

Conceptualising Corporate Social Responsibility and Corporate Social Investment: The South African Context

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Corporate Social Responsibility (CSR) and Corporate Social Investment (CSI) have become terms that are used to examine some activities of businesses. With globalisation pressures and increasing burdens on governments to provide comprehensive social services, the microscope has been trained on how firms play their part in sharing this burden. Views vary from those who believe that CSR and CSI are a distraction from profit maximisation to those who argue that participation in such activities contributes to positive social transformation and also benefits participating firms themselves. This paper seeks to conceptualise these debates, positing CSR and CSI, together with the Socially Responsible Investment (SRI) Index that has been used to evaluate corporate behaviour in South Africa, as a novel way of addressing pressing development problems.

INTRODUCTION

While corporate social responsibility (CSR) has increasingly become a fashionable concept in the literature, there remains a nagging feeling that its abstractness can render it meaningless. Indeed some business people may be forgiven for thinking that amorphous terms such as ‘social’ and ‘community responsibility’ are well removed from their main business of creating wealth or contributing to the gross domestic product or output, tangible ‘things’ which are at the centre of job creation. CSR in the particular historical circumstances of South Africa involves not just corporate citizenship (i.e., the integration of social and environmental considerations into all aspects of the enterprise’s operations) but also affirmative action and skills development to redress past apartheid ills, that is, fundamental change via government activities such as broad-based black economic empowerment (B-BBEE). Despite constituting only 1 percent of companies’ profits, the emergence of corporate social investment (CSI) in South Africa has the potential of bringing about a new meaning to how businesses can be actively involved in the radical transformation of an economy. It is worth noting that CSI is a South African phenomenon, one in which CSR activities were initially interpreted as corporate or strategic philanthropy - with an emphasis on education and health care, especially HIV/AIDS, and welfare at both local and national levels. Latterly, CSI projects have become more focused on sustainable development, governance issues and questions of public-private partnerships (Hamann, 2009:438; 443; Hamann, *et al*, 2005: 5-13; Sonnenberg and Hamann, 2006).

With increasing pressures on government to provide comprehensive social services and globalisation pressures, businesses have been called upon to play a more active role in society. Indeed, it has also been argued that firms derive enormous benefits from participating in CSR activities. This paper attempts to organise these controversies on CSR and CSI, examining the context in which they have emerged, and positing the South African case as a novel way of seeking to address, not only the relationship between firms and government in its development agenda, but also the ways in which such transformation can be evaluated. Such an assessment is also a response to questions of whether CSR and CSI are nebulous concepts.

In this study, we will examine the way in which CSR is conceptualised by various theorists, starting with the neoclassical economists who are much more sceptical about its place in the discussion of business activities, focusing instead on the economic and legal obligations of the firm. This discussion will be followed by arguments from Keynesian economists regarding the centrality of social and environmental concerns to the way firms do business, while the New Institutional Economics (NIE) seeks to actively

incorporate social, environmental and ethical considerations into the discussion of economic activity. It is on this basis that CSI in South Africa has taken its particular shape. We must also point out that the historical circumstances and the regulatory framework in South Africa have enabled CSI to emerge in this distinct way. We will then draw some conclusions from the preceding analysis.

PERSPECTIVES ON CORPORATE SOCIAL RESPONSIBILITY NEOCLASSICAL ANALYSIS

Various views have been offered to explain the importance or otherwise of corporate social responsibility (CSR) in business activity. For their part, neoclassical economists advance a rather narrow conception of CSR, believing that firms should only focus on their economic and legal obligations. Surely, so the argument goes, firms should devote their energies to supplying goods and services to their customers, they should minimise costs and maximise profits; and all this should, of course, take place within the laws and rules/regulations of the land (Carroll, 1979; Jamali, 2006:809-10; 2008:329-32; Jamali and Mirshak, 2007; McGuire *et al*, 1988; Quazi and O'Brien, 2000). Indeed, some proponents of this viewpoint go as far as to argue that CSR is not only a deflection from the main business of wealth-creation, thus serving to blunt competition, but is also an economic (cost) imposition on the firm (Friedman, 1962). Free marketeers of this ilk contend that:

high [corporate social] responsibility results in additional costs that put a firm at an economic disadvantage compared to other, less socially responsible, firms These added costs may result from actions like making extensive charitable contributions, promoting community development plans, maintaining plants in economically depressed locations, and establishing environmental protection procedures. In addition, concern for social responsibility may limit a firm's strategic alternatives. For example, a firm may forgo certain product lines, such as weapons or pesticides, and avoid plant relocations and investment opportunities in certain locations (e.g. South Africa) (McGuire *et al*, 1988:855).

Friedman *et al* also note that critics of CSR point out: "Some corporations 'may be using the procrustean formulae of corporate social and environmental responsibility to deflect attention from the fundamentals' [CSR] can, therefore, hide a multitude of socially irresponsible sins. [Some critics] argue that companies which devote substantial resources to [CSR] are externalising social and environmental costs through outsourcing – paying others to repair the damage they created" (Friedman, *et al*, 2008:159). Furthermore, there are those who assert that the contradictory nature of CSR only serves to "undermine [its] credibility" (ibid:160).

It stands to reason that, left to its own devices, the free market system ('popular capitalism') can induce market discipline in the day-to-day operations of businesses. Take, for example, the view advanced by the 'New Right' Public Choice and Property Rights theorists: they argue that directors should maximise utility (satisfaction, personal wealth) of shareholders (which we can equate with maximising profits). However, as is often the case in practice, these directors tend to pursue their own utility (e.g. easy life styles, plush offices, large company cars, large expenses accounts, charitable contributions to enhance their image, while patronising the recipients, etc). Consequently, the only way shareholders can express their dissatisfaction with the firm's poor performance (in terms of low profits) is through the opportunity they get at the Annual General Meeting (AGM) to voice their concerns and even sell their shares, which, it is contended, invariably leads to a fall in the share price. In extreme circumstances, panic can soon ensue if rival companies seek to take advantage of this turmoil by lodging takeover bids. The moral of the story is that pressure exerted by shareholders and the threat of a takeover have the desired effect of concentrating the minds of directors, raising managerial efficiency, and thus simultaneously asserting *market discipline*.

Put in ideological terms, McGuire *et al* observe that, for his part, “Friedman [argued] in 1962 that CSR is a fundamentally subversive doctrine – [and, clearly] nuances of the neoclassical perspective continue to permeate modern business discourse and practice with many scholars recommending CSR activities only if they contribute to the firm’s profits” (McGuire *et al*, 2008:332). Any divergence from this primary objective of the firm can only give licence to managers and directors to indulge themselves in their pet projects at the expense of maximising profits for the owners and/or shareholders.

KEYNESIAN ANALYSIS

Unlike the neoclassical economists, Keynesians have a broader conception of CSR, one that incorporates economic, social, technological and environmental considerations. They contend that the free market philosophy does not offer a solution to social and environmental problems, let alone economic ones, and yet this is the terrain in which businesses have to operate. Far from there being ‘no society’, as some extreme neoclassical economists contend, there seems to be an increasing need for firms to forge better links with the community and participate in achieving societal goals such as poverty reduction and “sustainable development of the country . . . [in] a stable yet competitive environment” (van Rooyen, 2007:126).

In addition to cost-minimisation and profit-maximisation within the ‘rules of the game’, businesses have a wider responsibility to society as a whole. Keynesian economists argue that the costs of CSR are relatively minimal compared to the benefits accrued to society (McGuire *et al*, 1988:854-56). By engaging in CSR activities, firms can contribute to the improvement of the quality of life of their workers, in particular, and social welfare, in general. Furthermore, such activities can boost morale of the workforce, resulting in higher productivity. Moreover, we are likely to see better labour relations, accompanied by customer goodwill and the enhanced image/reputation of the firm in business and government circles (*ibid.*). Being highly thought of in these terms has its benefits: “Indeed, banks and other institutional investors have reported social considerations to be a factor in their investment decisions . . . High corporate social responsibility may therefore improve a firm’s access to sources of capital” (*ibid.*:856; also see Sparkes and Cowton, 2004).

In fact, failure to meet implicit obligations, such as the quality of services, responsibility to the community and environmental concerns, may lead to the imposition of more explicit and costly government dictates e.g. stricter regulations on pollution, heavy fines and even law suits against the offending firms (*ibid.*). Thus, courting bad publicity in this way has detrimental effects, opening the firm to the wrath of the government, as well as threatening the firm’s viability and ability to access capital at favourable rates. This may also be accompanied by consumer boycotts.

NEW INSTITUTIONAL ECONOMICS

The approach which is adopted by those economists and social scientists who ascribe to New Institutional Economics (NIE) is one in which free markets are couched in an institutional context, while uncertainty is central to the understanding of evolutionary or revolutionary change of these institutions. We can also identify new institutional arrangements that are capable of reducing transactions costs (Cameron and Ndhlovu, 2000; 2009). It is noteworthy that NIE analysis on CSR arose from a number of developments; namely, the inability of the state to provide comprehensive social services and simultaneously resolve conflict; the increasing complexity of society, including questions of equity with regard to different cultures, as well as the need for accountability; the increasing recognition and implications of the role played by (corporate) managers and directors in society; and pressures brought about by globalisation and international trade (Friedman *et al*, 2008; Jamali, 2006:809-10; 2008:330;332; Jamali and Mirshak, 2007; Njenga and Smit, 2007; Perrini *et al*, 2007; van Rooyen, 2007).

Proponents of NIE, such as Quazi and O’Brien (2000), argue for a more holistic approach, one that recognises that CSR permeates every aspect of the business and societal landscape (see also Njenga and

Smit, 2007). Firms are an integral part of society, and their activities have a bearing on the lives of many people. For managers and directors, transparency must be the watchword, not only in terms of their obligations to the owners and/or shareholders of businesses, but also to society as a whole. While there is an implicit acceptance of private companies as the primary economic drivers, the compelling argument is that, given an increasingly complex world, such a 'privileged' position as creators of wealth comes with social responsibility. In other words, NIE encompasses both the narrow, neoclassical, perspective (i.e. cost-minimisation and profit-maximisation) and the broader, Keynesian, perspective of social responsibility (i.e. social and environmental goals, inclusive of philanthropy). While firms have a duty to their shareholders, in terms of increasing profits and, therefore, dividends, they must also recognise that they operate in a world where they have to interact with other business organisations (interdependence), where they impose demands on each other and, thus, mutual responsibility is imperative.

This also raises questions of "corporate social performance (CSP)" (Carroll, 1979; 1991; 1999; Jamali, 2006:810; 816; Jamali and Mirshak, 2007:246; McGuire *et al*, 1988; McWilliams and Siegel, 1999; Wood, 1991). Jamali and Mirshak argue for the integration of Carroll's analysis with that of Wood's; in other words, that 'principles, processes and outcomes' can be examined within the context of the firm's 'economic, legal, ethical, and discretionary' operations. To the extent that firms do not always adhere to all the requirements of CSR, while others 'prioritize their responsibilities', it is incumbent upon us to conduct a systematic assessment of identified aspects of CSP in order to have a clearer understanding of the impacts of CSR (Jamali and Mirshak, 2007:249). Some studies have reported that firms with high social responsibility tend to implement their implicit contracts and this has the added effect of improving their financial performance (Frooman and Murrell, 2005; Orlitzky *et al*, 2003). Moreover, such firms may also be more willing to absorb significant CSR costs in the future (McGuire *et al*, 1988: 857). In the circumstances, codes of conduct and reporting methods, such as those designed by the World Business Council for Sustainable Development (WBCSD, 2001), have become important in ascertaining the extent of the impact of CSR activities on society. These codes include human rights indices, environmental protection, employee rights, etc. Such an integrated approach is reflected in the so-called "sustainable performance measures (SPM) framework" (McGuire *et al*, 1988) which ensures that not only commercial aspects are embedded in business planning and day-to-day operations, but legal, social, ethical, environmental, technological and cultural considerations also feature prominently (*ibid.*). The FTSE4Good Index of the London Stock Exchange has also sought to measure the performance of those companies deemed to be 'socially responsible' by international standards.

CORPORATE SOCIAL INVESTMENT IN SOUTH AFRICA

The preceding discussion on CSR has attempted to show that New Institutional Economics (NIE) does not confine itself to profit maximisation within the requirements of the law (neoclassical case), but it goes further in taking cognizance of the responsibilities that corporations incur to society (Keynesian case). Performance-based CSR measures have been adopted in some developed and developing countries, while the Accountability Rating has at various times been applied in South Africa, Hungary and Turkey. This is the background against which corporate social investment (CSI) emerged in South Africa. Starting with the democratic elections in 1994 and in particular after 2002, and following the Broad-based Black Economic Empowerment (B-BBEE) Act of 2003, there have been growing pressures on companies to play a more active role in fostering development goals such as the alleviation of poverty and reduction of inequalities. It became increasingly clear that government contracts could only be secured by those companies that complied with B-BBEE Codes of Good Conduct and Scorecards, and adherence to the industry charters also became central. These developments have arguably had a positive impact, in terms of social and financial standing, on those companies that do not directly do business with government. For example, Strate Limited, which provides clearing, settlement and depository services for securities, "has adopted the Financial Sector Charter voluntarily . . . [even though] it does not apply to Strate directly. The commitment to perform in accordance with the Charter remains strong as Strate views

empowerment as an opportunity” (Strate Limited, 2006:6; interview with Ms. Monica Singer, chief executive officer, Strate Limited, 29/06/07).

In the light of these changes, corporate giving, which had essentially been an *ad hoc* philanthropic and voluntary activity, gradually became “a more professional, performance-driven pursuit, focused on achieving developmental impact” (Dialogue, 2006:6; also see Friedman *et al*, 2008:165-69). In fact:

The term corporate social investment – or CSI – encapsulates the essence of this shift towards more strategic programming, as opposed to corporate philanthropy. An investment implies that a return is expected: a return in terms of social uplifting for the broad transformation agenda and, increasingly, a return for the business or industry itself. . . many of the big players are expressing the need to build a more collaborative CSI sector, not only between the corporate and non-profit sectors, but also between companies that operate within similar industry or development sectors (Dialogue, 2006:6; see also Hamann, 2009:438; interview with Ms. Yvonne Johnston, former chief executive officer, International Marketing Council, 24/07/07).

CSI activities have, over time, increasingly become a more focused version of the broader CSR, that is, they have become much more concerned with sustainable development, governance and partnerships (correspondence with Dr. Neil Eccles, Acting Chair of Department, Centre for Corporate Citizenship, University of South Africa, UNISA, 24/02/09; Hamann, 2009). Similar to CSR discussed in the previous section, CSI can bring benefits to the participating firms, by enhancing the firms’ reputations, thus maintaining their credibility and legitimacy (which puts them in good stead with other businesses and government officials); contributing to corporate citizenship; by the manner of firms’ social responsiveness and involvement, and empowering the community at large. In addition, they can get involved in skills training, creating a conducive atmosphere for employees to work in, and thus contributing in a positive way to the government’s social transformation agenda (*ibid.*:8; van Rooyen, 2007:126-27). While CSI is part of corporate citizenship, the latter encompasses factors such as business ethics and good governance, health and safety issues at work, labour relations and environmental standards (Hamann, 2009:440). Although Dialogue (2006:7) concede that the estimated R2.88 billion which was allocated to CSI budgets in 2005/2006 was “a drop in the ocean compared to total government spending, especially in priority sectors such as education and health”, it concludes that the flexibility and speed at which corporate businesses disburse their funds, compared to government bureaucracies, ensures that they are more effective in achieving the maximum desired impact. Their resourcefulness, so the argument goes, is to be commended and their methods of allocating funds and accounting for them are arguably more efficient than government programmes.

We can cite a number of examples where there has been a commitment of resources to Employee Community Involvement (ECI) schemes and management of sustainability. The company GreaterGood South Africa has supported non-profit organisations and provided specialist services in training and educating CSI managers and keeping them abreast with developments elsewhere. Old Mutual, for instance, has been involved in social investment since 1965, and was an active participant in the drafting of the Financial Services Charter. It continues to invest in rural and peri-urban communities, particularly in education and health, and has a vibrant Staff Volunteerism Programme (interview with Ms. Charmaine Shandu, Sales Manager, Old Mutual, Durban, 24/07/08). Its subsidiary company, Nedbank, won the Banker Emerging Markets Corporate Social Responsibility Award at the Banker’s Annual Top 1000 Banks Awards in London in 2005, and received the South African Mail and Guardian Greening the Future Award in the same year. While Futuregrowth Infrastructure and Development Bond Fund has also been commended for its good performance on CSR, these examples are few and far between:

Significantly, a large proportion of total CSI spending comes from a relatively small group of large companies, with a predominant role played by the mining and finance companies. Anglo American, in particular, is a prominent recipient of CSI awards and recognition. . . This dominant role of the large companies in CSI (as well as the broader CSR field) also needs to be seen in the context of the concentration of the South African economy in relatively few companies, especially in the mining and finance sectors, though this concentration has decreased somewhat since the transition to democracy in 1994 (Hamann, 2009:438).

Apart from the government's determination to redress the inequalities of the apartheid era, Hamann also points out that South Africa's coming out of economic and political isolation provided a platform for the establishment of CSR policies:

With the political changes in the 1990s, these restrictions [sanctions and trade restrictions during apartheid] diminished and South African companies became part of and exposed to the global economy, including the concept of CSR as it was emerging in the UK, in particular. As a result, the companies that have been featuring most prominently in the South African CSR discourse are the "depatriated" companies, i.e., formerly South African companies that have moved their registration and primary listing overseas (most commonly London) . . . The first companies to do this include Anglo American (mining), SAB-Miller (beverages), and Old Mutual (finance). The move to one of the primary stock exchanges is widely seen to have created a strong impetus to establish CSR policies and enhance public reporting at minimum, because of the more comprehensive corporate governance and risk management requirements of the stock exchanges and greater stakeholder expectations and shareholder activism in "Northern" countries (ibid:442).

Apart from these notable exceptions, the general impression one gets is that most companies in South Africa have only responded to legislative requirements and, even then, their CSR and/or CSI activities have not always reached the wider public. In other words, their involvement in CSI (or Socio Economic Development – SED – as it is sometimes referred to in South Africa) has largely been influenced and determined, not only by historical circumstances, but also by government regulations and the increasingly compulsory nature of B-BBEE and industry charters. For example, the mining industry has had to respond to legislation on health and safety, and environmental protection. Despite the inconsistencies between the DTI (department of trade and industry) Code of Good Practice and some industry charters, the DTI has striven to develop a balanced generic scorecard to measure the extent to which companies contribute to B-BBEE. Some charters have been gazetted, while others do not have a legal status, and the South African National Accreditation System (SANAS), via the DTI, has recently announced the approval of the first 11 BEE Verification Agencies (correspondence with Ms. Cindie Maidment, HR Manager, Strate Limited, 10/02/09; 16/02/09; 19/02/09; see also Njenga and Smit, 2007). The mere possibility of CSI projects being aligned to government priorities may "lead to the necessary leverage and to effective follow-through in respect of development projects". However, there have also been concerns that such a possibility could lead to abdication of the government's responsibilities regarding, for example, infrastructure development (ibid.).

Notwithstanding this, it is noteworthy that one of the fundamentals of CSI and, in particular, CSR is that there should be increasing cooperation between government and private firms in delivering the developmental goals. This entails measuring and evaluating the impacts of the identified projects to ensure delivery of anticipated social returns. It goes without saying that this requires sensitivity and accountability. Social investors and the intended beneficiaries have to be engaged in a meaningful way in the process of achieving the development goals. Moreover, a more responsive social capital market must underpin the activities of these social investors, whose outcome should be measurable by the extent to which they have made a difference to people's lives (Friedman *et al*, 2008; Perrini *et al*, 2007; Trialogue,

2006). We can also contextualise the establishment of the South African Social Investment Exchange (SASIX), which was the second of its kind in the world outside the Social Stock Exchange (SSE) of Brazil, in these terms. In other words, we have to address questions not only of the social market, but also questions of how to measure the impacts of CSR, that is, assessment of social, programmatic and policy impacts of corporate behaviour.

It is in this context that the work of the Johannesburg Securities Exchange (JSE) is of particular interest. Similar to the SPM framework that we noted in the previous section, and based on the FTSE4Good Index, the JSE, under the guidance of its deputy chief executive officer, Nicky Newton-King, developed the Socially Responsible Investment (SRI) Index in May 2004 to mirror the complexity of South African society. The SRI Index was the first of its kind in an emerging economy. The social pillar of Black Economic Empowerment (BEE), social equity and social wellbeing (health) was going to take pride of place in the SRI Index. Ms. Newton-King argues that this index was created against the background of growing interest in how corporate businesses interface with society (environmental/social sustainability); that is, the debate on what constitutes ‘good business behaviour’ (interview, 17/07/08; also see JSE, 2005).

In the circumstances, there was; therefore, a need to devise a clear way to assess sustainable business practices of companies that are involved in social transformation in South Africa. Registration of companies that seek to participate in the SRI Index is voluntary, although the top 100 companies were assessed in 2008 whether they volunteered or not and plans are afoot to extend this to the top 140 companies (correspondence with Dr. Neil Eccles, UNISA, 24/02/09). For a company to demonstrate that it has integrated and sustainable business practices, it must address and embrace the three Pillars of the triple bottom line – ‘environment, society and economy’, which, in ordinary business parlance, stands for economic, social and environmental aspects of business. Equity, accountability, responsibility and transparency underpin the pillars of the triple bottom line, and companies must show that they subscribe to the standards of corporate governance in principle and practice. In order to be selected for inclusion in the SRI Index, companies must also achieve a minimum overall score of 70, and this must incorporate core indicators in social sustainability reporting such as HIV/AIDS (JSE, 2005; also see Hamann, 2009; Sonnenberg and Hamann, 2006:316). It will also be interesting to see how, as Adam and Shavit (2008) pose the question in a different context, the JSE’s SRI Index provides ‘incentives’ for excluded companies to improve their performance on social responsibility. Hamann (2009) also argues for more “context-specific assessments” which take account of what he describes as “the complexities of sustainable development at the local level”. While advocating for a commitment to more investment, as well as public-private partnerships, Ms. Newton-King points out that JSE-listed companies have been involved in health and educational projects, and that the fourth review of the index shows that there has been an increase in the companies under review (interview, 17/07/08).

CONCLUSION

This paper conceptualises corporate social responsibility (CSR), tracing its emergence, and presenting corporate social investment (CSI) in South Africa as a slightly more focused version of CSR. While neoclassical economists view CSR as a subversive doctrine that deflects from the main economic business of ‘making money’ for the owners and shareholders of the company, the Keynesian approach focuses on wider social and environment goals, where companies have to take their social responsibilities more seriously. We develop these ideas further in the New Institutional Economics (NIE) where the neoclassical views of personal choice and profit maximisation are married with the Keynesian propositions of public responsibility. Assessment of observable outcomes is introduced here. It is on this basis that we examine the ‘social contract’ between government and firms in South Africa. In other words, CSI has emerged from the specificities of South African historical development, and it has arguably been driven primarily by legislation and industry charters. It is in this context that CSI, with its paraphernalia of the SRI Index and social capital market, promises to present a new and radical way of

addressing developmental problems. Assuming that the SRI Index and its associated SASIX succeed in cajoling firms in changing the way they conduct business and, thus, contribute to the improvement of people's lives in South Africa, it will be interesting to see whether this will be sufficient to attract 'inward investment' from abroad.

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