainable difference. Shareholder buy-in is regarded as a minor success factor. The shareholder activity ends once the sustainability report has been read (Alban, Interview, 2005). Without shareholder buy-in, all funding would dry up. But in today’s society it would be difficult to ignore social responsibility. Success is also contained by the limited amount of employee support. People who are not involved directly are focused on what they are being paid to do only. As a result CSI activity is treated as secondary. To an extent this supports Friedman’s approach stated in Chapter 2.1.3.

In spite of the positive impact Sappi is making with its existing approach, should CSI remain an in-house operation? The existing Sappi/surrounding community interface could be more effective. Currently all decision making, planning and implementation is done by Sappi personnel. Five years ago Sappi outsourced all its non-core production orientated operations to allow for core-competency focus on pulp and paper production. As a result Sappi now has many contractors who render services to the Division. These contractors employ large numbers of people (especially those

associated with the plantations) from communities surrounding the respective operations. The business/ community interface is no longer dominated by Sappi, but by the contractor. Also, community requests to the public affairs department are either accepted or rejected according to the extent to which the project proposal matches up against the selection criteria (refer to 4.1.2.1). Frustration has been experienced by the public affairs personnel when dealing with requests – especially when community schools request photocopiers and fax machines when there are no doors on the hinges and chairs to sit on (Schwalbach, Interview, 2005). A contractor would be in a better position to understand such requests because of the closer relationship inherent to an extensive business/ community interface. This does not suggest in any way that Sappi should or is marginalizing its social outreach. The concept of contractor selection criteria which include social responsibility values and practice needs to be explored.

Sappi needs to re-think how they are going to implement social investments (refer to section 4.1.1). A contractor is more flexible and localized and therefore in a better position to communicate a vision and strategy to all stakeholders. Sappi run CSI programs are limited by the extent of divisional funding – so would the contractor as Sappi would just budget accordingly or because Sappi pays contractors, rates would be negotiated so that both parties would gain. The difference is that the contractor set up has less bureaucracy and would really be able to customize its CSI vision, strategy and implementation to meet specific needs. It would just require an order number rather than a paper trail to implement. Five Star Contractors operate in KwaZulu Natal and employ at least 400 people from the surrounding communities. Stone (Interview, 2005) commented that they welcomed the idea of running CSI programs but cautioned that the initiatives would need to be audited. Howe Forestry CC also a major contractor in KwaZulu Natal employs over 250 people from surrounding communities. Howe (Interview, 2005) highlighted that if the contractors ran CSI programs they would need to be implemented through a community liaison to demonstrate a degree of objectivity or non-bias. The synergy of such a move would be that:

- Sappi gets to fill in the scorecard anyway.

- The CSI programs become even more customized and beneficial.
- The contractor/Sappi/community relationships grow stronger which ultimately means sustainable upliftment, less fires on plantations, more productive contractor employees.
- Contractor driven CSI programs would be inspected and reviewed by Sappi auditors who would then be able to fill in a verifiable scorecard

A CSI approach of such a nature will embrace transformation and make a real impact that has empowered people, made business sense and supported government objectives.

The Sappi branding strategy as described in section 4.1 needs to shift from positioning products as ‘humbly’ generic (valuing quality, technology and sound business principles) to ‘brand equity focused’; either way, the people of South Africa will be uplifted. The brand needs to become more powerful, not just to meet retail expectations but also to support the social imperative which will in turn promote a pluralistic power balance (refer to Figure 4). Figure 4 was created by the researcher to suggest a new brand positioning which will accelerate the transformation process. The CSI strategy framework matrix was chosen because of its dynamic nature. The information plotted in the matrix was based upon the research findings in section 4.1, 4.1.4 and the discussion in section 5.2. Currently, products are being positioned as customer focused (**red marker**) this must be a temporary positioning. Sappi brands need to be re-positioned in a manner that makes the consumer appreciate diversity in a well governed country. The product must be positioned with the long term social upliftment view that is driven by the powers of both business and government (**green marker**). Extreme positioning of the brand to be avoided (**blue markers**) would be as a function of government or corporate power only – which would be supporting a monistic state either way. Or by positioning the product as totally free and independent of regulation of any kind – this would then be anarchy. All the extreme product positions are paradoxical but must be avoided. It is the pluralistic state that supports the social imperative, which must be the goal (**green marker**).

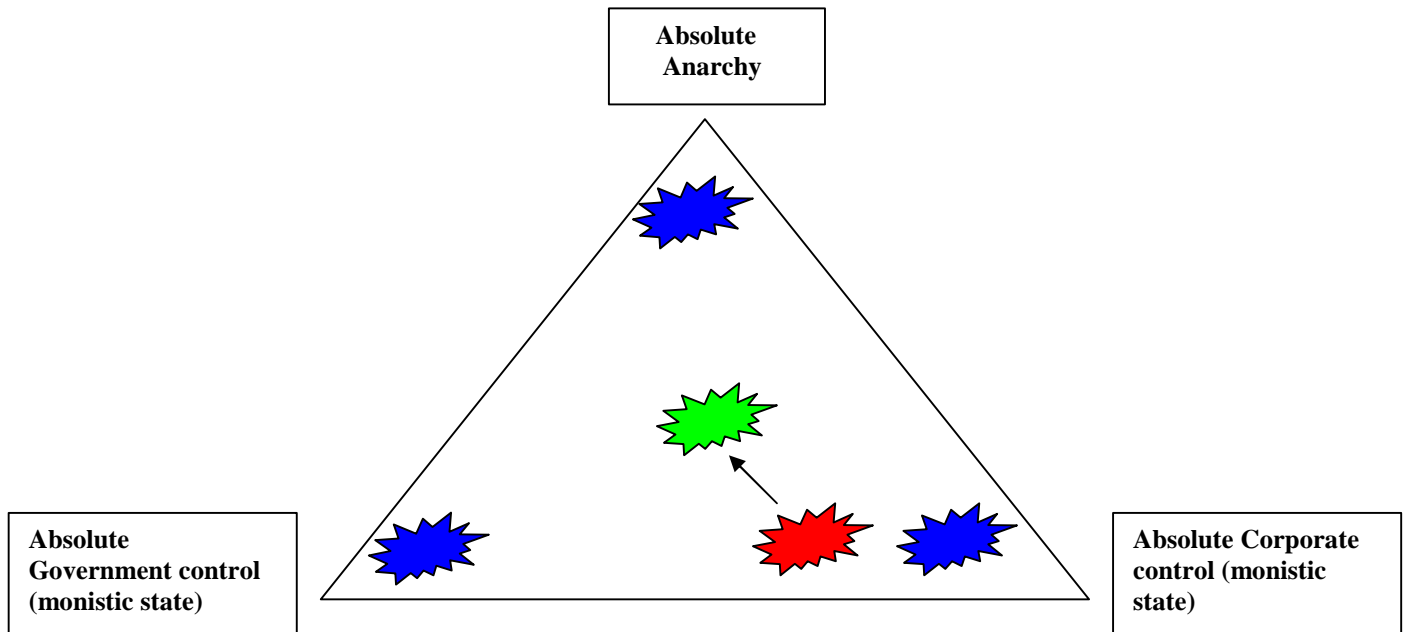


Figure 4. The suggested new brand positioning which will accelerate the transformation process.

Sappi needs to decide upon the issue of strategic alliances (refer to section 4.1) between themselves and other corporates. Differences in brand positioning strategies between businesses will always be apparent. The issue at stake is to support government whilst maintaining a balance of corporate power over the long term. This is not going to be done by worrying about competitive advantages and branding strategies - but through corporate alliances that will better support the BEE social imperative which will promote the interests of both government and business. In Figure 4 this state of power balance is represented by the **green marker**.

It is recommended that further research be done on this topic annually, with the objective of continuing with the CSI / power balance interpretation. Further research needs to examine the context, by describing it and how it has changed. The research questions need to be asked in such a way that paints a clear picture of the power relationship between government and industry at that time, whilst describing the long term effect of marginalizing CSI efforts for equity transfers. A dissertation of this sort would be beneficial to the South African economy, all industries and companies

within, and would add greatly to the body of knowledge on socio-economic sustainability

Government and business enjoy the benefits of power. Sustainable socio-economic upliftment needs to be managed by both. The forestry sector and related enterprises have the opportunity to balance power with responsibility by embracing CSI as the rudder that will steer the South African society closer towards a state of pluristic freedom.

## **Chapter 6**

### **Conclusion**

Social responsibility is not a new notion. Religion, philosophy, academia and eventually the corporate world have adopted a holistic approach. Social efforts have traditionally been regarded as philanthropic or 'non-core'. Now CSI, because of its nature, is key towards sustainable transformation in South Africa. Corporate social investment has now also become a contributor towards the accomplishment of government objectives. At this point, the purpose of CSI changed.

Societal transformation will occur anyway, but more importantly CSI in its subtlety has become a soft point of manipulation for the government. Now business needs to return the power pendulum to a state of equilibrium whilst supporting social transformation in South Africa. This must be done using CSI programmes that embrace pluralism and empower society.

In this dissertation an understanding of CSI within the Sappi Forest Products Division was created. All research questions and goals have been addressed, the findings have been discussed and recommendations have been made. Further more this interpretation has added to the body of knowledge on social responsibility.

## Annexures

### **Annexure A      Executive level interview, Johannesburg.**

28 May 2005

Attention: Andre Oberholzer (Corporate Head of Social Affairs).

The purpose of this interview is to provide an umbrella sense of understanding of CSI in the Sappi context to allow further research to be initiated at all levels of interest and relevance. This will provide a holistic picture and an understanding upon which further insights can be constructed.

#### Points of discussion

- CSI drivers – needs of country, legislation, Sappi. What is the major driving force now? What should it be? How are they integrated? Is an infrastructure in place to communicate the needs and desires between all stakeholders?
- Alignment of the needs of the land to that of the Sappi Vision. Corporates who earn above average returns are in a position to expand their vision to include CSI. With regard to Sappi's capacity to invest, companies that do not make profits cannot exist let alone invest in social issues. How does Sappi measure its CSI ability?
- Has this been communicated across the group? Are the required CSI values aligned with the values of the company?
- What is Sappi's CSI policy?
- What are Sappi's CSI Strategies?
- How have these been integrated between government, Sappi and the people?
- What is the desired content of Sappi's CSI programs, in terms of education, job creation, health, training, social development, Arts and culture, environment (CSI more internal), sport, safety (CSI more internal in nature), housing, women empowerment, BEE?
- Are CSI programs "throwing money into a deep dark hole, or are programs planned, measured, (are we providing fish, or a fishing rod?).
- What is the growth return on the CSI transformation effort? Is this being monitored? By whom? How is this measured directly (short term programs) and indirectly (long term economic growth).
- Is Sappi represented by the CRI Index which provides investors with another indicator of corporate health?
- Has Sappi made any Strategic alliances with other companies in order to leverage of each others competencies to create a synergistic CSI program for example Vodacom? What are these alliances? What was the strategic intent?
- Has Sappi's CSI made an impact in terms of brand equity and investor confidence?
- Should CSI fall inside Sappi's value chain?
- What are the CSI success factors within Sappi? For example – executive and shareholder buy in, divisional management support, empowered task teams, driven by integrated vision, integrity based,
- In the light of this dissertation what do you need addressed? What are your business needs? What is your role in CSI? What is my role? What is Sappi's role? What is the country's role?

## **Annexure B      Divisional level interview, Durban.**

10 August 2005

Attention: Mark Alban and Zelda Schwalbach (Public Relations Officers)

The purpose of this interview is to provide an umbrella sense of understanding of CSI in the Sappi context to allow further research to be initiated at all levels of interest and relevance. This will provide a holistic picture and an understanding upon which further insights can be constructed.

### Points of discussion

The vision, extracted from the Donations policy (draft) – in short is to improve the quality of life for the people of Southern Africa, particularly those people residing within the communities within which Sappi operates

The vision extracted from the Sappi Limited CSI report 2003 is for the group to be instrumental in empowering and creating socio-economic opportunities for both personnel and their communities in order to address their self defined needs.

- Why were these visions created – was it morality, legislation or rationality (business sense) – please weight your answer!

Sappi's Limited's CSI policy as described in the draft 2002/2003 CSI report reads:

'To demonstrate commitment and good corporate citizenship through both investment and direct action.'

- Is Sappi really committed to this policy and why?

The CSI drivers are represented by the needs of country, legislation, Sappi policy. What is the real driving force now?

- What legislation concerning CSI is making demands on Sappi now apart from the code of good practice and 10% of the balanced score card.
- Given the pressures to demonstrate corporate sustainability, South African companies have followed an international trend of codification or have adopted standards and guide lines as a form of voluntary self regulation on social, ethical and environmental issues. Sappi has volunteered to comply with the ISO 14001 certification and the SABS certification.
  1. Does Sappi intend on allowing itself to be guided by other drivers – for example; the King Code on Corporate Governance (which requires listed companies to report on sustainability issues), the Global Reporting Initiative which is an international framework for providing comprehensive information to stakeholders regarding; economic, social and environmental performance and the Global Compact which is a United Nations charter that further encourages corporations world wide to embrace a set of values in areas of human rights, labour standards and the environment?
  2. Is this the way Sappi should go about CSI or is this just the qualifying aspects of a competitive company?

'South Africa being the country of origin and the geographic area in which it operates with the greatest socio-economic need but only 14% of total group turn-over is in South Africa, Europe is 40%!

- Does this not pose a threat to CSI South Africa.

Our three major shareholders – as at 26 November 2003 are, Capital group 9.6%, Old Mutual Asset Management 6.7%, and Stanlib Ltd 5.7%.

- If Sappi Forest Products was to become financially stressed to the point that there was not fat to contribute to CSI SA ...would the plug not be pulled!

- Apart from CSI Policy and Strategy...does a formal CSI plan exist for South Africa which is being implemented, and measured?
- Does a business case exist to justify our CSI initiative?

Sappi Group supports the national governments Growth Employment and Redistribution Strategy of addressing the imbalances of the past.

- What is the evidence of this support? How do we know if this is the right support to give? Is the rate of transformation fast enough to give the government a strong economic base upon which to lead or will this support take too long...jeopardizing the leading parties position ?
- What are the CSI success factors within Sappi? For example:
  1. Executive and shareholder buy in – evidence?
  2. Divisional management support– evidence?
  3. Empowered task teams, driven by integrated vision, integrity based – evidence?
- CSI project selection...Penreach (teacher skill development), Protec (science and technology career development programs), Sappi resource centre (access to educational literature, computer facilities and extra classes.) Project grow!

Sappi core projects aim to address education and environmental concerns.

Sappi secondary projects aim at social and economic development – (indirect). Board Paper 2003.

1. How are they selected...? (Needs driven, finance driven, core business driven?) Please provide working examples?
  2. If needs driven how is the need communicated
  3. Is it we have so much what do we spend it on or visa versa?
  4. Policy – no sport but at unit level we build soccer fields – how is this decided?
- Has Sappi made any Strategic alliances with other companies in order to leverage of each others competencies to create a synergistic CSI program?
    1. What are these alliances?
    2. What was the strategic intent?
    3. For example, 10 000 people will benefit if Vodacom places a Tower in a community which neighbors a Sappi Plantation. Sappi may reduce the frequency of fires in this way.
  - Should contractors be more involved in implementing Sappi's CSI initiatives? This would expand the business community interface as contractors are more closely connected over a wider area.
  - In terms of funding...
    1. How do you go about funding a proposed CSI program?
    2. Should allocated CSI funding be a % of turn over or profits
    3. Is this a Group budget or local budget?
  - When is a project regarded as sustainable or independent
    1. What are the indicators? Who decides and after how many years?
    2. What is Sappi doing in terms of providing fishing skills and rods rather than fish?
    3. How is the CSI impact measured and evaluated!
    4. Is there a feeling of 'disconnect' between CSI programs and corporate agenda's – "CSI is not important or not another CSI program!"
    5. Has the importance of CSI been communicated right across the group? Including strategy and policy?

6. How does Sappi ensure that the needs of the community have been correctly addressed – one of the oldest mistakes is presuming that that the company knows best what the community needs and therefore do not engage sufficiently with the group” (Rocky, 2004).

### **Annexure C Electronic questionnaire to Forestry South Africa**

13 September 2005

Attention: Mike Edwards (Executive director of Forestry South Africa) Roger Godsmark (Assistant Director of Forestry South Africa)

As a final year MBA student (Rhodes) I am busy with a dissertation which deals with simply “the Sappi Forest Products CSI story!” My research has almost reached a climax as I have almost caught up to the current CSI activity!

*Please would you consider the following questions and type in your answer below each bullet point?*

- As executive director of FSA what is your vision for the Forestry Charter current under construction?
- Has Empowerdex been sourced as a consultant? If not please would you advise on the consulting groups?
- As far as the balanced scorecard is concerned what weighting would you like the corporate social investment component to receive?
- Will there be a group specific scorecard for example one for the contractors, one for the pulp and paper industry or one for the growers?
- Or will all scores be weighted to ultimately give a score for the forestry industry?
- Will the calculation of the forestry industry score for the CSI component take on a generic nature for example as Empowerdex suggest to include expenditure towards black people with regards to:
  1. Education and skills development
  2. HIV/ aids
  3. Health (excluding medical contributions)
  4. Welfare
  5. Environmental conservation
  6. Sport (we will probably leave that to Vodacom)
  7. Art and culture
- Is this charter driven by the industry itself or is it driven by the government DWAF?
- What is the social impact of the charter expected to be and over what time period?

### **Annexure D Electronic questionnaire for inference purposes**

13 September 2005

Attention: Dinga Mncube (CEO Sappi Forests) and Judith Barrington (Business Support Officer to the CEO of the Sappi Forests Products Division)

As a final year MBA student (Rhodes) I am busy with a dissertation which deals with simply “the Sappi Forest Products CSI story!” My research has almost reached a climax and I have almost caught up to the current CSI activity!

*Please would you consider the following questions and type in your answer below each bullet point?*

Empowerdex are been sourced to facilitate the development of a balanced scorecard for the Sappi Forest Products Division.

- How was the weighting of each category of the scorecard decided upon?
- Will the scorecard be generic in nature...for example concentrate on areas like:

1. Preferential procurement
  2. Employment equity
  3. Enterprise development
  4. Shareholder activism
  5. Corporate social investment
- What weighting would you like to propose the CSI component should receive? Please justify your answer?
  - What are the fundamental aspects of the CSI score? Are they as Empowerdex suggest to include expenditure towards black people with regards to:
    1. Education and skills development
    2. HIV/ aids
    3. Health (excluding medical contributions)
    4. Welfare
    5. Environmental conservation
    6. Sport (we will probably leave that to Vodacom)
    7. Art and culture
  - Will this balanced scorecard which is specific to this Sappi division then be used by Forestry South Africa (FSA) to develop the forestry charter which is currently under construction, or will the FSA balanced scorecard be a function of all forestry stake holders in South Africa?
  - As part of the FSA steering committee what weighting will or have you proposed that the CSI component should receive on the forestry charter requested by the Department of Water Affairs and Forestry (DWAF) balanced scorecard?
  - Is this charter driven by Sappi or by the industry itself or is it driven by the government (DWAF)?
  - What is the social impact of the customized balanced scorecard for this Sappi division expected to be and over what time period?
  - What is the social impact of the new forestry charter expected to be and over what time period?

**Annexure E      Electronic questionnaire for inference purposes continued**

13 September 2005

Attention: Judith Barrington (Business Support Officer to the CEO of the Sappi Forests Products Division

In my original questionnaire that was emailed to Dinga, Andre and Mike Edwards. I did not mention a multinational corporate scorecard! Listening to what you had to say offset my cerebral juices! Please would you also provide a context and CSI focus about the following in this regard:

*Please would you consider the following questions and type in your answer below each bullet point?*

- How would a multinational scorecard impact on current Sappi Forest Product CSI Initiatives?
- What is the value of a multinational balance scorecard in comparison with a South African Divisional specific scorecard? Would there be an increase in funds/ support made available for relevant CSI initiatives?
- Would the Department of Water Affairs and Forestry and the South African government be content? Government might say, “Now there is not one single Sappi CSI pool, but rather a global pool of which the SA CSI focus contributes to the whole!” “Does this not dilute Sappi’s commitment to the SA CSI initiative”?
- What is or will the role of Empowerdex be in setting up the multinational score card? If nil...who are the facilitators?
- How would a multinational scorecard meet the legislative requirements of Europe, America and Africa? Is this possible? Perhaps the European and American governments would like to see Sappi weighting CSI more or less? Possibly a generic 10% of the scorecard will be

decided upon! The functional context is different for all countries a 'blanket' scorecard may not have the impact to actually uplift our communities around our core business!

## **Annexure F      Interview with Sappi Contractors**

12 September 2005

Attention: Lex Stone (CEO Five Star), Derek Howe (CEO Howe Forestry CC)

I would like to investigate the potential of implementing CSI initiatives for example education, health, environmental awareness through the contractor channel. This is not a direct BEE function. Traditionally the rate to do contracting work would only make accommodation for the actual work to be done. Considering the context in which business is conducted the contractor has the potential to be more effective as the business community interface is just so much greater than from a corporate management position. The contractor would understand the community culture and needs more whilst at the same time nurturing the surrogate company core business objectives.

*Please would you consider the following questions and type in your answer below each bullet point?*

- Does contractor community upliftment exist today...apart from job creation and UIF and indirectly BEE?
- If the rate were to be reconsidered for example by (1%), would there be contractor-owner and manager buy in?
- Is a balanced scorecard currently in place to measure the extent of contractor community upliftment? What weighting does the CSI section receive? How is it structured?

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