STATE-CORPORATE SOCIAL DEVELOPMENT IN SOUTH AFRICA: THE ROLE OF THE STATE IN ADVANCING CORPORATE SOCIAL ENGAGEMENT

KIM RAEL SEGEL

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ABSTRACT

State-Corporate Social Development in South Africa: The Role of the State in Advancing Corporate Social Engagement

The contemporary South African state seeks to ensure economic growth and global competitiveness whilst simultaneously redressing apartheid legacies. These are its twin imperatives to effect social and economic transformation.

This thesis advances the framework of State-Corporate Social Development (SCSD) to describe and explain policies developed by the post-apartheid government to regulate the social and economic practices of business, and policies adopted by businesses in response. The thesis explores state-market dynamics as these relate to policies promoting black economic empowerment (BEE) in South Africa. Against this broad policy rubric, the research explores, within a wider nexus of stakeholder relationships, the interactions between business and government with reference to two sectors: investment companies and tourism.

Extensive legislative and institutional mechanisms have been established to ensure a business environment conducive to government's political agenda. A key driver is the imperative to accelerate the integration of black South Africans into the economic mainstream through BEE policies. The state uses multiple levers to offer incentive or apply sanction. It is shown that the state, as a major consumer of goods and services, is itself a primary agent in transforming socio-economic patterns along market principles. SCSD also includes the response of business to evolving policy and environmental conditions. These responses vary according to the business size, nature, sector and value placed on various stakeholding relationships.

The thesis employs stakeholder and social contract theory, and qualitative methods, including 135 interviews, to develop and explain SCSD as it pertains to BEE. Using formal and informal social contracts, it is shown how BEE policy shifted from emphasising equity ownership to a broader-based strategy. The strategy relies on multi-stakeholder relationships and drivers offering economic market-based incentives. The thesis draws conclusions regarding the centrality of the state in providing incentives for

corporate social development policy in South Africa. It also suggests broader policy lessons relevant to state-corporate relations and the viability of the SCSD approach.

This thesis is dedicated to the memory of
Peter Esterhuysen (1963-2004).

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ABBREVIATIONS AND ACRONYMS

AH	Afrikaanse Handelsinstituut
AIDS	Acquired Immunodeficiency Syndrome
ANC	African National Congress
AU	African Union
BAC	Business Against Crime
BB-BEE	Broad-Based Black Economic Empowerment Strategy
BBWG	Big Business Working Group
BEE	black economic empowerment
BEECom	Black Economic Empowerment Commission
BMF	Black Management Forum
BSA	Business South Africa
BT	Business Trust
CAMPFIRE	Communal Areas Management Programme For Indigenous Resources
CBD	Central Business District
CBM	Consultative Business Movement
CBNRM	Community-based natural resource management
CCAfrica	Conservation Corporation Africa
CEE	Commission of Employment Equity
CEO	Chief executive officer
COSATU	Congress of South African Trade Unions
CSI	Corporate social investment
CSP	Corporate social policy
CSR	Corporate Social Responsibility
CSSR	Corporate social and sustainability reporting
DBSA	Development Bank of Southern Africa
DEAT	Department of Environmental Affairs and Tourism
DFI	Development Finance Institution
DLA	Department of Land Affairs
DoL	Department of Labour
DTI	Department of Trade and Industry
FAWU	Federated Allied Workers' Union
FDI	foreign direct investment

GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
GNU	Government of National Unity
hdi	historically disadvantaged individuals
HDSA	historically disadvantaged South Africans
HIV	Human Immunodeficiency Virus
Icasa	Independent Communications Authority of South Africa
ICT	information, communications and technology
IDC	Industrial Development Corporation
ILO	International Labour Organisation
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange
LRA	Labour Relations Act
MIC	Mineworkers Investment Company
MICE	Meetings, incentives, conventions and exhibitions
MIT	Mineworkers Investment Trust
MLC	Millennium Labour Council
MNC	Multinational Corporations
MRI	Medical Research Institute
NAFCOC	National African Federated Chambers of Commerce
NALEDI	National Labour and Economic Development Initiative
NAIL	New Africa Investments Limited
NBI	National Business Initiative
NEC	National Empowerment Consortium
NEDLAC	National Economic Development and Labour Council
NEF	National Empowerment Fund
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental organisation
NPB	National Parks Board
NSA	National Skills Authority
NUM	National Union of Mineworkers
Numsa	National Union of Metal Workers
OAU	Organisation of African Unity
OECD	Organisation of Economic Cooperation and Development

pdi	previously disadvantaged individuals
PFI	Public Finance Institution
PHC	Protea Hospitality Corporation
PPP	Public Private Partnerships
PPT	Pro-poor tourism
RDP	Reconstruction and Development Programme
RETOSA	Regional Tourism Organisation of Southern Africa
RIF	Rural Investment Fund
SAA	South African Airways
Saccawa	South African Commercial and Allied Workers' Union
SACOB	South African Chamber of Business
SACP	South African Communist Party
Sactwu	South African Clothing and Textile Workers' Union
SADC	Southern African Development Community
SANP	South African National Parks
SARB	South African Reserve Bank
Sarhwu	South African Railway and Harbour Workers' Union
SARS	Severe Acute Respiratory Syndrome
$SARS^2$	South Africa Revenue Service
SCSD	state-corporate social development
SDI	Spatial Development Initiative
SEAR	Social and ethical auditing and reporting
SEE Risk	Social, ethical and environmental risk
SEED	Social Economic and Environmental Development Unit
SETA	Sector Education and Training Authority
SMEs	Small and medium enterprises
SMMEs	Small, medium and micro enterprises
SOE	State owned enterprises
SPV	Special Purpose Vehicles
SRI	Socially Responsible Investment
STD	Sexually Transmitted Disease
TAC	Treatment Action Campaign
TBCSA	Tourism Business Council of South Africa
TBL	Triple bottom line

TEP	Tourism Enterprise Programme
THETA	Tourism and Hospitality Education and Training Authority
TRC	Truth and Reconciliation Commission
TRM	Total Responsibility Management
TUIC	trade union investment company
UAH	Union Alliance Holdings
UN	United Nations
UNDP	United Nations Development Programme
WSSD	World Summit on Sustainable Development
WTO	World Tourism Organisation
WTTC	World Travel and Tourism Council

LIST OF LEGISLATION

Nedlac Act 35 of 1994

Promotion of National Unity and Reconciliation Act 34 of 1995

Labour Relations Act 66 of 1995

National Gambling Act 33 of 1996

Constitution of the Republic of South Africa, 1996 Act 108 of 1996

Development Bank of Southern Africa Act 13 of 1997

Basic Conditions of Employment Act 75 of 1997

Employment Equity Act 55 of 1998

Skills Development Act 97 of 1998

National Empowerment Fund Act 105 of 1998

National Environmental Management Act 107 of 1998

Public Finance Management Act 1 of 1999

Skills Development Levies Act 9 of 1999

World Heritage Convention Act 49 of 1999

Preferential Procurement Policy Framework Act 5 of 2000

Minerals and Petroleum Development Act 28 of 2002

Broad-Based Black Economic Empowerment Act 53 of 2003

CHAPTER ONE: INTRODUCTION

The concern in this thesis is the specific and dynamic relationship between the state and the market in extending social and economic goods, as well as opportunities in contemporary society. Using the social development perspective, I have posited a refined and particular framework to describe and explain the drivers established by government and responses of corporations to a given social and economic milieu. I have called this framework state-corporate social development (SCSD). In highlighting the institutional relationships extant between the state and the market, I seek to understand what occurs when corporate social engagement is viewed through a social development lens. The thesis also seeks to theorise the state-market dynamic in a context of shifting expectations regarding the state - locally and globally - and the state's obligations to manage social need and ensure social well-being. The argument for the state-corporate social development (SCSD) framework is premised on the purposeful and proactive engagement of multiple institutions - specifically the state and market - in promoting economic outcomes that are socially responsible and which seek to promote social justice.[1]

This focus is relevant to social policy in the early twenty-first century on several counts. First, the role of the state has changed; this is not only true of advanced capitalist countries but also of developing countries (Esping-Andersen 1996). The partial retrenchment of the state and its role as a coordinator rather than provider of services have meant decentralisation and sharing of traditional functions, including the promotion of welfare (Batley 1996, 1996a; Davey 1993; Le Grand, Propper, and Robinson 1992; Taylor-Gooby 1998). An extensive literature reflects how advanced capitalist states (which provide models of social welfare) have grappled in recent years with the evolving role of the state. Increasingly, distribution of social resources has relied on a dynamic interrelationship between the private and the public sectors.

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[1] Whilst environmental responsibility is a critical issue in social development, it is consciously excluded from the concerns of this thesis. In addition, multinational corporations (MNCs) and their impact on social and economic well-being across the globe, fair-trade issues and the issue of global supply chains are also excluded.

The literature concerned with social policy still gives credence to the near-ubiquitous conception of the state as the *natural* and *primary* social policy institution for the provision of social well-being. However, this is being challenged in practice and nowhere more clearly than in South Africa through policies promoting black economic empowerment (BEE) and corporate social development, which form the empirical focus of the present research.

Structure of the chapter

This chapter is structured in two parts. The first part introduces the core research framework, state-corporate social development (SCSD). Before advancing the framework, the thesis establishes its intellectual and ideological context. The framework extends a social development perspective and focuses specifically on the interventionist and institutional aspects in the state-market relationship in promoting social well-being. State-corporate social development offers a coherent framework for the interrogation of the state-market dyad, as well as existing conceptions of the social engagement of business. The chapter proceeds with an investigation of the social role of business, placing corporate social engagement in relation to attendant concepts such as corporate social responsibility and corporate citizenship. In so doing, it utilises but goes beyond the extensive literature on business-societal relations. Continuing the focus on corporations, it is suggested that this literature prompts discussion of the ideological basis of arguments around the social engagement of business. It also discusses corporate motivations for the same. The first part concludes with a discussion of the relationship between social development and social justice with business acting as intermediary. The second part of the chapter presents the study itself and outlines the methodology in detail. After stating the research questions, the thesis briefly situates the research in the political context of South Africa. Finally, the chapter concludes by suggesting the anticipated contributions and limitations of the research.

Part One: Towards an appropriate social policy

Social policy, as a set of interventions and an academic discipline, is concerned with the range of intentions and activities which create mechanisms to manage social need. Social policy involves the delivery of goods and services for social well-being

(Baldock *et al.* 1999; Huby 1998, p.3; Manning 1998).[2] Whilst the state remains the fulcrum for such delivery, contemporary social policy has sought to extend the array of institutional actors involved in social delivery to include the market and society, alongside the state (Batley 1996; Davey 1993; Esping-Andersen 1990, 1996; Le Grand and Estrin 1989; Le Grand 2000).

Without entering into a lengthy discussion of the typologies of social policy or its evolution,[3] it is nonetheless useful to highlight three pertinent issues. First, key debates informing contemporary social policy relate to the interface between the state and non-state actors and their administrative or organisational mechanisms for the delivery of welfare benefits.[4] Another issue is the integration of the norms and values of state and non-state institutions as to what socially desirable objectives might be, and what interventions are likely to achieve these ends. This last point suggests an accord or compact regarding envisioned societal outcomes and the relationship between multiple institutions. It also points to the notion that interventions reflect the dominant political ideas about social responsibility. Finally, an underlying value of social policy is that of social justice: this being the question of who gets what and by what means (Taylor-Gooby 1998, p.39).

Social policy has historically been socially ameliorative or remedial, whether targeted at specific groups or universal in nature (Midgley 2001d, p.28; Hardiman and Midgley 1982). Some have argued that because of the intertwining of social policy with political economy[5] and the ideological nature of the project, social policy may fail to achieve social justice (Squires 1990). In this criticism, the state is at best paternalistic; markets, as a device for social well-being, are inequitable. Social policy

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[2] Social Policy usually encompasses the 'big five' areas of social security benefits or pensions, housing, education, health and social services (Huby 1998, p.2; Midgley 1997, p.7). In developing countries, social benefits may also include access to clean water and sanitation, as well as nutritional assistance as part of social delivery (Beall, Crankshaw, and Parnell 2002a).

[3] Most texts on social policy trace the development of the welfare state, as well as its extant forms globally. Among others see (Alcock, Erskine, and May 1998; Baldock *et al.* 1999; Esping-Andersen 1996, 1990; Midgley 1995, 1997; O'Brien and Penna 1998; Pierson 1998; Hall and Midgley 2004 forthcoming).

[4] Examples of market provision of welfare include private pensions, public-private partnerships and market socialism (Le Grand and Estrin 1989; Esping-Andersen 1990). Quasi-market provisions such as social security and provident programmes are based on employee contributions but are not universal (Midgley and Tracey 1996).

5 Political economy is understood here as the political aspects of economic policy-making both at a national and international level.

may simply reflect historical priorities and attitudes (Hall and Midgley 2004 forthcoming). Importantly for this thesis, James Midgley points out that social policy has been criticised for failing to address the necessary economic questions associated with social welfare. He sees social policy as subsidiary to and dependent on the economy for funding (Midgley 1995, p.63) and critiques the idea that social policy and the economy are wholly discrete and not mutually reinforcing. Midgley argues for a more *developmental* approach which 'dynamically and purposefully harmonise(s) economic and social objectives within a wider development process' (Midgley 1995, p.1). Midgley's most recent work is explicitly concerned with the interface of social policy and development, especially with regard to addressing poverty and social exclusion in developing country contexts (Hall and Midgley 2004 forthcoming).[6] Linked to development, social policy (re)emphasises the role of the state (and other institutions) in ensuring secure incomes and livelihood.

Social development: marrying social and economic development

While social policy might be a point of departure, social development constitutes the core perspective from which to develop my own framework of SCSD. I have used Midgley's work on social development extensively in this discussion and have précised his thesis here.

Midgley defines social development as 'a process of planned social change designed to promote the well-being of the population as a whole in conjunction with a dynamic process of economic development' (Midgley 1995, p.25). This dual focus on the economic and the social is the most critical element of the social development perspective. He defines welfare as the condition of human well-being which is ensured when social problems are managed, human needs are met and social opportunities are maximised (Midgley 1997, p.4-6). The integration or harmonisation of social and economic interventions is critical to social development's goal of promoting social well-being.

[6] Social policy has evolved in developing country contexts to refer to 'questions of sources and stability of employment, support institutions, processes and structures that determine people's well-being as well as broader natural and political factors which encourage and constrain human development' (Hall and Midgley 2004 forthcoming, p.9 manuscript).

Below, I present six features of social development which must necessarily be made explicit before I can utilise this perspective as a springboard for a new framework. First, social development is a *developmental* approach to promoting social well-being (Midgley 1997, p.180). As such, it is cognisant of the wider social and economic realities in which policies are developed. The key attribute of its developmental character is that social and economic aspects are viewed as 'two sides of the same coin' (Midgley 1995, p.21). Second, social development is a planned intervention. The state, although not necessarily acting alone, plays a leading role in proactively directing social and economic strategies for the promotion of social well-being. Until relatively recently, advocating state intervention contradicted global economic philosophy - promoted by the World Bank and global investment capital - which held state intervention as antithetical to economic growth, and efficient and effective government (Midgley 2001a, p.241; Propper 1998; Deacon, Hulse, and Stubbs 1997, p.11; Deacon 1998; See World Bank 1997 for reinsertion of the state). By contrast, the social development framework

> [R]ejects the idea that social improvements occur naturally as a result of the workings of the economic market .... Instead, organised efforts are needed to bring about improvements in social welfare (Midgley 1995, p.26).

In advancing a unified socio-economic planning model which seeks to promote redistribution with growth and ensuring basic needs, social development 'rest(s) on the assumption that governments should be responsible for promoting social development' (Midgley 1995, p.60). Indeed, governments are perceived to have a critically important role in creating the enabling conditions - at minimum an enabling institutional infrastructure and developing human capacity - for the strategic implementation of economic and social development (Stiglitz 2001, p.346). Additional interventions include economic policies that enhance social well-being, the creation of aligned institutions that promote socio-economic integration, and the implementation of strategies that mobilise human and social capital (and investment therein) such that they contribute positively to economic growth (Midgley 1995; Moser 1998; Karger and Midgley 1994, p. 276-286; Sen 1985). Rather than direct redistribution, social investment (primarily by the state) in human capital seeks to diminish citizens' reliance on the state (Esping-Andersen 2001). Rather than a retrenchment of welfare, social investment expenditures contribute to economic development (Midgley and Tan 2001, p.246).

Third, social development represents an institutional perspective. In seeking to harness economic development with social goals, it seeks to mobilise major institutions - the state, market and society - to ensure these ends. The successful promotion of social development sees the state playing a leading role in integrating economic and social objectives. Utilising the market, community and public sector, the state's 'activist role' is described as managed pluralism (Midgley 1995, p.10, p.139; Miah and Tracey 2001, p.61). The notion that the state manages or coordinates a plurality of strategies and interests (or multiple competing stakeholder interests) is a sustained theme in this thesis.

Fourth, in mobilising institutions, social development may be corporatist in character. Governments may seek to create *compacts* between various social partners and institutions (such as organised labour and business) to ameliorate conflict, effect economic planning and promote social well-being. Moreover, such arrangements are driven by agreements and compacts aimed at promoting the interests of all parties (Midgley 1995, p.148).

Fifth, social development generally promotes universalistic or inclusive policies rather than targeted social welfare (Midgley 1995; Midgley and Tan 2001; Midgley 1997, p.182). However, social development policies are context-sensitive; some social development perspectives use positive discrimination in redistribution. Governments may use economic, fiscal or social policies to redirect resources to particular people (Midgley 1995, p.156). Indeed, social development lends itself to contexts requiring the removal of institutionalised obstacles to people's economic participation and to providing targeted social investment, such as the case of affirmative action (Midgley and Tan 2001, p.250; Midgley 2001e, pp.165-166)

Lastly, the theoretical underpinning of social development is a political economy approach (Midgley 1995, p.34). The framework is thus anchored in normative values which have ideological roots and the redistribution of resources is invariably a basic requirement of social development (Midgley 1995, p.125; 2001e, p.158; 2001c).

Those critical of planned or state intervention on one side of the spectrum, as well as those opposed to the mobilisation of the market for redistributive purposes on the other, are ambivalent about social development's normative stance. Nonetheless, social development cannot be divorced from thinking about contemporary political economy, or from the contexts in which social and economic needs and opportunities are managed. Indeed, a political economy approach raises anticipated ideological criticism from neo-liberals. Social development has been criticised as 'controversial', 'utopian', 'too wide-ranging to be meaningful' and theoretically undeveloped, and possibly open to right-wing manipulation, especially given the emphasis placed on labour market participation (Rainford 2001, p.55).[7] Nevertheless, as a framework for policy analysis it is useful and often appropriate for real world policy interventions. It is in this context that is harnessed here in relation to state-corporate social development in South Africa.

State-corporate social development

Of particular relevance in formulating the SCSD framework, are interventionist and institutionalist aspects of social development. I define state-corporate social development as *a framework for planned and strategic change for social well-being, in which economic development and social development are integrated and mutually supportive in a context-specific environment, and where the state is the chief driver and the market its primary co-partner in achieving social goals.* The state's role is critical in driving social investment and ensuring an environment in which obstacles are removed and opportunities enhanced for economic participation. Here, social and economic strategies are used in concert to promote social well-being. In reinforcing the state's relationship with another institution, namely the market, SCSD explicitly addresses the state-market dyad. In elevating the market and privileging the dynamic

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[7] Social development has not been systematically adopted globally but has acquired currency in mainstream institutions. The agenda has been driven in recent years by the World Bank, the International Monetary Fund (IMF) and United Nations (UN) agencies (Midgley 1995, p.10, p.67; 2001c; Hall and Midgley 2004 forthcoming; Tang and Midgley 2002). These institutions have promoted integrative economic (even 'market-friendly') planning usually with community participation to enhance social welfare (Midgley 2001a, p.245; Midgley and Tan 2001). The World Bank uses a social development framework in promoting socio-economic well-being (Hardiman and Midgley 1982; Midgley 1997, p.185-187; 1995, p.106; Violett 2003). The International Labour Organisation (ILO) and the Organisation of Economic Cooperation and Development (OECD) adopt rights-based, social protection policies which emphasise security of employment and social protection for vulnerable groups (Tang and Midgley 2002).

relationship between the state and market, the framework does not devalue the state's relationship with other institutions such as the community (civil society including international development agencies) for the achievement of social goals.[8] Its gaze is simply narrowed to the key institutional actors.

Central to the notion of SCSD's conception of the market is a broad definition of what constitutes business enterprises. As is argued in the following chapter, these market institutions lie along the spectrum with many 'businesses' having both public and private characteristics. Businesses may be described as being simultaneously 'private-like' and 'public-like' institutions. SCSD argues a conception of business activity in both traditionally private and public spheres. In the first instance, commercial enterprises are expected to deliver a return on investment in the form of dividends and capital growth. These are conventional for-profit enterprises. In the second, such as in the case of public institutions like state-owned enterprises (SOEs) which operate along business-like principles, the institution follows an economic model in which the enterprise is engaged in the capital market but as a sustainability measure. Here, the imperative is for cost recovery rather than capital accumulation.

The above definition of SCSD identifies the key characteristics of the perspective. In addition, this conception of SCSD can be distinguished from definitions of social development in three ways. First, its interest centres on the state's multiple strategies and social and economic policies, and how corporate entities, in turn, respond to these. This conception of social development is not primarily concerned with the delivery of the 'big five' social goods, whether by the state or by intermediaries. The SCSD framework assumes a state which is responsive to citizens' social needs and the protection of vulnerable groups through social goods and services. Instead, within the context of a resource- or capacity-poor state, the framework seeks to extend the purview of institutions that have social responsibility in a social contract. The framework concentrates on the mutual obligations of social partners. These institutions, in concert, are concerned with removing obstacles, creating

[8] The participation of communities in social change is a core tenet of current development agendas, and of social development in particular (Midgley 1986; Hall and Midgley 1988; Midgley 2001c, p.48). In this framing of state-corporate social development, community participation is somewhat peripheral to the specific relational dynamic of state and market. It does, however, play a significant role in the creation of social cohesion and social compacts (Midgley 2001e, p.162-163).

opportunities and mobilising social and economic assets productively for social well-being.

Second, the state's role is central in directing or driving markets in respect of social objectives. At an abstract level, the market is a coherent though heterogeneous institution although its economic actors and end-beneficiaries are often individuals. State-corporate social development is both an institutionalist and individualist approach in respect of the fact that the state-market dyad creates a set of particular conditions conducive to the emergence of enterprise, and the fact that individuals have to mobilise their own resources and efforts in response.[9] Stoesz advances a radical view of such an enterprise approach: 'bootstrap capitalism' argues that poverty will be eliminated and upward mobility secured if social policy ensures the economic participation of individuals (Stoesz 2000).[10] Aligned to the enterprise approach to social development, a 'productivist' approach places emphasis on more efficient social investment to produce 'positive rates of return' not only to the beneficiary individuals but to the economy and society as a whole (Midgley and Tan 2001; Midgley 2001e, p.162; 1997, p.196; Tang and Midgley 2002). Again, whilst the market and entrepreneurship are critical to the SCSD framework, a laissez-faire market position which abrogates state intervention is not advocated.

Lastly, whilst it is assumed that social development requires redistributive social and economic policies, SCSD redirects resources using the market as a redistributive mechanism. As an instrument for advancing development, the market has the capacity to deliver extensive benefits whether economic, social and environmental. What is highly significant is the potential that economic patterns are positively altered, with attendant social consequences. Consequent shifts in economic and social distribution are defined by the context in which they occur.

[9] This is not to say that individuals are alone responsible for their welfare or that poverty or deprivation are a result of the inadequacies or maladjustment of individuals (Hardiman and Midgley 1982). Rather, given enabling conditions, the approach to social development relies on the labour, increased economic participation and entrepreneurial assets of individuals.

[10] In the United States, these policies have found expression in 'welfare-to-work' programmes.

A question of ideology

State-market relations inevitably raise the issue of ideology in contemporary political economy. Social development, particularly when advanced with a strong market and entrepreneurial orientation, has its philosophical roots in left liberalism and social democratic ideology (Miah and Tracey 2001, p.58; Rainford 2001, p.51).[11] Importantly, SCSD does not interrogate the legitimacy of state intervention or regulation, but rather questions how this is done, in whose interest and to what end. There are two levels at which this issue needs to be explored, the first being at the level of the state and the second at the level of the corporation.

In a social development model, the primacy of the state is underscored and, in the SCSD framework the state is similarly 'interventionist' or 'directive'. Both the radical left and right oppose social planning though for different reasons (Hardiman and Midgley 1982, p.27-28; Midgley 1997, p.199). For the right, an inviolable laissez-faire state is seen to protect the market from political intrusion and ensure economic development (Esping-Andersen 1990, p. 14; Midgley and Tan 2001, p.244). For the left, class and social divisions may be further entrenched (Pierson 1998, p.23, p.53). Neither of these radical positions finds resonance in this thesis. Rather, the state has to be strong enough to provide effective steering for the promotion of social development as well as social justice (Giddens 2001, p.6).

Linked to the role of the state, the second level of ideological interrogation relates to the market. The balance of state and market in economic policy which is socially responsible raises the question of how the corporation is seen, to whom it is seen to be accountable, by what mandate, for what purpose and in whose interest. Many large corporations are extremely powerful entities.[12] Their power is pronounced in the context of capitalist ascendancy, the free-flow of people and capital, increased

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[11] The underlying political and ideological debates of state-corporate social development relate to liberalism and are discussed further in Chapter Two.

[12] Oft cited global statistics pointing to the influence of companies are illuminating. Of the 100 largest economies in the world, 51 are corporations. Wal-Mart, for example, is only 42nd on the overall list, yet has revenues larger than the GDP of 161 countries. Ford is larger than South Africa's economy (http://www.united-church.ca/tsj/pdf/10.pdf).

technological advancement and the internationalisation of capital (Korten 1995; Punch 1996; Hutton 1997).[13]

Whilst I argue the increasing acceptability of - even pressure for - corporate engagement, the business[14] environment is oftentimes ideologically hostile to the proposition of corporate social engagement. There are three general objections to the proposition of corporate social engagement. First, classical liberals see the state and market as divergent and exclusive. The (amoral) market self-corrects and regulates society through patterns of supply and demand. The corporation in this schema is autonomous, and has a fiduciary responsibility only to its shareowners or shareholders (Longstreth and Rosenbloom 1973). Classical liberals argue that the market must remain autonomous and free of normative values inherent in social engagement. Should value imposition occur, social engagement 'violates the basic tenets of inquiry and action that are essential to creating wealth' (Walsh 1999).

A second objection, which considers the role of the state quite differently, suggests that it is unfair to demand social engagement by corporations. Responsibility for social development lies solely with the state, which is the only legitimate instrument for redistribution and social remedy (Longstreth and Rosenbloom 1973).

The third objection cites economic reasons. Proponents argue that successful business equals functioning in a highly competitive environment. The business gears resources to signals interpreted from that environment. The fundamental concerns of management are centred on corporate survival, continuity, power, reputation and profits (Meyer and Zucker, 1967, in Punch 1996). Economic imperatives alone drive this conception of business. Contemporary commerce is characterised by an increasingly heavy accent on efficiency and functionality: 'corporations cannot act other than in the corporate interest. Altruism or philanthropy are concepts that do not exist in an entrepreneur's vocabulary' (Wempe 1998). This competitive position

[13] In the case of many developing countries, weak states may not be strong enough to revoke the privileges of malfeasant companies in the face of such disproportionate power.

[14] In traditional terms, business is defined as economic activity with the purpose of maximising profits on investment, competitiveness through efficiency and investment to ensure the sustainability of the enterprise. This is a narrow interpretation of business, and one that is broadly reflected in any business or management text.

requires an intense focus on efficiency and profit; any moral choices, it is argued, increase costs and may affect the growth and survival of the corporation (Wempe 1998). The economic argument against corporate social responsibility (CSR) is that it consumes resources, compromises directorial duty and may put socially irresponsible competitors at an advantage.

Contextual sympathy: swinging the pendulum

Positions antagonistic to social engagement by business are becoming less politically acceptable as contemporary society makes more urgent demands on the corporation. The nature of the capitalist political economy and its social milieu has altered (Sethi 1974; Waddock, Bodwell, and Graves 2002). In a context of globalised capital, corporations are recognised as potentially powerful social actors because of the wealth generated and also their impact on economies - locally, nationally, regionally and transnationally (Held 2001). Social costs are essentially unaltered even though economies appear more 'fluid and volatile than ever' (Held 2001, p.395). However, the demand is now for a more equitable allocation of these costs among all institutions, most notably the market (Sethi and Swanson 1981; Taylor-Gooby 2000).

Whilst the demands for corporate social, environmental and ethical responsibility are more strident, the exact quality and extent of this responsibility remains unclear. In both developed and developing countries, large corporations claim responsible citizenship and social engagement as core values and standard practice. Globally, relatively few companies validate these claims through external audits. This is despite the emergence of a number of voluntary codes and standards, and a plethora of reporting guidelines such as the Global Compact, the Global Reporting Initiative, AA1000, ISO14000 and the SA8000 which monitors labour standards (Zadek 2001; McIntosh *et al.* 2003; Hamann 2003). The motivations for engagement are various. These are discussed in detail below but what is clear is that engagement is uneven and context-driven. Values determining social engagement may well be embedded in business practice and at the core of business rationale, or they may well be platitudes aimed at public relations and reputation management.

Hence, the definition of SCSD is flexible to the idea that social policy circumstances and contexts are continually changing: social needs and appropriate interventions change over time and between places. Who determines policy and how these are implemented through strategies is by no means a simple and uncontested matter. In this context of skewed institutional power, SCSD emerges an important aspect of overall social well-being and socio-economic development but not necessarily a sufficient one.

In this thesis, the question is *not whether* corporations engage in social development in concert with the state, or whether corporate engagement is compatible with the market, but *what* form it takes. This requires further discussion that will address the motivations for companies' social engagement, and the ways in which it is implemented. Using the SCSD framework, the thesis asks a number of related questions. How does the state create incentives - negative and positive - to ensure the market operates in accord with its social and economic agenda? What are the multifarious pressures that obtain which determine the context in which the state and business interact, and which determine the business environment in which business occurs? What drives business to engage in the social arena? Why do companies respond to pressures to engage in a socially responsible manner, to what ends, at whose initiative or in the face of what kinds of external pressure – and with what effect? How do these corporate behaviours relate to the economic, political and social context in which corporations operate? With whom do corporate entities engage and to what end? How does this behaviour relate to the roles, expectations and responses of other stakeholders in the social development model? What, if any, are the contractual obligations and rights between stakeholders? And finally, what are the policy implications that must be considered in light of the SCSD framework?

Understanding the state-market relationship and corporate social engagement

As outlined, SCSD describes the engagement of the private sector, partially at the prompting of the state, in pursing social and economic goals. It encompasses the policies and strategies of the state with regard to the role and conduct of businesses in advancing a social agenda, as well as the responses by corporate actors to these given environmental conditions. The framework I advance is new. However, there is an extensive literature on its composite elements, whether the state-market relationship, social development, or business-society relations.

In this section, I turn my attention to business and its responsibility for the promotion of social and economic well-being. What drives a corporation to behave in a socially responsible manner? To whom is the corporation responsible, and for what? What shifts the recognition by businesses that they are social as well as economic institutions? Once recognised, how is the responsibility for social well-being balanced between market actors and the state? These questions relate to the political economy, and are normative in nature.

Whether in the disciplines of management, governance, development, sociology and even - to a more limited extent - social policy, most of the research and commentary on business-society relations was found in the literature of corporate social responsibility (CSR) (See among others, Balabanis, Phillips, and Lyall 1998; Harvey, Smith, and Wilkinson 1984; Jackson 1972; Post 1978; Preston 1980; Sethi 1974; Sethi and Swanson 1981). CSR is the dominant term, among many, relating to the subject of corporate-societal relations in its broadest parameters. Other terms include corporate citizenship, business ethics, accountability, corporate governance, business sustainability, corporate social investment (CSI), socially responsible investment (SRI), triple bottom line (TBL), corporate social and sustainability reporting (CSSR), social, ethical and environmental risk (SEAR), social, ethical auditing and reporting (SEAR), total responsibility management (TRM) and responsible business practice. However, whilst a plethora of terms exist, there is no universally accepted single term to define corporate engagement in the social realm.

CSR has been used by various critics to mean such a wide range of policies and activities that it has taken on the qualities of a 'Rorschach test', meaning all things to all people depending on their particular agenda. Frustratingly, a fundamental weakness in the field of business and society scholarship has been the absence of shared definitions and frameworks for the systematic understanding of the concepts and how these manifest in society (Clarkson 1995, p.92). Indeed, definitions of the corporation's responsibility are wide-ranging: from the narrowest (the imperative of maximising profit for shareowners) to the very broad (managing the social needs of diverse stakeholders for sustainable ends). Despite its importance to contemporary business environments, there is little agreement on what social responsibility is and how to discharge it. This thesis holds that there is a growing acceptance of these ideas, the crux of which being the place and purpose of private institutions in public arenas in so far as these impact on society.

Business has the power to direct considerable human and other resources on behalf of society, particularly in developing countries. CSR argues this power should be used responsibly. Society bears the costs involved in creating corporate wealth yet there are circumstances where it is often left to the corporation to decide both on the allocation of these costs and on the distribution of wealth (Medawar 1978). SCSD considers alternative arrangements for distributing the allocation of social costs more broadly among social institutions. In transferring benefits, SCSD is a policy framework that obliges businesses to respond to the specific social environment in which they operate. In coupling businesses' licence to operate with concomitant responsibilities, corporate social development marries public policy and corporate strategy.

At the very least, corporate engagement (most commonly in a CSR orientation) reflects the changing nature of society. In the modern political economy, society expects of business that it be conducted with greater sensitivity to societal needs. Corporations are currently subjected to well-publicised pressure to play an increasingly active role in society and to account publicly for the same. Within the CSR literature, some argue that the corporation is to be regarded as an explicit actor in the welfare of society, a neat congruence with the institutionalist perspective of social development (Balabanis, Phillips, and Lyall 1998). The role extends beyond social welfare so that CSR is defined as the economic, legal, ethical and discretionary demands society places on business (Balabanis, Phillips, and Lyall 1998). For others, CSR refers to outcomes of organisational activities. Epstein (1987) sees CSR as the 'discernment of issues, expectations and claims on business organisations regarding the consequences of policies and behaviour on internal and external stakeholders' (Epstein cited in Balabanis, Phillips, and Lyall 1998, p.101).

For yet others, CSR is an obligation. Heiman argues that corporations have clear obligations beyond maximising shareholder interests. By defining CSR as a corporate obligation, Heiman articulates a position informed by theories of stakeholding and the social contract. Here, operating a corporation is deemed a privilege, and not a right, a privilege that might be revoked should the company fail to serve the public interest (Heiman 1997). This notion of the rights and responsibilities of the corporation and accounting for these is at the core of corporate citizenship.

Indeed, corporate citizenship coincides with a notion of corporate social engagement which is premised on the principle that in a democracy, decision-makers should account for their use of power. Moreover, they should take responsibility for the consequences, both intentional and unintentional, of their decisions. Corporate citizenship advances this notion of rights with responsibilities and has in recent years regenerated the CSR debate.[15] Corporate citizenship is defined as 'business taking greater account of its social and environmental - as well as its financial - footprints' (Zadek 2001). The corporation must account for its behaviour to all those affected by any part of its operation.

Good corporate citizenship is not a naturally occurring phenomenon: rather, good corporate citizenship seeks to 'identify and enhance the drivers of corporations' more progressive engagement in the vision of sustainable development' (Zadek 2001). While poor corporate citizens - whether polluters of the environment or poor employers - might be profitable, it is also true that companies with greater accountability are considered more sustainable. Zadek notes that 'demonstrably good corporate citizenship offers outcome (i.e. with predictive value) measures for the financial markets to identify companies with good management' (Zadek 2001). In other words, it is assumed that the greater the disclosure of financial and non-financial performance by the company, the more socially responsible and the more

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15 An extensive literature reflects the exponential growth of the concept in the corporate sector. I have located this literature within the rubric of corporate social engagement with the recognition that it offers multiple insights into a framework for state-corporate social development (Among others, see Elkington 1998; McIntosh et al. 2003; Zadek 2001, 2001b; Morrison 2003; Fombrun, Gardberg, and Barnett 2000; Waddock, Bodwell, and Graves 2002; Waddock 2000; Altman and Vidaver-Cohen 2000).

sophisticated the management and company governance is deemed to be, and the greater the likelihood for future corporate growth, profitability and sustainability.

In a context of increasing scrutiny of corporate behaviour, corporate citizenship builds reputation thereby mitigating corporate risks from malcontent stakeholders - whether rogue employees or disaffected customers, investors, partners, regulators, social activists, communities or the media (Fombrun, Gardberg, and Barnett 2000; Waddock 2000). Corporate citizenship shifts corporate engagement from 'bolt-on' corporate philanthropy to seeing engagement as a long-term corporate strategy. In ensuring the goals of business sustainability, corporate citizenship seeks to embed value-based practices and accounting into business operation. It also seeks to create multi-institutional alliances (often in the allocation of public goods) in the interests of social goals (Zadek 2001b). Like CSR, corporate citizenship forms a constitutive element for the understanding of contemporary corporate responses in a model of SCSD.

Responses by corporations, whether captured in terms of CSR, corporate citizenship or good governance, are important outcomes of SCSD. Globally, corporate engagement strategies constitute an extensive and diverse 'shopping list' of corporate activities, some explicitly social, others not. The literature on business-societal relations (primarily under the rubrics of CSR and corporate citizenship) includes such diverse areas as corporate accountability, social and ethical auditing, grants and philanthropy, grant-matching, employee volunteering, in-kind corporate involvement in social issues, advertising integrity, product responsibility and environmental issues. CSR also covers the areas of corporate practice. These include corporate governance standards and codes of practice, compliance with international labour standards, employee conditions, affirmative action and anti-discrimination protection, corruption and misconduct, political responsiveness to human rights and employee protection, the conduct of multinationals (especially in developing countries), responses to poverty and social exclusion, and ethical and socially responsible investment. The focus of corporate social development policies and practices might be 'internal', focussed primarily on the corporation and internal stakeholders, or 'external' in which case the focus would be on stakeholders' external to the corporation. This distinction is only schematically useful as many socially responsible ideas straddle both realms.

Significantly, engagement by corporations in social development is largely determined by the *context* in which it occurs. The form and character of the social engagement seems to arise from the particular intersection and congruence of the political, economic and cultural systems that obtain (Balabanis, Phillips, and Lyall 1998). In the first place, the economic and political conditions (the political economy) create the conditions for such practices. As represented in Figure 1.1 below, the political economy might be viewed as a 'superstructure', the overarching environment for corporate engagement in social development. In the second place are the various social and economic conditions that exert pressure on business in general and individual firms in particular. These are value-based, specific to any given context, often industry specific, and are likely to change with societal dynamics and over time. More importantly, with regard to context, corporate social development for businesses operating in western welfare economies will mean something different from those operating in developing and transitional economies such as South Africa. Political, cultural and economic conditions will not be equal. Corporate activity in developing countries is more likely to encounter greater hostility given the typically uneven patterns of income distribution of income - and attendant institutional power - which obtain.

The matrix in Figure 1.1 suggests how SCSD might be defined schematically by context and system relationships.

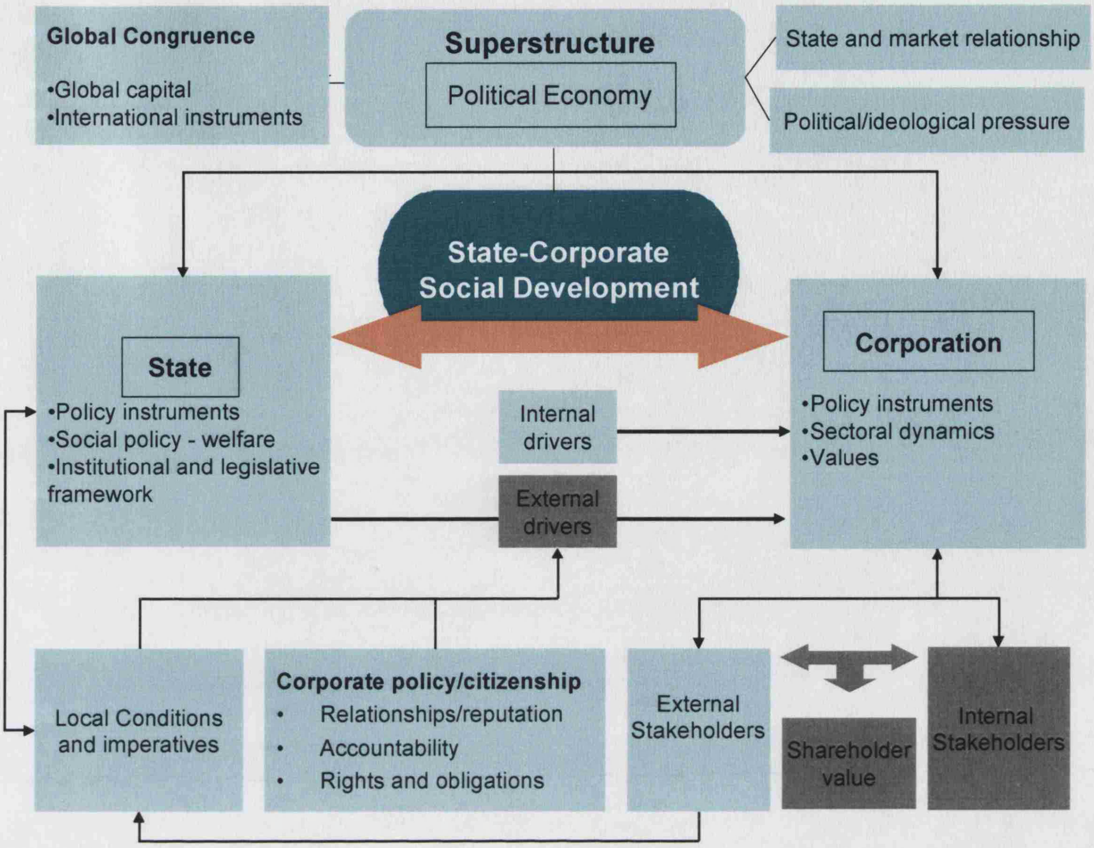

Figure 1.1: Matrix: Corporation's web of relationships and influence

The matrix situates the state and corporations in a dynamic relationship in which social interventions by corporations are compatible with broader economic and social development objectives. Specifically, corporate engagement in a SCSD perspective occurs within a wide network of stakeholding relationships: a web of relationships and influence. This idea is pursued further in Chapter Three but holds that the corporation, as a value-based institution, is responsible to stakeholders who can influence the business and/or are directly affected by its activities. The matrix also applies a wider vision: the corporation is more that an economic institution and thus has obligations and responsibilities extending beyond its owners, the shareholders.

Contextual dilemmas: The art of balancing disparate pressures

In recent times, business has suffered a crisis of credibility fuelled by instances of high profile corporate malfeasance, failure of governance, environmental damage, the relentless pursuit of profit, human rights transgressions, as well as the concentration of power among a small number of large corporations (Korten 1995; Punch 1996). A failure of trust is not good for business. Business requires trust, integrity and confidence in order to function: to attract investors, to placate stakeholders, to meet external controls and – for neo-liberals – to avoid additional state intervention. It also requires some measure of consensus and coordination even in an aggressively competitive context, to avoid a Hobbesian 'war of all against all' (Punch 1996).

Managing disparate stakeholder claims, as well as the competing pressures of profit-making and social responsibility are critical to the corporate project. The corporation's operational context is marked by a constant and negotiated tension that characterises the complex nexus of relationships in which the corporation is located. The tension arises from the contesting interests of various stakeholders. A primary tension presents a challenge to the corporation to harmonise the objective of maximising profit on behalf of shareholders, and serving the general interest of non-shareholding stakeholders who might be affected by the corporation's operations (Votaw and Sethi 1973). For example, whilst shareholders might profit from limited government intervention, other stakeholders might gain from greater regulation and control of corporate activities. Further interests have to be managed between the corporation and its internal stakeholders, mostly its management and employees. Thus, there is constant managed tension between corporate interests and responsible functioning with respect to the corporation's stakeholders (Wempe 1998).

The corporation is faced with a dilemma (Votaw and Sethi 1973; Sethi and Swanson 1981). A range of externalities is present which, I have argued, require careful and sensitive management. How are the claims of individual and collective shareholders to be reconciled against the claims of collective stakeholders? What are the boundaries for demands that can be placed on the corporation? What can reasonably be expected of corporation in terms of social development?

Stakeholder theory argues that managing these tensions requires that the corporation conceptualises itself as a focal point within a network or a web of contractual relationships. Stakeholding has been elevated from a heuristic devise to a theory of corporate and institutional management. Stakeholding is not only an instrumental but also a normative or quasi-ethical framework (Gibson 2000; Harrington 1996; Wijnberg 2000; Argandona 1998; Donaldson and Preston 1995). Despite the difficulty of the task, identifying stakeholders is critical; whether they are primary or secondary, owners or non-owners, actors or those acted upon (Mitchell, Agle, and Wood 1997). Corporate citizenship holds stakeholder theory to be of central importance to the business environment. Indeed, the issue of building and maintaining stakeholder relationships is a key policy issue, important not only for corporations but equally so for the state and the third sector in balancing competing interests such as meeting social needs and ensuring economic growth (Punch 1996). Stakeholder theory is pursued in greater detail in Chapter Three.

The motivations for corporate social engagement

Why do corporations engage in socially responsible behaviour that goes beyond narrow financial concerns? What drives corporate engagement in social development issues? Are negative drivers (or sanctions) more or less effective than those creating incentive? Most commentators writing on the subject of business-societal relations are likely to explain corporate engagement within three categories: corporations are socially responsible because they are (i) defensive in their response to external or internal pressure, (ii) expedient and (iii) proactive about engaging with social development issues.[16]

In the defensive or reactive position, corporations are likely to respond to pressure, whether from stakeholders internal to the firm, or those located outside the firm. To defend their credibility or counter low trust, corporate officers will merely *respond* to criticism or contextual pressures. The fillip for corporate engagement might be legislative. This is often indicative of external ideological pressures and the broader political economy. A defensive position follows the ideological stance that supports a clear separation between the state and market, and the minimal requirements made of corporations with regard to their stakeholders.

[16] Cf. Julian Le Grand's work on the personal motivation of policy-makers, whether they be self-interested 'knaves' or altruistic 'knights' (Le Grand 2000).

In the expedient position, corporate social engagement points to the emergence of 'enlightened self-interest' (Balabanis, Phillips, and Lyall 1998).[17] Arguing the 'business case' of corporate social engagement, benefits include enhanced corporate image and public relations, external and internal legitimacy including improved workplace morale and improved financial performance. Benefits may accrue to corporations who engage minimally - yet strategically - in socially responsible policies and practices. CSR, for example, is understood to have a commercial rationale (Harvey, Smith, and Wilkinson 1984; Hamann and Acutt 2003; Marsden 2000; Waddock, Bodwell, and Graves 2002). Reputation gained from an enlightened social position is an *economic* asset to attract resources, enhance performance and build competitive advantage (Fombrun, Gardberg, and Barnett 2000). A focus on business efficiency and diminished transaction costs, Wempe points out, means that corporate strategies avoid the risk of complicated legal procedures. Expedient corporations are more likely to accept a level of self-regulation on its activities (Wempe 1998). The rationale for an expedient position is further enhanced by arguments suggesting increased value as a consequence. Although not conclusive, empirical research points to a positive correlation between CSR and firm's past economic performance in Parert and Eibert (1975), Ullmann (1985) and Roberts (1992) (Balabanis, Phillips, and Lyall 1998). This suggests that firms with a high economic performance are more willing to absorb costs associated with social development strategies. Similarly, those corporations with a strong past economic performance appear more likely to exhibit high levels of accountability, disclosing more fully the social impact of their activities (Balabanis, Phillips, and Lyall 1998). Because it is in a financial position to be able to do so, an expedient corporation might therefore engage in socially responsible behaviour to gain greater legitimacy over competing companies.

The proactive corporation formulates frameworks and strategies for responding proactively to societal demands (Sethi and Swanson 1981; Votaw and Sethi 1973). Proactive corporations have indeed begun to recognise that it is no longer possible to defend narrow corporate interests in the face of stakeholder pressure: they must reframe their role in terms of the notion of public good, social justice and broader

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[17] Corporate critics argue that the emphasis on self-interest encourages scepticism; social engagement operates as would a public relations function (Preston and Post 1975, p.52).

social development goals. These themes are revisited in the next chapter with reference to the ideas of liberal economics put forth by John Rawls and John Kenneth Galbraith.

Proactive corporations engage in value-based business practice. They recognise the need for trust and confidence for sustained relationships and positive socio-economic engagement. Particularly in value-based businesses (such as financial services, private pensions and health care) corporations may, in fact, trade in trust and integrity. Any loss of integrity would theoretically be damaging to the corporation's interests. The proactive corporation's value orientation is embedded in business operations. In such enterprises, organisational culture reflects proactive social engagement. Wempe calls this the 'organisational redprint': a semiotic tool pointing to the specific meanings, symbols, values, norms, presumptions and convictions, recognisable habits, customs and loyalties and identities enjoyed by the corporation (Wempe 1998). The issue here is perhaps whether better performing companies are able to engage with and advance social development as part of their business operations.

The multiple motivations for corporations engaging in responsible behaviours suggest that corporations are unevenly responsive to their environments. Acting outside of the profit motive towards social ends might be seen as aberrant and irrational (as it would on the right) or normative and desirable (a position held by those on the left). For others, the issue is a strategic one. Among the motivations for corporate social policy is the idea that corporate engagement makes 'business sense' despite the lack of conclusive research supporting the claim. At the core of this essentially normative idea is that socially engaged companies are more likely to prosper, now and in the future. Importantly, the argument moves from a normative to a strategic one.

Business, social development and social justice

SCSD focuses sharply on the market as a means of ensuring social, as well as economic, goals. This does not mean the state may abdicate responsibility for the welfare of its citizens to the market. Rather, positive policy interventions may broaden the social role of corporations in ways that are also compatible with profit maximisation. In the context of multi-sectoral policy frameworks, the converse is also true: the social role of corporations might be limited or impeded by a negative policy environment depending on how the state (and other stakeholders) views the social role of corporations. Whatever the policy environment, the state-market emphasis in SCSD presupposes that the functioning of the market is compatible with social justice.

Corporations are no longer seen as purely private economic institutions but as social institutions (Balabanis, Phillips, and Lyall 1998; Gray, Owen, and Maunders 1987). State-corporate social development positions the corporation along side the state in meeting social needs. Corporate social engagement provides (some) private solutions to public issues (Harvey, Smith, and Wilkinson 1984). Like all social institutions, corporations must be considered in their social complexity: social institutions and economic institutions need to be *managed* through policy interventions.

Corporate social engagement through a social development lens intersects multiple realms: primarily the social and economic, but also the political and environmental. Both private and public institutions require careful policy formulation for institutional vigour. For example, in the *social* arena, corporate policies may dovetail with social development strategies by providing social benefits such as education and training, capacity development, investment in human capital, pensions, employment equity policies and socially oriented work-place policies beyond those legislated. At times corporate policies straddle corporate accountability or compliance with codes and standards which pertain to political, legal and social spheres. In the *economic* realm, social development imperatives might be met by changed employment patterns and changed patterns of equity ownership as has been the case in South Africa and elsewhere. *Environmentally*, corporate responsibility policies might be expressed as strategies for sustainable development and commitment to environmental accounting, as well as the implementation of technical environmental protections.

This section has focussed on the corporate cohort in the SCSD framework. Most literature on corporate engagement with society is concerned primarily with CSR, as is the case with other associated frameworks such as corporate citizenship. In outlining the multiple drivers for social engagement, I have identified diverse pressures exerted on corporations arguing that these need to be managed. A balance is necessary between government intervention and regulation on the one hand, and corporate autonomy to pursue profit maximisation in a responsible manner on the other. A plurality of interests is managed through a web of stakeholder relationships: the corporation has responsibilities and obligations to interests which extend beyond its shareholders. Corporate engagement in social development issues is both normative and strategic. Moreover, in looking at corporate engagement though a social development prism, socially responsible business is arguably a critical social and economic partner in ensuring social well-being.

Part Two: The study and situating the research

South Africa is the focus of the study. The country experienced massive political, economic and social transformation after the demise of apartheid. A key challenge still facing the country is how to redress years of entrenched institutional inequality and meet the development needs of its citizens, whilst stimulating economic growth and global competitiveness. There is an immediate need for redistributive policies and strategies to address past imbalances. Black economic empowerment (BEE), which is the subject of later discussion, is the government's political and economic strategy to ensure economic equity, enacted by a comprehensive legislative and institutional framework. This imperative to redress the past is not only political, but also economic and social. Like other developing and middle-income countries, South Africa is also under unrelenting pressure to become globally competitive.

In social policy terms, the historical legacy of apartheid has created enormous challenges for South African development. South Africa offers a unique opportunity to gain insight into processes of social, political and economic transition. A full exploration of these myriad challenges and opportunities is conducted in Chapter Four on the South Africa context.

In brief, South Africa's social and economic patterns present a picture of inequality. The legacies of apartheid are apparent with deep-rooted social and economic problems, the patterns of which correlate roughly with race. Whilst a culture of political consensus exists, tensions that emerge from disparate economic interests require careful management by the state. Among these are a socialist focussed trade union federation and anti-capitalist movement hostile to the market. The state has sought appropriate economic policies which deliver both growth and redistribution, and promote social well-being. With an economy still largely dominated by white people, the state has embarked on a political and economic project to transform the racial complexion of economic power. Black economic empowerment (BEE) is advanced through legislation and policies which aim to include black people into the economic mainstream. The state has been both purposeful and directive in these economic policies which have pronounced social outcomes. In targeting black participation in the economy, the state's chief focus for the delivery of economic equity is the market, bringing the state's relationship with the market into sharp relief. This context makes South Africa a very specific research case.

The relationship between the state and business is of core research interest here. On the one hand, the state plays multiple roles which include primary transformation actor, regulator, stakeholder and as a purchaser of goods and services. On the other hand, the private sector is institutionally developed, racially skewed and operating in a developing economy characterised by massive inequality. With a specific 'transformation agenda' aimed at redressing apartheid, the state has attempted to effect transformation,[18] both of its own institutions and in its relations with civil society. It has used mechanisms such as legislation, economic sanction and incentive creation. But transformation is a highly political endeavour and a process that is contested and non-linear. As regulator, the state has structured a value-driven market which creates specific, 'non-negotiable' conditions for the licence to operate by business.

The South African market is notable for its affirmative business opportunities, notably in BEE policies. These opportunities structure the market, and are the consequence of state design and intervention, as well as historical and political

[18] 'Transformation' is widely used but rarely defined even in official discourse, whether by government, civil society or other actors. It cuts across the heart of the purposeful changes instigated in South Africa whether political, social, economic, gendered or racial. Transformation is most commonly used with reference to the changes racial composition of institutions.

imperatives. The state has created the market through regulation, intangible normative pressures and significantly, economic incentive. These market externalities affect opportunities for corporate social engagement, and SCSD more broadly. As a stakeholder, the state has an interest in the growth of business as a partner in redistribution, growth and stability. There have existed clear tensions between the state and business over BEE. BEE is seen by the latter as state intrusion in the economy, as distorting the market, and being injurious to South African global competitiveness. Indeed, laying such a premium on the conditions of business may be seen as rent-seeking activity. From the perspective of the state it is redistributing resources towards an historically disadvantaged racial group and creating a black middle class it deems essential both to economic and social development goals.

Aims of the research

The thesis aims to interrogate the specific and dynamic relationship between the state and the market in extending social and economic benefits and opportunities in contemporary South Africa. In theorising the state-market dynamic in a context of shifting expectations regarding the state and its obligations to manage social need, I advance a SCSD framework. The primary objective of the thesis involves using a social development perspective to learn more about the state-market relationship, in general, and the social role of corporations, in particular, in promoting social well-being. Related to this, the thesis interrogates the appropriateness of SCSD as a conceptual framework to describe the state-market dyad.

In addition to the analytical exercise of applying a new conceptual framework, the thesis seeks to describe the economic and social drivers established by government in South Africa to transform the business environment, and the responses of corporations to a given social and economic milieu. Pursing the question of corporate responses, the thesis questions the reach and relevance of traditional forms of corporate social engagement such as CSR. In arguing that the purview of CSR is limited, the thesis asks whether state-directed policies aimed at changing economic patterns are more apposite and explores the contextual drivers that apply.

The thesis also questions the relevance of traditional forms of social engagement such as CSR in managing (in a sustainable way) social and economic inequality especially in respect of SCSD which, drawing on a corporate citizenship framework, seeks to embed social principles in corporate operations.

Within a liberal paradigm, the research aims to establish the relevance of two theoretical frameworks, social contract theory and stakeholder theory, in the formulation of a SCSD framework. With reference to a social development framework, social contract theory informs why these questions are asked in the first place and stakeholder theory informs what questions are asked.

In addition, the thesis engages a number of more specific research questions. Using case study material, these include interrogating the extent to which current policies in South Africa, such as BEE, promote economic outcomes that are socially responsible and the extent to which these promote social justice. Linked with this question is the development trajectory of BEE policies and how these have evolved since 1994.

Research agenda and focus

The empirical research comprised a qualitative investigation into the context of business operation in South Africa. Empirical data were collected and were explored with reference to two sectoral case studies: investment and tourism companies. Sectoral case studies comprised in turn constitutive business cases as operational examples within each industry.

Qualitative methods were most appropriate for meeting the stated aims of the research which were sought to explain rather than enumerate phenomena. The study lent itself to a detailed and thorough exploratory investigation. This approach allowed critical insight into a unique situation at a given moment. It also permitted investigation of the relational dynamics extant between given phenomena, events, roles and situations (Bless and Higson-Smith 1995, p.42; Robson 1993, p.147).

Research strategy: the case study

I elected to use the case study mode of enquiry as lend itself to the opportunities and constraints of doctoral research and involves 'an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence' (Robson 1993, p.5). The sector study essentially substituted for the conventional business case study method which details an individual company. It also permitted an opportunity for exploration of the relationship between these sectors within the broader context. Yin argues that the case study is the method of choice when the phenomenon under study is not readily distinguishable from its context (Yin 2003, p.4).

Using sectoral case studies allowed for a multi-layered and nuanced picture of sectoral dynamics and corporate activity within two sectors. Whilst the research parameters for each case were the same, there was limited 'functional equivalence' which may be the case with comparative case studies (Hantrais 1996). Two diverse sectors elucidated the differences inherent, particularly those relating to the nature of the business and relative importance of stakeholder relationships.

Following Lincoln and Guba (1985), Colin Robson describes case studies as 'naturalistic enquiry' for a number of reasons. 'Naturalistic enquiry' is characterised by the fact that the research takes place in a natural setting or context. In it, people are the data-gathering instruments. Corporate managers, employees, customers, suppliers, as well as people in government and others affected by the corporation's activities are these instruments. Naturalistic enquiry relies on the use of tacit intuitive knowledge as an adjunct to other knowledge bases. By using qualitative methods, naturalistic enquiry increases in scope the range of data. Its analytic methods are inductive and can be dialogic in that the interaction between researcher and respondent produces outcomes and meanings that are negotiated. Particulars are interpreted by the researcher without asserting dogmatic generalisations. The research parameters are determined by the research focus. Finally, unlike 'scientific' research, special criteria exist for evaluating the trustworthiness of the research. These criteria are equivalent to reliability, validity and objectivity, and appropriate to the form of the enquiry (Robson 1993, p.60-61).

Robson's summary of naturalistic enquiry is related here because it provided sound rationale for using a case study strategy. In terms of the needs of this research project, the case study strategy was highly appropriate. First, it was flexible, adaptable and opportunistic. Second, the output was both critical and discursive. Third, I was able to consciously ground the theoretical frameworks under discussion in the data I collected. Finally, the strategy of using a case study method allowed for tentative but broad observations, whilst the use of multiple case studies permitted yet broader analytic generalisations.

Multiple methods

The empirical field research used a number of qualitative methods. A total of 135 semi-structured interviews were conducted. The first five constituted a pilot study to assess the research instrument and the information it elicited. Given the diversity of informants, I invariably altered any interview schedule where necessary. The interview schedule is included in Appendix One. Later interviews used the interview template only as a touchstone as the schedule format became constraining. Interviews became increasingly unstructured as I engaged in an active interviewing process - sometimes in dialogue with the respondent - as a way of eliciting information (Holstein and Gubrium 2002; Schrijvers 1991). In dialogue, although I ultimately asserted interpretive power, interviewees were seen as social actors, such that the objects of the research also became subjects (Schrijvers 1991). Such dialogue either elicited very particular information or a response with greater breadth or context, both still closely linked to my research questions. The unstructured interview was found to be the most appropriate method of eliciting information and perspectives, and triangulating divergent responses.

In addition to interviews, I conducted textual analyses of secondary sources such as books and journal articles, and of primary sources such as corporate literature, including annual reports, social and ethical reports, pamphlets, as well as sectoral journals. I reviewed other primary documents in the public domain, including government publications, legislation, bills, policy position papers, and Green and White papers. In addition, I collected data relating to the South African and business sector contexts, as well as to specific areas of interest making extensive use of electronic sources such as the Internet and press clippings.

Yin argues that the richness inherent in the inclusion of context as a major part of the study means that one cannot rely on a single data collection method but rather multiple sources of evidence (Yin 2003, p.4). Multiple methods and multiple sources of data permitted triangulation. Different research methods addressed different issues and the complementary use of multiple methods allowed for a fuller picture of qualitative data. The triangulation of data attempted to cohere an in-depth understanding of the research area. But rather than objectively validating the data, triangulation by multi-method research allowed for manipulation of information from different sources to test its reliability. This strategy permitted additional rigour, breadth and depth (Denzin and Lincoln 1998). Both congruencies and discrepancies were noted and were explored as nodes of interest in the research findings (Robson 1993, p.290, p.383, p.404).

Identifying informants

Prior to embarking on field research, I conducted a stakeholder analysis. The list of interviewees included elite representatives of corporations, such as CEOs, directors, senior managers and board members. In addition, I included other stakeholders with both an interest in corporations and the way in which they operate, and those stakeholders with some leverage to determine the same. To this end I added shareholders and government representatives (as regulator and customer). I also included other stakeholders such as informants from non-government organisations, trade unions, organised business associations, public finance institutions, statutory bodies, universities, think tanks and the media. I also paid specific attention to stakeholders in both my sectoral case studies, as well as a significant number of people involved in black economic empowerment initiatives, both at a corporate and government level.

I interviewed a non-random purposive sample. Most interviewees were identified either because of their natural positions as leaders within industries or institutions. The vast majority of interviewees were approached cold. An additional number were identified through a 'snowballing' process; access was facilitated via the assistance of personal and professional networks of those already interviewed. These networks proved invaluable in gaining access to the most senior echelons of both the business world and government.

Methodological sensitivities to sectoral differences

The case study research sought to examine the responses of corporations in different sectors to the social development challenges around them, and to the drivers established by government policy. Employing similar research approaches both the investment and tourism sector cases looked at the effects of state-structured and driven transformation on the corporation, at a sectoral, institutional and operational level. Both studies were located in the broader political, economic and social arena and each tracked the relationship between the corporation and its stakeholders, looking at the interrelationship between business imperatives and the structuring of stakeholder values. The evolution of BEE as a SCSD outcome is also illustrated in each sector. In selecting the chosen sectors, I anticipated some substantive differences between the sectors. This assumption was reflected methodologically.

Investment Sector

The investment company sector was divided into three types of investment enterprises: black economic empowerment (BEE) companies, trade union investment companies and development finance institutions.

The first are black economic empowerment (BEE) companies. BEE companies were investment companies established by black entrepreneurs to invest in established business[19] (historically white-owned and managed) to take advantage of affirmative opportunities, in particular, those provided by government. Most BEE activity occurs in this company type. Here, the research focussed on how companies have positioned themselves to access affirmative business opportunities which seek to advance black

[19] White owned and managed companies function almost as an analytic benchmark in the sectoral study. Many operated within given business parameters prior to 1994 and have had to adapt to a profoundly new business environment. New legislation and other social and political pressures have compelled organisational transformation at all levels of the institution (whether proactive or obligated by law). BEE policy has required shifts in corporate philosophy and operational practice.

empowerment. Measurement of a company's BEE credentials or empowerment profile shifted from measuring ownership by historically disadvantaged people to broader indicators. In this regard, the case study asked similar questions to those associated with social and ethical accounting, auditing and reporting, of which there is a growing body of technical and critical literature (Ernst & Young *et al.* 1999; Gray, Owen, and Maunders 1987; Haufler 2001; McIntosh *et al.* 2003; Medawar 1978; Peirce 1999; Zadek, Pruzan, and Evans 1997; Zadek 2001). Social audit techniques use indicators pertinent to institutional transformation that would, for example, include such issues as race and gender diversity. Indicators, are typically means by which thresholds or benchmarks are translated into measurable terms, pointing to a process being carried out or the effect of a given policy (Barrow 1997, p.301). Audit questions also interrogate the values, stakeholder relationships, governance and social engagement by the corporation.

The second type of investment company was trade union investment companies. Like other BEE enterprises these companies have emerged in the period of business activity since 1994. The establishment of these companies was highly controversial and their ideological position as trade union enterprises invites discussion. The third type was development finance institutions (DFIs), of which government is the sole shareowner. The focus here was on organisational philosophy, government driven policies and strategies, and the realignment of the institutions with social development imperatives. DFIs are public sector institutions explicitly aligned with government's socio-economic development policies. These three types of investment companies permit a comparison between the relative success and failure of the drivers that compel and create incentives for racial and economic transformation in the sector. The core methodological question in this sectoral study relates to changes in institutional and economic power, as well as shifts in corporate philosophy and operation as a consequence of the current policy environment.

Tourism Sector

Given the diversity of enterprises within the tourism sector, substantive differences were assumed to obtain. These were reflected methodologically with a clear focus on commercial drivers that encourage enterprises to embrace social development strategies. Tourism enterprises need the support of a wide range of stakeholders in order to operate. The creation of a safe, crime-free and enabling environment for tourists is critical. In addition to other stakeholders, tourism enterprises have to manage a unique relationship with the state to secure this environment and the necessary infrastructure for the operation of the enterprises. Thus, the focus in this case study was externally oriented towards stakeholder relationships and the management of tourism resources, whether human, wildlife, cultural or environmental.[20] The case study on tourism is, in turn, divided into three smaller business case studies: the government-driven tourism investment initiative, the Greater St Lucia Wetland Park; a private ecotourism company, CCAfrica; and three hotel chains which have responded to social development challenges in disparate ways.

The Research Process

Following from and in parallel with textual analysis of documents, a total of 135 face-to-face semi-structured and unstructured interviews were conducted. In the instances where multiple interviews were conducted with the same interviewee, the interview number assigned relates to the last of the interviews but the analysis includes the content of previous discussions. To protect the anonymity of respondents, there is no correlation between the assigned number of each interview and the full list of disclosed interviewees provided (Appendix Two).

The ordering of primary data

The full transcriptions of all 135 interviews are enormously rich and complex. After an initial attempt to analyse the data manually it became clear that the sheer volume of collected data had to be managed in a more systematic way. To this end, I elected to use the computer-assisted qualitative data analysis software (CAQDAS), Atlas/Ti.

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[20] To a minor extent, this case study borrowed gauging concepts from the literature on environmental and social impact assessments (Rossi and Gilmartin 1980; Finsterbusch, Llewellyn *et al.* 1983; Østergaard 1992; Moser 1993; Barrow 1997). Impact assessment techniques, and indicator measures in particular, guided the research enquiry only. The techniques could not be employed conventionally given that the present research necessarily provided a non-continuous 'snap-shot' of the drivers and the corporate responses at a given moment.

Atlas/Ti, allowed me to manage and analyse large bodies of textual 'soft' data with rigour and consistency (Muhr 1997; Spencer, Ritchie, and O'Conner 2003). The programme made it possible to analyse, structure, extract, exclude and compare units of data relatively easily. The programme has extensive capabilities, particularly as a tool for developing theoretical models (Grounded Theory). However, I did not exploit the full potential of the Atlas/Ti; instead, using it simply as an indispensable data management tool.

Coding of Data

In analysing the data, I first organised and then interpreted the data, identifying themes emerging from the data by segmenting and categorising these. In so doing, I engaged in a simultaneous process of understanding the significance of emergent themes to the research questions. I developed a short list of key codes prior to my data analysis. These related directly to my research questions. In due course, I developed a number of other codes which captured a multiplicity of data trends, both anticipated and unanticipated. Given the diversity of perspectives contained in my sample still further codes were needed to register the range of views and topics elicited during interviews. Consistency and rigour in the coding exercise ensured that the material prepared for analysis was internally cogent and applied in a consistent manner.

Textual and documentary analysis

I analysed primary and secondary documentation in two ways. The first was to situate the research within a dynamic historical context. The second was to augment, reinforce and consolidate the findings of the interview process. As mentioned above, a wide range of documentary sources were consulted. I paid attention to the source of the publication in question, whether a public relations document or an internal company memo, whether from government or the private sector as these reflected a particular perspective.

Limitations of the research

The research methodology and focus of the research suggest a number of possible limitations. Some of these were anticipated prior to my embarking on the research process and I sought ways to mitigate their impact on the research outcome.

Subjective interpretation

Qualitative research of this kind is necessarily interpretative. Findings will be influenced by the context and the researcher's perspective in both the gathering and interpretation of the data. In such research, 'values necessarily intrude' (Robson 1993, p.60). Indeed, these values are brought into play at every stage in the research. Even field data collection in the first instance 'is dependent on one person's perception of the field situation at a given point in time, [and] that perception is biased both by personality and by the nature of the interaction with the researched, and that this makes the researcher his or her own 'research instrument' (Punch 1998). Objectivity was clearly a concern when relying on a single individual especially in the case of interviews with individual representatives of corporations (whose role of spokespeople might not permit a contribution beyond gloss and mission statements) and given the nature of the research aims and focus. Whilst subjective interpretation is unavoidable, this might be mitigated in four ways: (i) with the researcher's explicit recognition and disclosure of her interpretive position and agenda; (ii) in proceeding with a consciousness regarding bias and a strong research ethic; (iii) through rigorous data collection and analytic consistency, and (iv) through the use of multi-method research which offers some opportunity, although limited, for triangulation.

The limitations of the case study method

Qualitative case studies are hermeneutic; this suggests a limitation associated with the case study method, namely, generalisability. Case studies generally allow for a broad yet detailed analysis of multiple cases. Indeed, findings may be relevant to a single case and may not be useful in other contexts. Case studies may be too unique to allow for more generalised insights. However, they might be comparable to other similar situations and circumstances (Schofield 1993). I have attempted to mitigate the problem of generalisability by focussing on a *sectoral* case study which comprises a number of corporate cases. In so doing, while acknowledging that my findings are only suggestive when applied more broadly, I have identified broad sectoral or industry-wide trends. In addition, the sectoral case studies also allow for inter-sectoral comparisons. Similarly, where it comes to identifying the policy implications stemming from any particular case study, I am less tentative about asserting the applicability of these to other sectors given these exist within the same social and legal context. Many of the same drivers obtain for any sector operating in a transforming South African economy. However, a strong cautionary note must be sounded. All policy implications are not equally relevant to all sectors as each sector has unique challenges and must necessarily manages its stakeholder interests differently.

Limitations on resources

Field work was conducted in a nine-month period in 2000-2001. Limited time and financial resources also limited the scope of the research. For instance, apart from some interviews conducted around the tourism sector in Durban (Kwa-Zulu Natal), I was unable to interview stakeholders in other centres apart from Johannesburg and Pretoria. The short time frame circumscribed the research possibilities. I was unable to conduct evaluative research which would have required a longitudinal study. Instead, the research presents a time- and space-bound investigation of a particular moment in South Africa's transition to a liberal social democracy.

Ethical considerations

Interviews were confidential. Assurances of confidentiality meant that informants were more likely to respond with frankness and transparency. Quotes are not ascribed to specific interviewees although a speaker's broad descriptors are provided. For instance, I describe respondents by their race, gender, position, as well as the kind of stakeholder institution with which they are associated.

The research depended to a large extent on the disclosure of information and opinion by interviewees. Indeed, it was quite common for respondents to ask that views or information be kept off the record. At this point, I switched off the recording device until the interview progressed to another topic under discussion. It was quite possible that given specific conditions, private discourse would merely mirror that which was articulated publicly, whether in person or by a given institution. However, the assurance of confidentially meant that respondents were more likely to disclose more contentious viewpoints, often in contradiction with their own or their institution's public narratives.

A short note on the use of race as a category in this research is appropriate: rather than perpetuating the injurious divisions advanced in apartheid categories, it was important to recognise that race remained the chief descriptive category in South African socio-political discourse. A decade after the demise of apartheid, it remains highly determinant of an individual's experience in South Africa, whether it is access to opportunities in education, health care or employment. In this thesis, I have recognised that race worked at a number of important levels. First, and most crucially for the purposes of this research, race defined the criteria for inclusion and exclusion with regard to empowerment legislation and state-initiated policies aimed at redressing historical imbalances. Race was privileged in state social and economic policy, and this was reflected in legislation aimed at redressing the past. Second, it suggested (but did not determine) the political and ideological position of the speaker. This pointed to a tension highlighted in the thesis: where race and ideology cut across one another in the case of emerging black elites. For example, in the past business has been seen as 'the domain of whites' yet there is an emerging number of black business people which invalidates this crude assumption. Thirdly, in a racially divided society, the question of race equity (and concomitantly, social justice) required a bald recognition of the race tensions that obtain. At the beginning of this research project, I had anticipated including gender as a key analytic criterion. However, it was apparent that race (whether the fact of the category itself or a difficulty managing the implications thereof) is the primary issue underpinning the majority of stakeholder tensions which are described in this thesis.

Access to informants

Whilst I interviewed a broad range of stakeholders, most interviews were with elite representatives of these groups. As can be anticipated, gaining access to and the cooperation of such elites was difficult. Had I failed to access significant elites in any or all of the stakeholder groups this would have constituted a severe obstacle to the research. Whilst a small number of the informants I had identified remained unavailable, I was very fortunate in both the number and quality of interviews I secured. I was able to interview members of the highest echelons of some of the largest corporations in South Africa, as well as high-level government officials and key informants. I believe that my access was facilitated by a number of reasons: my own tenacity is securing interviews, the fact that I mobilised other interviewees to assist me in accessing their well-placed cohorts and networks, and the fact that I was perceived to have the backing of a prestigious academic institution (Punch 1998). My own identity as a white, middle class South African woman may well have facilitated elite access, as well as more controversial disclosures by some, particularly white, interviewees. Despite my obvious accent and disclosure to the contrary, some interviewees (mostly black) assumed I was British since I was affiliated to an institution in the United Kingdom. Access to labour movement elites (who were African or Indian) may have been made more difficult as a consequence of my race, gender and nationality.

Interpretive limitations

Within the South African political environment, it is often difficult to criticise government or current policy without being regarded as reactionary or racist. This operated as a highly effective sanction with the result that many views articulated by interviewees - many of which are not necessarily reactionary or racist - were self-censored. I was also sensitive to the elisions and inconsistencies between public and private pronouncements, as well as inconsistencies which emerged in the course of interviews themselves.

This sanction against criticism also had important implications for the writing of this thesis. In analysing and presenting my research, some of which critiques current policy, I have attempted to maintain my intellectual integrity. I have recognised that this meant interpreting the data in ways that may be unpopular in some instances. A final limitation emerged from the research itself. In the field, I discovered that important terms for the research which I had assumed to have global currency were not used in the same way in the South African context. For instance, CSR which is seen positively in South Africa is seen as a pejorative description of patronising activities by corporations. Instead, corporate social investment (CSI) was the politically more acceptable term though when asked few people could differentiate substantively between CSR and CSI. For others, CSI was easily confused with socially responsible investment. Moreover, the latter term was arguably confusing given there was no clear 'financial investment' return. Corporate citizenship also had very limited (though growing) application although interviewees often described it attributively. The lack of commonly used terms and a common understanding of many of the key issues was initially constraining. Consequently, I have subsumed these broadly notions under the rubric of corporate social engagement.

Contributions of the research

This thesis contributes to academic research in a number of ways as follows:

(i) SCSD is defined as a framework for planned and strategic change for social well-being, in which economic and social development are integrated and mutually supportive in a context-specific environment. The state is the primary driver and the market its primary co-partner in achieving these social goals. State-corporate social development presents a framework which theorises the state-market relationship and advances an explicit engagement by corporations in the promotion of social well-being. In developing a new conceptual framework and testing its appropriateness against empirical data, the research demonstrates intellectual agility.

(ii) Consistent with its location in the multidisciplinary endeavour of social policy, the thesis also draws together insights from sociology, politics, development studies and business management. It borrows liberally from the literatures of these disciplines, as well as the literature of political philosophy, political economy, ethics, governance and even law. In situating itself thus, the research offers a particular and integrative view of the phenomena and situations under investigation.

(iii) Corporate engagement in social issues has largely been concerned with the notion of CSR. In a developing country context like that of South Africa, philanthropy and grant-making are important yet very limited contributors to overall social welfare. This thesis critiques the uncritical application of CSR on this basis and proposes a corporate social development perspective which embeds social concerns in the operation of business. Influencing this conception of corporate engagement, the notion of corporate citizenship advocates value-driven business, ensuring that business is accountable for its impact on society (and the environment). SCSD takes this conception further by moving corporate social engagement from the normative to the strategic level. State-corporate social development claims that whilst normative arguments are correct in asserting that corporate social engagement is moral, ethical and the right thing to do, business' interests are motivated by value creation. If contextually appropriate, developmental and harmonised with the economy, these SCSD policies promote social well-being by extending benefits and opportunities. This thesis goes some distance in demonstrating that the potential outcome of SCSD is economic engagement by business that is socially responsible.

(iv) In line with the accord paid to context, the SCSD framework is tested in the case of South Africa, and found to be appropriate. Post-apartheid South African society is characterised by dramatic economic and social inequalities requiring both a purposeful, interventionist state and proactive market institutions. The thesis demonstrates that government policy has targeted the market as an intermediary to extend economic and social opportunities though BEE policies. The research supports the central thesis that the government creates the conditions, drivers and environment for businesses' licence to operate using sanctions and positive incentives. Corporations respond to these according to their normative and *strategic* imperatives.

(v) Applying SCSD to the sectoral cases of investment and tourism companies explores new empirical terrain.

(vi) Using empirical data, the advancement of the theoretical rubrics of social contract theory and stakeholder management establishes their compatibility with the SCSD conceptual and operational framework. They offer critical insights into the management of contesting interests, showing how despite political, economic and social division, social cohesion is ensured.

(vii) There exists to date a paucity of scholarly academic treatment of BEE. BEE is a significant project, driven by the state and enacted by the state and the market. The thesis' treatment of BEE represents a significant contribution to the literature. It theorises BEE within a social development and left liberal theoretical framework employing stakeholder theory and the highly abstracted concept of the social contract. Moreover, the thesis traces the evolution of BEE from a narrow strategy focussing on business equity to a broad-based strategy aimed at meeting the social need of a greater number of citizens.

(vii) The research offers an additional contribution in that it presents a cogent picture of South Africa at a particular time in history. It benchmarks the perceptions of stakeholders from diverse spheres at a particular time of transition. The research establishes a baseline for further research in these areas, without being confined to these sectoral areas.

Structure of the thesis

This chapter has introduced the thesis' main concerns and the objectives of the research. As an appropriate conceptual and operational framework offering an alternative to social policy, I have advanced a framework of SCSD. Based on and extending a social development orientation, its salient characteristics include an interventionist and directive state, the harmonisation of economic and social policies, the mobilisation of the institution of the market to redirect resources and a compatibility with targeted or affirmative redistribution. The chapter explored how SCSD is embedded in the political economy and is reflective of the context in which it obtains. In looking at the role of corporations, the chapter introduced the notion of corporate social engagement. It explored associated concepts such as CSR, as well as the ideological basis and motivations for these. In the latter part of the chapter, the study outline was presented in detail. The research questions were presented and the methodology discussed. The chapter concluded with a recognition of the limitations of the research as well as claims regarding its contribution.

Chapter Two presents the conceptual framework of the research. The first part of the chapter critically revisits themes introduced in the first chapter. It examines further the relationship between the state and the market. The second part locates the issues of corporate social engagement in the broader debates around political economy. Corporate social engagement issues are then considered in detail. Throughout, the debates and issues are located in a review of the literature on political economy, CSR, corporate citizenship and business-societal relations. The third chapter of the thesis then presents the theoretical framework of the research, reviewing stakeholding and social contract theory as concepts that are foundational for social policy research.

The fourth chapter sets the context and background for the empirical chapters that follow by reviewing the literature on South Africa. In doing so, the chapter links the issues of the preceding chapters, namely political economy, corporate social engagement and the theoretical frameworks employed with the social, political and economic context in South Africa. This lays the foundation for the empirical chapters that follow.

Chapters Five and Six detail the empirical findings from the two sectoral case studies. Chapter Five considers investment companies and BEE, while Chapter Six focuses on the tourism sector. The final chapter of the thesis is divided into two parts. The first presents an analysis of the research findings. The second presents the conclusions of the thesis and suggests areas for further research.

CHAPTER TWO: POLITICAL ECONOMY AND CORPORATE SOCIAL ENGAGEMENT

This chapter develops the conceptual framework of the thesis, and expands themes introduced in Chapter One. Throughout, these concepts and debates are explored with close reference to the literature. The chapter has two parts. The first addresses the state-market dynamic within various liberal conceptions of political economy. Left liberalism in particular is useful for deepening an understanding of state-corporate social development (SCSD) as it envisions a greater role for the state in concert with the market to manage social needs and promote justice. The second part locates the issues of corporate social engagement as these are articulated in CSR and corporate citizenship in the broader debates around political economy. The issue of corporate responsibility is then considered in detail.

The argument presented in this chapter holds that there are vastly different ways of regarding state-market relationships. The chapter explores various liberal conceptions of the state-market dyad with regard to the management of social needs and social justice. Liberalism is a broad church. Given the spectrum of liberal political philosophy, not all liberal paradigms accommodate the SCSD framework. Centre, and particularly left liberalism would be more appropriate for the parallel institutional responses of state intervention and corporate social engagement. These liberalisms could accommodate a position which argues that the market - in concert with the state - is a legitimate mechanism for social development and the equitable redistribution of social and economic goods.

Part One: Liberalism, the state and the market

This section of the chapter explores different conceptions of the state and market relationship. Liberalism, in its various shapes, provides a touchstone for understanding the relationship between the market and the state. Liberalism and capitalism are interdependent: capitalism is critical to the stability of liberal democracies. Liberalism privileges equality of opportunity and is naturally and necessarily aligned with the notion of the market. Moreover, liberalism is committed to pluralism which is a critical element of SCSD. The chapter refers in particular to key liberal commentators from the right to the left of the liberal ideological spectrum: namely, Friedman, Hayek, Rawls, Galbraith and Walzer.

This thesis reflects only minimally the large corpus of Marxist social policy. In doing so, the thesis does not seek to justify the market but rather seeks to understand how the market can be used as a mechanism for redistribution. As such, state intervention (and market institutions) is central to the notion of SCSD. Marxist social policy typically sees the welfare state as reformist, acting to legitimize capitalism. For socialist and left critics such as Ramesh Mishra, such reforms fail to change the market economy or the class structure in any radical way (Mishra 1984, p.8, p.67).[21] Resources are not redistributed vertically but horizontally involving intra-class rather then inter-class transfers (Mishra 1984, p.23, p.67). Marxists would interpret any corporate social intervention sceptically as ensuring the economic status quo. Capitalist institutions are perceived as class enemies and corporate social engagement dismissed as reformist. For obvious reasons, Marxist analysis of corporate social engagement is of limited application in this thesis. Liberalism as a political and economic framework, on the other hand, is most appropriate to the issue of corporate social engagement and more specifically SCSD. However, this statement is not equally true of all liberal positions, as explained.

Political economy: capitalism ascendant

Political economy locates economic activity in a political context. With the failure of socialist states, the capitalist and socialist dichotomy is no longer a particularly useful analytic tool in current political economy. As an economic system, capitalism is ascendant: most political economies, in both developed and developing countries are characterised by private ownership and a market economy, and it is unlikely that this situation will change. As Will Hutton asserts: 'Private capital and private corporations have never before so influenced the world economy. Capitalism as a system has no competitors' (Hutton 1996, p.56).

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[21] Mishra's more recent work written after the collapse of communism reflects a somewhat different position. Here, he argues that globalisation has restrained social policy options, and advances the notion of a global social standard to replace the principles of social rights (Mishra 1998).

Rather than asserting capitalism's inherent superiority, Hutton argues that 'one form of capitalism or another is now the only game in town' (Hutton 1997, p.2). This is a view shared by John Kenneth Galbraith who maintains that '[t]he age of presumed choice between alternative economic systems is over' (Galbraith 1998, p.17; 1996). Commentators argue that in the absence of any ready ideological alternative, the debate is over (Friedman 2000, p. 104; Fukuyama 2002, p.14; Hutton 1996; Giddens 2000; Elkington 1998). The binary antagonism that has characterised much of the past century – that of collectivism and socialism on the one hand and capitalism and individualism on the other – has largely been replaced by a diversity of capitalist political economies (Friedman 2000; Fukuyama 1995; Giddens 2000; Hutton 1996). Hutton's view is that:

> Capitalism comes in diverse forms. The simple proposition that the alternative to capitalism is socialism is an inadequate and misleading way of looking at the choices available. There are a multiplicity of capitalisms, figured by their institutional structures and the way the economic, social and political connect. Hence there are truly democratic choices available within capitalist society (Hutton 1997 p.2).

Giddens asserts that the twinning of the liberal state with a capitalist economic system is what remains in the face of failed communism, fascism and military rule (Giddens 1994, p.104). Similarly, Donaldson and Dunfee describe the dominant position as 'the coming of age' of capitalism after the fall of communism:

> Today with the corpses of Soviet and Chinese Communism in full public view, it had become more acceptable to back away from the extremes of championing capitalism as a flawless idea or casting it out as a demon. With the clear record of Communism's broken promise obvious to all, capitalism is rightly viewed as superior to Communism, even as it is acknowledged to be less than a panacea for all society's ills (Donaldson and Dunfee 1997, p.xv).

That the capitalist political economy can ameliorate societal malaise is contested, and requires further scrutiny. There are criticisms of this position from both the left and right of the ideological spectrum. This is the subject of a later discussion but it is useful to outline the bald positions here: For conservatives, capitalism's *raison d'être* is the profit motive. Entrepreneurs are agents of wealth creation, and their motives are rationally self-interested. For neoliberals who construe a narrow view of the role of markets, a competitive market maximises economic efficiency. They hold that markets are guarantors of individual freedom as well as social solidarity and cohesion. The pursuit of individual interests automatically contributes to the maximisation of social interests through 'the invisible hand'. Social interests are only served as a consequence of capitalist activity (Novak 1997). Finally, left and centre critics argue for the need to situate capitalism more progressively in relation to societal needs. Clark and Dear argue that capitalism is both an economic system, and a political system whose legal entitlements and liabilities define, equally as the market system of commodity exchange, the social relations of capitalism (Martinussen 1997, p.224-225, citing Dear and Clark). Capitalist arrangements determine the character, not only of economic institutions, but also political and social institutions. This balances the relative importance of state structures with non-state social and economic structures in the capitalist political economy. Neuberger, pointing to the left's core criticism of the free-market philosophy, suggests that economic efficiency is not the paramount goal but that an important possible alternative aim may be the pursuit of social goals such as equality or equity (Neuberger 1987, p.103).

The state's responsibility for the well-being of its citizens is typically achieved through welfare. Giddens notes, however, that the global spread of the capitalist economy has a tendency to polarize income, both in and between countries (Giddens 1994, p.87-88). This is particularly acute for developing counties who lack ameliorative welfare provisions and whose internal stability may be further stressed by increasing economic inequality. In the case of the welfare state in affluent countries, welfare systems are able to successfully hold off this tendency, though not without the associated costs of social and fiscal strain (Giddens 1994, p.88). But as highlighted already, globally increasingly there is a shift in public policy away from state welfare. The shift is characterised by a move away from a focus on the distribution of wealth, to the promotion of wealth creation, with increased opportunity, personal responsibility and the mobilization of citizens and communities in progressive civil society (Giddens 2000, p.2-3). Such a conception is wholly consistent with a social development perspective that combines social and economic development.

Hutton describes a confluence of elements that define the political economy of capitalist society, a society he terms 'real world capitalism'. These elements, which characterise the organisation of economic life, as well as the society's private and social institutions, include varying combinations of the principles of commitment and flexibility, co-operative trust and competitive rigour (Hutton 1997, p.2). Hutton's 'real-world capitalism' is closely aligned with the social democratic view encapsulated in Giddens' 'third way' (Giddens 1994, 2000, 2001). In defending the good of the market, Giddens argues that the left has to become more comfortable - and less sceptical - about the market. It has had to recognise the role of business in the creation of wealth, and importantly here, that private capital is essential for social investment (Giddens 2000, p.34).

Hutton's 'real world capitalism' and Giddens' 'third way' require both (greater) state intervention and stakeholding. Hutton argues that '[c]o-operative, successful forms of capitalism do not arise spontaneously, but are the product of conscious design' (Giddens 1994, p.151-173; Hutton 1997, p.10). Such conscious arrangements require systematic reforms, the legitimacy of which requires that government itself be legitimate, proportional and open. He asserts that stakeholding offers an alternative to 'winner-takes-all triumphalism'. With appropriate state intervention, trade unions, corporations and other private interests regard regulation more positively than being just the impositions of the partisan state (Hutton 1997, p.10). Giddens asserts that more government is needed, not less, in the face of globalization (Giddens 2000, p.83). He also endorses the notion of stakeholding albeit less enthusiastically than Hutton (Giddens 2000, p.151-153). Indeed, stakeholding is central feature of contemporary social democratic politics. Giddens' notion of reflexive 'generative politics', which involves the conscious engagement of multiple social spheres, suggests a stakeholder approach in all but name.

Globalised capital

The issue of 'globalisation' can all too quickly dominate current debates on political economy. For this reason, I take only a sidelong glance at the phenomenon, at once asserting its importance for the thesis but at the same time situating it at the periphery of investigative concerns. The global political economy, and its expression as the phenomenon of globalisation is, - for better or worse - propelled by a singular economic principle: market capitalism. Of course, as I have argued, there is more to market economies than simply free markets. The balance of market and state is a sustained concern of this thesis. In the global political economy, market forces are increasingly powerful with the effect that for some - in theory at least - the more countries open their economies to free trade, the more efficient and successful they become (Friedman 2000, p.9). Conversely, the phenomenon of globalisation is seen by others as a harbinger of even greater global inequality and social injustice (Korten 1995; Pettifor 2003). The challenge is rather one of aligning institutions and markets to promote economic, social and environmental sustainability (Elkington 1998).

South Africa, like other developing economies is located in a global political economy. Globalisation is multi-dimensional and is characterised by increased capital hyper-mobility, increased global trade, diminished aid, the increased economic and political influence of multi-national corporations (MNCs), increased technology, faster and broader communication and human mobility (Friedman 2000; Held 2001; Mills 2000; Haufler 2001). This global business environment throws up critical economic issues for countries like South Africa which seek to compete globally.

Increasingly, because of the far-reaching dynamic of global economic forces, the global political economy mediates the local. Global economic competition constrains domestic options (Deacon, Hulse, and Stubbs 1997; Mishra 1998). Evans also argues that the connection between the accomplishment of local states and the external global context is intimate and direct, depending often on the increasing international division of labour (Evans 1995, p.6-10). Changing technology and broader access to information regarding emerging economies, their performance and their governance, as well as the ease with which capital can be invested and disinvested, can expose emerging markets to the vagaries of unstable investment by both other governments and institutional investors. Globalisation potentially yields great rewards, risks and burdens for developing countries, requiring that governments manage these processes prudently and sensitively. Indeed, rather than leading to the retrenchment of states, globalisation stimulates a wider range of government and governance strategies, and sometimes a more activist state (Held 2001, p.395). The question of governance strategies of non-state actors places the question of self-regulation by corporations - particularly MNCs in the context of global inequality - on the agenda (Haufler 2001).[22]

Political economy is a central concept of this thesis and directly informs the mutual dependency or embeddedness of the state and the market in contemporary political economy. To this end I explore the liberalisms of Smith, Hayek, Friedman, Rawls, Galbraith and Walzer. In particular, I examine different conceptions of liberalism with reference to social development, and a SCSD perspective.

Adam Smith: Early progressive traditions

> *No society can surely be flourishing and happy, of which by far the greater part of the numbers are poor and miserable.* (Adam Smith, 1776, quoted in Todaro 2000, p.151)

In *Wealth of Nations*, the father of political economy Adam Smith described the political economy as having two objectives. These were, first, to 'provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide a revenue or subsistence for themselves' and second, to 'supply the state or commonwealth with a revenue sufficient for the public services' (Emerton 1881, p.163, citing Adam Smith). In this tract, Smith described the critical role of the market mechanism which, if successful, would result in the flow of goods to society through the workings of the 'invisible hand'. The market system, as a level playing field on which individuals and firms freely pursue their private self-interests, ensures that production in society occurs in the best interests of all. The operation of the 'invisible hand' results in direct positive outcomes for firms and individuals in the form of profits and accumulation. In the pursuit of self-interest, the 'invisible hand' promotes, rather than inhibits the interest of society as a whole (Lubasz 1995, p.46-47; Friedman and Friedman 1996). The concept of the 'invisible hand' has been central to debates around the state and market, and about the distribution of social

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[22] As already outlined, the scope of this thesis purposefully excludes an in-depth interrogation of these debates and the extensive literature on the impact of MNCs. However, some of the choices which lead MNC to self-regulate are also apparent in national contexts (Haufler 2001; Hopkins 1999; Morrison 2003).

and economic goods. Self interest signals the incentive which drives market behaviour and its rationale:

> It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages (Adam Smith, p.119 cited in Wolff 1996)

Smith identified a second important role of the market: the market as a source of growth. Smith anticipated that population growth and colonial expansion would result in increased demand, market expansion, market specialisation and higher resultant productivity (Martinussen 1997, p.19). Of course, increased accumulation assured by the first role of the market, was a precondition for such growth. Parker suggests that a Smithian interpretation of the development of nations would be that such achievement is catalysed by selfishness and self-interest (Parker 1995, p.48).

There are multiple interpretations of Adam Smith's work. For the purpose of this thesis, particularly in light of the discussion of liberal theorists that follow, three crucial points are highlighted. The first stems from Smith's economic writing. Whilst Smith saw the market as flawed he, nonetheless, pursued his justification of market capitalism asserting its superiority - by which he meant it efficiency - over any other competing economic system. Second, he defended the role of the active state, albeit it the capacity of delivering such public goods as security and education. Finally, writing as an ethicist, Smith argued that market capitalism resulted in the greatest good. Hardly an egalitarian, Smith asserted the moral effect of markets was the increased economic welfare of the poor, as well as, though not equally in proportion to, the wealthy. The work of Adam Smith has largely been championed by classical, neo-classical and libertarian theorists. Two classical theorists, both Noble Prize-winning economists, Friedrich Hayek and Milton Friedman, are the subject of our ensuing discussion.

Liberal conceptions of the state

Liberal theory is concerned with creating a set of rules - impartial rules - under which every individual can best secure the most freedom to pursue personal good in any way as long as it does not infringe on the freedom of others. In a liberal state, government defines these rules that seek to accord individuals with equal respect without imposing any particular conception on individuals of what is good. Plant notes that neutrality is a core value in liberalism:

> [F]or its project to be coherent it has to show that the rules which define a liberal society can be derived from a position of neutrality in relation to differing conceptions of the good (Plant 1991, p.77).

The economy in liberalism is determined by the same negative freedom. Economic liberalism holds that economic life should be as unhindered as possible by constitutional, legal and administrative constraints as appropriate to a stable society and market (Colclough 1995, p.1).

Neo-classical theory, liberalism and libertarianism: Hayek and Friedman

Neo-classical economic theory is advanced by Hayek and Friedman. For Friedrich Hayek, the liberal state is an amoral state characterised by unplanned and unregulated order. The market unfolds similarly, in a manner that is neutral, unintended and without design. Importantly, the state provides a framework of rules within which people pursue their individual purposes and for whom the common good is ensured by the rule of law. Hayek states:

> Nothing distinguishes more clearly conditions in a free country from those in a country under arbitrary government than the observance in the former of the great principles known as Rule of Law (Hayek 1997, p.54).

For liberals, the law is neutral, abstract and impartial, based on universality and consistency.[23] It cannot, therefore, be engineered to serve particular purposes, such as welfare. Rather, these laws are designed to secure and protect the principle of 'freedom': in the first instance, maximum freedom enjoyed by the individual from coercion, and in the second, a free market unconstrained by distributive principles of social justice (Plant 1991, p.86).

[23] Feminist scholarship and critical theory have demonstrated that in reality, the rule of law is not necessarily neutral but reflects the values of its architects (Cornell 1991; Fraser 1989).

Hayek and social distribution

Hayek's notion of justice is based on an abstract framework of rules that enable the largest amount of freedom to individuals to pursue their own purposes. Similarly, justice also involves such a space for individual pursuit that is free from interference or coercion from others. As a liberal, Hayek's conception of justice is linked to a negative conception of freedom. Injustice occurs only when an individual's freedom is restrained. It is important to note that injustice is not linked to outcomes: Hayek does not believe justice to be tied to the distribution of goods or resources.

State intervention, for Hayek, harms the social system since it is amoral and requires coercion. A Hayekian resists attempts by governments to plan the economy and provide social welfare. While well intentioned, the use of government power results in the consequent diminution of liberty for individuals and the beginning of a process that leads ultimately to serfdom.

Social justice, Hayek believes, is 'atavistic' and 'irreconcilable with the open society' (Hayek 1978, p.268), and any state that seeks to attain social justice is illegitimate. Unacceptably to Hayek, the pursuit of social justice requires the imposition on society of the view of ends and purposes based on needs and merit. In such cases, there are no objective ways of determining criteria for making judgements regarding social justice. Need and merit are notions he considers politically untenable as this accords the state authority to determine and reward moral desert. Moreover, they create opportunities for competing interests to sway the neutral and amoral state (Plant 1991, p.88). For Hayek, the primacy of the market has to be asserted against government regulation and the politicisation of economic life which results from the pursuit of the 'mirage of social justice' (Plant 1991, p.82).

A liberal society based on neutral and impartial laws, cannot be concerned with issues of social justice which are typically articulated in the patterns of distribution of social goods to individuals. Hayek asserts that, '[T]here can be no distributive justice where no one distributes' (Hayek 1978, p.58). In a free market, there is no overarching distributor. In a liberal society, there can be no 'intended' distribution of income and wealth, as well as goods and services, as there exists no such *intentional* distribution in the market. Social outcomes are wholly unintended and arise spontaneously. Unequal income and wealth, for example, are not unjust since they are neither intended nor foreseen. Hayek argues that income rewards are linked to just outcomes in the free market, 'informing people where they will find their most effective place in the overall pattern of activities - the place where they are likely to make their greatest contribution to aggregate output' (Hayek 1978, p.63).

Whilst Hayek is not concerned with distributional justice, Plant notes that he does direct his attention to the legitimacy of the market in relation to those who are most disadvantaged in society. Hayek argues a 'trickle down' theory of economic growth. Economic benefits and goods will be enjoyed by lower social echelons at a later stage as a consequence of the patterns of consumption and innovation set by more advantaged members of society. Despite inequality, the market system, Hayek argues, is still more desirable to the poor than any other system:

> The fact that the opportunities open to the poor in a competitive society are much more restricted than those open to the rich does not make it less true than in such a society the poor are more free than a person commanding much greater material wealth comfort in a different type of society (Hayek 1997, p.77).

He argues further that the free market is advantageous for all in the long run because it encourages innovation and growth, and 'elicits the highest contributions to productivity' (Hayek 1978, p.65). However, Plant criticises Hayek's argument concerning the entry of disadvantaged groups into the market, where the outcomes are not favourable and these groups remain the least well off in society. Hayek argues that this situation is simply not unjust as these outcomes are not 'intended' by the market. Since there is no intention to redistribute, there is consequently no injustice when this fails to materialise. But, while this position might be tenable with regard to individuals, it fails to take responsibility in the case of groups for what would in reality be reasonably *anticipated consequences* of such a system (Plant 1991, p.91-93).

Hayek and corporate social engagement

In classical and neo-classical economic theory to which Hayek's liberalism is closely aligned, the corporation is a juristic creation, answerable only to law. The corporation's mandate consists of permission to individuals to carry on certain enterprises to maximise and advance their own interests, and more especially the corporation's owners, with risk being limited to the amount invested (Newton 1992, p.110).

Like the liberal society, the corporation and the market in which it operates, are amoral. Hayek draws a distinction between society and an organisation. Whilst society has evolved from a diversity of purposes, an organisation exists to secure particular purposes. Within an organisation particular rules are devised to help the members secure their common purposes (Plant 1991, p.80). Corporations are organisations that operate merely as instruments of an efficient (amoral) market. If corporations pursue autonomous moral objectives such as corporate social responsibility (CSR), the freedom of society would be undermined. Pursuing social goals is inappropriate. Corporate social engagement transgresses the corporation's bounds; it is behaviour that might in fact create a justification for intervention by the state (Wempe 1998, p.103).

Friedman: The business of business is business

Like Hayek, Milton Friedman also embraces the classic thinking of Adam Smith. However, whilst Smith's notion of freedom is originally rooted in political and intellectual freedom, Friedman, a libertarian, makes economic freedom primary. Friedman elevates economic freedom to a position of guardianship over other primary freedoms (Heilbroner 1970, p.13). Freedom and the free market are inextricably bound. For Friedman, the successful functioning of society depends of the role specialisation of its institutions. Corporations are economic institutions, and thus their concern is in the economic sphere. Indeed, they are obligated to limit their sphere of activity to this realm. Distribution occurs through market corrections.

Milton Friedman argues that the role of the state is to ensure freedom and efficiency only in so far as maintaining law and order and ensuring also the market operates without monopolistic restriction (Friedman and Friedman 1996). Friedman argues that the limited state should also provide care on a limited basis for those who cannot meet their own welfare needs through the market. However, intervention beyond these bounds diminishes freedom and harms economic growth (Midgley 1995, p.84).

Friedman and corporate social engagement

Like Hayek, Friedman views the corporation as amoral. A neo-classic view of corporations says that that a corporation is morally no better or worse than the society within which it functions. Corporations merely reflect the norms and values of society (Wempe 1998, p.106). Classical and neo-classical commentators regard ethical questions regarding corporate functioning as largely inappropriate and hold deep antagonism to the ideas of corporate social engagement (usually in the form of CSR).

Friedman is perhaps the most notable and consistently quoted opponent of corporate engagement in the social sphere. He argues that CSR undermines the basic tenets of capitalism and free society. Arguing against CSR, Friedman asserts that the sole purpose of corporations is to maximise the interest of their owners. As corporate agents, the fiduciary duty of corporate decision-makers is to ensure that shareholder's profits are maximised. According to Friedman, CSR is a politically subversive idea that threatens a free society. He argues that:

> ... the doctrine of 'social responsibility' taken seriously would extend the scope of the political mechanism to every human activity. It does not differ in philosophy from the most explicitly collectivist doctrine. It differs only by professing that collectivist ends can be attained without collectivist means. That is why, in my book Capitalism and Freedom, I have called it a "fundamentally subversive doctrine" in a free society, and have said in such a society, "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in a open and free competition without deception or fraud (Friedman 1988, p.223).

In such a view, there is no justification for using corporate resources for activity other than that which advances the profit-motive in the interests of the shareowners. In a free society, this is business' only social responsibility. The corporation is at most an 'artificial person', a legal construct incapable of making value decisions (Balabanis, Phillips, and Lyall 1998, p.26; Wempe 1998, p.105).

While the corporation is amoral, corporate managers are not. As corporate agents, Friedman argues, executives are employed by the shareholders to lead the company on their behalf and in their interests. Friedman is clear that the corporate officer's primary responsibility is to the corporate shareholders. The executive is a corporate instrument and must fulfil his explicit and implicit contractual obligations to the corporate shareholders by maximising their profits. This is a moral obligation: it might be argued that according to Friedman, the moral duty of a corporate director is the duty to act amorally (Wempe 1998, p.105). Whilst in their personal capacities, corporate executives might be impelled to behave in a socially responsible way, this is a personal matter and not one that concerns business (Friedman 1988, p.218). However, in behaving in a 'socially responsible' way by using the corporation's resources for non-profit purposes, Friedman would 'disdain such tactics as approaching fraud' (Friedman 1988 p.222). He would see the corporate decision-maker as undermining economic efficiency and 'levying "an illegal tax"' on the organisation (Balabanis, Phillips, and Lyall 1998, p.26).

Hayek and Friedman's positions are critiqued later by way of presenting alternative liberal views. A few specific points can, nonetheless, usefully be made. First, in the classical and neo-classical economics view held by both these writers, asserting an amoral state - in which an amoral market operates - fails to fully explain the moral and ethical character of society and social interaction, of which business is clearly a part. A value-based society can not be simple discarded because it threatens liberal shibboleths of political neutrality. Second, the 'invisible hand of the market' has not operated as suggested, nor has the economic sphere been able to remain specialised and immune from the influences of the state and civil society. In this regard, global capitalism is not a level playing field and is unequally skewed towards developed economies. Indeed, most liberal economists today would argue that the free market is not free and that there is a role for at least a regulating, co-ordinating state (Toye 1993; Colclough 1995, p.8-10; Todaro 2000, p.457-460). A regulating state is of particular relevance in developing countries, although certainly each situation will require a set of different responses, policies and instruments. Third, in asserting that the corporation is merely an artificial legal persona, it is not clear why the corporation as a 'person' can and should not be held responsible. Ethics do not relate only to natural persons. Fourth, Hayek argues that the political danger of corporate social engagement lies in the corporation operating out of its legal boundaries thereby inviting government intervention. However, the converse might easily be asserted. It can be argued that corporations can best avoid intervention by the state by accepting the need for corporate social responsibility. Finally, a corporation - even as an artificial legal entity - is defined by articles and memorandums of association that define the corporation's values, as well as its parameters of activity. Balabanis *et al.* argue that these are broad enough to allow departures from this narrow, purely economic path (Balabanis, Phillips, and Lyall 1998). Thus, there is greater freedom for the corporation to accept moral and social responsibility.

John Rawls: Social justice and liberalism

John Rawls would agree with Hayek that a liberal society requires a framework - a rule of law - to maximise the individual's freedom from coercion. However, the key point of departure of these two thinkers is the question of social justice.

Although the work of Rawls is discussed in greater depth in the next chapter addressing social contract theory, it is usefully presented here as a counterpoint to Hayek and Friedman on the issue of social justice. In his *Theory of Justice* (1971) Rawls argues for the primacy of the principle of justice in his critique of utilitarianism which fails to mitigate against possible unfairness in the distribution of costs and benefits. Justice, he argues, has to be the overarching principle informing public policy. His theory of 'justice as fairness' invokes what he terms the 'original position': the society that self-interested and rational people would contract to create if they were ignorant of their status relative to others. Rawls calls this the 'veil of ignorance'. Like other liberal theories, Rawls' abstract society is neutral. However, unlike Hayek, Rawls posits a theory of primary goods which are distributed in society, and which include rights and liberties, opportunities and powers, income and wealth and a sense of one's own worth (Plant 1991, p.99).

Rawls articulates a principle for ensuring equality with which Hayek would not agree. Rawls' difference principle says that social and economic inequalities are just only if they are to the advantage of the least advantaged members of society. His notion of justice as fairness offers a theory on distribution that is based on permissible inequality. The difference principle is arguably radical and may require substantial distribution of resources (Pierson 1998, p.191). Rawls recognises that sometimes in order to maximise general welfare, some people are of necessity, made worse off for the sake of the general good. The benefits for the whole group, and particularly the least advantaged who should bear no additional burden, legitimate the unequal treatment of people in society. Importantly, the principle of 'justice as fairness' allows for positive discrimination and the unequal treatment of certain groups of people. The difference principle is discussed further in Chapter Three with reference to the social contract.

Corporate social engagement is congruent with Rawlsian liberalism. The market is the vehicle for maximising interests, and is also an instrument of redistribution (Rawls 1967). In addition, within the corporate social contract (working analogously with the social contract), corporate engagement would be an expression of the corporation's adherence to its social, ethical and legal responsibilities. Again, these ideas are pursued further in Chapter Three. Corporate social policies are just if they are directed towards ensuring human actualisation, including effecting positive steps to ensure that all members of the society, including those most disadvantaged, enjoy social and economic good necessary for full liberty. Finally, Rawls considers people to be moral personalities, and this is a 'sufficient condition for equal justice' as might be expressed in corporate social engagement and CSR (Plant 1991, p.106)

Rawls attempts to create a neutral theory for the distribution of goods. Consequently, it is important for state action to secure the centrality of social justice and that this be pursued 'without infringing the purpose-independent nature of legislation in a liberal society' (Plant 1991, p.79-80). Rawls, like Hayek, rejects desert as a criterion for distributive justice as arbitrary, given family circumstances and the natural endowments that individuals enjoy.

One reason for which Rawls is criticised is that his analysis operates at a high level of abstraction. While he is credited with developing an ideal theory of justice, this is not necessarily easily applied to a non-ideal world (De George 1987, p.207). Particular questions arise such as those regarding corporate social engagement and corporate morality which require a practical and context-sensitive analysis. The original position is also critiqued for its hypothetical abstraction. This is a central element in Rawls' theory of distribution. However, in reality one cannot truly ensure that the 'veil of ignorance' operates and that those making social decisions will really be neutrally securing the interests of those least well off. Moreover, the original position operates at no higher level of abstraction than Smith's 'invisible hand'.

John Kenneth Galbraith: Left liberalism

> *We, the socially concerned, do not seek equality in income distribution. People differ in ability and aspiration in the pursuit of both financial reward and gain. There is also the role of initiative, luck and avarice. This must be accepted. There can be no retreat, however from the goal of a socially defensible distribution of income. This, to repeat, the tax system must continue to address. We must expect, and we need not respond to, screams of anguish from the very rich. Our mission reflects the old Pulitzer purpose - to comfort the afflicted and afflict the comfortable.* John Kenneth Galbraith (Galbraith 1998, p.25)

John Kenneth Galbraith is located on the left of the liberal spectrum, arguing for greater interdependence between the two spheres of the state and the market. Galbraith is credited with developing Keynesian and post-Keynesian economics and an aligned conception of the corporation. He argues that humane and comprehensive social welfare saved capitalism by creating a 'modern, more socially functional, more compassionate society' (Galbraith 1998, p.27). In his conception of the good society, Galbraith argues that a pivotal step is to ensure a more equitable redistribution of income than the market system provides. The good society takes care of the needs of its citizenry: where the market fails, the state is obliged to provide these primary needs (Galbraith 1996). He agues that 'a reasonably equitable distribution of income is not only socially good but also economically functional' (Galbraith 1996, p.330). These basic material needs are a necessary condition for the liberty of the citizen. Like other liberal theorists, Galbraith sees liberty at the core of the social project. Economic priorities such as a reliably growing economy, are the beginning, rather than the end, of a social agenda (Galbraith 1998, p.24).

Diverging from liberal commentators like Hayek and Friedman, Galbraith argues for a strongly interventionist state. He argues that social policy should be aligned to the public purpose that is determined by the social and political environment that obtains (Galbraith 1998, p.31). He also argues that 'the question of the private versus the public role should not be decided on abstract, theoretical grounds; the decision depends rather on the merits of the particular case' (Galbraith 1998, p.20). Such assessments require strong public intervention. These ideas also point to Galbraith's pragmatism. Heilbroner notes that this pragmatism was one source of criticism from classical economics: Galbraith described the operation of the economic system in terms closer to reality than the orthodoxy of classical economics (Heilbroner 1970, p.228).

In Galbraith's view the state has a distributive function. This serves as a radical counterfoil to Hayek. The state has a redistributive role because of the failure of the 'invisible hand of the market'. Inequality - and notably inequality of income - is an injustice. He argues: 'There is another very specific flaw in the market system against which we must rally political strength and action. The market system distributes income in a highly unequal fashion' (Galbraith 1998, p.24).

Galbraith and the corporation

Galbraith's views on the corporation accord with those of Hayek and Friedman in that they endorse a neo-classical conception of the corporation. In this common view, neither the corporation nor certain stakeholders who create the corporation are responsible for social justice. But Galbraith's views on the corporation diverge from those of Hayek and Friedman not in the way the corporation is conceived, but rather in the way it is valued. Hayek and Friedman prize the amoral character of the corporation, holding it as the guarantor of a free society. By contrast, Galbraith sees the amoral idea as obfuscating the actual immorality of corporate functioning. Galbraith takes aim at the corporation's obsessive accumulation and private affluence, and its failure to provide social goods in conditions where squalor exists side by side with affluence and prosperity (Harvey, Smith, and Wilkinson 1984, p.4; Midgley 1995, p.143). Consequently, Galbraith argues for government intervention in the public interest. The locus of power in the corporation is the 'anonymous technostructure': the linked structure of professionals, specialists, technical experts, among others, who collectively guide the corporation. In order for the general interest to defeat the interests of the 'anonymous technostructure', Galbraith asserts that 'the only answer is a strong framework that aligns the exercise of corporate power with the public purpose' (Galbraith 1977, p.277). The pursuit of non-economic goals by a 'mature corporation' is thus entirely congruent with the concomitant pursuit of economic and technological goals (Sklar 1976, p.77).

For Galbraith, power begets responsibility. The technostructure of the modern corporation is hence where corporate power and responsibility lies. Galbraith asserts that the modern corporation is not driven by the mythological capitalist figure of the single entrepreneur. Rather, it is a committee system which ensures the goals of the corporation marked by a combination of impersonality, specialisation and bureaucratic procedure (Heilbroner 1970, p.230). Among these goals, Heilbroner notes, the classical and neo-classical rationale of 'maximising of profits' is notably absent (Heilbroner 1970, p.231).

How Galbraith sees the corporation has implications for corporate legitimacy. Legitimacy is achieved because the corporation is subject to the market with its self-correction and 'comprehensive discipline' that keeps the private purposes of corporations aligned with public interest. Galbraith describes a myth in which the corporation serves the public good - the public best - through markets to which it is entirely subordinate. The corporation is an expression of public legitimacy: the market is an expression of public preference and desire to which the firm responds. It is, in its service to the customer, wholly under public control, without any significant power of its own (Galbraith 1977, p.257). In reality, Galbraith agues that the corporation has power and influence in a wide range of institutional spheres; it manages values in the market, shapes tastes and influences consumption through advertising as well as exercising influence in and by way of government (Galbraith 1977, p.258).

The site of responsibility in Galbraith's theory is complex. Galbraith regards the corporation as having an autonomous personality, a 'synthetic personality' (Galbraith 1962, p.62). The interaction between corporate participants in the course of the impersonal exercise of power creates the personality of the corporation (French 1984, p.42). Like individuals, the corporation is only effective if it enjoys the liberty to pursue its own personality' (Galbraith 1962, p.69). Corporate autonomy - free from the external interference of government and its agencies - constitutes the prerequisite liberty. He states:

> The intrusion of politics and patronage into the public corporation is deeply subversive of the subtle relationships on which an effective development of this synthetic personality depends. But so also will be the intrusions of civil service procedures and routines. The latter may be admirably designed to ensure equality of treatment for all employees. But the effect can be to destroy the easy interpersonal adjustments and the automatic co-ordination on which effective operation depends. The world is full of unhappy choices, and in modern industrialism one of them is between perfectly just rules and reasonably satisfactory standards (Galbraith 1962, p.72-74).

Galbraith argues that outside authority must be circumscribed in what it asks of the corporation if corporate autonomy is to be protected from outside intrusion. The corporation's set goals must be clear and utterly explicit (Galbraith 1962, p.72).

But what of corporate social engagement and corporate responsibility in the Galbraithian vision? The corporation comprises individuals in the technostructure. Corporations can only be responsible in that that there are individuals who can be held morally responsible. In this, Galbraith confirms an amoral vision of the corporation. Its technocratic structure, driven by the 'imperatives of technology' rather than any deliberate engineering, reinforces this idea. For example, the board avoids interfering with management decisions but ensures that the corporation is aligned with public laws and in this, public purpose. In addition, the autonomous corporation operates within a normative moral framework that is determined by the market and which inhibits 'unrealistic' and 'non-normative' moral demands on corporations (Wempe 1998, p.108). However, Galbraith argues that, 'Autonomy does not mean less public accountability. On the contrary, it means more. But it is accountability not for method, procedure, or individual action but for result' (Galbraith 1962, p.74).

Michael Walzer: Social democracy, egalitarianism and liberalism

Michael Walzer's liberalism[24] is set in his commitment to egalitarianism and pluralism, distributive justice, the diversity of social goods in society and the relative

[24] Whilst pluralism keeps Walzer in the liberal camp, he is also a communitarian and radical social democrat. His liberalism lies in that he argues for a *plurality* of ways of being in the world and *multiple* visions of the good life (communitarians tend to hold a single vision). Moreover, as a liberal,

neutral value of these goods. The competing ideals of freedom and equality underpin the core tenets of all far left liberal thinking. In his work *Spheres of Justice*, Michael Walzer attempts to accommodate these two competing master ideals through the notion of autonomously self-regulating spheres of human activity and distribution.

Walzer's descriptive project can be summed up as follows. Human society is made up of an array of *discrete and autonomous* spheres of human activity (Walzer 1983, p.10). In each autonomous sphere of activity, human beings pursue the acquisition of particular goods whether it is sporting accolade, grandmaster points in chess, university degrees or access to medical resources for illnesses. Each sphere is autonomous and guided by its own set of rules and boundaries (Katz 1989, p.179).Within each sphere, goods are - or ought to be - distributed according to criteria intrinsic to the activity in which people engage. That is, the socially determined meaning and goals of the activity should dictate the distribution of the available goods. Thus, grandmaster points in chess should be distributed according to one's ability to win games against the best players; medical resources should be distributed according to the requirements of the illness and the social resources available. Were life simple and resources unlimited, distribution of particular goods in their specific realms would not be a problem. However, life is not simple. First, resources are not unlimited. Second, individual participants in various activities may attempt to secure a monopoly on the distribution of goods in a given sphere. In, this attempt at monopoly should not be a problem - so long as the monopoly power remains within a given sphere of activity. However, monopoly power regarding the distribution of resources rarely remains within a given autonomous realm of social activity. That monopoly or significant accrual of goods and power in one sphere, particularly the market sphere, invariably leads to inappropriate distributions of goods in other spheres. This leads to the third problem: domination. Domination, in short, is the use of goods or power accrued in one discrete domain of social activity to secure the distribution of goods in another sphere of human activity. Examples are

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Walzer insists that various forms of power - monopoly power over a sector of the economy - do not influence the goods distributed in other non-economic areas of life. Most importantly, he would not have power in other spheres of life influence the choices citizens make as equals in the political arena. Perhaps the confusion lies in his radical way of looking at nonmarket driven distributions of goods and the conditions of equality needed for meaningful engagement as citizens..

easy. Money should enable one to buy things - some things - but it should not enable one to purchase political office, ecclesiastical positions or access to educational opportunities. Beauty should be fair game in love; but it should not influence the distribution of jobs or academic marks or money. The 'tyrannical' use of social goods is the use of a monopoly on social power in one sphere to exploit and to distort the distribution of goods in other spheres.

The market is the primary - but hardly the only - offender when is comes to domination or 'tyranny' (Katz 1989). Walzer's conception of the state is very much interventionist when it comes to the market: its necessary and primary function is to constrain the misuse of monopoly power wherever it occurs (Walzer 1983, p.15). Regarding the constraining state, Walzer is both cautious and consistent. The state, rather than merely breaking up tyrannical monopolies or repressing new forms of dominance, becomes the site of competition. Power to constrain is itself a social good and groups will seek to monopolise it in order to protect other monopolies. Walzer argues that the need arises to constrain the agents of constraint by establishing constitutional checks and balances (Walzer 1983, p.14). Thus, for Walzer, social life, the market and the state all operate similarly, in that they are determined by their particular context, given meanings and the social resources they distribute.

For Walzer, 'distributive justice is the art of differentiation' (Walzer 1983, p.xv). Social goods have particular social meanings and distributive justice occurs through a realisation of particular interpretations of the meanings ascribed to social goods. Each sphere of human engagement has its own principles and meanings attached to the social goods that obtain (Walzer 1983, p.19). What goods are distributed, in whose interest, with what ascribed meaning, by which authority and for what reasons are important questions to be considered. It follows that all distributions can be seen to be just or unjust relative to social meanings of a particular sphere, and the social goods in question. Walzer sees all resources with which distributive justice is concerned as social goods (Walzer 1983, p.7). Still, it must be remembered, these social goods are highly particularised, having different meaning in different societies and over time. Thus, Walzer's complex conception might be encapsulated as:

> The principles of justice are themselves pluralistic in form; that different social goods ought to be distributed for different reasons, in accordance with different procedures, by different agents; that all these differences derive from different understandings of the social goods themselves the inevitable product of historical and cultural particularism (Walzer 1983, p.6).

In the Walzerian view, human society is essentially, though not exclusively, a distributive community (Walzer 1992). This has implications for how he sees society operating, as well as how key institutions - the state and market - behave. An extensive welfare state must meet the needs of its community, distribute goods in proportion to need and ensure that 'membership' or inclusion in ensured (Katz 1989). In society, people associate to share, divide and exchange. People also associate to make that which is to be shared, divided and exchanged, and even the work of making of the goods is characterised by a distribution of labour (Walzer 1983, p.3).

Walzer is unambiguous about what he sees as the role of the market. He asserts:

> Throughout history, the market has been one of the most important mechanisms for the distribution of social goods; but it has never been, it nowhere is today, a complete distributive system (Walzer 1983, p.4).

The idea of corporate social engagement is entirely congruent with Walzer's position on the distribution of social goods generally. Nothing in the market's socially determined meanings and values precludes corporate social engagement. Indeed, responsible corporate activities would act as inhibitor on the use of monopoly power to exploit the distribution of goods in other spheres of activity. A commitment to a more egalitarian and non-tyrannical distribution of social goods makes Walzer's vision and corporate social engagement compatible vehicles for attaining comparable goals.

Hayek, Friedman, Rawls, Galbraith and Walzer all write in the liberal tradition but hold very different positions about the principles of social justice and distribution. This has obvious implications for the relationship between the market and the state, and to what extent these spheres interact. A limitation of liberalism - certainly one offered by communitarians - is that in defending individual rights it dislocates people from personal identities which are rooted in community identities, and which refer to individuals in their social, historical and cultural contexts (Avineri and de-Shalit

1996). The debate between liberalism and communitarianism is not pursued further here. It is, nevertheless, an alive and interesting debate that might well yield interesting insights into an interrogation of SCSD.

State and market: a negotiated marriage?

The relationship between the state and the market is neither static nor given. It is most often informed by its political and social context. The dominant ideas of the state and market relationship are most often presented within a spectrum of (ideal) interaction: an interventionist state and a mixed economy on the one hand, or a non-interventionist state and an unbridled free market, on the other. The notion of the state and market relationship operating on a spectrum challenges the neo-classical dichotomy of state and market being shorthand for public and private. Neo-classical economic theory advocates the case for limited state intervention, arguing instead for competitive market mechanisms on the basis of efficiency. However, given that both the market and the state are complex institutions, defined by concrete specialisations, it is often the important, and negotiated task of policy makers to determine the best division of (institutionalised) labour. Richard Batley contends that the case for state intervention rests on the argument that there are circumstances where markets fail to perform efficiently. Most significantly, however, it is predominantly the character of particular goods and services, although these will vary to some extent depending on local market conditions, institutional arrangements and technologies, that determine the appropriateness of state intervention (Batley 1996, p.726). Whether economic performance is improved through introducing market reforms, or whether the size of the state is reduced, the important point Martinussen makes is that the absolute size of the public sector and the quantity of state interventions are less important than the way in which the state acts and the kinds of relationships it establishes with the private sector (Martinussen 1997, p.266).

This core issue is more complex than just choosing between the state and the market. Martinussen points to two imperatives around which such choices must be negotiated, namely economic and political feasibility. He argues that from the point of view of economic feasibility, the central task is to establish a working relationship between the state and the private sector. From the perspective of political feasibility, the key task is to find out whether sufficient support can be mobilised for the proposed policy (Martinussen 1997, p.266). Most importantly, it is a question of what is both politically and economically feasible at the same time, and this requires that the relationship between the state and market be flexible, continuously adapting, particularly to meet the challenges of extracting maximum benefits from a globalised market (Martinussen 1997, p.266).

It is common to represent the market and state in a dichotomy. In reality the spectrum is more fluid. Many institutions do not fit neatly into the state or market divide. Rather, they may have a mixture of both public and private characteristics, 'private-like' and 'public-like' institutions. Elinor Ostrom makes this point. She also argues that a competitive market is a public good. She asserts that whilst the market is the epitome of a private institution, no market can exist for any significant time without the existence of underlying public institutions to support it. In reality, public and private institutions are often interdependent and interwoven (Ostrom 1994, p.15; Giddens 2001).

Part Two: Corporate Social Engagement

The second part of this chapter situates the issues of corporate social engagement, introduced in the first chapter, in the broader debates around liberal political economy. The issue of corporate social engagement is then considered through a detailed discussion of the literature[25] and with reference to the core perspective of SCSD. As SCSD argues for an economic outcome that is socially responsible, this section revisits the nature of the state-market relationship viz. corporate engagement, the locus and nature of responsibility and corporate ethics. The chapter concludes by returning full circle to political economy, the state-market theme and the issue of regulation in corporate social engagement.

In search of the Holy Grail

A critical point needs to be established at the outset. State-corporate social development seeks to shift the traditionally normative perspectives of corporate

[25] The literature concerned with corporate social engagement is dominated by CSR, and most originates from a North American or European perspective.

social engagement, including CSR and corporate citizenship from the normative towards the *strategic* realm. However, the strategic rationale for social engagement by business raises the spectre of a Holy Grail sought by academics and practitioners alike. Indeed, the relationship is 'enshrined in corporate rhetoric' (Post, Preston, and Sachs 2002, p.27). Creating a business case for corporate social engagement aims to show that these activities contribute to improved financial performance. The argument follows that if such a link were established, companies (and shareholders) would benefit from adopting policies and practices which benefit a wide range of societal stakeholders. Whilst multiple case studies assert the correlation between business ethics, corporate engagement and profitability, finding a conclusive positive relationship is difficult[26]. In seeking such evidence, Margolis and Walsh analysed 95 studies conducted between 1972 and 2000 of the relationship between corporate social performance and financial performance (Margolis and Walsh 2001). The majority of these studies indicated a positive relationship although methodological questions lead the researchers to proceed with caution (Margolis and Walsh 2001, p.13). Indeed, despite the presence of a growing high-profile global CSR movement, and sizeable scholarship on the issue, a consistent causal link between CSR and increased profits remains elusive (Clarkson 1995; Hamann 2003; Margolis and Walsh 2001; Marsden 2000; Preston and Post 1975). The discursive tools related to corporate social engagement thus remain essentially normative. The argument on which corporate social engagement is premised sees no inherent contradiction between profitability and remaining responsible to society (and the environment) (Zadek 2001). However, moral imperatives are commendable and desirable but these do not convert the sceptical to the value of social engagement. Speaking to the interests of business is more likely to convince the sceptical, as does addressing the longer-view issue of business sustainability. Arguably, appealing to the business case or 'enlightened self-interest' of corporations is a more compelling argument that a vague moral code. But the absence of clear causation (and well as compelling

[26] Numerous books and articles demonstrate that corporate social engagement reduces volatility and risks, and increases returns and profitability (Recent examples include Balabanis, Phillips, and Lyall 1998; Cowe 2004; Department of Trade and Industry (DTI) UK 2003; Donaldson and Preston 1995; Margolis and Walsh 2001; Riahi-Belkaoui 1999; Willard 2002; Zadek 2001). The countless business cases are also available on the Internet from CSR, corporate citizenship and business sustainability sites which argue the positive associations. (Most notable amongst recent research are Department of Trade and Industry (DTI) UK and Future 2003; Collinson 2001; Kemp 2001. See also Sustainability's Buried Treasure, Business Case Matrix at http://www.sustainability.com/business-case/contents.asp).

scholarly evidence to substantiate the same) probably means less social engagement on the part of corporations than is now the case.

Thus, the discussion of corporate social engagement proceeds with two assumptions in mind. One, corporate engagement is both a normative and a strategic response by business. Two, whilst no *conclusive* link between financial and non-financial performance is asserted, corporate social engagement, nevertheless, accrues multiple positive gains to the corporation in its relationships with other stakeholders and in the course of conducting its business. These gains are consistent with business sustainability, and are suggestive of positive financial performance (Zadek 2001, p.171).

Locating corporate social engagement in the state and market debate

Before looking at the issue of corporate social engagement in depth, it is important to look at various responses regarding corporate social engagement within the state and market debate. These have usefully been summarised by Gray, Owen and Maunders, and are reproduced schematically here (Gray, Owen, and Maunders 1987, p.10-12)

Gray, Owen and Maunders suggest five main responses to corporate social engagement, formulated as CSR in their treatment. The first is the argument of the 'pristine capitalist', which can be understood to refer to neo-classical, liberal economic theorists such as Hayek and Friedman. The pristine capitalists deny any responsibility beyond efficient response to the market. This position, which has been described earlier, asserts that corporate social responsibility is an inappropriate activity for a corporation whose main responsibility is profit making. This position might be described thus:

> There is no reason to think that shareholders are willing to tolerate an amount of corporate non-profit activity which appreciably reduces either dividends or the market performance of stock (Gray, Owen, and Maunders 1987, p.10, citing Hetherington 1973).

The second response is that of 'the expedients'. The expedients believe that economic welfare and stability can be achieved by the acceptance by the corporation of some (minimal) wider social responsibility. The stimulus to social engagement might be internal but is usually external. Corporate social responsibility is seen as a trade-off for some other benefit accrued to the corporation. This position involves accommodating different and often conflicting values. Corporations, particularly larger entities are likely to invest in longer-term relationships in the interest of their own institutional and business sustainability. Consequently, in their self-interest, they will allocate resources to long-term strategies and to stability, including corporate social engagement.

The third response identified by Gray *et al.* is of the proponents of the social contract who believe that companies exist at society's mandate. They are therefore beholden to society's wishes. Any social institution - among which business can be numbered - operates in society via a social contract whether expressed or implied. The corporate social contractarian would argue that:

> [E]very large corporation should be thought of as a social enterprise; that is as an entity whose existence and decisions can be justified in so far as they serve public or social purposes (Gray, Owen, and Maunders 1987, citing R. Dahl, 1972).

The compact is particularly important when the institution's survival and growth are based on social deliverables and the distribution of economic, social or political benefits to groups from which it derives its power. This position might be articulated thus:

> In dynamic society, neither the sources of institutional power nor the need for its services are permanent. Therefore an institution must constantly meet the twin sets of legitimacy and relevance by demonstrating that society requires its services and that the groups benefiting from its rewards have society's approval (Gray, Owen, and Maunders 1987, p.11, citing Shocker and Sethi, 1973).

The fourth response is that of social ecologists who are concerned with the environment in the broadest sense. Social ecologists argue that corporations are often influential in creating, and are potentially equally successful at resolving, very serious social and environmental problems.

The fifth group are the 'socialists', who wish to see the end of economic and political dominance by capitalism in favour of economic as well as political socialism (Gray, Owen, and Maunders 1987, p.11). This position enjoys little support. An ameliorated version, one that supports the market as a means of distribution, now has greater currency than an unaltered Marxist response.

Normative versus strategic imperatives

I wish to underline the strategic imperatives of corporate engagement in a conception of SCSD. The concept of CSR often falls short of highlighting this on its own. Indeed, the philosophical notion of responsibility is largely seen as normative in character and this necessarily leads to some exploration of the normative issues of corporate morality. The chapter concludes with discussion regarding the nature of responsibility and ethics and ends with an inquiry into the role and nature of regulation. In asserting the necessity of regulation with regard to the market (though not necessarily the regulation of corporate social engagement) I reinsert the state and its regulatory institutions into the debate. I argue that if the business' 'licence to operate' and its sustainability are in the balance, then corporate social engagement within this environment takes the character of a strategic rather than a moral imperative.

Individual versus collective responsibility

The question of where responsibility lies for meeting social need in the SCSD framework raises the issue of CSR with regard to business-societal relations. Giddens argues that positive values of human sustainability, such as those associated with human rights, and care of present and future generations imply the ethics of both individual and collective responsibility. As value claims, these are able to trump particular divisions of interest. Giddens argues that as responsibility is not a duty, it may therefore lack the imperative power of the call to duty. But, while duty suggests blind allegiance, responsibility implies a self-conscious rationalisation which is compelling given that 'commitments freely undertaken often have a greater binding force than those which are simply traditionally taken' (Giddens 1994, p. 20-21). Whether located at the level of the individual or collective, responsibility suggests voluntary and non-coerced accession to a moral position.

In *Market and Morality*, Johan Wempe offers a useful consideration of business ethics. In his thesis, he identifies a key conceptual problematic with regards to moral responsibility and corporate social responsibility. In what Wempe calls the 'many - and dirty - hands dilemma', it is difficult to ascribe moral responsibility to corporations as these are entities defined by a complex division of labour. Importantly for this thesis, Wempe uses the *social contract* with specific reference to business ethics along with models of morality to address this dilemma. His project can be summarised as follows: whilst few people would argue the difficulty in ascribing morality and responsibility to an individual, according the corporation with the same moral characteristics as one does a natural person requires an intellectual leap. Individuals are autonomous, morally conscious and free to choose their actions. But, to what extent is this true of corporations, who are in the very least, co-operative entities? How can atomistic notions adequately conceptualise a morality for an entity that is essentially collective? Wempe argues that collective responsibility does not diminish individual responsibility. Rather, by seeing the corporation as a 'multi-party contract', a new type of responsibility - one that is collective and broad - is developed (Wempe 1998, p.19).

Wempe identifies three models for the functioning of moral responsibility in corporations: the moral, functional and autonomy models. Presented below, these summaries are based on Wempe's own description (Wempe 1998, p.157). The first model, the amoral model of corporate responsibility places no special moral responsibilities on the corporation or on its individual representatives who engage in its functioning. The amoral model, moreover, ignores the context in which the corporation operates, asserting that the corporation is viewed as a social phenomenon that is determined by market forces. The congruence of this model with the neo-classical liberal position is clear. It fits relatively seamlessly with classical economic theory. Wempe suggests a variation of the amoral model of corporate responsibility that traces corporate responsibility to personal responsibility. Individual moral conscience can not simply be suppressed when individuals operate within the bounds of corporate activity. It is characteristic of the amoral model of corporate responsibility that moral issues are seen as independent of the corporate. However, I argue that given that corporate responsibility must be seen as contextually determined. This model fails in situations in which corporate environments require corporations to be socially responsible but where legislation and government regulation is insufficient to compel corporations to take responsibility for their (potentially or existing) injurious behaviour.

The second model, the functional model permits the conception of the corporate context as a source of moral obligation. It reduces all moral questions involving the corporation to the responsibilities of natural persons. Moral concerns in the corporate context are problems for functionaries as corporation representatives, and all responsibility ultimately lies with the individual. It is always an individual who gives shape to the function. Moral problems which occur in the corporate context can therefore be reduced to individual moral problems. However, as Wempe notes, by reducing all moral problematics to the level of the individual, in real-life corporate situations, the model obfuscates moral implications for the corporate entity. This is especially true for situations in which the responsibilities are beyond the individual functionary. The model fails to adequately apportion responsibility where it lies with a corporate entity, where it is spread over several people, or in complex situations over a period of time (Wempe 1998, p.157).

Wempe's final model, the autonomy model, acknowledges the relevance of the corporate context. In addition, it deals with the moral problems connected with the corporation as a separate problem category with its own characteristics (Wempe 1998, p.157-159; French 1984). In this conception, the corporation is also seen as a moral subject. In legal terms, the corporation is a juristic person. However, the recognition of corporate responsibility does not suggest that individual responsibility is reduced. Wempe's project is ultimately an ethical one. His major concerns are with philosophical ethics and the problems of morality, integrity, malfeasance and virtue in business. What Wempe very usefully achieves is a concord between stakeholding and the social contract. But given the absolute value and abstraction of his moral precepts, Wempe fails to fully recognise the importance of context to moral dilemmas.

Ethics and business

Ethical business is often referred to as 'good business' and 'good for business'. The precept that ethical behaviour contributes to long-term value has led to a growing number of large corporations positioning themselves as good corporate citizens. 'Ethical business' may be signified by commitment to good governance, explicit value statements, development of ethical supply chains, public commitments to ethical labour, environmental and social codes and standards and disclosures of non-financial performance in social audits. Ethical codes inform business issues and dilemmas related to the moral actions and decisions of corporations while audits account for financial and non-financial impacts (Bendell 2000; Donaldson and Dunfee 1994; Elkington 1998; McIntosh *et al.* 2003; Sethi 1973; Zadek 2001). Commitment to ethical business practice is central to the notion of corporate social engagement, particularly as expressed as corporate citizenship. For some businesses, such commitments seek to mitigate damage as a consequence of deviant behaviour by the corporation, or its individual functionaries. For some critics, debates regarding ethics are inherently limited. Capitalist society and competition provide opportunities, motivations and rationalisations for business deviance (Punch 1996, p.10, p.45, citing Coleman 1989, and Clarke, 1990). Korten argues that capitalism is a continual trade-off between profits and principles (Korten 1995). Similarly, Punch sees the occurrence of business deviance as inseparable from the legitimate conduct of business. He argues that business is about the exercise and abuse of power: business is essentially about the quest of (legitimate) self-interest in a context proscribed by rules to necessarily protect the various interests of all stakeholders (Punch 1996, p.45). In contrast, this thesis holds that corporate social engagement issues require a particular ethical stance on matters of concern to the corporation, although circumstances that inform these positions are themselves changeable.

Without incentives or regulatory pressures, few businesses make significant social investments. Business ethics and the ability to account for corporate behaviour whether financial, social or environmental is critical to building trust, gaining legitimacy among stakeholders, ensuring social investment, promoting business sustainability, and may even be positively associated with greater profitability.

Rhetoric versus reality: Accounting for the social and ethical performance of corporations

Having ethical governance standards is one thing, implementing and monitoring these another. A growing phenomenon related to the ethics in corporate social responsibility is corporate social accounting. Gray *et al.* argue that once responsibility has been determined, the corporation must account for the extent to which it has been met (Gray, Owen, and Maunders 1987, p.12). Social and ethical accounting, auditing and reporting is, in various forms, being increasingly integrated into corporate governance practices (McIntosh *et al.* 2003; Elkington 1998). While the practice remains largely marginal, there is a growing corpus of literature, as well as practical advancements made by some business enterprises, business think tanks, management consultants, institutional investors, and academics, who are devoting considerable effort to techniques to measure and evaluate the social impact of business activities.[27]

Corporate accountability requires rigorous auditing practices. However, unlike financial auditing which measures the fiscal performance of a corporation, social and ethical performance are relatively difficult to measure. Thus, it is important to be explicit about the responsibilities of a corporation in order to measure, evaluate and report on its achievement or failure. One can not measure that which has not been defined, and one can not evaluate that which has not been measured. Significantly, good governance requires such disclosure about social and ethical performance because these point to company investment in value-based stakeholding relationships:

> Relationships matter in seeking business success, and such values as trust, integrity and commitment are integral to long-term relationships that work (Zadek, Pruzan, and Evans 1997, p.12).

In reality, whatever glossy social reports claim, as Balabanis *et al.* contend, the higher the level of financial performance, the higher the level of corporate social

[27] Corporate citizenship debates have progressed corporate social accounting significantly. (See, among others, Bowen 1953; Elkington 1998; Ernst & Young *et al.* 1999; Gray, Owen, and Maunders 1987; Heiman 1997; Longstreth and Rosenbloom 1973, p.24; McIntosh *et al.* 2003; Medawar 1978; Peirce 1999; Sethi 1973; Sethi 1974; Sethi and Swanson 1981; The Sigma Project 1999; Zadek, Pruzan, and Evans 1997; Zadek 2001).

engagement, and the higher the level of corporate social disclosure. Indeed, a healthy and critical scepticism must arguably operate with reference to corporate pronouncements. There is an obvious and important difference between what companies do and what they say they do (or did) (Balabanis, Phillips, and Lyall 1998, p.32-33). Post, Preston and Sachs argue a redefinition or re-evaluation of the corporation in this light as resting on the maxim 'corporations ARE what they DO' (Post, Preston, and Sachs 2002, p.2, p.63-64).

Regulating corporate social engagement

As argued above, the market requires the intervention of the state for the creation of 'predictable, effective and cost-efficient regulation' (Elkington 1998, p.247). A SCSD framework, which argues for an interventionist and directive state, will also necessarily be sympathetic to the idea of reasonable and necessary regulation. However, the regulation of corporate behaviour has long provoked debates between stakeholder groups. Whilst regulation is certainly necessary, corporations argue that voluntary compliance (whether around social or environmental goals) best serves both the state and business by reducing transaction costs. Critics argue that voluntary compliance is at best minimal compliance, that it relies on the integrity and direction of corporate leadership and that without external verification may well be unreliable. In addition, while environmental performance, labour standards and tax environments might lend themselves to regulation where political will exists, broader social engagement by corporations may not. Extensive regulation on the other hand leads critics to argue that such states engage in rent-seeking and extractive activities or to inefficient bureaucracies (Evans 1995, p.24; Murray 2003; Weaver 1981)

As discussed earlier, the motivation for a corporation's engagement in the social sphere might lie internally or externally. Once a policy of corporate social engagement has been adopted – whether voluntary or obligatory - its regulation too might emanate from various sources. These regulatory mechanisms might be external (through legislation or industry standards) or internal (company ethical codes or value statements). Social and ethical auditing are examples of internal voluntary regulation mechanism. Internal self-regulation might work to protect corporations and their representatives where they can be held liable for damages. Self-imposed internal limits on behaviour might protect the corporation from litigation, from greater government intrusion in business, as well as enhance the corporate reputation. Internally-set parameters for corporate social engagement, particularly in the case of larger companies, are increasingly more likely to be negotiated by internal stakeholder groups (Elkington 1998). This democratisation in decision-making comes with attendant responsibilities. Responsibilities are more dispersed to the lower levels in the corporate hierarchy pointing to the need for sustained leadership commitment to these areas of corporate engagement.

External regulation can take various forms: public opinion, government and legislation, or, codes and standards. Corporations may be compelled by negative public opinion to examine their social and ethical performance. Stakeholders located outside the corporation may organize around issue-based concerns be they consumer related, social or environmental.

The chief regulatory mechanism, however, remains intervention by government. It has already been established that the nature of the intervention will be contextually determined. Government regulation of corporate activity, even corporate social responsibility, requires political will and acceptability. At its least regulatory, the state is the guardian of the market, intervening minimally only to assure the fair balance of competing interests in society. To evoke a trope used by Punch, government is ostensibly a neutral referee that ensures that the game is followed according to the rules. He asserts that government ensures the playing field is level, that the goal-posts are not moved, and that no one has 'thrown' the game (Punch 1996, p.251). Where the game has been thrown, as in the case of corporate crime, for example, 'government plays a pivotal role in setting ground rules, in interfering in specific cases, and in determining outcomes in relation to tackling business deviance' (Punch 1996, p.252).

Of course, any government's ability to regulate corporate activity is also constrained by multi-national corporate activity. Whilst the regulation of MNCs is not a central concern of this thesis, such regulation raises important questions about the impact of globalisation on corporate responsibility nationally, and the limits of regulation in a global business environment. Held argues that such regulation must be enacted in the context of democratising capitalism. Where stringent regulatory mechanisms are consistently present, companies might regard this regulation as intrusive, and likely to 'throw the rules of the game'. Companies may object to the possible handicap they might suffer from the loss of competitive advantage viz. those not subject to these regulations. They may resist intervention or move their activities to less regulated environments. Held asserts:

> Accordingly, the rules of the game have, in principle, to be altered tout court, at regional and global levels, if capitalism is to democratised and entrenched in a set of mechanisms and procedures that allow different kinds of market to flourish within the constraints of democratic processes. A democratic political economy can be envisaged as part of a 'democratic alternative' to both state socialism and liberal democratic capitalist economies (Held 1997, p.259).

Legislation and other government regulation may be thwarted by the mobility of capital, and the lack of shared frameworks for regulation between regions and countries.

The legal framework by which business is regulated reflects dominant political interests within the political economy. However, as both Wempe and Punch argue, legislation takes years to enact, often running behind actuality so that the question of moral responsibility may not always suggest a legal response (Wempe 1998, p.5; Punch 1996, p.253). What is not regulated cannot be proscribed, adjudicated or prosecuted. Whilst a regulatory legal framework may exist, there might be difficulties in implementing its substance. Difficulties might arise from structural weaknesses of governmental and other agencies: they might possess feeble sanctions, be toothless, collusive, understaffed, poorly qualified, unwilling to prosecute or overly deferential to the companies in their jurisdiction (Punch 1996, p.254).

Law, codes and standards may also be incentives for the award of business, measures for enhanced reputation and trust, or indicators of good governance practice and sound investment value. These regulatory instruments (voluntary or mandatory) may also encourage, enforce or drive the social engagement of corporations. These instruments are themselves products of political determination, as has already been asserted. They are an 'extortion to do good', a 'steady reminder' and an 'enforcer of desirable values' (Arrow 1973, p.309). However, to be meaningful, Arrow argues, obligations must be embodied in a social institution, a legal code constituting such an institution (Arrow 1973, p.309-310). Legal codes are important for a number of reasons. While they might be vague and abstract, the legal compulsion to at least minimally comply provides some assurance to any one firm that the firms with which it is in competition will also accept the same responsibility (Arrow 1973). This is an important rejoinder to companies that claim that the cost of corporate social engagement puts them at a competitive disadvantage. In addition, having a value-based standard, which has wide stakeholder recognition and approval, applies pressure to non-compliant businesses particularly in an information age (Haufler 2001). Finally, the existence of legal codes can raise general consciousness about ethical business practice and the social impact of corporation activity.

Legal frameworks and codes are not, however, without problems. Punch argues that we are unavoidably reliant on internal control mechanisms (Punch 1996, p.69). These rely on corporate accountability and disclosure. However, there are countless examples of corporate malfeasance, social and labour standard transgressions, the violation of human rights and environmental exploitation that warn of the limitations of self-regulation and the over-reliance on voluntary codes (Haufler 2001). In an *ideal* situation, focus should be on voluntary business-led standard setting and compliance as suggested by the term 'responsibility' (Murray 2003). But the ideal position begs the question whether corporations can be persuaded to comply with voluntary codes and standards, and in circumstances in which they must subjugate immediate corporate interests to the general good? If the state were not to introduce binding social and environment regulation, what mechanism would best promote the encouragement of corporate engagement?

Regulation for neo-classical liberals is a highly undesirable phenomenon. The intervention of the state in the market in any way runs counter to their philosophical conceptions of freedom and liberty. The explicit presence of the state (primarily as a regulatory agent) for left liberals points to the state operating as arbitrator of the plural contesting interests at play, of which the state itself, is one. Midgley's notion of managed pluralism, important to SCSD, is well placed in this understanding.

In the next chapter, liberalism and corporate social engagement, the two key ideas of this current chapter are explored further in relation to social contract theory and stakeholding theory. These theoretical frameworks, which are demonstrated to be mutually reinforcing, offer greater insight into the relationship between state and market.

CHAPTER THREE: STAKEHOLDER THEORY AND THE SOCIAL CONTRACT

This chapter presents the theoretical framework for subsequent empirical chapters. Here, stakeholder theory - in conjunction with social contract theory - is used to provide greater insight into the motivations for, and manifestations of, corporate social engagement.

This chapter is structured in three parts. The first introduces stakeholder theory. Stakeholder theory is primarily used here for understanding the locus of corporations within a nexus of societal relationships. The second part of the chapter examines social contract theory. Social contract theory is often used implicitly or explicitly to explain and justify the multiple relationships, as well as rights and obligations, within stakeholder theory. Moreover, social contract theory also provides analytic justification for social redistribution discussed in the previous chapters. In the third part, these theoretical frameworks - stakeholder theory and social contract theory – that operate at different levels of abstraction are examined in relation to the notion of state-corporate social development (SCSD) developed in this thesis.

Part One: Stakeholder Theory and the Corporation

Chapter two examined the context of business and its operation in the liberal economy. Some additional and perhaps reiterative insights regarding modern capitalism may be useful here to frame the discussion on stakeholding as a theoretical paradigm for understanding corporate social engagement. With use - whether by politicians, economists, management consultants or lobby groups - the stakeholder concept appears to have become more elastic. The application of stakeholding to fundamentally different settings, whether the state, civil society, social programmes, political engagement generally or business practice, has meant that the concept often confuses rather than clarifies. Consequently, this thesis focuses primarily on a narrow application of stakeholder theory; its application in the context of corporations and their operations. This narrowed field of inquiry is very rich and the debates nuanced. Stakeholding was until relatively recently still considered a controversial approach to conventional views of market capitalism. The concept now enjoys greater currency and there is a growing body of stakeholder literature both scholarly and practice-driven (Donaldson and Preston 1995, p.69; Sethi and Swanson 1981).

The institutional structures of capitalism are diverse, as are the ways in which the social, economic and political spheres interconnect. The stakeholder economist, Will Hutton, argues that the market system is more than a sum of its parts; all markets are political and social, as well as economic. 'Real world' capitalism - constructed by real people, located in real culture and made operational by real institutions - is characterised by different syntheses of the principles of commitment and flexibility, co-operative trust and competitive rigour, in the arrangement of economic life, in the organisation of states, private institutions and society at large (Hutton 1997, p.2; 1999, p.89). Stakeholding capitalism is one choice of institutional arrangements: one that potentially strikes the balance between social and economic imperatives which drive the concerns of social development.

In a broader context and, given the symbiosis of social and economic development in the political realm, stakeholding capitalism depends on a strong stakeholding society. Stakeholding strongly suggests interrelated systems: a stakeholder economy and society which, in turn, is reflected in a stakeholder polity (Hutton 1999, p.75). Such a society would reflect the desires of common citizenship and prevent the fragmentation of social fabric. It also defines values in more pluralist and inclusive ways (Allen 2001). David Goodhart calls stakeholding capitalism 'civic spirited capitalism' (Goodhart 1994, p.77). Many of the insights from stakeholding in the political realm can be applied to a stakeholder conception of the corporation.

Defining a stakeholder theory of the corporation

Whilst Freeman, the originator of stakeholder management describes stakeholding as a 'framework', Donaldson and Preston (among other scholars) elevate stakeholding as a *theory* intended to explain and to guide the structure and operation of the corporate entity (Clarkson 1998; Donaldson and Dunfee 1997; Donaldson and Preston 1995; Freeman 1984; Jones 1995; Morrison 2003). Detractors of stakeholder theory see it as 'unsubstantive', 'unworkable' and merely a 'new orthodoxy'

(Sternberg 1997, p.70). Whilst stakeholder theory may be general and comprehensive, Donaldson and Preston assert that it is neither lacking in rigour nor substance (Donaldson and Preston 1995, p.70). One challenge in making a sweep of the literature is that much of what passes for stakeholder theory is implicit rather than explicit. Debate around the theoretical integrity of stakeholder theory continues with scholars proposing additional theories - institutional theory and organisational justice theory - to augment what is seen as a weak theory (Powell and DiMaggio 1991; Husted 1998).[28] This thesis recognises stakeholder theory as a legitimate theory but also pairs it with social contract theory for additional rigour, as well as to advance the notion of SCSD theoretically.

Stakeholder theory represents a controversial approach to conventional views of market capitalism (Donaldson and Preston 1995, p.69). The stakeholder concept describes the relevant actors in a business environment, whilst stakeholder management is the premise that businesses have to manage a plurality of interests in the achievement of business goals (Freeman and Gilbert 1987, p.397). Stakeholding is controversial for similar ideological reasons that corporate social engagement is seen to be a subversive practice by neo-liberal economists and many business practitioners. They hold that business is for the benefit of all but only made manifest through the 'invisible hand' of an efficient market, and with corporations being accountable only to their owners, the shareholders. Blair calls this position 'finance and market myopia' in that shareholder's interests are pursued in the maximisation of share price (Blair 1995, p.47). A stakeholder conception of the corporation literally inverts these assumptions. The benefits flowing from corporations need to be shared collectively and corporations are accountable to multiple stakeholders, *one* of whom are shareholders (Balabanis, Phillips, and Lyall 1998, p.26). Husted takes the idea of corporate allocation further in arguing that stakeholding inheres distributive decisions: stakeholding reifies the relationship between legitimacy, allocative fairness and business sustainability (Husted 1998, p. 646-5).

[28] An alternative theoretical framework to social contract theory through which to ground stakeholding is institutional theory (Powell and DiMaggio 1991; Lounsbury and Ventresca 2003; Hoffman and Ventresca 2002). Whether in the disciplines of sociology or management, institutional theory is useful for understanding both exogenous and endogenous factors driving the business enterprising, social structure and organisations, as well as the codification of power in society which frames political process. However, I have elected not to pursue institutional theory as a theoretical perspective in this thesis as social contract theory is more apposite to ideas relating to the state-corporate social development framework.

From shareholders to stakeholders

In this inversion, the key shift in accountability flows from a broadened and more inclusive conception of who has a 'stake' in the corporation. In traditional terms - as codified in corporate statutes and practice - the corporate constituency comprises shareholders. The shareholder model of the corporation emphasises the fiduciary obligation of corporations to their owners. In this model, managers, are solely obliged to further the interests of the corporation's owners. The shift from rights in a shareholder model (apparent in neo-liberal frameworks) to a model of rights and responsibilities in stakeholding (characteristic of left liberal and communitarian perspectives) is highly significant. This move which also underscores the notion of obligations that attend rights is reflected in an analogy between corporate and individual citizenship in corporate citizenship concerns (Morrison 2003).

Allen argues that stakeholding is an essential part of the knowledge economy, with its rapid change of pace, demands for innovation and the generation of the need for different forms of business relations. These new business relations, he argues, protect and enhance human resources and conspicuously cultivate trust, co-operation and an element of mutual gain in pursing innovation without engendering instability (Allen 2001, p.285). It has become crucial for corporate management to recognise new mutual obligations and an increased constituency base including groups not previously considered as part of its accountability (Sethi and Swanson 1981, p.xii). In contemporary 'real world' capitalism, equity ceases to be the sole claim on the corporation. But once corporations' acknowledge a broader constituency, the next crucial step in the chain of logic is to interrogate the composition of the stakeholder group.

Defining stakeholders: who stakes a claim?

The key challenge to stakeholder theory regards the identification of stakeholders. Clearly, 'stakeholder' encompasses both individuals and groups and explicitly recognises their influence on the corporation and (managerial) decision making (Jones 1995, p.407; Scott and Lane 2000, p.44). But, who are the corporation's stakeholders? Do all stakeholders have a legitimate claim on the corporation? Do all stakeholders have an equal stake? Can some stakeholder interests be privileged over other interests? Who decides how such a hierarchy of interests is to be arranged? How do corporate managers, themselves a stakeholding constituency, manage the competing interests of different stakeholders?

Defining who is a stakeholder is itself contested terrain. Within the stakeholding literature - academic and managerial - the differences in conceptions of who constitutes stakeholders are often subtle yet important, although tracking these can be a somewhat pedantic exercise. For example, Clarkson attempts to limit the number of claimants on the corporation by creating a boundary between social and stakeholder issues (Clarkson 1995, 104-5). But such a boundary is often artificial and takes the corporation out of the real context in which it operates.

Stakeholders were originally identified as those individuals or groups on whom the survival of the business depended. This definition is currently much expanded to include all those who hold a stake in the corporation:

> Stakeholders are persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future. Such claimed rights or interests are the result of transactions with, or actions taken by, the corporation, and may be legal or moral, individual or collective (Clarkson 1995, p.106).

Similarly, Donaldson and Preston argue that stakeholders are 'all persons or groups with legitimate interests participating in an enterprise' or 'persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity' (Donaldson and Preston 1995, p.67-68; Wempe 1998, p.23). They argue that stakeholders participate in order to obtain benefits, and that 'there is no prima facie priority of one set of interests and benefits over another' (Donaldson and Preston 1995, p.68). Moreover, the corporation's stakeholders are identified by their interest in the benefits accrued by the association with the corporation rather than the corporation's interest in them. Goodpaster citing Freeman (1984) defines stakeholders as 'a group or individual who can affect or is affected by the achievement of the organisation's objectives' (Goodpaster 1991, p.54; Sternberg 1997, p.70; This definition is reasserted in Freeman and Gilbert 1987). In other words, they present a definition of stakeholders that is at once broad, thoroughly inclusive and non-hierarchical.

Herein rests the first major criticism of stakeholder theory. When the term stakeholder is understood so broadly and inclusively, the number of potential groups who might stake a claim in the corporation is, in Sternberg's criticism, unlimited. Sternberg argues that by extending stakeholding to encompass all those affected by the corporation's activities, 'the popular modern characterisation excludes all criteria of materiality, immediacy and legitimacy' (Sternberg 1997, p.70). The field of influence can indeed become very wide. In opening the definition of stakeholders to multiple actors who have no *specific* stake in the corporation and who have no interest in its success may be undermining the more legitimate claims of those actors whose immediate interests are involved. An unlimited relationship of responsibility is intractable, and indeed may undermine the strength of a rights and responsibilities model. Post, Preston and Sachs particularise stakeholding to include those engaged in wealth creation capacities and activities, these interest groups being the potential beneficiaries and risk bearers of corporate activity (Post, Preston, and Sachs 2002, p.19). Does this refinement adequately achieve balance between various stakeholders that at once includes all legitimate stakeholders?

Another perspective Donaldson and Preston offer - but do not pursue to conclusion - borrows from social contract theory. Stakeholders are identified by the existence of a contract, expressed or implied, between them and the corporation (Donaldson and Preston 1995, p.85). Once presented, Donaldson and Preston dismiss this definition, however, on the grounds that it is too loose, and that many relationships that obtain between the corporation and whomever might be considered stakeholders are 'so vague as to pass beyond even the broadest conception of 'contract' (Donaldson and Preston 1995, p.85). Instead, the definition of legitimate stakeholders - for these commentators - rests on a risk-principle: the actual or potential harms and benefits that stakeholders' experience or anticipate experiencing as a result of the corporation's activities. They argue that an important function of management involves the appraisal of the legitimacy of stakeholder interests, the management of risks and rewards flowing from the firm's actions, often in collaboration with these same stakeholders (Donaldson and Preston 1995, p.85).

Risk and benefit following from rights and responsibilities may be one organising principle but determining inclusion in any group requires some disaggregation of the term 'stakeholder'. Disaggregation can happen in three ways, which are compatible with each other: by separating stakeholders into primary and secondary stakeholders, by distinguishing between internal and external stakeholders, and by looking at implicit or explicit claims on the corporation.

Clarkson (1995) and Hopkins (1999) distinguish two classes of stakeholders. In the first instance, primary stakeholders are those on whom corporations' survival depends. These typically include shareholders, investors, employees, customers, suppliers together with what is defined as the public stakeholder groups: governments and communities that provide infrastructure, markets, laws and regulations. There is a high level of interdependence between the primary stakeholder and the corporation: the disapprobation of customers, for example, can damage the corporation's sustainability. In the second instance, secondary stakeholders are those who influence or affect the corporation but are not engaged in transactions with the corporation. This potentially involves a significant number of interest groups that are not considered essential for the corporation's survival, and include the media and a wide range of special-interest groups (Clarkson 1995, p.105-108; Hopkins 1999, p.12).[29]

In another typology, stakeholders are disaggregated into internal stakeholders and external stakeholders. Internal stakeholders include employees, management and creditors. These individuals and groups are active in the corporation's business, and like 'primary' stakeholders they are responsible for the continued existence of the corporation. External stakeholders, are those located outside the corporation, and include consumers, suppliers, government, the community in which the corporation is located, as well as particular interest groups. External stakeholders influence the corporation in the course of realising their own objectives but are also important for the firm's sustained existence (Wempe 1998, p.23-24).

[29] While Clarkson would number competitors among in this class of stakeholder, Post, Preston and Sachs explicitly exclude competitors from among stakeholder groups to whom the corporation is accountable (Clarkson 1995, 1998; Post, Preston, and Sachs 2002, p.23).

Finally, Balabanis *et al.* suggest the idea of stakeholders as explicit and implicit contractors. They argue that the value of a firm is related to the cost of both implicit and explicit claims. Explicit claimants include the shareholders in the first instance, as well as government, investors, creditors and employees. Implicit claimants are individuals or groups who have implicit contracts based on agreements such as those suggested by the firm's value statement, CSR programme or commitments to codes and standards. However, if these contracts are not honoured, the parties to these contracts may attempt to change them from implicit to explicit agreements. This is more costly to firms, not least of all because it involves loss of credibility, increased direct costs through litigation and greater transactional costs (Jones 1995, p.409). Corporations must manage stakeholders' claims in such a way as to ensure fewer, high-cost explicit claims (Balabanis, Phillips, and Lyall 1998, p.28).

All three disaggregating strategies make an important distinction: between stakeholders and influencers. The latter group exert influence but do not significantly determine the activities or impact upon the survival of the corporation (Donaldson and Preston 1995, p.86). Freeman and Gilbert call this group 'kibitzers': neither having an equity nor market stake in the business but nonetheless having an interest or being affected by what the firm does (Freeman and Gilbert 1987, p. 403).[30] The implication of this distinction is that stakeholders - in the broadest sense of the definition that would include *all* groups with an interest in the corporation - do not enjoy equal legitimacy or power. While a corporation can be held to account for its activities and decisions, it might not be appropriate for the corporation to be held to account equally to each stakeholder group. Being affected or influenced by a group, even needing to be instrumentally responsive to a group, is quite different from being held to account by that group (Sternberg 1997, p.79). Corporations may be differently accountable to these influencers.

Stakeholding necessitates that managers are skilled at balancing interests in such a way that parties continue to invest trust in a long-term relationship. Herein lie two

[30] The anti-globalisation movement are an increasingly powerful and vocal 'kibitzer' group, as attested by highly publicised protests in Genoa, Seattle and Davos in recent years, and even the anti-privatisation lobby at the World Summit on Sustainable Development in Johannesburg in 2002.

further criticisms of stakeholder theory. First, stakeholding is a normative theory of corporate functioning which pivots on the notion of accountability. However, the corporation is not equally accountable to all stakeholders (including influencers); just as all stakeholders are not equally engaged in the processes of, and decision-making by, the corporation. Second, the corporation relies on the tacit agreement - and often the willing cooperation and active patronage - of society but to what extent does this give society the right to hold corporations to account? Even if the answer to this question was inclusively affirmative, should the corporation break compact, individuals and groups might withdraw their support and cooperation but they would have no general authority to hold the corporation to account.

With regard to the first criticism, Sternberg argues that stakeholder management is unworkable because the number of potential interests that must be balanced is almost infinite. Similarly, Novak argues that such a conception of stakeholders is bound to be 'like a nest of open-mouthed chicks' (Novak 1997, p.44). For a balance to be struck, the number of stakeholders must be limited (Sternberg 1997, p.72; Novak 1997, p.43-44). But, stakeholder theory does not provide guidance as to how such a balance might be struck. It does not determine how divergent stakeholder claims might be reconciled against each other. If stakeholder interests are unequal, how are they to be ranked and how are the interests of stakeholders who straddle multiple interest groups to be managed (Alcock 1996; Sternberg 1997, p.73-74)?

Of course, one way to manage stakeholder interests is to acknowledge (and prioritise) needs, obligations and rights. Where managers subordinate other stakeholder concerns to those of shareholders, they rely on the assumption that market and legal forces will secure the interests of those of whom corporate strategic considerations might discount (Goodpaster 1991, p.57). In daily corporate practice, Scott and Lane argue, managers do attend to the needs of certain stakeholders more then others, sometimes for philosophical and strategic reasons, but most times because of time and cognitive constraints. Managers are also more likely to prioritise the needs of those stakeholders whom they consider legitimate, whose demands are urgent and who appear to have the power or ability to impose their will on the organisation (Scott and Lane 2000, p.54). This balancing dilemma may mean that substantive commitment to stakeholder involvement might translate into trading off some (economic) advantages or benefits of one group against another (Goodpaster 1991, p.61).

In stakeholder synthesis - which moves stakeholder analysis (identification) to practical response or resolution - Goodpaster points to a 'stakeholder paradox'. The 'stakeholder paradox' exists, he claims, because business ethics seems both to forbid and demand a strategic, profit-maximising mind-set. He argues that managers who pursue a multi-fiduciary stakeholder orientation for their companies must face resistance from those who believe that a strategic orientation is the only legitimate one for business to adopt given the economic mission and legal constitution of the modern corporation. The tension stems from the corporation's fiduciary and non-fiduciary obligations. Whilst managers are legally obliged to maximise shareholder profits, stakeholder management may mean that under particular circumstances, certain other non-economic benefits might be privileged over profit. This contradiction underplays well-defined corporate codes regarding accountability to the corporation's owners. In this narrow view of accountability, stakeholder management would represent a betrayal of shareholder trust. Goodpaster argues that if corporations treat stakeholders as they do shareholders, in a fiduciary relationship, stakeholder management effectively turns all stakeholders into quasi-shareholders. He argues that these multi-fiduciary stakeholder relationships convert the private corporation into a public institution and raises the need for a corresponding restructuring of corporate governance (Goodpaster 1991, p.63-66).

Employing stakeholder theory in the management of the corporation

Donaldson and Preston argue that stakeholder theory is managerial in the broad sense of the term. It goes beyond simply describing extant situations or predicting cause-effect relationships. Stakeholder management recommends attitudes, structures and practices by the corporation. The corporation's policy and practice is required to pay attention to the legitimate interests of stakeholders, as well as both the immediate case-by-case decisions, context, organisational structures and operational practices of the corporation. Donaldson and Preston also assert that the requirement of simultaneous attention to multi-stakeholder interests does not itself resolve the problem of stakeholder identification, or the problem of evaluating which 'stakes' are most legitimate (Donaldson and Preston 1995, p.67). Despite the persistent problem of stakeholder identification, Donaldson and Preston advance a stakeholder theory of the corporation on the basis of its normative validity, descriptive accuracy and instrumental rationale. Although these models have different implications, they are, nonetheless, mutually supportive and often used in concert (Donaldson and Preston 1995, p.65).

Turning first to the normative basis of stakeholding, this model argues certain individuals or groups - not only shareholders - with legitimate interests in the procedural or substantive aspects of corporate activity. As a normative theory, stakeholder theory interprets the function and the operation of the corporation on the basis of moral and philosophical principles. Importantly, rather than being identified and valued by corporations' functional interest in them, stakeholders are identified by their interest or stake in the enterprise. Preston and Sapienza suggests that traditional corporate performance measures, such as high return on investment, profitability and growth, appear to correlate with stakeholder satisfaction. There is clear evidence, despite conventional mythology, that major stakeholders typically gain or lose collectively rather than at each other's expense (Preston and Sapienza 1990, p.372-3). Co-joined interests are better advanced through efficient contracting, mutual trust and co-operation by diminishing transaction costs (Jones 1995, p.421-2). All this suggests that although based on normative and ethical principles, stakeholder management is the optimal strategic model for maximising corporate performance and that it accords with even narrow economic objectives.

As a descriptive theory, stakeholding asks how the modern corporation behaves in relationship to its stakeholders. It describes 'the corporation as a constellation of cooperative and competitive interests possessing intrinsic value' (Donaldson and Preston 1995, p.66, p.71), and serves an instrumental providing an empirical framework with which to test competing claims. As an instrumental or strategic theory, stakeholding focuses on interrogating the connections, if any, between stakeholder management and traditional corporate performance objectives. In this application, managers engage in stakeholding in order to further *their* desired objectives such as profitability and growth. The normative and strategic basis of stakeholder theory is congruent with contractarian arguments for a corporate social contract which, in turn, supports arguments for corporate social engagement in a SCSD framework.

Part Two: Social Contract Theory

Social contract theory is proposed as a key theory functioning at a high level of abstraction. The social contract - in tandem with stakeholding - is particularly appropriate to the SCSD framework advanced in this thesis. Together they explain the overarching state-market relationship, most especially in advancing an understanding of redistribution. I also argue that they provide some analytic justification for corporations engaging social issues beyond the profit principle. The modern social contract may be a useful theoretical tool to develop an understanding of the management of multiple stakeholder interests, particularly as these obtain in a contemporary business environment. Linked to both liberal pluralism and the social development's managed pluralism which underscores the SCSD framework, the social contract can be used to theorise the state-business relationship, globally, nationally and locally. In addition, both theories in concert provide a theoretical framework for analysing and understanding contemporary South African policy.

It is necessary from the outset, however, to outline how the social contract is to be used in this analysis. Whilst this analysis will later briefly discuss some theoretical positions associated with key classical contractarian thinkers, it uses the concept of the social contract *analogously*. In classical political theory, classical contractarians - the triad of Hobbes, Locke and Rousseau - developed theories of the social contract in order to understand the genesis and operation of government. Government was established via the relationships of individuals with other individuals or between individuals (as citizens) and the state. The social contract linked rights and responsibilities vertically between individuals and the state and horizontally between individuals. Similarly, in contemporary social contract theory, which uses a citizenship framework with attendant rights and responsibilities, the state provision of social rights (such as is in the case of both social policy and social development) requires the adumbration of accompanying responsibilities (Giddens 2001, p.8). Indeed, these rights and responsibilities discussed in the previous chapter, apply to both individuals and institutions.[31] By comparison, in this thesis the social contract is a heuristic device used to understand the relationship between oftentimes powerful market institutions, their relationship with the state and the society in which they are embedded.

Defining the social contract

The social contract is used in arguments to explain the nature of political obligation and to provide an account of organised society (Audi 1995; Lessnoff 1986). More commonly associated with political philosophy, the application of social contract theory to issues such as contemporary corporate social engagement requires caution. However, before exploring a contemporary view of the social contract such as that advocated by Rawls, classical social contract theory is examined with reference to how it might usefully be applied to the relationships between corporations and society.

Classical social contract theory gives an account of the development and operation of government, and the social and political relationships that flow from particular arrangements. In other words, social contract theory defines and justifies the limits to political authority and the concomitant 'contractual' obligations that result. Thus, as a political theory, social contract theory provides an analysis of political obligation as contractual obligation (Lessnoff 1986, p.2).

The social contract sees morality as founded on the uniform social compacts that serve the best interests of those making agreements. The social contract occurs between two or more parties with rights and obligations on both sides. The contract is reciprocal and conditional. It is also voluntary and consensual. The contract might be expressly stated, or it might be tacit or implied. It is an agreement that allows and sustains communal existence, and one that evolves in time and place, i.e. it is contextually driven (Loewy 1993, p.30).

[31] As Morrison argues, companies as entities are analogous to individual citizens. Large, economically powerful companies may also enjoy a position analogous to governments (Morrison 2003).

Importantly, modern social contract theory uses the social contract as a metaphor or analogy. The social contract as analogy borrows from the idea of a contract as a legal term. The legal connotations are undeniable though the social contract is clearly not the product of any formal, express or litigable agreement. The use of analogy frames social or political contract obligation in similar terms as those of a legal obligation determined by legal contract. Indeed, as analogy, the social contract has weaknesses and indeed, the social contract as metaphor might become undone. Lessnoff stresses, however, that used analogously, the social contract is not an obligation (Lessnoff 1986, p.2). The social contract does not formally exist and it is not legally enforceable. As it is most often implicit, exacting compliance legally may not be appropriate although other means of contractual enforcement may be. How then is obligation - whether legal, political or social - enforced when the contract governing its prescription operates at the level of a metaphoric analogy? As metaphor, the theory assumes that the mutual relationship of citizens is sufficiently analogous to contractual relationships bound by justiciable process to justify the use of the language of compact.

Gough attempts to address this dilemma in his analysis of the state which can be broadened to include other institutions, including corporations, in developing a social contract theory of the corporation. He argues that rights and duties are reciprocal and the recognition of this reciprocity constitutes a relationship which by analogy is contractual (Gough 1963, p.245). Indeed, the social contract employs legalistic language in the terminology 'agreement', 'compact', 'covenant' or 'contract'. Whether the contract describes relationships between the state and citizens, the relationship between citizens or between stakeholders and corporations, the legal analogy is still appropriate. Hence, the contract is explicitly understood by modern contractarians in a qualified sense, at a heuristic and abstract level, but one which seeks to explain and orient itself in reality.

Classical social contract theory

In classical social contract theories, the social contract (or original contract) encompasses two different kinds of contract. The first, which is also the theory of the origin of the state, is the social contract proper. This social contract assumes a number of individuals living in a 'state of nature' who agree together to form an organised society; 'civil society' as contemporary social and political theorists call it. This theory is also commonly associated with the doctrine of 'natural rights', the surrendering of certain rights to ensure that others are guaranteed. The second is the 'original contract', the contract of government or the contract of submission. It purports to define how an already extant state is to be governed especially in relation to the contractual agreement that exists between citizens who promise a sovereign entity - whether king, ruler or government - obedience and loyalty in return for protection and good governance. In the event of misgovernment, the compact is rendered void and the allegiance broken. In a contemporary reality, the relation of citizens to ruler is no longer one of a contract. Rather, government is the expression and execution of sovereign popular will (Gough 1963, p.2-7).

The following section briefly traces the different conceptions of the social contract in the work of Hobbes, Locke and Rousseau. The section culminates in a discussion of John Rawls who advances a contemporary conception of the social contract.

Thomas Hobbes: The reductionist project

Within the taxonomy of the social contract, Hobbes, a natural philosopher, can be seen as a descriptive - as opposed to a normative - social contract theorist. Hobbes' great project was essentially a reductionist one; a project attempting to reduce all perceivable phenomena in the (natural and political) world to a set of simple, general propositions. In the Age of Enlightenment, it was not unusual to attempt to reduce all of human and political reality to a set of descriptive principles.

In *Leviathan*, Hobbes amalgamates in a single theory of the social contract, the theory of obligation and right, a theory of power, and a theory of the equal natural rights of man (Macpherson 1985, p.9). Hobbes describes the relationship between individuals in the genesis of a state. He begins by evoking natural systems and principles, such as Galileo's law of inertia. Hobbes applied this theory of motion to the systematic motions of men relative to each other in society, and the kind of government that would best be able to sustain and maximise their motion (Macpherson 1985, p.19). His description is systematic and amoral.

Hobbesian contract theory's basic unit in political society is the individual human being. In his reasoning, humans are considered to be intrinsically driven by emotion which expresses itself in appetites or desires, or appetites and aversions (Hobbes 1985, Chap. V1, Of Man, pp.118-120). As a consequence, humans are naturally self-seeking and egoistical. In achieving the objects of desire from which pleasure flows, or avoiding that which causes aversion, man self-interestedly pursues power: 'The Power of a Man, (to take it Universally) is his present means, to obtain some future apparent Good' (Hobbes 1985, Chap. X, Of Man, p.150). Hobbes also regards power as a means of securing the assistance and services of others, to increases existing power, and to gain others' regard (Hobbes 1985, Chap. X, Of Man, p.150-151). He asserts that, 'The Value, or Worth of a man, is as of all other things, his Price; that is to say, so much as would be given for the use of his Power' (Hobbes 1985, Chap. X, Of Man, p.151-152). That men are both self-seeking and power-hungry suggests that social and political relationships are characterised by competition. The natural state in which men exist is naturally at war with one another (Hobbes 1985, Chap. XIII, Of Man, p.185). Indeed, the Hobbesian state of nature, which is a state of war and which exists prior to civic organisation is famously described:

> Whatsoever therefore is consequent to a time of Warre, where every man is Enemy to every man; the same is consequent to the time, wherein men live without other security, than what their own strength, and their own invention shall furnish them withall. In such condition, there is no place for Industry; because the fruit thereof is uncertain; and consequently no Culture of the Earth; no Navigation, nor use of the commodities that maybe imported by Sea; no commodious Building; no Instruments of moving, and removing such things as require much force; no Knowledge of the face of the Earth; no account of Time; no Arts; no Letters; no Society; and which is worst of all, continuall feare, and danger of violent death; And the life of man, solitary, poore, nasty, brutish, and short (Hobbes 1985, Chap. XIII, Of Man, p.186).

Man's unbridled egoism in the state of nature is intrinsically human. The judgement Hobbes makes is amoral: men are self-seeking, acquisitive and selfish. In order to survive one's own and others' self-seeking egoism, men enter into a social contact: the original social contract. In this contract, men surrender certain powers - or interests - in return for the guarantee of others by the Sovereign. The Hobbesian contract establishes political authority directly, prior to, and as a source of civil law

(Lessnoff 1986, p.49). Hobbesian contractarianism essentially reflects the behaviour of *rational* self-seekers.

The Hobbesian social contract and corporate social engagement

Such a thought experiment requires that one thinks of the Hobbesian political entity analogously as the modern corporate entity. Indeed, it may even be more theoretically appropriate of the corporate entity than the individual given that as a construct, the corporation's purpose is often defined as rationally self-seeking and self-promoting. A Hobbesian analysis of the modern corporation might be teased out in a number of ways with divergent political implications. A Hobbesian way of thinking though is unpredictable: egoism on the part of corporate entities may result in either narrow economic pursuits or socially responsible behaviour or both.

Hobbesian social contract theory might be usefully employed to explain unconstrained self-seeking behaviour. Such an understanding of the social contract when applied to an exploration of stakeholder theory would account for free-market capitalism - and at its extreme - unfettered libertarianism. Corporations will operate rationally in their own self-interest as egoists: self-seeking behaviour is then what makes the corporation part of civil society. However, such a Hobbesian understanding of the operations of the modern corporation results in short-termism. In its extreme formulation, the life of the corporation and the competitive relationships in which it is embedded will be characterised as 'nasty, brutish and short'.

On the other hand, egoism might express itself in the opposite manner. Corporate self-interest might result in socially responsible engagement by corporations. Enterprises would be motivated to act accordingly for normative and instrumental reasons: whatever response ensured the long-term sustainability of the enterprise within a particular milieu. Such behaviour is often congruent with ensuring survival (a key Hobbesian notion), as well as longer-term corporate sustainability and profitability. In this sense too, corporations may be seen as egoistical and as self-seeking entities whilst simultaneously pursuing what appears to be the altruistic ends of corporate responsibility. Once society holds companies to social ideals, there is a changed response to the market. The problem with this line of argument is that it hinges on the decisions of managers as corporate agents, and their willingness to surrender short-term profits in the interest of long-term sustainability. Managers are themselves egoists in the company of other egoists, such that they may demonstrate their own self-seeking behaviour by refusing to surrender profit and kudos in the corporation's long-term interests, or to the generation of managerial executives which follow them.

Lockean social contract theory

Meta-theoretically, Hobbes might be represented as a descriptive egoist. In contradistinction to Hobbesian amoralism, Locke's formulation is one of ethical egoism. He asserts that it is good and desirable - indeed, it is moral - to pursue self-interest. Libertarianism is grounded in Lockean contractarianism.

While Hobbes' entity is driven by intrinsic desires and passions that he regards amorally, Locke's individual unit is more complex. In Lockean social contract theory, the most important values are those of freedom and autonomy. Society's aim is to furnish the individual with opportunities to pursue that which they value, whatever their individual life project and ends. Individuals are ends in themselves. The state has been founded upon the values of liberty and autonomy so as to guarantee these for individuals. Thus, individuals are the repository of value in the Lockean social contract.

In the Lockean social contract, individuals are free to pursue their own ends as long as they desist from interfering with the good of others as represented by the community. The social contract in liberal contractarianism is justified in the pursuit of the values of freedom, dignity, life, liberty and property. As a liberal, Locke has a particular understanding of the boundaries and ends of freedom; freedom is intrinsically tied to property. Concomitantly, 'harm' is also defined in relation to property. A Lockean analysis of corporate social engagement then would be set by the conditions of harm. The corporation would assess its interests only in relation to the harm or risk principle such that corporate rationality would caricature itself in a display of self-interested and self-aggrandising behaviour.

In the case of using the social contract theories of both Hobbes and Locke regarding corporate social engagement, the dominant question remains one of interests. What are the best interests of the corporation? If the corporation's best interest is posited as its sustained role in society, does this imperative trump other competing interests even if it affects the corporation's bottom line in the short-term?

Jean-Jacques Rousseau

Rousseau represents the culmination of the classical phase of social contract theory. Offering an ideal contract, Rousseau is concerned with the origin of government. He is, however, more concerned with the normative issues of how governments ought to be established rather than describing how they actually are. Rousseau's social contract, which displays strong libertarian trends, asserts that individual freedom is represented by the freedom to pursue one's life end. More than in the case of either the social contract projects of Locke and Hobbes, Rousseau is concerned with what makes the surrender of liberties to the State a legitimate relinquishment. For Rousseau, people entering into civil society from a radical state of nature in which they enjoy anarchical freedom (the absence of moral, legal and governmental rules, as well as the personal independence from others) exchange personal freedom for unhappy social bondage (Medina 1990, p.47-9). Ultimately, his theory of popular sovereignty means that Rousseau believes people should govern themselves according to the general will.

Communitarianism themes are evident in the work of Rousseau. The social contract is understood to be the social responsibility that exists between individuals and the community. The relationship between the individual and society is necessarily interdependent. One cannot exist apart from the other. In addition, Rousseau's conception of property is that it must serve a social function by promoting the well-being of the community. Political justice necessarily involves economic justice; the obverse is also true for Rousseau with economic justice bolstering political justice (Medina 1990, p.51).

Rousseau's social contract is both political and social in nature. It essentially marries both spheres, and privileges the notions of political and economic justice. Rousseau saw economic inequality resulting in political inequality because those with access to political power enjoyed greater freedom. The social contract becomes a moral and political instrument that transforms society from an unjust society into a just political order. The function of law is to protect and promote the common good. Should the law fail to do so, it bses legitimacy and the social contract will be void. Political obligation, in Rousseau's social contract, is grounded on the principle of consent. Citizens are politically obliged to obey the law (an enactment of the general will) as long as the terms of the contract are honoured. However, as Medina points out, Rousseau's social contract relies on hypothetical consent which is no consent at all (Medina 1990, p.61).

Understanding corporate social engagement via Rousseau's conception of the social contract provides three useful insights. The first, that of consent - albeit it hypothetical - suggests that the relationship between the corporate entity and society ought to be consensual and mutual. The second is that the social contract protects property rights but simultaneously asserts that political and social freedom requires some economic equality; what might later be called a theory of distributive justice. The third is concerned with normative values in a shared community. These values are reflected in laws that protect and promote the common good, and which through the notion of consent, require a degree of self-prescribed norms in the social contract.

John Rawls: The modern social contract

The work of John Rawls was visited earlier in Chapter Two in relation to developing a taxonomy of liberal theories of distributive justice. Rawlsian theory is a Gordian knot of abstraction and complexity and I do not claim to cut it here. Rather, I have attempted to present and develop a number of notions which can be usefully applied to the broader analytic schema of the thesis. Arguably, such a treatment will be circumscribed. However, whilst selective, the theoretical insights drawn from Rawls' Theory of Justice are adequate for the purposes and aims of this analytic project.

As a modern contractarian, Rawls' conceptual lineage is deeply rooted in the philosophies of Hobbes, Locke, Rousseau (and also Kant) (Rawls 1999, p.10). Rawls places his principles of justice within a more general conception of justice which he articulates as follows:

> All social values - liberty and opportunity, income and wealth, and the social bases of self-respect - are to be distributed equally unless an unequal distribution of any, or all, of these values is to everyone's advantage (Rawls 1999, p.54).

This outlines the central idea of Rawls' theory. Rawls is concerned with the idea of justice as having an equal share of social goods. But, treating people equally is not about removing inequalities per se but about removing inequalities which disadvantage those worst off in society (Kymlicka 2002). Inequality is, therefore, permissible if this situation benefits everyone. Kymlicka explains that the theory 'gives the less well off a kind of veto over inequalities which sacrifice, rather than promote, their interests' (Kymlicka 2002, p.55).

Rawls uses the social contract theory tradition loosely and variably for his own ends towards a conception of justice. Justice, at its simplest conception, is 'maximising the good' (Rawls 1967, p.58). Rawls does not employ the social contract to explain or describe historical events but as a hypothetical situation - a thought experiment as it were - one which, when applied to moral theories, suggests the content of the given agreement (Rawls 1999, p.14). Rawls asserts that the guiding idea is that the principles of justice that he proposes for 'the basic structure of society are the object of the original agreement' (Rawls 1999, p.10). Essentially, the hypothetical situation of the free, rational and self-seeking individual in a social contract is a device for talking about the basic arrangement of society and social conditions.

Rawls' imagined situation is that of the social contract made in the hypothetical original position (as corollary to the state of nature encountered in different classical theories) which he argues to 'justify the adoption of egalitarian and non-perfectionist principles of justice' (Medina 1990, p.83). Rawls asks: what would free and rational agents agree upon as basic rules of organisation in society? Rawls attempts to define these rules; rules by which the value of other rules will be measured. These rules - principles that regulate all further agreements - outline the kinds of social cooperation that can be entered into and the forms of government than can be established. Rawls argues that justice in the social contract is 'justice as fairness'. The two principles - lexically ordered - that are essential to the just social contract are:

> First: each person is to have an equal right to the most extensive scheme of equal basic liberties compatible with a similar scheme of liberties for others.
> Second: social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be to everyone's advantage, and (b) attached to positions and offices open to all (Rawls 1999, p.53).

Rawls' principles of justice offer a set of principles that would be accepted by rational and self-seeking people in an initial position of equality (Rawls 1999, pp.15-19). The 'original position' which approximates to 'the state of nature' is a hypothetical social state. A 'veil of ignorance' which obfuscates people's natural and social advantages allows for a fair agreement or bargain since everyone appears to be similarly situated. The 'veil of ignorance' is an intuitive test of fairness in the way in which people contract with others. Thus, Rawls' situation requires that individuals take the position of 'an ideal impartial contractor' in order to choose the principles of justice which ought to be applied (Rawls 1999, p.83). As Lessnoff argues, this is individualism but not egoism (as would be the case in Hobbes) because it promises in the social contract equal protection to the (possibly conflicting) interest of all individuals (Lessnoff 1986, p.159). Using the social contract, Rawls develops a moral philosophy which gives a standard way by which the fairness of institutions can be judged. The advantaged concede that the possession or use of their advantages is contingent on an egalitarian society, one which will persuade the less advantaged that inequalities are to their advantage (Bloom 1990, p.319). Here a contract exists, based on the principles of justice, which as Rawls would have it played out means the existence of a society of mutual advantage founded on radical equality.

The difference principle

Particular attention is drawn to Rawls' difference principle. As stated, injustice occurs when inequalities are not to the benefit of all. Conversely, inequality is justifiable if it exists to the benefit of all. Thus, Rawls asserts that if certain inequalities would make everyone better off than the hypothetical starting situation, then they accord with the general conception of justice.

A chief concern of this thesis is the employment of social and affirmative economic policies such as those which may be advanced in SCSD to promote certain groups that might not enjoy equality (such as would be defined in an original position) or equal access to 'positions and offices'. Assuming equality of opportunity, this is generally understood to mean a justification of differentials in income if this is to advantage of everyone in society (Kymlicka 2002, p.57). Under the difference principle already mentioned in Chapter Two, people may legitimately defend a greater claim on resources if this can be demonstrated to be in the interest of those with lesser shares. Rawls is critical of the 'equality of opportunity' position which ensures people's fate is determined by their choices, their merit and success, rather than their circumstances. Rawls opposed this idea by arguing that no greater share of resources should accrue to anyone on the basis of arbitrary inequalities, such as talent, able-bodiedness, intelligence, social status or beauty. If these are indeed results of a 'natural lottery', these benefits might be justifiably enjoyed by those whose hold the advantage if, and only if, they are part of a scheme which improves the least advantaged members of society (Rawls 1999).

But what if extant inequalities were structural and reflective of unjust political processes and biases? What if social and economic inequalities are *not* arranged to everyone's advantage (or to the advantage of the least well off), or if positions are not open to all? Left liberals would argue for the remedy of this by affirmative action or equal opportunity policies adopted in relation to women, the disabled, racial and ethnic minorities, and so on. How might the Rawlsian difference principle be interpreted here? In the case of South Africa, such policies primarily advance black economic empowerment (BEE). These issues are explored in the next chapter and are detailed in the two empirical chapters which follow. For now, a detailed discussion of these policies is held in abeyance. However, in order to engage these particularities, some of the empirical issues of this thesis are prefigured here for the purposes of critiquing Rawls' difference principle as it might be applied in a real context. Suffice to say here that BEE policies are affirmative policies which justify unequal social and economic arrangements (in the direct material benefits to black people and in terms of creating affirmative opportunities) in order to render the system 'just' for the benefit of all.

In the previous chapter, the thesis sought to primarily advance the idea of the market as a redistributive instrument. As a liberal, Rawls does not argue the instrumentality of the market: rather, the market is a fact of reason and an expression of the idea of rights. Rawls' notion of distributive justice requires that:

> ... government regulates a free economy in a certain way. More fully, if law and government act effectively to keep markets competitive, resources fully employed, property and wealth widely distributed over time, and to maintain the appropriate social minimum, then if there is equality of opportunity underwritten by education for all, the resulting distribution will be just (Rawls 1967, p.69).

For Rawls, the state plays numerous roles, all associated with keeping markets efficient and competitive whilst preventing unreasonable market power. Thus, the state has a redistributive role to justify competitive markets (Rawls 1967). However, are further constraints on efficient market-based behaviour acceptable through value-driven policies like BEE? Would such constraints on competitive markets such as affirmative policies be compatible with social justice? Given that some people will be worse off in light of BEE policies, is BEE as a set of political, social and economic strategies fair and just? How usefully can liberalism and Rawls' theory of justice in particular advance an understanding of BEE?

Rawls' two principles for justice were described above (Rawls 1999, p.52). The two principles are reiterated here and must be satisfied to be true in lexical order. The first principle of justice is that every person is to have an equal right to the most extensive scheme of equal basic liberties. Indeed, the new South African Constitution (South Africa 1996) guarantees equality: the law prevents all reference to colour as a basis of discrimination. At a *formal* level, the first test for justice has been fulfilled and it would follow that all South Africans arguable enjoy this basic schema of rights necessary for their self-respect and autonomy (both given precedence in a Rawlsian conception). Yet, even though formal (constitutional, political and legislative) equality is secured, as this thesis has argued forcefully, the existence of massive social and economic inequality attests to a different reality.

Right-liberal theorists would oppose state intervention such as BEE on the grounds of an efficiency justification or on the basis of rights. Such a position would hold that differences in real opportunity for people of different race groups are justified with reference to gains in efficiency. Stated differently, given right-liberals' commitment to an unrestrained market which they believe is most efficient in creating wealth, imposing BEE policies on the market diminishes market efficiency.[32] Indeed, there are many additional transaction costs for the state as a consequence of further state regulation. Moreover, such policies lay an artificial premium on doing business and also increase transaction costs for businesses. Are these justifiable? How does this focus on efficiency fit in Rawls' difference principle? With regard to the lexical order in which the principles of justice must be satisfied, is BEE a question of basic rights (first principle) or is it a question of distribution with regard to economic capabilities 'attached to positions and offices' (second principle)?

Indeed, for left liberals, there exists empirical justification for state intervention in the market to address the inequalities that obtain. The argument regarding efficiency would be eclipsed by the argument that state intervention in the form of BEE might increase the Rawlsian efficiency standard employed to support the least well-off in society. Should the state terminate its pursuit of BEE policies, the short-term effects might certainly be an increase in market efficiency. But, this would not be to the greatest benefit of all, unless the state compensated those who might otherwise benefit from BEE policies through greater redistributive taxation, for example. Indeed, as Rawls concedes, optimal or efficient distributions are not necessarily the best distributions (Rawls 1967, p.64).

Are BEE policies licensed by Rawls' second principle? The second principle - in two parts - states that social and economic inequalities are to be arranged reasonably so that they are to everyone's advantage, and also attached to positions and offices open to all (Rawls 1999, p.53). This places an onus on the state to create an efficiency surplus to meet the social and economic needs of citizens in the first instance. In the second, it holds that equal access attached to offices and positions - an idea that

[32] As outlined by Kymlicka, within Rawls' lexical order, justice is prior to efficiency and to maximising the sum of advantages. Fair opportunity is lexically prior to the difference principle (Rawls 1999, p.56; Kymlicka 2002). It should be notes that efficiency is not a liberal argument in its own right but a beneficial spin-off of markets.

extends beyond equality of opportunity - must be ensured. Given the lexical order above efficiency, it is therefore legitimate and appropriate to treat people differently as is entailed in the promotion of BEE in order that they may enjoy equality of opportunity and capability. These ideas provide an important justification of policies advanced in social development and SCSD in particular.

Defending the Rawlsian social contract

Rawls warns that justice as fairness is limited in scope and not a complete contract theory given that it does not embrace all moral (and natural) relationships in a systematic way. He does, nevertheless, recognise that the contractarian idea can be extended to the choice of ethical system in play. Rawls defends his use of the contract in five ways. First, he argues that the contract terminology conveys the notion that principles of justice may be thought of as principles that rational people could use, and this would allow for such a conception of justice to be explained and justified. Second, principles of justice deal with competing claims and thus can be applied to relations between people or groups. Third, the term 'contract' connotes both plurality and the condition that where distribution occurs - as it must and does – it is under appropriate principles acceptable to all parties. Fourth, the contract is public; publicity suggests that if these principles are the outcome of an agreement, citizens have an understanding of the principles that follow. Last, in line with the normative character of the social contract theory tradition, the contract terminology helps crystallise ideas whilst invoking a 'natural piety' (Rawls 1999, p.14-15).

Rawls is criticised for a number of reasons. A chief criticism obviously lies in the imperative to distribute economic resources, fairly and based on the difference principle addressed above. Other criticisms points to an apparent internal inconsistency and contradiction in his thesis (Kymlicka 2002; Plant, Lesser, and Taylor-Gooby 1980). On the one hand, what free, rational and self-seeking individual would choose to organise society on the basis of the social contract? Does ignorance of one's personal talents and position in society provide sufficient grounds for choosing the principles of justice Rawls offers? In order to make it run, Rawls reduces it to rational prudence. But this reduction is still not wholly convincing as once conditions are chosen, people who can maximise their benefits would abandon the attendant burden or responsibility associated the compact. Rawlsian social contract theory appears to be missing a component that essentially explains why an individual (who is not in the original position) would engage the social contract at all, and more especially, why he wouldn't abandon the compact once he becomes aware of his position relative to others. If ignorance is a guarantee of impartiality and ultimately justice, what happens when people are cognisant of their relative benefits and burdens in society?

In addition, Rawls' social contract is a hypothetical contract. His theory is an abstract theory. While in the abstract, people might find themselves in the original position, in reality, this is not the case. The principles of justice might be a rational choice in the hypothetical instance but they are not necessarily so in reality. A hypothetical contract is just that: any obligations that follow from this agreement are hypothetical and unenforceable: a 'hypothetical contract is not simply a pale form of an actual contract; it is no contract at all' (Dworkin 1989, p.18). Another criticism is levelled at Rawls' rejection of the notion of equality of opportunity. Indeed, even if the difference principle were to address differences in natural and social circumstances, the difference principle may not also mitigate the effects of different choices and preferences, as well as effort and determination. Finally, Rawlsian principles would be principles to organise a just society but these original principles in a pluralistic society are *one* way to arrange society.

The Rawlsian social contract and corporate social engagement

Corporate social engagement, in a Rawlsian analysis, abides by Rawls' two principles of justice. In this thesis the second principle is particularly useful when applied to social development, in a developing context. However, there are questions about whether Rawls' overall framework holds good under such examinations. For example, if markets are known entities - which they are - how then can Rawlsian contractarianism, which is premised on the notion of the veil of ignorance, be usefully employed in further understanding corporate social engagement? Indeed, the *raison d'être* of the modern corporation is the market, a known market of the distribution of resources. What is true of individuals in the social contract is also true of corporations. What would sustain this arrangement once people become aware of the true distribution? What keeps corporate decision-makers who no longer live with the veil of ignorance bound to the pact? It might be argued that if one assumes that individuals are rational then once they emerge from the original position, they would abandon the project of the social contract.

The concept of obligation (which is also key to 'justice as fairness') might suggest an ideational bridge to a Rawlsian perspective of corporate social engagement. Obligation as part of a schema of rights and responsibilities may also be helpful to develop these ideas in relation to corporate social engagement (particularly CSR). Justice as fairness itself requires two conditions (Rawls 1969). The first is that the institution is just or fair (it meets the principles of justice). The second condition is that the individual (corporate manager) has voluntarily accepted the arrangement or accepted the benefits of such an arrangement to further his interests, or the fiduciary interests he represents. The critical ideal of fairness is that when engaged in mutually advantageous cooperative ventures, no one gains from the labours of others without contributing his fair share. Thus, the requirements outlined by the principle of fairness involve obligations that presuppose just institutions. Critically, obligations are not mere moral requirements. Rather, they tend to be institutionally defined and arise as a result of voluntary acts (such as express or tacit undertakings or even accepting benefits arising from a given situation) (Rawls 1999, p.97). Thus obligations, political or social, are necessarily self-assumed moral responsibilities assumed in a social contract in the community of others who also have the same mutual obligations. Thus, a parallel can be drawn with the corporation and its stakeholders, particularly where the 'responsible' corporation's stated objectives are seen as just and engaged to the benefit of a wide range of interest holders.

Problems of the social contract: moving to metaphor

Most social contract theorists use the social contract as a heuristic devise to explore the nature of (political) authority and social arrangements as well as the nature of obligation and responsibility. It has been suggested here that the social contract is an implicit agreement between parties, usually between the state and its citizens, but also between corporations and their stakeholders. Social contract theory, and specifically a social contract theory of the corporation, operates as a metaphor.

Indeed, as has already been iterated any argument in defence of the social contract must acknowledge that only hypothetical obligations can flow from a hypothetical construct in a hypothetical situation. The hypothetical contract is not an actual litigable contract, nor an express agreement between parties.

Critiques of corporate social contract theory

The metaphor of the social contract is an important analytic tool when examining a stakeholder theory of the corporation. The corporate social contract is a complex notion, conceived in the abstract but intended to serve practical demands. Of course, there are innumerable objections to the concept on ideological grounds; these have been adequately covered. However, the social contract model might be criticised for oversimplifying the nature of corporate power in society.

In the first instance, corporate entities can be extremely powerful entities. In such a context, contractual partners do not enjoy equal leverage. Stakeholders in this model do not operate on a level playing field; some stakeholders enjoy more power and exert greater influence than others. The nature of the contract is itself compromised in that while members of society can withdraw their cooperation, they have no general authority to force organisations to honour contracts that are neither legal nor formal.

Second, social contracts require levels of trust between contracting partners and some disclosure regarding activities. Corporations in a social contract have to account for their social and economic impacts. However, the issue of accountability might become obscured when conceived so broadly. The stakeholder system rejects a single centre of authority in favour of broad accountability. But Sternberg lobbies her first criticism of stakeholder accountability when she argues that such diffuse accountability is effectively non-existent, and that 'an organisation that is accountable to everyone, is actually accountable to no one' (Sternberg 1997, p.75). A possible rejoinder would ague that within the stakeholder corporation, not all relationships of accountability are necessarily equal or non-hierarchical. Sternberg takes aim again at stakeholder accountability arguing that corporations are generally only answerable to interest groups if they are formally obliged to do so, in terms of legislation or specific contractual arrangements (Sternberg 1997, p.79-80).

Third, not all 'contracts' are the same. As already described, some contracts are formal and specific whilst other contracts are implicit and relatively vague. It is useful to differentiate between an on-going continuous contractual relationship such as exists between the shareholders and management, or between management and employees on the one hand, and intermittent contracts between occasional vendors or customers on the other (Jones 1995, p.409). Having asserted this, however, whilst the specifics of the contract might alter as immediate social and circumstantial conditions change, in general this contract remains the basis of the legitimacy for corporate social engagement (Balabanis, Phillips, and Lyall 1998, p.26).

Fourth, as described the social contract is a hypothetical construct. As such, the contract is not legally enforceable as is the case with formal legal contracts (Donaldson and Dunfee 1994). Enforcing the social contract requires a moral environment intolerant of contract-breaking, a cohesive stakeholder community to exert sanctions, and where appropriate, regulation to protect parties to the contract.

Finally, the categories 'corporations' and 'society' are, in addition, not monolithic and comprise multiple interest groups. Moreover, the relationships of power that exist between large corporations and other stakeholder groups may not be equal and might not easily be reduced to simple contractual exchanges.

Nonetheless, the thesis holds that the metaphor is a useful and appropriate one, not least of all because it suggests a normative basis in which a framework of rights and obligations are exercised. Moreover, these relationship of rights and obligations have a particular character in the case of South Africa where democracy has been established on a negotiated social contract and where the legacies of apartheid necessitate a different set of contractual arrangements between the state and business as key economic actors as exemplified by BEE.

Part Three: The social contract, stakeholder and state-corporate social development

As argued, the social contract is a hypothetical agreement between business and society. Its basic supposition is normative in character. However, this thesis posits that the social contract might appropriately be considered within a strategic framework for the operation of business in society. As Wempe asserts:

> A contract tries, after all, to do justice to the claims of the partners and at the same time makes it possible to pursue the corporation's own interest (Wempe 1998, p.51).

Moreover, the compact between corporations and stakeholders reins in the excesses of the market working in the long-term interests of business 'otherwise driven by the imperative of short-term profit-maximisation' (Allen 2001, p.285). In other words, business' long-term self-interests are served by the push-me-pull-you nature of competing stakeholder interests in a social compact.

Some key commentators on the corporate social contract, including Hopkins, Donaldson, Dunfee, Freeman, Preston, Wempe, Jones and Balabanis *et al*, argue that the corporation is defined in terms of its relationships with stakeholders. Jones argues that the corporation can be recast as a 'nexus of contracts between its top management and its stakeholders' (Jones 1995, p.407; Similarly in Morrison 2003). Evans and Freeman offer that the firm is a 'set of multilateral contracts over time' and the purpose of the firm is to serve as a vehicle for coordinating stakeholder interests (Evan and Freeman 1993, 82).

Corporate stakeholding theory dovetails with the reasoning that business operates because society allows it to. Using the social contract argument, organisations - in particular, business corporations - exist because they enjoy the mandate not only of their shareholders, but also of a broader stakeholding community. This mandate is, for the large part, mostly tacit. Business enjoys a 'license to operate' from a range of shareholders beyond the market. Using some of the classic stakeholder categories of interest groups, a business can not survive - let alone function - without the participation of people, as capital investors, employees, suppliers and consumers.

Thus, stakeholders influence the ability of corporations to operate regardless of market conditions.

As Hopkins asserts, CSR (or corporate social engagement more broadly) is another face of stakeholder theory; both are interested in the social engagement of corporations and analyse the meaning of socially responsible behaviour by splitting stakeholders into their constituencies. Hopkins describes stakeholder theory in term of a compact or agreement, operating on a global level which he calls 'the planetary bargain' (Hopkins 1999, p.17; A similar project is advanced by Cragg 2000). The bargain or contract - whether local or global - interfaces stakeholder theory on the one hand, and corporate social engagement on the other.[33]

Corporate social contract theory maintains that corporations are accountable to all their stakeholders because as suggested above, corporations wield power, resources and influence that affect the broader society. An implicit contract follows that in exchange for exploiting society's resources, stakeholders may make a claim on the corporation. What constitutes this claim is a more difficult question. Corporations also enjoy special privileges and protections (legislative) from society, the character of which might be formally authorised or tacit. In exchange, it is argued, organisations need to be accountable for the privileged position of power accorded them. Accountability between parties in the social contract is key as 'stakes in each are reciprocal since each can affect the other in terms of harms and benefits as well as rights and duties' (Evan and Freeman 1993, p.79). These rights and responsibilities are indicative of the consensual nature of the relationship between business and society.

Corporate stakeholding and the corporate social contract are premised on relationships of trust, and are closely linked to corporate social engagement (Hopkins

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[33] This raises the instance of the Global Compact, instigated by Koffi Annan, General Secretary of the United Nations (UN) in 1999, is a global corporate citizenship initiative (Annan 1999). Globally, companies are urged to sign the compact which is based on nine human rights, labour and environment principles. Over 1000 companies are reportedly committed to the Global Compact which champions social and environment causes (http://www.unglobalcompact.org/Portal/Default.asp). Importantly, there is no verification process for the Compact or any mechanisms for enforcing or legally binding commitments. Critics argue the lofty principles are undermined by lack of effective enforcement mechanisms. A number of corporate offenders are numbered among the compact's partners giving rise to criticism of UN co-option in public relations exercises.

1999, p.17-18). An accepted system of mutual rights and obligations creates social cohesion, maximises trust, minimises uncertainty, cuts transaction costs and opportunism and stabilises corporate governance (Fukuyama 1995, p.27-8; Goodhart 1994, p.18, p.68-69; Ostrom 1994, p.38-41 for related ideas). These characteristics are clearly relevant to the long-term relationships necessary for long-term investment decisions: high trust is necessary for high-commitment relationships, and consequently for the long-term sustainability of the corporation. It is in the corporation's *strategic* interest to generate trust which is an 'elusive and economically valuable commodity' (Allen 2001. p.286).

But sceptics of corporate social engagement - whether formulated as CSR or corporate citizenship - argue that there is little form over substance. Firms, they would argue, can merely enhance their reputations by successful advertising, occasional high-profile altruism, and public relations management. The application of the citizenship trope to corporate entities is limited in this view because corporate accountability and transparency simply mitigate against risk. Any substantive social contract is undermined by short-term profit maximisation. Indeed, deconstructing corporate rhetoric is a critical endeavour for multiple groups who might scrutinise corporate performance, whether academics, environmentalist, government regulators or investors. Public relations can only stand up to interrogation for so long. Trust in corporate pronouncements and convincing evidence of corporate integrity are necessary for sustaining and enhancing the wealth-creation capacity of the corporation. As Jones argues, trust and a reputation for trustworthiness signal to potential partners the desirability of a particular firm. He argues that firm morality is substantive, tested over time and is difficult to simulate.[34] Corporations signal their trustworthiness by avoiding opportunism so that a firm that usually honours its contracts will earn trust (Jones 1995, p.420-421).

At a macro-level (and coming full circle to the state-market dyad of SCSD), the corporate social contract is critical for the conditions necessary to wealth creation in a given society. Hutton argues that wealth is created when new economic

[34] The potential for CSR and corporate citizenship stances to be seen as mere public relations is high. Proponents of multi-dimensional auditing and reporting arguing these mechanism are intended to demonstrate the integrity of corporations' social commitments and the embeddedness of these values in corporate operations.

institutions, systems and values that allow co-operative relationships to flourish are embedded within capitalism (Hutton 1999, p.83).

Conclusion

This chapter has drawn together the threads of a stakeholder approach to corporate social responsibility. Whether stakeholder theory is used normatively, descriptively or instrumentally, (or a combination of these models), it posits an obligation of responsibility and accountability that goes far beyond a purely fiduciary relationship between corporations and shareholders. Indeed, the relationship is one that necessarily balances multiple, and often contesting, stakeholder interests. A theory of the social contract lies at the centre of stakeholder theory and corporate social engagement. The corporate social contract situates the corporation's obligations in relation to society in parallel with the state-society relationship in classic social contract theory. The social contract is used metaphorically as a heuristic device to describe the relationships of rights and obligations, as well as the values adopted by institutions. It is hypothetical but nonetheless creates a normative foundation for the operation of the corporation in society. It also provides a strategic rationale for corporate social engagement. More specifically, the social contract is a useful theoretical tool to explain social and institutional arrangements, as well as provide a justification for social distribution.

The following chapter focuses on South Africa and lays out the social and political context that informs the empirical research of this thesis.

CHAPTER FOUR: THE CONTEXT OF STATE-CORPORATE SOCIAL DEVELOPMENT IN SOUTH AFRICA

Introduction

Ten years into democracy South Africa faces enormous challenges, many of which are developmental in nature. Despite the arguments about South African exceptionalism, South Africa is like many other middle-income developing countries (Simon 2000, p.1). Its development is uneven, simultaneously displaying the contours of both a developed and developing economy. South Africa needs to become globally competitive. At the same time, there are pressing local challenges. These challenges - political, social and economic - are exacerbated by the enduring structural inequalities left by apartheid (as well as colonial and union policies). South Africa remains among the most unequal and divided countries (May 2000). This is the broad historical and contemporary context in which the thesis located state-corporate social development (SCSD).

The chapter comprises six sections of uneven length. In the first part, I locate South Africa in a global and regional political economy. In the second, I focus on South Africa's political economy and its transition from apartheid to a liberal social democracy. The third and fourth sections consider the social and legislative environments respectively. In looking at the social environment, I concentrate specifically on race, poverty, the AIDS pandemic and the Truth and Reconciliation Commission (TRC), and the issues raised by the last regarding social justice and the role of business. The section on the legislative environment maps 'transformation' or empowerment legislation enacted since 1994, and business' reception of the same. In the fifth part, I examine the history of South African corporate social engagement and current business involvement. Linking the previous chapter, the sixth and final parts address current manifestations of the social contract and stakeholding in South Africa's liberal social democracy.

Part One: Globalisation and South Africa

As stated, in the global political economy, market forces are increasingly powerful. Capital and capitalists retain enormous power simply because of their importance to economies (Seekings and Nattrass 2002, p.2). Of course, there is more to market economies than free markets. Since the late 1990s even advocates of markets have recognised the necessity of state coordination - if not regulation - in order for markets to work effectively (World Bank 1997). Alongside global trade, globalisation is characterised by capital hypermobility, the economic and political influence of multinational corporations (MNCs), technology, faster and broader communication and human mobility and diminished aid in favour of trade (Mills 2000; Friedman 2000). Everywhere the global political economy increasingly mediates the local. More specifically, changing technology and broader access to information regarding emerging economies, their performance and their governance, expose emerging markets to the vagaries of investment by other governments and institutional investors. Globalisation raises critical economic issues for developing countries including South Africa. Carmody argues that the South African political economy has been 'rescaled' to the global market (Carmody 2002).

South Africa in the region

During apartheid, South Africa was a pariah state isolated from the rest of Africa. Nevertheless and somewhat ironically, trade between South Africa and the rest of independent Africa never ceased, even at the height of South Africa's foreign policy of destabilisation and with international trade and political sanctions against South Africa (Simon 2000, p.7; 1998, p.249). Today, South Africa's economic links with the southern African region and the continent are seen as critical to mutual development despite some evidence that regional planning elsewhere has enjoyed limited success (Simon 1990, p.4). Stressing the value of regional links, Mills contends:

> It is broadly acknowledged today that the development of economies cannot occur in isolation. It is also accepted that the route to global integration and competitiveness runs through regional consolidation and harnessing of regional economies of scale (Mills 2000, p.73).

Within Africa, South Africa dominates both politically and economically.[35] At an institutional level too South Africa is a dominant partner in the Southern African Development Community (SADC), the African Union (AU) in the sub-Saharan region and through New Partnership for Africa's Development (NEPAD). However, this regional dominance operates equivocally for South Africa. On the one hand, South Africa has power to leverage social, political and economic change to ensure stability in a region itself characterised by widespread inequality. For example, poorer frontline states remain dependent on South Africa for remittances in an inherited regional political economy (Fine and Stoneman 1996, p.7; Wilson 2001). There is also increased competition in the region for South African investment, as well as for investment from abroad (Simon 1998, p.249; Heese 2000). On the other, the identification of South Africa with its neighbours does have severe implications for inward foreign direct investment (FDI).[36] For example, South Africa's irresolute policy towards undemocratic and corrupt regimes like Zimbabwe taints its own reputation for accountable governance. As one interviewee put it:

> They look at Zimbabwe. And they think Zimbabwe and South Africa are joined at the hip, as Siamese twins. They taint us with the same brush. So those are the issues of perception that we need to be looking at. In conclusion, I think the state has a huge role to create a just environment (Interviewee 21, African, male, business/parastatals).

Hence, Southern African problems are South African problems. Instability and poor governance by neighbouring governments have a knock-on effect for South Africa. Events and conditions on the continent and in the sub-region - such as poverty, war, corruption, failure of governance, collapsing infrastructure and HIV/AIDS - undermine African development or seriously erode development gains. South Africa now considers these strategic issues. South African 'national interest' is expressed on the continent including the imperative to improve political and economic governance aimed at development (Gelb 2002).

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[35] South Africa accounts for 45% of sub-Saharan Africa's GDP (The Economist 2004; See also Simon 2000).

[36] Pervasive crime and labour market flexibility are other reasons cited to explain South Africa's failure to attract more foreign direct investment (Boyd, Spicer, and Keeton 2001, p.84; Shaw 2002, p.155).

With the launch of the AU in July 2002, African leaders committed themselves to NEPAD as an instrument for changing Africa's currently bleak outlook (See Gelb 2002a for a detailed treatment). With good political and economic governance and transparency as its cornerstone, NEPAD urges the commitment and cooperation of stakeholders to achieve African transformation. Good governance and development commitments are not limited to nation states with NEPAD arguing a critical role for business.[37]

NEPAD is too new an initiative to make any judgement regarding its success in achieving its stated goals regarding the role of business. However, two issues are worth highlighting. First, NEPAD sees business explicitly as a driver and a partner in African reconstruction and development. Second, South Africa's own role is dominant and needs to be carefully balanced by the state both in terms of its reputation as governance leader and role model for the region (The Namibian 2002; Mills 1998; Gelb 2002a). South Africa's influence in the region - whether political, military, economic or in terms of human capital - although often resented by the rest of Africa, is the likely driver for an apparently elusive African Renaissance.

Part Two: An Overview of the Political Economy of South Africa

Apartheid entrenched 'separateness', and South Africa was regulated to this end with 'grotesque fastidiousness' (Marais 2001, p.7). It was morally reprehensible, politically deluded, economically unsustainable and ideologically aberrant. The impact of apartheid policy on people's lives was, and remains, very real.

In the period prior to - and during - South Africa's negotiated transition apprehension abounded. Many feared civil war, retaliatory racial killing, the collapse of rule of law, and the fundamental restructuring of the political system. With a liberation movement committed to socialism, the establishment also feared a

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[37] Reuel Khoza, chairman of the NEPAD Business Group asserted: 'It is recognised that business needs a stable and predictable institutional and regulatory environment, and should work with all stakeholders in achieving this goal' (NEPAD 2003). NEPAD's strategy involves the adoption by member countries of economic management codes 'to promote market efficiency' (South Africa: Department of Foreign Affairs 2003, p.12).

fundamental restructuring of the economic system. It is clear that political settlement alone has limits. South African prosperity rests as much on economic and social justice.

Past imperfect: Capitalism and apartheid

From the 1970s, a long-standing ideological debate emerged regarding the relationship between capitalism and apartheid. At the core of this debate lay the question: Was apartheid's suppression of black labour instrumental to capitalist development or did it retard growth (Nattrass 1994, p.517)? Today the question has shifted: Are the current levels of South African inequality an inevitable consequence of capitalist development or a result of apartheid's discriminatory laws and customs? At the time of the transition from apartheid, Le Roux argued that:

> The historic evidence seems to be conclusive: there is no doubt that unbridled capitalism, even if it is successful in terms of a high rate of economic growth for a generation or two, worsens the economic conditions of a significant proportion of the populace. Discriminatory legislation, however, ensured in the case of South Africa, the group excluded from the benefits of economic growth was much larger than would have been the case in the absence of apartheid legislation (Le Roux 1992, p.15-16).

Indeed, the development and consolidation of capitalism and the roots of racial inequality were well established by colonialism. The discovery of gold and diamonds shifted South Africa both strategically and economically, and these resources remain critical to the South African economy. The radical interpretation of the relationship between apartheid and capitalism - racial capitalism - is well-rehearsed elsewhere (Bond 1991; Lipton 1985; Nattrass 1991; Wolpe 1988). It, nonetheless, requires a brief discussion based on Hein Marais' treatment of it.

South Africa's initial entry into the world economy at the end of the nineteenth century was as a source of primary commodities and as a destination for investment capital. Capital accumulation relied on the exploitation of wage labour and on an expendable pool of African labour (Bond 1991). The 1913 Land Act created 'native reserves' (7.3% of South African land area) and then Bantustans which reproduced the system at minimal cost to capital. From the outset, these areas were overcrowded and poverty-stricken. Legislation such as the notorious pass laws regulated the flow of labour. Racial division of labour was established early although class fractures appeared among white society, particularly after the Great Depression of 1929-1932 which created a class of (mostly) Afrikaner 'poor whites' (O'Meara 1983, 1996). The rise of an increasingly politicised urban black and white working class in the 1920s precipitated political alignment along racial lines. Heightened racial wage differentials, job reservation for whites and expanded social benefits for whites increased race tensions and reinforced race-bound class alliances.

The National Party's victory in 1948 paved the way for even greater control of African labour, greater centralisation of key aspects of the South African economy by the state, the facilitation of monopoly capitalism[38], and the augmentation of an Afrikaner capitalist class through a programme of concerted affirmative action. White ascendancy was achieved through a proactive state and an ongoing dependency on cheap African labour. The apartheid state attempted to establish optimal conditions for capitalist growth by erecting high tariff protection around vulnerable industries, setting up massive parastatals, and expanding telecommunication and transport infrastructure. What emerged in this racially structured economy were elements of 'first world' economies including a burgeoning manufacturing sector, a modern working class and pockets of modern industrial capitalism through increasingly concentrated patterns of ownership.

Apartheid granted whites access to better-paid jobs and opportunities for capital accumulation. The state invested in education, health, cultural, physical and recreational infrastructure, and social services for whites (O'Meara 1996; Beall, Crankshaw, and Parnell 2002). Apartheid inextricably linked race and class. The racialised nature of wealth creation and the distribution of resources were primarily ideological and political. The last two decades of apartheid saw deepening recessionary conditions and the assertion of Afrikaner ideology over rational economics (Marais 2001, p.33; Nattrass 1994). The development and growth of South African capitalism cannot be divorced from systematic racial discrimination

[38] The economy is dominated by a small number of conglomerates with high levels of cross-holding.

and entrenched patterns of privilege and deprivation. Nevertheless, in the 1980s a nascent African middle class emerged.

In the early 1990s, South Africa made the transition from apartheid to a liberal social democracy.[39] An interim period from 1989-1993 saw low-scale civil war (both overt and covert) conducted by a repressive state against a liberation movement both inside and outside South Africa. A number of interviewees attributed the existence of a culture of pluralistic dialogue in South Africa to lessons learned in the process of negotiations. Political stability needed a far-reaching political settlement. A negotiated political settlement had universal franchise and a liberal pluralist democracy as its point of departure. Later in this chapter, I argue that this first social contract was a positive-sum arrangement that cut across race, class, ideology, history and interests.

Economic outcomes appeared less certain. The vociferous debates continue in contemporary economic discourse as evidenced in my interview data. Capitalist interests explicitly demanded a continued and strengthened market economy and restrained redistributionist policies. Later, capital also called for the privatisation of public assets, fiscal discipline by the state and an abatement of business regulation. Left-wing interests were less transparently articulated. The African National Congress (ANC) - a broad liberation movement turned government-in-waiting - won popular support under a nationalist-cum-socialist banner along with its tripartite partners the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU). However, the fall of centralised economies in eastern block countries did little to support the socialist tendencies within the movement. Upon his release, Mandela promised the nationalisation of mines, banks and monopoly industries (Marais 2001, p.122). Dropping its populist rhetoric, the ANC's economic policies arguably matured (Kentridge 1993).[40] Its constitutional proposals advanced a mixed economy; socialism was relegated from the centre of

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[39] South Africa might be described as 'social democratic development of the liberal tradition' (Christianson 2003). For many, the distinction between (left) liberalism and social democracy is blurred (Welsh 2002).

[40] The ANC is a more complex, heterogeneous and contradictory organisation than is reflected here (See Dubow 2000; Deegan 2001; Ellis and Sechaba 1992; Saul 1999).

the party's economic vision. However, its pronouncements during the transitional period were akin to ideological acrobatics, and capital interests were uneasy.

The triumph of liberal social democracy

Apart from the most committed of Marxists and the libertarians, an uneasy centrist consensus emerged regarding the future of South Africa as a liberal social democracy. The residual political and policy questions related to the respective size and influence of the state in relation to the market (Nattrass 1994, p.518). This is not a new debate, nor is it one exclusive to South Africa (See relevant case studies in Simon 1990).

The Reconstruction and Development Programme (RDP), an ambitious programme for social delivery and redistribution, envisaged a strong role for the state. It was conceived in concert with the trade union movement and adopted by the ANC as the centrepiece of social development policies (Deegan 2001; Midgley 2001f). The RDP also aimed to unify diverse interests in a 'social contract' with transformation as its goal. The envisioned end was 'basic needs provision, economic growth, vigorous civil society participation and initiative, and a democratised state geared at servicing the needs of all citizens' (Marais 2001, p.237). The RDP, Midgely argued, drew on a conception of development that stressed endogenous growth, the use of regulated markets to ensure social goals, the fulfilment of basic needs and popular participation in development (Midgley 2001f, p.269). While the RDP outlined a social programme, it offered little regarding macro-economic policies. Working in an environment of raised expectation post-1994, it was also dependent on the capacity of an overburdened state to deliver social goods.

The RDP closed its offices in 1996 whereupon the government introduced an alternative policy framework of Growth, Employment and Redistribution (GEAR). This marked a move to an economic technocracy in government: GEAR advanced conservative economic policies, and was concerned with creating an enabling environment for market directed growth. Most notably, GEAR called for fiscal austerity by the state. GEAR was a self-imposed structural adjustment policy aiming to achieve growth, employment, as well as a sustained link with RDP objectives.

Whilst GEAR retained the RDP's focus on redistribution, it sought distributive mechanisms through private development such as construction. GEAR thus aimed to achieve growth with redistribution by achieving economic growth, the creation of new jobs outside the agricultural sector, growth in manufactured exports and in the rate of real investment (Deegan 2001, p.119; South Africa 1996). It holds that growth brings improvements to the absolute living standards of the poorest (Greenberg 1981, p.678; South Africa 1996). With a focus on fiscal austerity, privatisation and investment[41], GEAR appeared to yield to the interests of capital as well as the influence of African nationalism within the ANC. These in turn led to the facilitation of a black middle-class whose interests were not aligned with those of the black working class or the poor (Friedman 2002). The ANC's partners, the SACP and COSATU were vituperative. Capital - both local and international - was approving.

One of South Africa's key economic concerns is employment creation. Unemployment is a major determinant of poverty and inequality (Seekings and Nattrass 2002; Mokate 2000, p.57). GEAR supports 'a competitive and more labour-intensive growth path through wage moderation and increasing employment flexibility': Unemployment (using an expanded definition) lies at 36.2% and represents a national crisis (NALEDI 2000). May argues that while more formal jobs might be created these will be low quality and unstable (May *et al.* 1988, p.9). Low growth rates have not relieved high unemployment, and the economy is simply not generating employment at the necessary rate to absorb new entrants into the labour market (Bhorat 2001; Joffe 2003; Wray 2001, p. 9). Insecure low-income informal jobs are replacing better paid, more secure jobs in the formal sector (NALEDI 2000). This has implications for the state's tax base. Africans and women, particularly in rural areas, are most likely to be among the chronically unemployed.

Whilst South Africa's employment figures are discouraging, the state can claim a number of important achievements following democratic transition. Significant

[41] The opening of the economy also saw the listings of a number of large South African companies on the London Stock Exchange, including Anglo-American, BHP Billiton, Didata, Investec, Old Mutual and SABMiller. These listing effectively de-link company share prices from the South Africa market (Carmody 2002, p.264). Friedman argues that off-shore listing places additional pressures for accountability on the corporation (Friedman 2002, p.48)

transformation has taken place. Four and a half million have gained access to potable water and 600 000 now have access to inexpensive housing (UNDP 2003). Other successes include an extensive public works programme, the deracialisation of the school system including free and compulsory ten years of primary schooling, free medical care of pregnant women and young children, and expanded social services providing a universal state pension, water and electricity to previously inadequately serviced areas and most recently the provision of anti-retrovirals to HIV-positive patients.

Significantly, a black middle class has become entrenched because of social and economic opportunities instigated by a new political dispensation.[42] This suggests a significant (though partial) delinking of race and class. Increasingly, black people are represented in the elite and middle-classes, and there is increasing economic differentiation among blacks (Beall, Crankshaw, and Parnell 2002, p.39-40; Gumede 2002; Nattrass and Seekings 2001; Seekings and Nattrass 2002; Terreblanche 2002, 2003). Terreblanche demonstrates that a dramatic distributional shift has taken place over the past 30 years, transforming South Africa from a race- into a class-stratified society. Among indicators of increased differentials within race was a 40% increase of income of the top quintile of blacks from 1975 to 1994 and by a further 30% since 1994. The income of the poorest 45% of blacks declined by almost 50% from 1974 to 1994, and by a further 10% (approximately) since 1994 (Terreblanche 2003; See also Terreblanche 2002).

Inequality has increased in the last decade (Seekings and Nattrass 2002; May *et al.* 1998). Seekings and Nattrass also argue that inequality is increasingly intra-racial. Inequality persists not only as a consequence of apartheid but also because of the political (and economic) pressures on the government (Seekings and Nattrass 2002, p.5). They argue further that inequality (inter- and intra-racial) is tolerated because of high rates of redistribution through benefits in-kind by the state (Seekings and

[42] As elsewhere in Africa (Simon 1992, p.9), patronage links have played a role in the creation of a black middle class and elite (The Economist 2004). Despite this trend, South Africa has not deteriorated into a state of corruption: it retains a free press, a vibrant civil society and an independent judiciary.

Nattrass 2002, p. 7-9). The growth of the black middle class in discussed further in Chapter Five.

Part Three: South African social drivers to corporate social engagement

This section looks at the social environment within which South African business operates. It also outlines some of the specific challenges a state-corporate social development (SCSD) framework must accommodate.

'Business' as a generic term has been used throughout the thesis and is admittedly misleading. Used by convention in South Africa, the collective term belies the heterogeneous character of the sector. It must be emphasised that *business* refers to a collection of diverse enterprises. The needs, capacity and interests of large corporations differ from those of medium and small enterprises. The capacity of businesses to understand, respond and comply with legislation may be determined by their size (Boyd, Spicer, and Keeton 2001, p.83). Business is further diversified along racial and ethnic lines: people still speak anecdotally of English, Afrikaans and Jewish business, and of course, formal discourse makes the distinction between black and white business a greater organising principle. The size of the enterprise affects its capacity to compete for a relatively small pool of skilled labour. Moreover, the sectoral involvement of the business, that is, the kind of business activity will be another differentiating factor.

The broader contextual pressures faced by business in South Africa are represented graphically in a matrix in the first chapter. I have selected a small number of areas of concern for discussion: race and poverty, HIV/AIDS and socio-political justice as represented in the case of the TRC.[43] Each constitutes a major challenge facing South Africa and is a fillip for corporate social engagement. Three other issues represent prominent concerns in South Africa and profoundly affect the social milieu. The first two, education and skills training, are addressed in the next section

[43] Environmental and ecological sustainability are arguably critical issues but these are not addressed in this thesis (For fuller discussion on the issue, see Fig 2000; O'Riordan *et al.* 2000; O'Riordan 1998).

of this chapter with reference to legislation. Crime is considered below as a barrier to FDI and in the Chapter Six on tourism.

Race and poverty

Why then are race classifications of apartheid sustained? Whilst non-racialism is constitutionally enshrined (South Africa 1996), Posel points out that 'the juridical assertion of sameness cohabits with existential reiterations of racial difference and separation' (Posel 2001, p.50). 'Race' and 'class' are social constructs. Both are political and problematic[44, 45]. As asserted above, race categorisation determined not only an individual's access to political franchise but also to education, employment, health, housing and recreation. While all societies are materially unequal, race and class have closely coincided in South Africa: patterns of privilege and poverty are woven into the social fabric in clear (though changing) racial strands.

'Black' is an inclusive term for Africans, coloureds and Indians (South Africa 1998). However, 'black' is neither an uncontested nor a neutrally descriptive term. Inherent in the collective term 'black', is a politically loaded project. At its bedrock, the project allies diverse groups - who have some but not wholly common experiences of oppression and deprivation - into a sympathetic collective. For some, it is a unifying identifier. For others, it is an imposed label. In official discourse, at least, the term succeeds.[46]

South African democracy has delivered political equality but it has yet to deliver its economic adjunct. The Gini coefficient in South Africa - the standardised measure of income distribution ranging between zero (perfect equality) and one (complete inequality) - is among the highest in the world at 0.58 (UNDP 2001; May *et al.*

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[44] Ideas of racial distinction are widely held in contemporary South Africa, and are institutionalised in current legislation which employs racial categorisation for redress (Mare 2001; Posel 2001; Posel, Hyslop, and Nieftagodien 2001)

[45] A further nuance in the race debate is that of ethnicity. For example, among the white population historically English and Afrikaans interests were seen as divergent despite being racially aligned, while among Africans, Zulus in particular are often mobilised under an ethnic banner.

[46] However, there are further class differences within 'blacks' between Africans, Indians and coloured in terms of the percentages of these populations represented in the top deciles of income distribution (Taylor Committee 2002) and this is bound to have political implications.

1998, p.4; May, Woolard, and Klasen 2000).[47] The UNDP pegs South Africa's rate of poverty, measured as an extent of absolute poverty, at 45% rising to above 50% in rural areas (UNDP 2001, p.10) This translates into over 18 million citizens living below the poverty line. Poverty is racialised and gendered:

> Poverty is dramatically concentrated among Africans; 57.2 percent of Africans live below the poverty threshold compared with only 2.1 percent of whites. The poorest 40% of citizens remain overwhelmingly African, female and rural (UNDP 2001).

Presented differently, whites (13% of the population) earn more than half the total income whilst Africans make up three-quarters of the population but earn just over a third of the total income (Marais 2001, p.199). Race is also reflected in human development indicators such as infant mortality, longevity, educational attainment and standard of living (May, Woolard, and Klasen 2000).

For most South Africans, inequality is often reduced to racial inequality with significant political and economic policy implications (Seekings and Nattrass 2002, p.25).[48] Such inter-racial disparities would support 'the two nation' thesis if it were not for the increasing inequality within race groups to which I have already alluded. There is a widening gap in economic strata as the middle class becomes increasing multi-racial (Seekings and Nattrass 2002; Terreblanche 2003). For example, 88% of the total income accrues to 15 million people in the middle-class of which 4 million are white and 11 million are black (Terreblanche 2003). In addition, further intra-racial inequality is evident between the African poor and the 'relatively' privileged African urban working class (Nattrass and Seekings 2001, p.47; Seekings and Nattrass 2002, p.25; Friedman 2002). Racial redress which is an explicit government commitment requires an assertive confrontation of race. However, rather than being determined by race inequality in income is now explained primarily by differences

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[47] The Gini coefficient is a contested figure. The Taylor Report (2002) uses the 1996 Population Census figure of 0.68 (Taylor Committee 2002). The government argues that if social spending is included, this measure of inequality is lowered to 0.35 (http://www.gcis.gov.za/docs/publications/10tab.pdf).

[48] Policies aimed at redress such as affirmative employment and BEE initiatives are based on this reading of race and economic inequality. Indeed, Mbeki's two nation thesis - one black and poor, the other white and relatively prosperous - supports this interpretation (Nattrass and Seekings 2001, p.45; See Mbeki 1995).

in skill, rural versus urban location, economic sector, and most importability, education (Nattrass and Seekings 2001, p.52).

May argues that the perpetuation of extreme inequality will thwart the achievement of government growth targets (May 2000, p.14). In addition, capacity problems are an obstacle to the state's comprehensive anti-poverty policies, many of which have related to housing and service delivery (Friedman 2002, p.49; O'Riordan *et al.* 2000). The divide between policy and outcome lies in the inefficient coordination of three levels of government departments. However, some critics argue that the state lack political will to address poverty; its project to establish a black middle class undermines its pro-poor agenda (Adam, Van Zyl Slabbert, and Moodley 1998; Bond 2000; Mutume 1997; Seekings and Nattrass 2002, p.5; Terreblanche 2003; The Economist 2001, p.11).

The business sector also has to confront the issue of race within corporate social engagement. Value-based drivers in the business environment mean greater pressure to recognise the needs and preferences of a more racially diversified market. However, current state-driven social and economic policies use race as a way of delivering redress to those previously disadvantaged.

While race is arguably too crude an explanation for social and economic inequality, racialism remains as South Africa's longest and deepest fault line. As well as its economic influence, racialism is entrenched in South African custom, tradition, historical sensibility and social patterns. Yet by pegging policies to categories like race, critics of policies like affirmative action argue that we are continuing the pervasive and divisive racialism that has thus far characterised the South Africa political landscape? It is important to recognise the injurious legacy of racialism even after the dismantling of apartheid.

HIV/AIDS

The issue of HIV/AIDS warrants more attention than is possible here. I focus on the specific impact of HIV/AIDS on the economy, on business and on social policy as it pertains to corporate social engagement.

The impact of the pandemic in sub-Saharan Africa has been devastating. In South Africa, there have been unprecedented social and economic consequences, with slow responses by both the state and the private sectors (Venage 2002; Johnson and Dorrington 2001; World Bank 2003). The statistics obscure the unfolding human tragedy they record. UNAIDS cites HIV adult prevalence figures at 24.8% in 2001, an increase from 0.7% in 1990. Infections are said to be increasing at a rate of 1700 people each day (iafrica.com 2003). A key development indicator, that of life expectancy, has been rolled back by the disease: in the 1950's, adult life expectancy was 44 years, rising to 59 in the early 1990's and anticipated to fall again to 45 years by 2005 (World Health Organisation 2000). South Africa is not alone but it faces the pandemic on a larger scale than other countries.

HIV/AIDS largely affects adults in their economic prime or those about to become economically productive causing long-term damage to national economies. The World Bank suggests that South Africa 'may face progressive economic collapse within several generations unless it combats the pandemic more urgently' (World Bank 2003). Even in the short-term, the disease is expected to shrink the county's GDP by as much as 5.4% by 2010 (Kramer 2003). The deleterious economic effects are compounding and the sequelae of the pandemic raise urgent questions for social and economic policy.[49] Indeed, the complete impact of AIDS on the economy is difficult to measure. The full impact will depend on how many people are infected and who these people are. As Whiteside and Sunter contend, 'Economics does not value all lives equally. However, everyone is a consumer even if they are not producers' (Whiteside and Sunter 2000, p.83; Whiteside 2002).

Government has been strongly criticised for its management of the crisis. HIV/AIDS ranked low in government priorities until 1998 (Marais 2001, p.192). The state was accused of failing to demonstrate the political will to address HIV/AIDS, and

[49] In the absence of adequate policies that pay attention to the wider context, the World Bank (2003) warns of the threat of worsening inequality among the next generation (and the families) compounding an already unequal society. The World Bank also cautions that South Africa's tax base will erode, further undermining its ability to finance public expenditure aimed at education and health services. National finances will be simply incapable of meeting redistributive demands to ensure the care of the sick and the orphaned (World Bank 2003).

consequently for failing to implement comprehensive policies to manage incipient social and economic problems (Crewe 2001, p.10; BBC News 2003). This has been attributed to failure of political leadership (Van der Vliet 2001; Schrire 2000; Thomson 2003; The Economist 2001). The state's position became increasingly untenable from a moral, political and legal standpoint. A politically resistant government only approved the decision to provide anti-retrovirals to HIV-positive patients in 2003, with only five hospitals in Gauteng administering the drugs by April 2004 (IRIN News 2004).

Like government, the business community has been slow to react to the threat posed by HIV/AIDS. Business, most particularly big business, only recently responded to this 'bottom line issue' (See South African Business Coalition on HIV/AIDS and Bureau for Economic Research 2004). One interviewee lamented: 'It's coming down on us like a freight train' (Interviewee 24, white, female, business). Although business is now responding differently, at the time of interviews only a handful of the 110 institutions I canvassed had any HIV/AIDS policy. Fewer still providing employees with antibiotics to manage opportunistic infections, and none provided anti-retrovirals (Findings similar to those in KPMG 2001; South African Business Coalition on HIV/AIDS and Bureau for Economic Research 2004). One interviewee explained:

> This is not what your average businessman is thinking. He is not thinking that he should give money to the AIDS cause because in five to ten years he is worried he will not have enough skilled labour (Interviewee 126, coloured, male, NGO).

One interviewee, an AIDS consultant to business, decried the absence of policy insisting that 'even big businesses simply had to have a survival strategy' (Interviewee 61, white, female, business).

Business costs are measured as reduced productivity, increased labour costs, loss of customers and a consequent depression of profits. There is an impact on companies' bottom lines in terms of the costs of absenteeism, replacement, recruitment, training, increased payouts to medical schemes and employee benefits (Sprague and Segel 2002, p.43). The impact of HIV/AIDS also differs by sector, training costs, skills level and geographic location (South African Business Coalition on HIV/AIDS and Bureau for Economic Research 2004; Whiteside and Sunter 2000, p.103; Whiteside 2002).

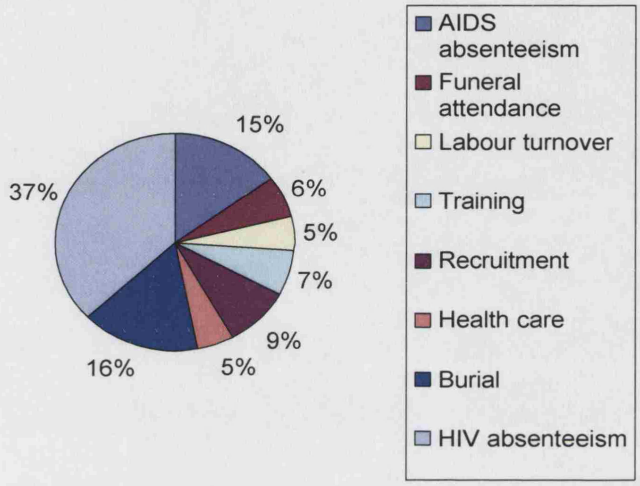

Figure 4.1: Increased Labour Costs Introduced by HIV/AIDS

Source: Adapted from Clem Sunter and Alan Whiteside, *AIDS The Challenge for South Africa* (Cape Town: Human & Rousseau, Pty Ltd. 2000), p. 101. (Cited in Sprague and Segel 2002)

Whatever the direct and indirect costs of HIV/AIDS to each business, *failure* to manage AIDS is more costly (Sprague and Segel 2002, interview with Stephen Kramer AIDS Research Division at Metropolitan). The private sector has an important role to play in fighting the disease as a stakeholder whose interests are directly and dramatically affected. AIDS is not simply a health issue but a multi-system problem (Whiteside 2002). As a business issue, it demands a dedicated policy agenda.

With government vacillation on the provision of antiretroviral drugs, a number of (large) companies initiated drug therapy ahead of government policy. The move earned them the grudging approbation of AIDS activists and the ire of government resulting in a temporary stand-off between these companies and government on the issue (Battersby 2002). Bell argues that:

> Keeping infected people alive and well, especially parents, so they can continue to live productive lives and take care of the next generation, is not only the compassionate thing to do, but it is also vital for a county's long-term economic future (Bell, Devarajan, and Gersbach 2003; Also reflected in World Bank 2003).

The Metropolitan AIDS Research Unit argues a business-case for antiretroviral provision. Although providing anti-retrovirals involves some risk on the part of the company, Metropolitan argues that the business-case simply lies in cost effectiveness (Bennett 2002). In larger companies holding such a view, AIDS drugs augment the now-standard company HIV/AIDS prevention strategies which might include providing condoms, workplace, peer education, counselling, periodic presumptive treatment for STDs, and the treatment of opportunistic infections (Interviewee 55, white, male, business; Interviewee 61, white, female, business).

Three important points are illustrated in the case of two companies, both mining houses, which embarked on comprehensive HIV/AIDS programmes, including anti-retrovirals, ahead of government. The first is that although the company carries additional short-term costs, it ultimately costs the company less:

> [I]t is estimated that overall HIV/AIDS costs to the company will peak marginally above US$3 per ounce of gold when the epidemic reaches its peak in 2010. This is not an incremental cost increase as some of the costs, such as medical infrastructure, are already accounted for in the cost base. Had Gold Fields not intervened in the proactive management of the epidemic at its operations, the cost to the company would have peaked at US$9 per ounce (Goldfields Limited 2003).

The second is that the nature of a business will often catalyse particular responses. HIV/AIDS has severely affected the mining sector with over a third of employees infected (Interviewee 55, white, male, business). The mining sector is also well organised and well resourced to lead on the challenge. Thirdly, this case suggests that the crisis was a driver for changes in both corporate strategy and engagement. At the time of fieldwork, before the provision of drug regimes to HIV-positive workers, one interviewee admitted that 'at the end of productive life, the worker is sent home with condoms but no anti-retrovirals' (Interviewee 55, white, male, business). The announcement to provide antiretroviral drugs by one company, Anglo American, seemed to put pressure to bear on its competitors who now also provide comprehensive treatment (Anglo American Corporation of South Africa Limited 2002; Goldfields Limited 2003; Agence France-Presse 2001; Dispatch Online 2001).

The impetus for immediate and proactive responses by business might well come from external drivers such as pressure brought to bear by trade unions or civil society, or even the state. The fillip may well also derive from a pervasive sense of morality at the devastation wreaked by the disease. However, the most sustainable argument for businesses is not a normative supposition but rather a strategic position based on business' interests. Business survival may depend on appropriate responses to HIV/AIDS.

Business and the Truth and Reconciliation Commission (TRC)

The Truth and Reconciliation Commission (TRC) process reflects deep tensions running through South African society. The Commission raised the issue of concessions and trade-offs, as well as responsibility, redress and justice. I include the TRC as an instance of a social contract for reconciliation with broader resonance.

The TRC was established by the Promotion of National Unity and Reconciliation Act, No 34 of 1995 to deal with human rights abuses under apartheid (TRC 2003a). During 1997, the TRC focussed on the role in apartheid of different institutions.[50] Like other hearings, the Business and Labour hearings, which examined the relationship between the state and business under apartheid were incomplete and contested, failing to deliver anticipated 'real truth' or 'reconciliation' (Mamdani 1998; Adam, Van Zyl Slabbert, and Moodley 1998). Attended by large corporations, organised business groups, corporate executives, as well as civic and trade union organisations, the hearings attempted to elicit a full disclosure of facts from the business sector regarding its role in sustaining apartheid.[51]

[50] These included business and labour, the faith and legal community, the health sector, the media and prisons.
[51] The Marxist-liberal debate regarding the capitalism-apartheid debate is outlined above.

The TRC hearings exposed 'sharp differences' in perceptions of the role that business played during apartheid, ideology and the subsequent issue of accountability. If the TRC established that business had profited from apartheid, was business then 'responsible' for the systematic violation of human rights (narrowly defined as killings, torture and severe mistreatment)? How then was it to make reparations for complicity in systemic human rights abuses, and to whom?

In the Final Report, the Business and Labour hearings track the history of business in South Africa. Implicit in the analysis of the role of business during apartheid is 'an underlying conception of what the role of business should be in society' (TRC 2003a, 4:2:141). Two contesting positions are reflected. In the first position, which was largely articulated by the traditional Left (including NGOs, the SACP and COSATU), apartheid was seen as a system of racial capitalism (Lipton 1985; Bond 2000; Wolpe 1988).[52] The interests of business and the apartheid state were congruent with those of business: business was partner and collaborator in the system, and therefore had to accept a degree of co-responsibility for the system.

The second position, articulated mainly by business, argues that the apartheid system increased the costs of doing business in South Africa by limiting markets, undermining growth and productivity by obstructing business expansion, and eroding the county's skills base. This position also pointed CSR programmes seeking to ameliorate existing social and economic problems and to the fact that businesses were responsible for employment creation, wealth generation, improved living standards and the creation of an enabling environment for democratic transition (TRC 2003a, 4:2:10).

Significantly, business largely denied any symbiotic relationship with the state although some recognised a role in sustaining apartheid. Amongst these submissions were those of the Afrikaanse Handelsinstituut (AH), the Land Bank, the Development Bank of Southern Africa and Anglo American, all of which recognised explicitly that apartheid had facilitated a privileged business environment (Macun

[52] See the section above entitled 'Past imperfect: Capitalism and apartheid'.

and Holdt 1998, p.72).[53] The TRC found that business could have done more to oppose apartheid and instigate change (TRC 2003b, p.137-141).

The Report states explicitly that 'business (not least for reasons of self-interest) is coming to recognise that morality is an important ingredient of viable business (TRC 2003b, 147). Critics did not contest the moral probity of this conclusion. The church-led TRC found that the absence of morality resulted in human-rights violations, implicating business to some degree. For the TRC, past moral failure ought to motivate businesses' involvement in post-apartheid renewal.

Thus, business critics saw the private sector as being both morally and politically passive at best, and complicit at worst. Indeed, the structure of the economy meant that whilst business was not monolithic, 'overwhelming economic power resided in a few major business groupings with huge bargaining power vis-à-vis the state' (TRC 2003a, 4:2:49). It appears that apartheid endured despite its alleged economic costs to the business community.

Whilst the TRC Findings on Business were criticised as 'vague, tentative and rather superficial', most of the criticism was levelled at business for its account during the hearings (Terreblanche 2000, p.6). Critics of business argued that submissions were flawed, full of elisions and even 'spurious' (Mail and Guardian 1997). The business sector was accused of being defensive and largely failing to address many contentious issues. The business sector appeared, with few exceptions, to play down its participation in the 'design' and maintenance of apartheid, whether intentional or unintentional. In addition, critics accused large corporations of using the TRC as a public relations exercise (Beresford 1997). Terreblanche argued that the TRC failed to unpack the myth-making by large corporations regarding their representation of themselves and the reality of their relationship with 'white supremacy, racial

[53] In their submission, the Anglo American Corporation conceded that segregation policies directly affronted the human dignity of its workers and that the company ought to have desegregation earlier: 'In a number of other areas, the views and values of the senior management of Anglo .... failed to shape workplace realities, which instead reflected the social and political prejudice of the broader communities in which these companies existed' (Anglo American Corporation of South Africa Limited 1997, p.5).

capitalism and apartheid' (Terreblanche 2000, p.20).[54] Critics dismissed the TRC findings as symbolic. However, the severest criticism of business response to the TRC findings regarded the question of reparations.

Righting apartheid wrongs? The question of reparations

The TRC findings imputed that:

> Business was central to the economy that sustained the South Africa state during the apartheid years. Certain businesses, especially the mining industry, were involved in helping to design and implement apartheid policies.... Most businesses benefited from operating in a racially structured context (TRC 2003a, 4:2:161).

All parties agreed that gross human rights violations were not in question, the exercise mined very little new information and amnesty had not been sought nor awarded. However, reconciliation suggested an opportunity for transformation. How then was the TRC process to be made meaningful? How would the business sector respond with the burden of culpability being hoist upon it? Moreover, would this sense of complicity in an unjust system on its own provide a sustainable rationale for business engagement?

Left critics raised the possibility of business reparations as a means of redistribution. Indeed, large business had anticipated calls for reparations and responded by paying greater attention to CSR programmes. It also established the Business Trust, a high profile business-initiated and led development programme working in close partnership with government (See Part 6 for a more detailed discussion).[55] A number of senior businessmen admitted this, with one stating:

> Although these conversations did start before the TRC they were given momentum. So it was candidly, in particular, a pre-emptive strike to avoid having to go down that road [of reparations] (Interviewee 108, white, male, business).

[54] One interviewee described the hearings as 'artful theatrics', and described Terreblanche's submission as the script for the basis of the Business and Labour Hearings (Interviewee 109, white, female, business foundation).

[55] Another businessman refuted the claim that the Business Trust emerged in anticipation of calls for reparations. He argued that the idea germinated at the Presidential Job Summit in October 1998 (Interviewee 59, African, male, business and ex-union).

Whatever the catalyst for the Business Trust, certain civil society groups, organised black business, the trade union movement, some people in government and within the TRC claimed that established white business were morally obliged to pay specific reparations. The TRC recommended a 'once-off wealth tax' on South African businesses and industry[56] in the 'war against poverty' (TRC 2003a, 4:7:727). The 'wealth tax' was suggested by economist Sampie Terreblanche as a means of redressing South Africa's unequal distribution of wealth but was later dropped from the TRC's final recommendations (Mail and Guardian 1997; Terreblanche 2000; TRC 2003a).

Large corporations were clearly and vocally opposed to a reparative wealth tax (Michael 2003). One interviewee countered that business' response 'doesn't help to overcome the ideological gap, the hostility that already exists towards the business sector' (Interviewee 124, white, male, business). Another argued that refusing the wealth tax was evidence that 'business has not come to transformation responsibly' (Interviewee 33, African, male, trade union). Significantly, when President Mbeki rejected the TRC's recommendation of a wealth tax, the seething debate between government, business, the civic and trade union movement regarding business reparations temporarily abated (Sebelebele 2003).[57]

However, as one interviewee stated, off the record, the TRC explicitly created expectations of reparations (Interviewee 117, white, male, NGO) (TRC 1996). For many, reconciliation could not be divorced from immediate material and financial reparations, and failure by businesses to commit themselves to such reparations amounted to hollow justice (Valji 2003; Villa-Vicencio and Verwoerd 2000; Terreblanche 2000). For others, reconciliation linked with broader transformation. Macun and Von Holdt argued that, 'Reconciliation would clearly have to encompass economic and industrial relations practices consistent with the emerging

[56] This was a once-off market capitalisation tax for JSE-listed companies.
[57] Mbeki also distanced the South African government from a parallel class action against large local and multinational businesses by victims of apartheid led by US lawyer Ed Fagan, a process seen as both foreign and opportunistic (Bailey 2003). But for some, Mbeki's rejection of the class action was perceived as disregarding the needs of victims in favour of the 'needs of capital' by mollifying the anxiety of international lending institutions (Valji 2003).

political and social norms of democracy in South Africa' (Macun and Holdt 1998, p. 72).

The TRC concluded that 'business could and should play an enormously creative role in the development of new reconstruction and development programmes' (TRC 2003a, 4:2:159). Whether the TRC succeeded or failed in delivering truth and reconciliation is not for consideration here. However, the Business and Labour hearings was a significant moment in the state and business relationship in South Africa. Responsibility regarding the delivery of social goods and justice to South Africans, seen as a prerequisite for transformation, further sharpened the existing ideological debates. At the very least, the TRC hearings were a politically inspired and executed process which sought symbolic - if not criminal or economic - justice.

Part Four: Driving Policy: The Legislative Environment

Since 1994, the government has introduced wide-ranging legislation aimed at transforming the business environment. This 'transformative legislation' aims to compel any institution whether public or private that employs workers, and procures goods and services to behave according to state sanction. In effect, a directive state has created a specific environment in which businesses have the 'license to operate'. There are two issues to highlight. First, government's commitment to changing the economic landscape to achieve the meaningful participation of black people has been systematic. The seriousness of this commitment is reflected in state-market relationships with the evolution of black economic empowerment (BEE).[58] Government's position in respect of BEE is evidently non-negotiable. The environment in which business operates is defined and determinate. The 'market is willing to accept that in the current phase of our transition what would otherwise be regarded as inefficiencies are acceptable' (Interviewee 85, white, male, business school).[59] Another argued that 'this was a small price to pay' (Interviewee 95, white,

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[58] According to Emeritus Professor Nick Segal of the Graduate School of Business, University of Cape Town and parastatal Kumba Boardmember, company directors are now recognising, in a way that they did not only a few years ago, the seriousness of government's BEE commitments (Personal E-mail communication, 17 February 2004).

[59] The interviewee opined that the best examples of this tolerated inefficiency are seen in the complex cross-holding of capital structures put in place in order to facilitate black investment. He added that

male, business), This last point evokes Rawlsian principles of justice discussed in the previous chapter in that certain inefficiencies are tolerated if these afford greater equality for the least well-off.[60]

The South African Constitution provides the overarching legal and normative framework.[61] With a Bill of Rights that protects individual and collective rights, the Constitution is considered one of the most progressive in the world (South Africa 1996). The Constitution itself was negotiated painstakingly with an interim document accepted in 1993 when formal negotiations ended, and the final Constitution adopted in 1996. A product of broad consensus building with the objective of establishing political stability, the Constitution itself reflected major political and economic compromises and concessions by all stakeholders. These included, for example, private property rights being secured by capital, the feasibility of an Afrikaner homeland and the protection of the Zulu monarch and traditional leaders by the political Right, and three tiers of government and extended worker rights being secured by the Left.

Government has also introduced extensive empowerment related policies and legislation. The various pieces of BEE legislation are enacted as 'a remedial strategy' to address the economic exclusion of blacks (Adam 1997, p.231). Indeed, empowerment legislation is the realisation of a political demand; the crux being the assimilation of black people into the economic mainstream. The environment is dynamic. New legislation, particularly legislation that affects specific sectors, is constantly being promulgated.[62] Consequently, I focus on six particular pieces of legislation. These are the Employment Equity Act 55 of 1998, the twinned pieces of legislation, the Skills Development Act 97 of 1998 and the Skills Development Levies Act 9 of 1999, the Labour Relations Act 66 of 1995 (LRA), the Basic

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there was recognition among stakeholders that these structures would in due course be dismantled, but only once black capital was properly established.

60 An obvious elision becomes apparent. As discussed, black entrepreneurs and black capital do not constitute the least well-off in society as in the Rawlsian schema. However, given their small numbers, institutionalised prejudice that they might encounter and historical difficulties accessing capital, black business people may hold such a status regarding other (white) business people.

61 Indeed, the limitations clause allows the qualification of certain rights but only if that limitation is justifiable in terms of equality (Stacey 2003).

62 In the next chapter, I also focus briefly on the development of sectoral charters as instruments of BEE.

Conditions of Employment Act 75 of 1997 and, finally the Preferential Procurement Policy Framework Act 5 of 2000.

The Employment Equity Act

Probably the most 'contentious' piece of transformation legislation is the Employment Equity Act 55 of 1998. Seen in context as an empowerment mechanism, the Employment Equity Act has impact as a social and redistributive policy tool. The first principle of the Act recognises that disparities in employment, occupation and wealth produced by apartheid 'create such pronounced disadvantages for certain categories of people that they cannot be redressed simply by repealing discriminatory laws' (South Africa 1998). The Act aims to eliminate unfair workplace discrimination, and to change the racial profile of the labour force. It seeks to implement non-prescribed affirmative action measures to redress disadvantages in employment experienced by designated groups and to ensure their equitable occupational representation. Employers are obliged to prepare an employment equity plan in consultation with employees. The plan - which companies submit to the Department of Labour - outlines, inter alia, employment objectives, affirmative action measures and numerical goals with an implementation timetable. The plan must also establish monitoring and evaluating procedures.

The Act is dense, covering all aspects of employment policy and practice. These include recruitment procedures, advertising, selection, appointment, job classification and grading, remuneration, employee benefits, terms and conditions of employment, job assignments, working environment and facilities, performance evaluation, promotion, transfer, demotion, disciplinary measures and dismissal (South Africa 1998). Individual institutions with 50 or more employees set their own targets and projections. No external quotas are imposed by the state although some argue for the compulsory imposition of these (Black Management Forum 2003). Importantly, the award of state procurement contracts for supplies and services also explicitly rests on compliance with the Employment Equity Act. Indeed, Section 53 of the Act is a certificate of compliance for tendering purposes.

After its promulgation, the Employment Equity Act faced a massive backlash, particularly from white business. One executive saw it as 'a monumental headache and a huge cost factor' (Interviewee 128, white, male, business). Another saw employment equity as overly prescriptive, superfluous and as intervening in the market (Interview 125, white, male, business organisation). Another reported that white business saw employment equity as 'lowering standards and as reverse discrimination' (Interviewee 39, African, male, business). A standard argument against employment equity suggested that 'forcing empowerment or affirmative action before you have competency is a risk to the bottom line' (Interviewee 25, white, male, business).

Some company representatives admitted that rather than complying with legislation, their companies elected to pay the given penalties:

> It is clear that some companies live up to the letter of the law and some will live up to the spirit of the law: of course, the spirit being the greater of the two. They will stand out and become employers of choice. But there are a lot of companies that are just trying to comply minimally. In fact, some are not even submitting a plan. They would rather pay the cost of the fine than the cost of implementing which is very short-term focused (Interviewee 120, white, male, business).

Minimal and non-compliance with the Act was reported by a number of those interviewed to be easier and more cost effective than compliance (Also confirmed in Gumede 2002a, p. 204). Compliance was more likely in larger businesses than medium and small business. For others, non-compliance was illogical:

> I think that businesses are savvy enough to understand that it is not good for their image and it will make it difficult for them to project themselves positively to a certain segment of the market should they be seem to be totally unresponsive to this legislation (Interviewee 103, African, female, business).

An interview with Department of Labour representatives confirmed the non-compliance strategy by companies.

As I have alluded, the size of the business may affect its capacity to both implement the Employment Equity Act and compete for black skills. The legislation appears to target big business but makes no distinction regarding the company size other than the lower limit of 50 employees. An informant from a large corporation assented:

> I think smaller companies are finding it more difficult. I think one of the problems with the government is that it tries to solve every problem everywhere with the same instruments. I would have left smaller companies out of most of the legislation, to be dealt with later on. The area government has acted intelligently with this whole thing in that they did not tell companies what to do. They asked companies to tell them what they were capable of doing – the company looks within its related industry (Interviewee 17, African, male, business).

The Act puts pressure on a small number of highly skilled black workers. As my own research holds, companies bemoan the shortage of black candidates, particularly at management levels (Mail and Guardian 2003). Businesses 'vie for black managers who are poached and head hunted with remarkable inducements' (Adam 1997, p.231). My own research confirmed this view. One interviewee contended:

> There is an enormous premium attached to black skill. There is also the question of demotivating white and Asian people in the company by promoting black people over them at a premium. It causes unbelievable strains and tension (Interviewee 89, white, male, business/foundation).

The notion that over-valued black skill creates a false economy in the labour market was a common refrain in this research and I explore this further in the next chapter.

A number of those interviewed acknowledged that the Employment Equity legislation forced them to engage with the issue of equity in ways they would not have considered proactively. One informant offered that the primary function of the Act was 'to change a mindset' and that companies have 'no excuse for getting nothing done' (Interviewee 17, African, male, business). One interviewee simply acknowledged, 'We needed a kick up the ass as far as employment equity was concerned. It ultimately makes organisations accountable for what goes on in the country' (Interviewee 24, white, female, business).

Indeed, the Employment Equity Act, coupled with the LRA, crowbars open opportunities for black people in the formal economy. The Employment Equity Act, in particular, forces companies 'by agreement' to adopt policies to transform the complexion of their workforce at all levels. Failing this, companies will incur sanctions in the form of fines for failing to meet their own numeric goals, or suffer by not winning government contracts and tenders. Whilst there is no termination date on this policy, and regulating the legislation may be a flawed process, the Employment Equity Act is, in principle, a very powerful driver for achieving workplace equity. Whether transformative legislation like employment equity leads to a drive towards increased contracting out to smaller operations and the informalisation of labour processes as evidenced in other countries remains to be seen. Certainly, that legislation does not discriminate between large and small businesses may contribute to outsourcing as a measure to avoid regulation.

Skills development legislation

Two other pieces of empowerment legislation address the paucity of black skills. The Skills Development Act 97 of 1998 provides an institutional and financial framework for developing labour force skills. It seeks to enhance workers' prospects, as well as their labour mobility, productivity and competitiveness. The National Skills Authority (NSA) advised the Minister of Labour on national skills-development policy, strategy and implementation while each of the 25 economic sectors has a designated Sector Education and Training Authority (SETA). The Act ostensibly creates significant opportunities for workers and trade unions to influence the type and extent of training provided by employers (Barry and Norton 2000, p.6). One interviewee summed it up 'as an attempt to foster and facilitate a new dispensation around skills acquisition' (Interviewee 103, African, female, business). Its legal cohort, the Skills Development Levies Act 9 of 1999, is concerned with financing the Skills Development Act. It compels employers to pay a skills development levy: initially a 0.5% levy on remuneration paid by private employers to the South African Revenue Service (SARS), which increased to 1% in 2001/2. The funds are then disbursed: 80% of levies to SETAs, and the remaining 20% to the National Skills Fund. Employers can recoup a proportion of the levy on condition that they provide skills training for their employees. With a somewhat elaborate incentive scheme, the Act encourages employers to raise the skills levels of their workforce. The Act includes municipalities, as well as statutory bodies receiving government funding (South Africa 1999). The Acts expressly attempt to equip South Africa with skills to compete and succeed in a global market (National Skills Authority 2000, 2.3). They also explicitly target black workers: 85% of those proposed to receive training are black (National Skills Authority 2000, 3.6).

Indeed, most informants lamented the paucity of black skills. One director of a large financial services company asserted 'the biggest challenge for us is obvious: it is a dearth of [black] skills' (Interviewee 89, white, male, business). Another interviewee acknowledged, 'we have to look at strategy and corporate policy to accelerate the development of black candidates, from basic skills to leadership' (Interviewee 107, African, male, business). While most business people objected to additional regulation, the shortage of skills, particularly black skills, appeared to be an influential driver for training and development. While some saw the levy as additional taxation on businesses, one interviewee argued:

> I think if you can't tax companies more for social investment purposes, or put additional pressure on them for that reason, then the obvious alternative way would be to concentrate on labour-type issues. This might be looked at as a kind of penalty which I think would be wrong to do. It is in business' interests to develop skills. But in more ways than one, if the people of South Africa are to be beneficiaries of a range of steps by government, be it in terms of direct financial assistance, or in indirect terms with skills development and future capacity building to contribute to the economy, starting with the labour force is a very good way of doing it! (Interviewee 90, white, male, NGO)

Whilst the skills legislation boosts social investment in human resource development, it also creates both a heavier state bureaucracy in the NSA, and greater transaction costs for companies. Most businesses lacked understanding of the legislation and of its implications, including how to align skills development plans with employment equity objectives. Along with employment equity requirements, the Act admittedly imposed a new level of complexity on administrative procedures. Critics argue that aside from large enterprises most businesses do not have the resources for the production of necessary documentation. Government argues that the legislation offers incentives to companies to train their own employees. However, given the paucity of black skills, some companies still see training staff as a 'risk': there is a danger of training employees only to lose them after incurring the transaction costs involved. But the argument rebounds on itself. Businesses require skills in order to operate and to remain competitive.

The Labour Relations Act and the Basic Conditions of Employment Act

The Labour Relations Act 66 of 1995 (LRA) and the Basic Conditions of Employment Act 75 of 1997 represent key gains by the labour movement. Prior to the Employment Equity legislation, these represented the cornerstone of anti-discrimination legislation for the workplace. Many of the demands of the labour movement acquire legislative force in these Acts (Marais 2001, p.240). The legislation attempts to ensure labour flexibility whilst simultaneously stabilising the labour market. It emphasises dialogue between social partners, as well as a more structured collective bargaining system. Business people acknowledge that after decades of industrial action 'to be sustainable you need good labour relations' (Interviewee 134, white, female, business).

Different stakeholders interpret the legislation differently. A government informant argued that the LRA was essentially a social contract in the national interest (Interviewee 19, coloured, male, government/ex-union). Unions see the legislation as 'a victory' and acknowledge that in the balance of interests 'it is more favourable to workers than to business' (Interviewee 82, African, male, trade union). Unsurprisingly, these pieces of labour legislation are the subject of criticism, mostly from business people. In the first place, the legislation is seen as being 'enormously detrimental and prejudicial to anyone who is unemployed given that the minimum wage is unsuccessful in allocating resources to the poor' (Interviewee 135, white, male, business). As discussed, new social cleavages are evident in the growing tensions between and divergent interests of the employed and the unemployed (Seekings 2002a). Most commonly, labour legislation was criticised by various informants for being 'incredibly prescriptive', 'incredibly onerous', 'overregulated', 'disruptive', 'a disincentive to employers', 'hampering investment', 'undermining entrepreneurship' and 'punitive to business'. An interviewee contended that 'the legislation is counterproductive and damaging to the South Africa economy' (Interviewee 52, white, male, business). One informant retorted to business discontent by asserting: 'We have one of the most flexible labour markets in the world. It's absurd to think in a country like this, having rules determining the fairness of dismissal is overregulated' (Interviewee 96, coloured, male, stakeholder organisation). Another argued it was in the interest of business to support labour legislation measures since they ensured a certain lifestyle for workers that was conducive to productivity (Interviewee 58, African, male, business).

Affirmative Procurement

Finally, the Preferential Procurement Policy Framework Act 5 of 2000 obliges national and provincial departments, municipalities, legislatures, national parliament and other 'organs of state' to use preferential or affirmative procurement procedures. The Act creates tendering opportunities by 'persons historically disadvantaged by unfair discrimination on the basis of race, gender or disability' (South Africa 2000). It aims to establish a procedurally fair and transparent point system for the award of tenders and concessions. However, being affirmative, BEE imperatives might trump procedural fairness. The Constitution permits affirmative procurement policies which target 'the allocation of contracts and the protection, or advancement, of persons or categories of persons disadvantaged by unfair discrimination' (South Africa: Ministry of Finance and the Ministry of Public Works 1997; South Africa 1996, S 217, 1-3). Whilst tendered price is considered, black equity and other BEE scorecard indices were often a determining criterion for awards (Stafford 2003).

Procurement of goods by government, including different state organs, amounts to approximately R56 billion annually (South African Reserve Bank 2003; World Trade Organisation 1998; South Africa: Ministry of Finance and the Ministry of Public Works 1997). The state is the largest purchaser of goods and services in the country. Thus, government commands enormous buying power with attendant influence to ensure that procurement supports its overall economic objectives. One interviewee argued that 'the government's ability to buy and sell is possibly one of its strongest levers in ensuring its transformation objective' (Interviewee 12, African, male, government). As outlined in the Green Paper on Public Sector Procurement Reform in South Africa, affirmative procurement represents a key element of the state's strategy for employment creation and income generation by promoting small, medium and micro enterprises (SMMEs) (South Africa: Ministry of Finance and the Ministry of Public Works 1997). As such, procurement can be used as a lever for effective social redistribution, growth and development. The Act has the potential to realize greater empowerment gains further down the value chain: the trickle down of economic goods to small and medium contractors who account for 60% of all employment and 40% of output (Gomomo 1999). The counterpoint of this is that the Preferential Procurement Policy Framework Act can be an effective driver for corporate social engagement.

Affirmative procurement, however, lacks effective monitoring structures (Black Economic Empowerment Commission 2001, Chapter 6; Gomomo 1999). This opens the system to abuse and raises the necessity of establishing stronger control systems. One informant stated that the tender system was 'almost a patronage system' with frequent awards to well-connected contractors (Interviewee 4, white, female, business). Another argued that the state paid a premium of up to 30% on certain black companies. She contended that it was ultimately the black consumer who paid the premium, which raised the question: 'who are we really empowering'? (Interviewee 14, white, female, NGO). This premium on affirming black businesses raised the question whether the state in redistributing to black companies is not engaged in rent-seeking activity.

At present, there is no Constitutional or legal obligation on the private sector to pursue affirmative procurement. The second King Committee on Corporate Governance (2002) recommended that companies support BEE through procurement (King Committee on Corporate Governance 2002). The Black Economic Empowerment Commission (BEECom) proposed that 30% of private sector procurement be awarded to black-owned companies including SMEs (small and medium enterprises) (Black Economic Empowerment Commission 2001, p.8). One businesswoman in a BEE company contended that while public institutions should be compelled to procure affirmatively, 'private companies can not be expected to sacrifice profits' (Interviewee 29, African, female, business). Although likely beneficiaries, a number of black business leaders who were interviewed opposed obligatory affirmative procurement as over-regulation, and on the grounds that it undermined the market.

This research was conducted prior to the government's Broad Based Black Economic Empowerment Strategy (BB-BEE) which seeks to encourage more widespread affirmative procurement (South Africa 2003a). At the time of interviews, businesses (big business and established black businesses) were increasingly employing affirmative procurement policies. A small number of those interviewed reported they had proactively developed affirmative procurement policies. However, as my own research supports, most reported that affirmative procurement took place around non-core goods and services though this might differ between businesses and sectors (Meth 2001). One informant from a large corporation described the 'huge transaction costs' in finding the necessary affirmative companies to deliver reliably on the scale and to the quality requirements of the company. He contended that in such cases, the company proactively engaged in joint ventures with affirmative companies in order to develop their capacity (Interviewee 7, white, male, business). A number of larger companies also reported that they, in turn, insisted that their own contractors sub-contracted affirmatively. One interviewee explained, 'If you are structured right, you get access to my business. If you are structured wrong, my sanction is that you won't get access to my business' (Interviewee 49, Indian, male, business/ex-union).

Part Five: Business as a South African social institution

In this section, I briefly scan the history of corporate social engagement. I also define the terms of engagement customarily used in South Africa and explore how these have evolved. Finally, I look at current drivers of corporate social engagement and business responses.

A history of business-societal relations in South Africa

The history of business' involvement in the social arena has been well-told (Alperson 1995), particularly by long-established corporations who wish to legitimate their good-standing. Critics of business tell this history differently. These narratives reflect the ideological tension over the relationship between capitalism and apartheid discussed in detail above. I do not wish to reengage this debate further. Rather, I shall select instances that illustrate the critical points I wish to emphasis.

In 1973, the Anglo American Chairman's Fund, which was established in the early part of the last century, merged with the De Beers Chairman's Funds (Dembo 1991). The merger created the largest philanthropic fund for charitable causes in South Africa. The funds were *ad hoc* and disbursed at the Chairman's discretion. It was not until 1976 with the establishment of the Urban Foundation by Anglo American Corporation, Barlow Rand and Rembrandt did corporate social responsibility (CSR) appear on the South African business landscape. Significantly, the Urban Foundation's purpose was to improve the quality of life for black South Africans, and improve community and business relations. It sought to 'stabilise urban labour and defuse protest' (Simon 1989, p.199). It must be emphasised that CSR was a response to the volatile political and social unrest sweeping through South African townships at the time. CSR constituted a response to what was widely seen as a threat to the legitimacy of capitalism (Mann 1992, p 250). Significantly, external political drivers catalysed business responses to emerging social and economic threats. Indeed, most businesses, especially large concerns followed suit and established their own CSR projects or foundations.

External drivers including pressure from foreign companies investing in South Africa also shifted the landscape. During the 1970s, the international and local anti-apartheid movements made increasingly strident demands for sanctions and divestment by multinational corporations (MNCs) (Malone and Goodin 1997; Rodman 1994; Becker 1988). Although almost 500 foreign companies ultimately divested, some enterprises sought to defend their continued presence in South Africa by adopting a code known as the Sullivan Principles. The, mostly American, signatories committed themselves to a range of progressive workplace changes including equal employment practices, affirmative action and social investment to improve the quality of life for their staff outside work (Mangaliso 1997).[63] In the 1980s, it was principally the dramatic escalation of civil unrest that contributed to

[63] The underlying rationale of the Principles were 'licence to operate' and the responsibility attending the power wielded by business (Post 2002, p. 268).

the acceleration of CSR programmes. Indeed, CSR had become a growth industry. Mann estimated that in 1988, an estimated R800 million was disbursed by CSR programmes (most being channelled into education for which there was tax relief) (Mann 1992, p.252).

The history of business engagement also highlights three developments associated with the terminology used to describe business-society relations. First, 'CSR' was dropped from use in South Africa and was gradually replaced by the term 'corporate social investment' (CSI). The grant-making practice of CSI is the same as that of CSR. The word *responsibility* was rejected because it was perceived to carry 'negative', 'patronising and moralising' connotations, both for the benefactor and beneficiary. Moreover, responsibility carried connotations of 'a guilt thing' (Interviewee 90, white, male, NGO). Surprisingly few of my informants - even CSR practitioners - had really interrogated the change in terms. Most used the two terms interchangeably. One cautioned, 'we don't really distinguish between CSR and CSI. I'd be careful about imputing too much consciousness regarding this on the actors' (Interviewee 130, white, female, NGO). Another assented, 'It's interchangeable. We have about 15 names for this but it's all the same activity' (Interviewee 121, African, female, NGO). However, for those who had interrogated the terminology, *investment* was perceived to embrace the idea of 'businesses truly investing in the future of South Africa' (Interviewee 133, white, male, business). A foundation manager argued that philanthropy was a noble activity; corporate social investment meant that businesses were engaging socially for a return, albeit non-financial in nature (Interviewee 129, coloured, female, business/foundation). Moreover, the investment terminology spoke to the long-term strategic interests of business.

Second, the history of CSR (or CSI) in South Africa also suggests the move from *reactive* business engagement for purposes of legitimacy building to a more *proactive* stance to ensure business sustainability. Recent policies have placed business in the role of intermediary in the goals of social development (Gumede 2002a, p. 203). External drivers and pressures are likely to make business engage in the social realm given businesses awareness of the conditions in which they operate.

Third, as South African businesses own understanding of their operational environment has become more sophisticated, so has their recognition of the notion of 'licence to operate'. Whilst South African companies have a 'remarkably developed CSR culture',[64] these remain philanthropic and, typically, add-on functions. Increasingly, companies are considering the rights and obligations of business relative to their stakeholders. Importantly, businesses are increasingly embedding this consideration in business philosophy. International benchmarks in corporate behaviour discussed in Chapters One and Two such as the triple bottom line, social auditing and corporate citizenship as a behavioural paragon are becoming more apparent in local business strategy and policy. Notable among these are the ideas of good corporate governance, an issue in which South Africa has become a leader since the production of the King Report on Corporate Governance (King II).[65] Acknowledging the 'licence to operate' also prioritises the imperatives of black empowerment in the South African context.

Part Six: Stakeholding and the social contract in South Africa

In this final section, I interrogate the social contract in South Africa. I look at various state and business initiatives which are - either explicitly or implicitly - concerned with the creation and strengthening of a social compact. This section pursues some of the theoretical ideas introduced in the last chapter.

The social contract operates at two levels of abstraction in this chapter. First, as in the previous chapter, the liberal social contract establishes a hypothetical and abstract compact between social partners. The social contract seeks to manage - and reflect - stakeholder interests in a fair, just and democratic manner. In seeking stability, social partners tend to cooperate within a set of negotiated rules, with a common interest in fairness and social well-being as a goal. Each seeks to advance their immediate and long-term interests.

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[64] This point is made by Jeremy Baskin, Head of Research at the Ethical Investment Research Service (EIRIS) which has conducted research global comparisons of CSR (Personal communication, London, December 2003).

[65] Corporate governance issues are also becoming increasingly important to non-private sector, such as SOE's, as the corporate model is adopted more widely in South Africa and elsewhere (Larbi 1999, p.20).

The Rawlsian contract, in particular, provides insights for a South African social contract. Political and economic uncertainties may evoke the Rawlsian 'veil of ignorance'. Stakeholders cannot be guaranteed of specific outcomes (Sisk 1995, p.257). Moreover, all parties are concerned with creating the necessary conditions for just redistribution. The second level of abstraction is at a concrete, substantial level where social partners have established real and grounded institutional social contracts in order to establish and secure common goals (Friedman 1992; Mokate 2000).

In achieving political settlement, South Africans proved their ability to negotiate a broad political social contract, a 'democratisation pact' (Sisk 1995, p.201) or an 'implicit bargain' (Gelb 1999, p.8). Sisk argues that a post-apartheid social contract was necessarily rooted in the historical context, ideological constraints and existing power relations. Post-apartheid institutions did not create newfound consensus in a society riven by difference and conflict: rather they reflected pre-existing relationships (Sisk 1995, p.6). The foundations of a political social contract were thus established. Newer economic social contracts have their roots in this existing compact. As Sisk asserts:

> With a social democratic economic accord - a codetermination agreement -buttressing a political agreement, the possibility of a broadly inclusive social contract comes into focus. Socioeconomic transformation will be an indispensable element of a new social contract in South Africa, even if it is more elusive than a political settlement and may take many years to evolve as pact making occurs on a sector specific basis. Over time, economic codetermination will be necessary for the country to alleviate poverty (Sisk 1995, p.282-3).

At a macroeconomic level, GEAR has been described as social contract (May *et al.* 1998, p.64; Mokate 2000; Friedman 1992). In common with other economic social contracts, GEAR advocated a social compact to facilitate wage moderation, accelerate investment and employment and improve service delivery (Friedman 1992, p.34). In advancing GEAR, the state sought to reify a social agreement in the form of an economic instrument that could be used to mitigate the negative effects of labour market flexibility and international competitiveness on vulnerable groups.

A culture of dialogue presupposes such a social contract: the articulation of a social contract among economic stakeholders can provide an important means of fostering agreement on shared goals and compromise (May *et al.* 1998. p.9). However, as Friedman argues, for an agreement to be feasible, it must be reached by parties who are strong enough to ensure that their constituents endorse and abide by it (Friedman 1992, p.35). Certainly, business was supportive of GEAR although it was strategically reticent about this (Interviewee 84, African, male, business). Business interests appeared to be mollified in GEAR. However, other stakeholder groups were less satisfied. Crucially, the fact that GEAR has not been readily embraced by all may undermine its potential as a social contract. Even within government, one respondent reported 'GEAR was a policy owned by Treasury and the Finance Department and even within government, people didn't feel like they were stakeholders or that they were centrally involved even though [the Department of] Labour and DTI were in limited ways' (Interviewee 66, white, male, public finance institution).

Civil society and the trade union movement in particular, were vexed by GEAR (ka'Nkosi 1997). They labelled it 'neo-liberal' and 'part of a conservative agenda' (Wackernagel 1997). GEAR requires that trade unions relinquish their traditional bargaining positions by accepting wage restraint and labour market flexibility. Government was accused of pushing the policy through with minimal consultation (Centre for Enterprise Development 1997; ka'Nkosi 1997). Government apparently refused to bring GEAR to National Economic Development and Labour Council (NEDLAC) even after an announcement to table it had been made (Interviewee 66, white, male, public finance institution). 'Getting the fundamentals right' - in essence ensuring macro-economic stabilisation - has now been acknowledged by GEAR critics: 'The lesson for us, and the ANC has been that we must take the issue of economic stability far more seriously than any of us had ever imagined' (Interviewee 96, coloured, male, stakeholder organisation/ex-union). One interviewee argued: 'Whether GEAR is good or bad for the country is an increasingly sterile debate. What is important is that people not get hung-up on GEAR but to say there are areas of macroeconomic policy that we can look at, find agreement in respect of a way forward .... What is required is understanding, visions, shared agreements and shared strategies to engage' (Interviewee 116, white, male, NGO).

Institutionalising the social contract

The past decade, building on a culture of negotiation, saw a number of formal and semi-formal institutions established to husband smaller social contracts, which are predominantly economic in nature. Whilst these might not explicitly be called social contracts, these bilateral pacts are examples of corporate social engagement that reflect attempts by stakeholders to grapple with higher-level policy issues.

In the first instance, NEDLAC was created by Parliamentary act (Nedlac Act 35 of 1994) and launched in 1995.[66] The institution, which was preceded by the National Economic Forum, was established to formalise the role of various social partners or stakeholders 'in the creation and consolidation of a new social and economic order' (NEDLAC 2000).[67] It is a corporatist institution seeking to regulate stakeholder bargaining and its key achievements have been in the area of labour market policy. NEDLAC comprises four groups: organised business, organised labour, community groups and the state. NEDLAC argues that it exists 'to effectively institutionalise social dialogue in a developing country' (NEDLAC 2000). NEDLAC explicitly recognises that South Africa development challenges require 'trade-offs that that will create the conditions for significant and sustainable economic growth and development' and that such trade-offs can only be identified and negotiated if constituencies remain committed to 'the common strategic vision' (NEDLAC 2000). One informant attributed to NEDLAC the success of 'brokering labour peace', no small achievement given the animosity between stakeholders. However, he also criticised the institution for being reactive rather than proactive (Interviewee 48, Indian, male, business/ex-union).

[66] Some critics would disagree which the characterisation of NEDLAC as an instance of a social contract arguing the institution merely frames options at a national level for sectoral and workplace negotiations (Adam, Van Zyl Slabbert, and Moodley 1998, p. 147).
[67] Different sectoral chambers constitute NEDLAC and these have successfully debated numerous acts, bills, protocols and policies.

However, NEDLAC has received wide criticism. Criticism describes the process as 'laborious and lengthy' (Marais 2001, p.270). Corporatism relies on often elusive consensus and one which is difficult to implement (Adam, Van Zyl Slabbert, and Moodley 1998, p.140; Baskin 1993). Given that the environment has often been highly contested, as well as politically and ideologically charged, old stakes emerged (Interviewee 38, white, male, business organisation). One business representative said wryly of the enmity, 'sitting on NEDLAC was not an enriching experience' (Interviewee 85, white, male, business school). Business perceives itself as having limited space to articulate its concerns, particularly given the closeness of the state-labour interests. The institution is also accused of failing to recognise the diversity of business: 'the interests of a large company bear no resemblance to the small corner store' (Interviewee 78, white, male, business organisation). In addition, business perceives government as being institutionally constrained. One informant said, 'I don't see any action' (Interviewee 77, African, male, business). Another executive saw the funding of NEDLAC as problematic arguing 'you cannot be a referee and a player in the same game' (Interviewee 58, African, male, business). He also argued the limitation of NEDLAC was that it was established as a political and not a social institution.

There exists a dangerous perception of NEDLAC as a declining institution which may be reflected in a reluctance of other non-state partners to leverage government accountability (Interviewee 66, white, male, public finance institution) (View also reflected in Adam, Van Zyl Slabbert, and Moodley 1998). One informant argued:

> NEDLAC is an attempt at social engineering. It is a homogenous solution .... In many ways, it's too cute to be true. No one wants to be seen to wreck it. But it is an institution that does not have teeth. It is merely an interface for social dialogue (Interviewee 47, white, male, business organisation).

While social dialogue in itself is not a social contract, it is certainly a precondition for any compact. Other bilateral social dialogue arenas have been established between the three axis points of business, labour and the state. These also represent current and dynamic instances of corporatism, which seek a working agreement between institutional actors. While each of these bilateral fora might be flawed, they represent instances of working social contracts. Their efficiency and usefulness for accelerating decision-making seems obvious. ‘Confrontation does not lend itself to building relationships’, one interviewee offered (Interviewee 74, coloured, male, NGO). I have represented these bilateral relationships graphically below.

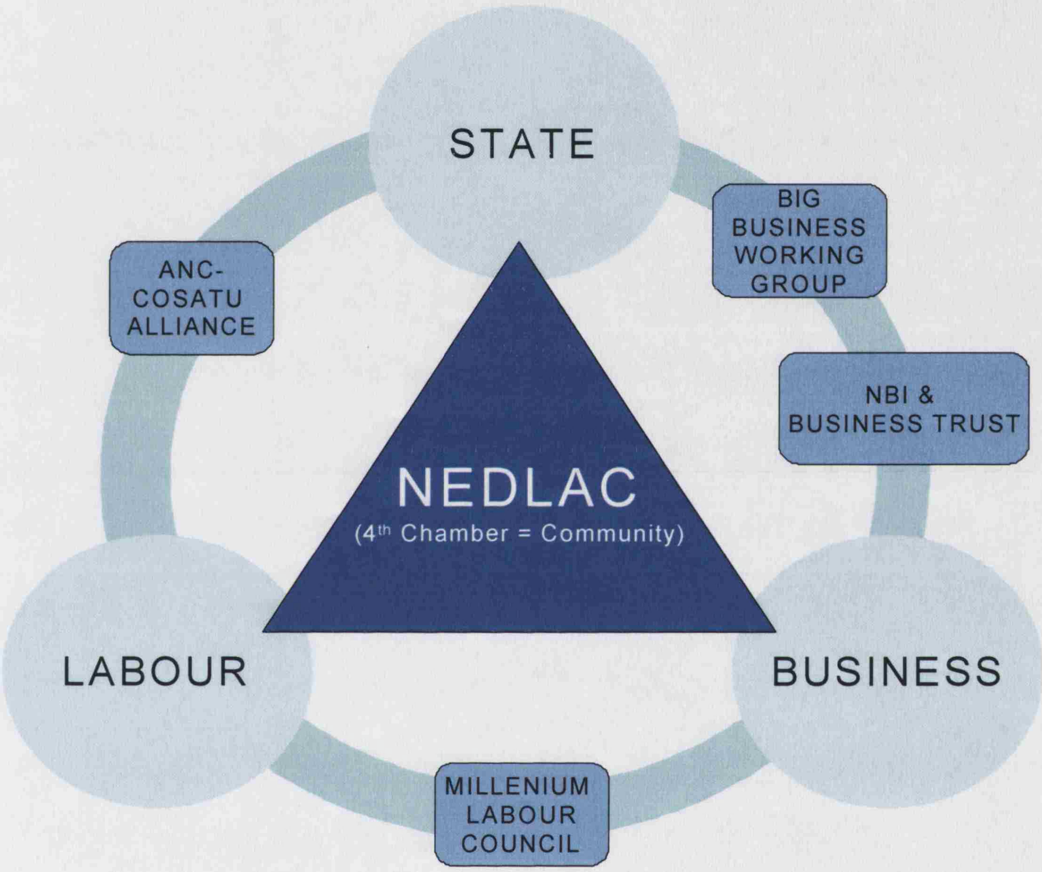

Figure 4.2: Diagram of social contract partners

A historical bilateral relationship obtains on the axis between organised labour and the state; between the ANC and COSATU. The ANC’s adoption of more conservative economic policies has strained the relationship between these alliance partners in recent years.

A second bilateral engagement exists between big business and the state. The Big Business Working Group (BBWG) was established by President Mbeki as a forum for dialogue with large corporate interests.[68] Via the BBWG, big business has direct contact with Mbeki biannually 'to discuss the state of the nation and to give input' (Interviewee 97, white, male, business). The BBWG received a mixed response. Many seem satisfied with high-level government access that business enjoys and the leverage that potentially attends 'having the ear of the government' (Interviewee 14, white, female, NGO). The BBWG acknowledges that they are not mandated. The invited group attend as interested stakeholders seeking a 'shared appreciation of the critical issues facing South Africa' (The Business Trust 2003). But as one interviewee complained, the BBWG includes the same business interests and leaders that have access to NEDLAC, despite the argument that growth is powered by unrepresented SMEs who are more effective job creators (Interviewee 78, white, male, business organisation).

Along the second axis is another bilateral forum for the business-government relationship: the National Business Initiative (NBI). The NBI's predecessor, the Consultative Business Movement was a liberal business organisation that involves business in the facilitation of a political settlement. This achieved, and with the closure of the Urban Foundation, the NBI was formed with a new 'developmental' mandate. That business-government relationships were at their lowest ebb constituted a significant external driver for the NBI's establishment. The government-business relationship around 1997 was characterised by distrust and a lack of communication. One informant admitted that the NBI served a political agenda: 'Some of us in business said we needed to get closer to government' (Interviewee 108, white, male, business).

The NBI comprises 186 member companies who subscribe to the vision that business has a vested interest in assisting government, that stability is necessary for business and that socio-economic delivery brings stability (National Business Initiative 2000). Although the organisation engages in commercial lobbying, its foundation work seeks to position the NBI as 'a public interest body' working for the long-term benefit of business and the country (Interviewee 125, white, male,

[68] Other Presidential consultative fora exist including, for example, an international investment group, an organised labour group and a black business group.

business organisation). In a frank account, an informant outlined that 20% of the National Business Initiative's membership were motivated by 'philanthropy' and 'doing good'. Another 20% were motivated by being 'seen to do the right thing' and getting on a 'politically-correct bandwagon'. Indeed, a separate interview with a representative of one of these businesses confirmed this:

> One has to participate as one does not want to be conspicuous in one's absence: though, those who are absent are companies 'with balls'. The NBI is business doing government's job (Interviewee 89, white, male, business foundation).

The remaining 60% of NBI membership was reported to be 'genuinely committed to the NBI's development goals' out of 'enlightened self-interest' or 'as a strategic decision' (Interviewee 125, white, male, business organisation). The NBI nonetheless enjoys a broad business mandate to partner government, build public sector capacity and provide private sector expertise to deliver development goals in line with the state's agenda.

The NBI's main project, the Business Trust, which plays on multiple meanings of 'trust', is a collective CSI project. It has to date raised approximately R1 billion from member businesses. A conscious compact between business and the state, funding is channelled into supporting government-identified development areas, including tourism programmes and capacity development programmes (The Business Trust 1999, 2000). The Business Trust uses a third stakeholder group, NGOs, for project delivery. Among the Business Trust's trustees are high-level representatives from business and government, including as many as five cabinet ministers (Interviewee 97, white, male, business). The Business Trust is discussed further in Chapter Six concerning its role in tourism development.

Some NGOs informants complained that the Business Trust acted as a gatekeeper, essentially channelling corporate money away from NGOs and other community-based organisations that might be critical of business (Interviewee 92, white, male, business; Interviewee 74, coloured, male, NGO). Another interesting though controversial fillip for the formation of the Business Trust was raised earlier in this chapter: reparations. Surprisingly, a number of business leaders admitted that the

Business Trust was a proactive response or 'a pre-emptive strike' to the likelihood of calls for business reparations from the TRC. One explained: 'clearly part of the Business Trust activities was TRC reparations but it was our absolute conviction that [reparations] was the wrong way to go' (Interviewee 108, white, male, business).

A third axis between business and trade unions exists in form of the Millennium Labour Council (MLC).[69] The MLC is an example of a corporatist (more correctly neo-corporatist) institution in that its policy outcomes are a consequence of high-level negotiations between business and organised labour (Hughes 1993, p.58; Adam, Van Zyl Slabbert, and Moodley 1998). The MLC's objective was to 'develop a shared analysis of the crisis in employment, job loss and the lack of job creation' (Boyd, Spicer, and Keeton 2001, p.96; MLC 2000). One informant remarked, 'There is an emerging social contract between business and labour and the MLC is the epitome of this' (Interviewee 125, white, male, business organisation). One of the initiators of the MLC saw its rationale clearly:

> My own experience in social dialogue was very revealing and it was very encouraging in the sense that the parties had a common objective but they had different understandings often about how to realise that objective (Interviewee 116, white, male, NGO).

The same informant explained that the Council created an environment and an opportunity for leaders 'to engage each other outside of an issue-based adversarial context' (Interviewee 116, white, male, NGO). A government informant explained:

> Some bilateral processes might undermine the NEDLAC process and some of them smooth them over. These are often frank, exploratory and un-mandated talks. They are useful for thrashing out issues before putting them on record. Bilateral consultations mean greater dialogue before positions of parties are harder, and the positions are mandated for more formal negotiations in NEDLAC (Interviewee 19, coloured, male, government/ex-union).

Whilst stakeholders respect different ideological perspectives, the Council operates by strengthening interpersonal relationships between sector leaders. Trust is critical both for successful social dialogue and for a workable social contract. To this end, at

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[69] The Millennium Labour Council enjoys government support at the highest level (See speech by President Mbeki in Millennium Labour Council 2000).

least quarterly, twelve key business leaders meet twelve leaders of the organised labour movement to discuss current issues and ameliorate tensions (Interviewee 97, white, male, business). Both parties work from the premise that South Africa has to become internationally competitive, and the 'chosen destination for foreign investment' (Interviewee 97, white, male, business). But the MLC has also come under criticism, primarily for replicating NEDLAC processes which arguably dilute the latter's efficacy; 'an indication that NEDLAC is slowly drifting apart (Interviewee 96, coloured, male, stakeholder organisation/ex-union). In addition, critics also see the MLC as lacking accountability. Some argue that, unmandated, it simply facilitates the interaction between business and labour elites ('elite-pacting')[70]. Whilst the MLC makes outcomes public, the discussions remain confidential. On the one hand, it allows a free-exchange of ideas without sanction, whilst on the other, opens the process to charges of secrecy and elitism. Another criticism rests on the perception that the MLC is personality-driven, and is therefore a vulnerable institution given that people move in and out of positions (Interviewee 48, Indian, male, business/ex-union). However, it was acknowledged that compromises won by business around Sunday payment, amendments to the LRA to include arbitration and the stripping of more militant language from trade union discourse were a consequence of debates and common understandings derived in the MLC (Kindra and Daniels 2001). One informant saw the de-radicalising of unions as having negative consequences for the labour movement (Interviewee 99, white, male, academic). Indeed, a challenge for the labour leadership is to bring its constituency along with it, outside the safety of the boardroom.

Whilst formal and institutionalised economic social contracts are necessary to deliver the stability necessary for growth, there is also the matter of non-economic, informal social contracts. Customarily, the South African social contract has also

[70] Sustained elite-pacting is also seen as counter-productive to democratic values after a given transition period (Good 1997; Herbst 1997-8).

referred to as nation building[71] or a social accord. The issue is difficult to address because it easily shifts one into the often fatuous discourse of unity.[72]

> The dominant discourse came to orbit around postulated common interests and destinies - rather than difference, contradiction and antagonism - as the fundamental dynamics at work in society. Commonalities (whether authentic or invented) are emphasized and amplified in service of a hegemonic project, which for the first time in South Africa's history, seeks to organise society on the basis of inclusion (Marais 2001p. 94).

Is this discourse necessarily a bad thing? Is the notion of nation building an adequate foundation for an enduring social contract? South Africa is a deeply riven and unequal society. Addressing pressing socio-economic needs is likely to ameliorate existing divisions. Yet, it is questionable whether deeply held racial and ethnic prejudices will simply disappear with rising living standards that may even exacerbate other divisions such as class.

Corporate social engagement must strive to establish the necessary conditions for addressing social divides, as well as ensuring that social engagement is a continuous and self-critical exercise. Any social contract requires high levels of trust. South Africa's own experience suggests that trust is not a static resource to be exploited as necessary. One interviewee argued that 'more than the need for pragmatism is the need for intelligent strategic compromises for a new social contract' (Interviewee 131, white, male, business school). Employing the social contract in a more grounded way means interrogating the extent to which people have common visions and goals.

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[71] Nation-building is defined as a focus on values, culture, symbolic commitments and transcending loyalty derived from common citizenship (Adam, Van Zyl Slabbert, and Moodley 1998. p.95). However, the social contract cannot be conflated with nationalism or with symbolic politics (Friedman 1991; Atkinson 1991).

[72] These include symbolic notions of the 'Rainbow Nation', *Ubuntu* (new social ethics) and unsuccessful government-society compacts such as *Masekane* (aimed at encouraging payment for local services) and *Imbizo* (aimed at civic communication with government).

Conclusion

This chapter provides an overview of the contextual environment for state-business relationships in South Africa at a particular historical juncture. A number of the issues raised in this chapter receive more detailed treatment in the empirical chapters that follow.

Given the contextual sensitivity of the SCSD framework, the chapter outlines the unique environmental challenges for the engagement of business as a social development partner, and the dynamic relationship between the state and business in promoting social and economic well-being. Social problems such as chronic poverty or the HIV/AIDS pandemic raise critical issues of concern to both the state and private sector.

In locating South Africa within a broader global and regional context, the chapter has identified the overarching (and often opposing) pressures of global competitiveness ('globalisation') on the one hand, and the internal pressure to redress apartheid's legacies (social democracy) on the other (Carmody 2002, p.261). As a dominant regional power, South Africa's political and economic influence is crucial to the region's stability and development.

South Africa's political economy has been shaped and determined to a large extent by its political history. Capitalism was linked to apartheid, as wealth became associated with race. Capitalism suffered a crisis of legitimacy. As in other developing economies, the debates around market and state boundaries remain alive in South Africa. However, South Africa's transition has seen the state making firm commitments to neo-liberal policies in a market economy. It has simultaneously made social development commitments to meet basic needs provision, and create opportunities for its citizens. Such commitments increase pressure on South Africa to manage unemployment as a means of relieving poverty and inequality.

Whilst inequality remains a pressing issue, it is increasingly intra-racial (under apartheid wealth-inequality was predominantly inter-racial). South African society is becoming divided by class rather than race as a growing middle class has become entrenched by the 'rewards' of capitalism. Moreover, political and economic policies have been targeted at creating a black middle-class through policies such as BEE.

Indeed, at the end of apartheid there existed a well-developed CSR (or CSI) culture, particularly among large corporations (Business and Marketing Intelligence 1999, 2000). However, as a social development strategy, CSR is often ameliorative and fails to address the primary political concern of changing ownership of the economy. Falling under the rubric of 'transformation', the state has pursued a political and economic agenda that aims to alter patterns of wealth to enable black participation in the economy. Justifiable for normative and strategic reasons, the state has accelerated the BEE agenda. Early BEE strategies were criticised for 'empowering' a limited number of well-placed black beneficiaries (Schlemmer 2003). The government has since significantly and appropriately widened the pool of beneficiaries beyond that small elite.

Indeed, an important issue explored in this chapter is that government has created particular 'market conditions' in which business must operate. While multi-lateral stakeholder fora aimed at building consensus were established, business leaders were at the time of field-research nonetheless still very resistant to state intervention in the business environment.[73] Resistant views saw these as rent-seeking by the state, laying a premium on business and distorting the market. Certainly, at the level of public discourse, large companies as well as empowerment companies and 'enlightened' businesses supported such intervention as appropriate and desirable. Large companies managed to better meet the challenges of transformation, and exploit the opportunities attached to business awarded by the state.

Flowing from a recent history of divided social interests, social and political stability in South Africa appears to be cohered by a broad abstract social contract. The contract finds common ground in the rights and obligations of social partners. At a secondary level and building on a history and culture of dialogue, dynamic and

[73] State intervention in South Africa is not new. As Lipton and Simkins note, the state has historically intervened massively to shape economic development (Lipton and Simkins 1993).

institutionalised contracts (essentially based on corporatist dialogues) between social and economic partners have developed. Contrasting with an abstract social contract, these grounded contracts attempt to establish and achieve negotiated social goals. The existing social contract is, nonetheless, vulnerable to social conflict, as well as a lack of trust and tolerance in society. However, democratic institutions must necessarily balance competing interests for any sustained social contract.

South Africa is a liberal social democracy. Scholars such as Hudson argue that the specific formula employed in the South African social contract 'exceeds the theoretical vocabulary of liberal individualism' (Hudson 2000, p.93). Whilst this might be true in part, liberalism finds expression in the South African context in a number of ways, and most significantly in pluralist institutions. I have argued that liberalism in a broad church. The admixture of a directive liberal state and market in post-apartheid political economy reflects a social contract that seeks to negotiate, define and sustain social and economic well-being.

The following empirical chapter draws on the context and rationale of the social and legislative environments described above. The chapter examines investment companies and explores the articulation of BEE in further detail.

CHAPTER FIVE: BEE AND INVESTMENT COMPANIES

Introduction

This chapter is the first of two sectoral case studies presenting the empirical data. The previous chapters provide the conceptual, theoretical and contextual foundations for the analytical treatment of the case studies. Chapter Four contextualised the operation of businesses South Africa and looked specifically at political, social and legislative imperatives for black economic empowerment (BEE). This logically leads to an interrogation of the manifestations of BEE including the transformation of ownership and control of the South African economy, stakeholder responses to BEE as a transformation tool, and more generally of business-societal relations.

In this chapter, I look at BEE and its articulation in both private and public investment companies. The first part of this chapter reviews the importance of the sector to the South Africa economy and barriers to investment. It then explores the genesis, definition and history of BEE, and scrutinises BEE and its evolution in the South African business context.[74] Here, I explore the state of BEE and the role of government in advancing and leveraging black empowerment. Alongside general discussion of BEE, the chapter also offers detailed discussion of trade union investment companies (TUICs) and state-owned development finance institutions (DFIs). The chapter concludes by examining BEE in relation to the SCSD framework advanced in this thesis.

The term 'investment companies' refers to the wide spectrum of companies with an investment, holding, finance or development finance focus. Whilst the term enjoys wide currency, I use it here inclusively to embrace diverse corporate entities involved in the allocation of capital. For example, originally, and on an on-going

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[74] I have avoided a close market analysis of companies given their recent ephemeral nature and rapid evolution. Referring to the number of failed BEE companies, one interviewee quipped: 'Now you see them, now you don't' (Interviewee 31, African, male, business). Moreover, I consider a wider range of enterprises than permitted by detailed treatment of fewer companies.

basis, many BEE companies were 'passive' investors in other enterprises. BEE companies are typically 'holding companies', often with a stake (usually a minority portion) of established companies.[75] With the exception of small-scale venture capitalism attempts[76], few traditional financiers seek venture capital from these holding companies but rather an empowerment profile often to win state tenders. Such BEE stakes are wound up in regulatory obligations such as media, broadcasting, gambling concessions with the consequence that BEE companies cannot sell stakes and reinvest as easily as their conventional counterparts. In another example, I include in the rubric financial services companies such as commercial banks, finance houses and asset managers that have investment activities in their portfolio, as well as public-sector development finance institutions (DFIs). I am aware, therefore, that the term 'investment companies' includes whose activities include some kind of investment but which are not typically considered as such. Where I use this term, I do so self-consciously. Company types within the rubric are not intended for direct comparison as their business models and mandates are too dissimilar.

The rubric 'investment companies' permits the examination of a range of disparate companies, private and public which act as intermediaries for the allocation of capital. The term permits interrogation of cross-sectoral policy measures, multiple companies within an investment activity, as well some observations and insights regarding the trends in both public and private institutions. Finally, addressing diverse investment enterprises in a single case study allows for limited sectoral comparison with my other chosen case study, tourism.

Rationale for selecting investment companies as an area of study

Many sectors might have yielded interesting research. Had my research taken place just a year later, I would have considered such sectors as the pharmaceutical, financial, construction or mining and petroleum industries. Given the newness of

[75] Indeed, BEE company names refer often to their type of investment activity, for example Ukhumba Investment, Mineworkers Investment Company (MIC), Calulo Investment Holdings, Johnnic Holdings, New Africa Investments Limited (NAIL), Kagiso Trust Investment Company, Thebe Investment Corporation, NAFCOC Investment Holding Company and Ucingo Investments.
[76] For example by Wipcapital and the union investment company, MIC

BEE policies and initiatives, their dynamic nature and the speed at which they gain momentum, the terrain in which they obtain changes very quickly. In each of these industries, sectoral social partners have made significant achievements towards transformation in relatively short order.[77] These include legislative achievements in the case of the pharmaceutical industry around anti-retroviral drugs, and significant stakeholder charters redressing BEE equity and control in the case of the others. Importantly, charters also point to emergent social contracts between stakeholders, albeit as non-inclusive contracts and with highly selective groups of stakeholder interests. However, at the time of my fieldwork in 2001-2002, the most dynamic and interesting sectors, and those most explicitly prioritised in both government and business discourse were those selected. For instance, President Thabo Mbeki's State of the Nation address in 2001 stressed the importance of both the investment and tourism sectors (Mbeki 2001). Both these sectors were considered sectors for economic growth and to a degree, this has not changed.

I selected investment enterprises engaged in the allocation of capital. Most BEE activity occurs in this sector. The state and business highlighted the importance of foreign direct and local investment to kick-start the economy, and advance social and economic development. Indeed, GEAR was widely embraced by the business sector because it was perceived as investment-friendly, and stressed market directed growth and fiscal austerity. In terms of a SCSD framework, the coordination of multiple institutions in the state-market dyad towards achieving stated social and economic outcomes yields multiple insights (UNRISD 2000). Finally, most of the earliest empowerment initiatives are located in the investment sector. Indeed, the majority of BEE activity directed towards building black capital still follows these passive investment patterns in investment enterprises.

A history of BEE

In a speech given shortly after the first democratic elections Thabo Mbeki asserted:

> Let me also point out that noble and correct as they are, reconciliation and nation-building, unless they are accompanied by the fundamental

[77] Achievements in different sectors might also be attributed to case-specific pressure by different government ministers (Karen Heese, BEE economist, personal communication, January 2004).

> transformation of the entire socio-economic fabric of our society would remain but unrealisable ideals. For those of us who have been the objects and victims of racial oppression, and social and economic deprivation, we cannot but conceive of the two processes as two sides of the same coin, or two interdependent processes each of which is incapable of realisation if its is not accompanied by the other. Reconciliation, must therefore, of necessity encompass the transformation of everything else in addition to the political accession to power of the representatives of the formerly oppressed blacks. It must include the transformation and deracialisation of the South African economy (Mbeki 1995).

Since 1994, BEE has been a strong leitmotif in the ANC-led government discourse regarding political and economic transformation. BEE describes a range of policy and institutional measures employed by the South African government, parastatals, businesses and communities to redress the economic inequalities that resulted from apartheid.[78] These measures are primarily intended to include black South Africans in the economic mainstream.[79] Importantly, BEE carefully avoids the notion that its policies are redistributionist as any such redistributionist discourse typically creates anxiety among investors both local and foreign (Rumney 2003; Ludman 2003). Instead, BEE policies, whether generated by the state or private sector, strategically employs the language of *redress*. BEE advocates argue that systematic institutional and economic redress is necessary to remedy enduring racial inequalities.

With a widespread expectation that BEE will result in redistribution of wealth, it is clear that government does not directly intervene in this redistribution but rather actively guides the market environment. Government primarily uses its position as consumer and regulator to *redistribute opportunities* towards BEE companies and their shareholders. BEE might be interpreted rather than redistribution of wealth but as 'redistribution of opportunity'.[80]

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[78] As already discussed, empowerment is a contested term. I employ it here at face value as it is used by the South Africa government, business and other BEE stakeholders.

[79] As defined in Chapter Four, 'black' refers to South Africans, whether African, coloured or Indian, who experienced systematically deprived regarding political rights, and access education, land, skills and other opportunities for mainstream wealth creation. In South Africa political discourse, 'black' is also used synonymously with 'previously disadvantaged individuals' (pdi) or 'historically disadvantaged individuals' (hdi). Earlier definitions of BEE such as in the Preferential Procurement Act included white women (South Africa 2000).

[80] Edwin Ritchken, BEE consultant, personal communication, May 2004.

Black business existed under apartheid, and despite exclusionary legislation and onerous business conditions, very occasionally thrived.[81] However, it was not until the demise of apartheid that significant numbers of black businesses began to emerge. In 1998, the Black Management Forum (BMF) initiated the establishment of the Black Economic Empowerment Commission (BEECom) 'to take control of the [BEE] agenda' (Black Economic Empowerment Commission 1999, p.4). The Commission, which represented black individuals, organised black business, academics and professional organisations, defined BEE thus:

> Black Economic Empowerment (BEE) is an integrated and coherent socio-economic process, located in the context of national transformation that is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer ownership, management and control of South Africa's financial and economic resources to the majority of its citizens, with a view to ensuring their broader and meaningful participation to achieve sustainable development and prosperity (Black Economic Empowerment Commission 1999, p.5).

The BEECom has enjoyed implicit government support and has helped shape the evolution of state BEE policy. The state itself has been the primary driver of BEE although state policy has increasingly tended to emphasise the need for 'broad based' BEE. By 2000 when I initiated my field research, there already existed over 24 laws, policy and regulatory provisions pertaining to empowerment (BusinessMap SA 2000, p.7). The state and government-owned utilities and enterprises have since increasingly used their significant purchasing power to drive an empowerment agenda, thus making BEE a critical arena in the national political agenda.

BEE has become an immutable fact of the South African political and economic landscape although many remain sceptical about BEE's inherent value and anticipated outcomes. Most big businesses have entered into BEE deals but this apparent consensus among big business veils non-conforming private views, as well as opposing views among other sizes of business. These oppositional views

[81] Some pioneering black entrepreneurs managed to benefit from the apartheid-era regulations within township patronage networks. These include Sam Motsuenyane, Archie Nkonyeni, Richard and Marina Maponya, Ephraim Tshabalala, Peter Motale, and Bishop Barnabus Lekganyane (Gqubule 2004). Others succeeded outside apartheid structures such as Dr N.H Motlana, the Kunene Brothers, Herman Mashaba, Habakuk Shikwane and Jabu Mabuza and remain successful entrepreneurs.

contradict accepted political stances and are mostly privately articulated. [82] They hold that BEE has a 'negative impact on productivity, on the cost of business and, therefore, on the competitiveness and productivity of companies' (South African Press Association 2003; Pieter Haasbroek cited in Lourens 2003). Since few business leaders are public about their criticism of BEE it is all the more surprising when these criticisms come from black business leaders close to the President. Moeletsi Mbeki, the President's younger brother, argued publicly that the current model of BEE, with its focus on equity transfer, undermines black entrepreneurship and has 'created a culture of entitlement and dependency in the black middle class' (Mbeki cited in Ludman 2003; Also in Bidoli 2003).

BEE evolving

The short history of BEE can be divided into first and second waves of empowerment. The first wave of empowerment accelerated in 1993 when SANLAM sold 10% of its stake in Metropolitan Life to an empowerment consortium led by Dr Nthato Motlana who renamed the investment holding company, New Africa Investments Limited (NAIL). In 1994, NAIL was the first black-owned company to be listed in the Johannesburg Stock Exchange (JSE) (Kobokoane 2000).[83] This development, which brought in thousands of first-time black shareowners,[84] became the precedent for many other similar investment transactions whereby black empowerment consortia bought equity in existing blue-chip companies, creating 'black-chip' listings (Verhoef 2002). Southern Life sold Africa Life to Real Africa Investments and the largest BEE entity, Johnnic, was created through a similar deal, brokered between the National Empowerment Consortium (NEC), headed by Cyril

[82] This debate became public in late 2003 when oil group Sasol described BEE as a risk it its NYSE listing requirements.
[83] NAIL also developed a ground-breaking empowerment code in late 1999 which argued for broad based empowerment.
[84] In NAIL's two-tier share structure, N-shares were purchased at a discount and carried no voting right attempted to boost black ownership. The scheme failed: 2% of shareowners outvoted the rest (Rymore 2002). Thus, NAIL was *nominally* a BEE company with less than 5% black-owned. Significantly, despite being black-controlled, Nail's empowerment status was questioned and found lacking by the Independent Communications Authority of South Africa (Icasa) when the company attempted to acquire a significant share Kagiso Media's assets (BusinessMap Foundation 2002c, 2002d). Similarly, some years earlier 2001, after restructuring and unbundling, Johnnic struggled to retain its empowerment credentials whilst bidding for a second national telecoms licence (Segel and Sprague 2001; BusinessMap 2001a).

Ramaphosa, and Anglo American. Johnnic attempted to broaden the ownership base of BEE: 6% of the original 35% stake transferred to the NEC was offered to 'new' black shareholders in a discounted public offering called the Ikageng Johnnic Share Scheme.[85] Johnnic claimed 25 000 new black shareholders who when the scheme matured three years later enjoyed a dramatic 400% return on their original investment (See Segel and Sprague 2001 for detailed business case).

The first wave of empowerment ended after peaking in 1998 with the fallout of the Asian markets in that year. A high incidence of deal-making, which created little value, was mostly facilitated through financial engineering by financial institutions. Financial engineering was deemed necessary to assist the transfer of ownership to black consortia who lacked the necessary capital to purchase business interests outright. Financiers played a key role in creating a class of 'capitalists without capital' (BusinessMap SA 2000, p.7). Critics of BEE and these initiatives in particular believed they were vindicated by high failure rates amongst empowerment enterprises.

A prominent black businessman confessed that that many new players were naïve and unskilled: 'I will not pretend that we understood those things' (Interviewee 34, African, male, business). Indeed, even those sympathetic to empowerment concede some mistakes in the first wave of empowerment trades (BusinessMap SA 1999, p.7-8). First, this frenetic deal-making induced a fevered spate of low-value deals often made in the spirit of avaricious accumulation. One responded described these deals as 'opportunistic, not entrepreneurial' (Interviewee 95, white, male, business) while another described their motivation as 'greed and avarice' (Interviewee 113, white, male, academic). The high volume of deals appeared to be more in the interest of financiers and venture capitalists than empowerment groups given that the former enjoyed greater returns on a higher transaction rate. The second mistake related to the financial engineering used to 'empower' empowerment groups. Special purpose vehicles (SPVs) were premised on bullish market growth. However, volatility in global markets meant that black empowerment players were ill-

[85] M-Net's Phatuma Share Scheme provided the model for Ikageng but did not realise the same rate of success in unlocking shareholder value (Interviewee 22, white, male, business; Interviewee 6, black, female, business; Interviewee 76, white, male, business).

resourced to meet their financing obligations, resulting in the loss of the shares they had acquired through SPVs. New black investors were left highly indebted to their financiers. Any value accrued to the financier and not to empowerment vehicles. Third, high acquisition patterns 'effectively discouraged [empowerment] companies from paying much attention to any one of their investments' (BusinessMap SA 1999, p. 9). Un-strategic acquisitions by opportunistic deal-making failed to develop the operational and strategic business skills of black corporate managers, to add any sustainable value, or to develop empowerment enterprises strategically. Finally, risk is an essential business principle to ensure that investors' interests are aligned in ensuring profit accumulation. However, early BEE deals were devoid of risk to the empowerment partners. Risk was essentially supported by financiers. With no capital to risk, empowerment entrepreneurs who often manage these assets were unconstrained by conventional business practices and responded to incentives to enter numerous transactions in the hope that some would entail returns.

One lesson well-learned by empowerment stakeholders was that *ownership* alone was an inadequate indicator of empowerment, nor was it a substitute for operational empowerment or capacity. Whilst BEE encountered significant obstacles in this period, it was nonetheless groundbreaking. A businessman observed: 'BEE is not an event. It is a process' (Interviewee 71, African, male, business). BEE was placed firmly on the national political and economic agenda. A new cadre of black business leaders emerged and BEE became established as a strategic business imperative. At their peak in 1998, BEE companies accounted for 7% of the JSE with a market capitalisation of R66 billion (BusinessMap Foundation 2003a). First wave empowerment both challenged and reinforced traditional thinking about black business. Empowerment deals which simply involved equity were welcomed by the white establishment since no actual control was transferred. First wave empowerment highlighted the structural impediments to successful black business performance and the need for 'real' transformation that saw genuine distributive shifts to black entrepreneurs.

The second wave of empowerment began when BEE deals started to re-escalate after the global market recovery. As established, the initial empowerment wave advanced shareholding and equity ownership as the chief benchmark but lacked the necessary productive capital to ensure effective transfer of equity. The second wave represented an attempt at a more coherent and strategic policy although accessing the necessary capital remains a challenge.[86] It employed other means of delivering value such as the development of capacity to manage business assets, the development of staff capacity and the reframing of Employment Equity legislation as a transformative business tool as well as a legal obligation. It stressed affirmative procurement measures to facilitate business opportunities and access to markets, new business development and to monitor the empowerment commitments of suppliers of goods and services to the public sector. Additionally, second wave BEE highlighted the restructuring of state owned enterprises (SOEs), the CSR/CSI commitments of businesses as social institutions, as well as the governance commitments of companies particularly those pertaining to empowerment priorities, such as the establish of relevant empowerment committees, the disclosure of the enterprise's empowerment profile and the concomitant transparency of this as a powerful measure to reflects company values and stakeholder pressures.

The model of passive 'holding companies' described earlier has largely been replaced by a different model which require greater 'commitment' and engagement by the stakeholders. Passive ownership by empowerment groups through pension and provident funds, unit trusts growth funds and other collective investment schemes is in itself unlikely to result in any sustained economic transformation, or any control over investment decisions.[87] Passive share-owning of enterprises is also more likely to result in black 'fronting' or 'window-dressing' (Interviewee 94, white, male, business; Interviewee 103, African, female, business). In a fronting arrangement, the empowerment company has no actual capacity: non-empowerment businesses masquerade as empowerment companies to secure contracts, particularly from the state or SOEs. In fronting blacks typically hold non-executive positions,

[86] There are numerous examples of deal failure because empowerment partners were unable to raise the necessary capital. Just looking at the privatisation of state assets: the initial sale of Aventura collapsed because the empowerment bidder lacked capital; SAA has no BEE stake; and the privatisation of the Airports Company of South Africa had to be delayed because it lacked a viable BEE bidder (Rumney 2004). In 2003, Ucingo held a small stake in Telkom but could not replay its debt at let alone realise any gain (Karen Heese, BEE economist, personal communication, October 2003).

[87] This is a global trend. Institutional ownership is often more appropriate that direct ownership.

whilst whites occupy top executive and management positions. One interviewee quipped that fronting companies were 'coconuts', 'black' companies owned and controlled by whites (Interviewee 65, white, male, business). To remedy this miasma, and ensure a more committed, active and sustainable role for empowerment investors, risk is being reintroduced into the empowerment equation. Financial institutions are increasingly arguing that black investors should advance their own capital in deals, thereby exposing them to risk and ensuring they consider any investment opportunities with care and diligence. Moreover, businesses which have operational capacity are considered to be better investments than those that merely act as investment holding companies. This is also true of BEE companies with an established portfolio of investments, good governance, higher performance rates, an envisaged listing or a direct large investor (BusinessMap SA 1999, p.8).

Partnerships - such as alliances and joint-ventures between existing and emerging empowerment companies, as well as an increasing number of Public Private Partnerships (PPP) - are increasingly becoming strategic and important drivers for successful black empowerment and mechanisms for broadening the pool of economic beneficiaries. These partnerships are important on two accounts: they mitigate risk by creating a risk-sharing arrangement and create a corporate entity outside of existing business operations. Not including the restructuring of established white business, joint ventures with black-controlled companies were valued at about R10billion in 2002 (Rumney 2003b, p.5). Most recent policies, which stress the importance of partnerships and joint undertakings, have been outlined in the government's Strategy for Broad-based Black Economic Empowerment (BB-BEE), and are promoted through an attendant pieces of legislation (South Africa 2003, 2003a).

As highlighted in Chapter Four, businesses are not homogenous, differing in size, sector, listing and institutional arrangements, and their interests might well be influenced by these differences. This is true too of the range of BEE enterprises that obtain, from JSE-listed 'black-chip' companies, to unlisted companies of different sizes to emerging businesses and SMEs. Most data on BEE companies pertain to larger and listed companies, or interests held via blocs of ownership by black investors. There are insufficient financial data concerning small and unlisted black companies or individual black shareholding.

Defining BEE Companies

What is a BEE concern? Do BEE companies conduct business in different ways from their traditional competitors? How are the empowerment credentials of BEE companies measured? Are BEE companies truly empowerment companies if their holding companies are still indebted to financial institutions? Can one call an empowerment company black-controlled if white advisors and managers make decisions?

There has been enduring debate over the definition of BEE companies and regarding the meaning of empowerment. Given the potential profitability of qualification as an empowerment enterprise and the political importance of having a critical mass of empowerment companies, empowerment stakeholders have sought to emphasise and develop their empowerment credentials. Empowerment verification became especially important when fronting became commonplace. Whether as a means to win government contracts and licences, as the basis of an empowerment scorecard aligned to a sectoral charter, or as a mechanism for drawing targeted institutional support from SOEs, the importance of empowerment credentials for businesses in South Africa is considerable.

Empowerment companies have most often been loosely defined as black-owned, black-controlled and black-influenced companies. Until recently, these are ambiguous classifications and were indicative of the expansion of black business particularly prior to 1998. As definitions, they must necessarily be used cautiously (BusinessMap 1997). Definitional problems persist. For example, are BEE enterprises empowerment companies if, for example, black consortia own a substantial but minority stake in the corporation? Can a BEE be considered a black-controlled enterprise if its management is dominated by whites? It has become strategically important to firm up these definitions. 'Black-controlled' enterprises are those 'having a definitive say in the affairs of a company by virtue of their equity stake in the ultimate holding company' despite the common scenario in which empowerment holding companies have not fully redeemed debts taken to finance their equity stakes (BusinessMap 1997). 'Black-influenced' enterprises are those with a certain proportion of black shareholders - typically over 5% of a company's issued equity. As this would suggest, black shareholders have an influence but no control over strategic issues of the company (Segal 1999). BusinessMap, a think tank, also distinguishes between active and passive black ownership. The strategic thrust has shifted from the importance of passive shareholding to control (BusinessMap Foundation 2003, p.4). Elsewhere, BusinessMap uses three criteria to include companies on its BusinessMap Foundation BEE Index. Companies are included when they are owned 10% or more by black block shareholding, have one historically disadvantaged South African (HDSA) as an executive board member, and a ratio of 1:5 HDSA non-executive board members (BusinessMap 2003d). These relatively loose and inclusive criteria for BEE were necessary to ensure that a sufficient number of companies would be included to validate the movements suggested by a BEE index.[88]

In response to ongoing ambiguity, the recent BB-BEE Strategy offered a tightened and often-called for 'official' definition of a BEE enterprise. BEE companies are defined here as those entities at least 50.1% owned by black people, and where blacks have substantial management control (South Africa: Department of Trade and Industry 2003, Appendix B, 1). New government BEE scorecards still focus their weighting on black ownership although its importance has ostensibly been diminished by other considerations. In defining an empowerment or black enterprise, scorecard assessments weight direct equity ownership and the percentage of black executive or board management at 20% and 10% respectively (South Africa: Department of Trade and Industry 2003, Appendix A). The emphasis of direct ownership of equity has significant implications for the financing of empowerment transactions. Rather than using the level of shareholding by empowerment interests, a company's score is determined by the economic stake directly held by blacks though *not* as a consequence of financial engineering.[89] The highly complex financial mechanisms advancing BEE are beyond the scope of this

[88] Karen Heese, BEE economist, personal communication, January 2004.
[89] In such cases, financial engineering would dilute the economic interest held directly by black persons and value would accrue to financiers.

thesis and are usually beyond public scrutiny. However, what critics argue is that the determination of 'empowerment enterprise' in the scorecard potentially raises the same problems around financial engineering and the high levels of gearing which debilitated first wave empowerment (BusinessMap 2003b).

The BEE environment is volatile. As direct investments and mergers proliferate, the proportion of purely empowerment investors becomes diluted by traditional or established investors. What determines a 'black firm' requires some interrogation of the composition of its institutional ownership, board and senior management. Control requires significant representation at all three levels. Over the last decade key BEE stakeholders have interpreted and advanced black empowerment in diverse ways. As described earlier, initial conceptions of BEE were more limited. The state, BEE interest groups and their financiers all placed the strategic focus on passive equity ownership. I argue that these later interpretations and implementations were more sophisticated, and more appropriate to the SCSD framework advanced in this thesis. Recently, BEE stakeholders have looked at a broader range of policies in such a way as to produce a more coherent corporate social policy. In so doing, BEE policies are more likely to be embedded as issues of operational importance to companies, particularly when these are aligned with the strategic interests of those companies such as the award of state tenders. Whether by legislative compliance or voluntary codes and initiatives, the embedding of BEE in business operations transforms and broadens black access to mainstream economic activity, as suppliers of goods and services, employees, managers, board members and owners.

The key question which follows, and one to which I shall turn to later in this chapter, asks how broad-based this access is given its tendency toward an elite group of beneficiaries. In addition, the issue of business access and opportunity has further raised questions regarding broad-based access to finance for black entrepreneurs, as well as entrenched patronage networks for a few politically well-connected beneficiaries. Again, this is a subject for later consideration.

The state as underwriter in BEE

Critical to my argument is that the state plays an important role in the current empowerment environment as director, driver and underwriter of BEE policies and strategies. Not only has the state expedited a plethora of empowerment legislation described in the previous chapter but it also advanced a slew of licensing and regulatory instruments in various key sectors such as fishing, telecommunications, broadcasting, mining, gambling and liquor. Whilst sectoral charters aimed at empowerment transformation are considered appropriate for designated sectors and various of these are currently being negotiated, the state will encourage voluntary compliance (Buthelezi 2003). Arguably, although these charter processes are reportedly highly conflict-ridden and wearying, the state achieved significant subscription from diverse stakeholder interests - from the trade union movement to large business - because of a strategy of successful stakeholder engagement.[90] Recent government policy is the outcome of extensive consultation, particularly with the organised business, as well as other key stakeholders such as BEECom, the President's Black Business Working Group, the Big Business Working Group and NEDLAC.

The state is a significant underwriter of BEE. As a direct investor, government pension funds own about 10% of the JSE, representing the largest share of black ownership on the JSE by ordinary black people (Reddy 2003b, p.24). The state has also created legislative and regulatory benchmarks to determine what minimally constitutes business social responsibility in the South African context. Whilst CSR/CSI remain concepts associated with corporate engagement in its grant-making and philanthropic capacity, more significant business engagement is increasingly linked to a given company's BEE strategy and performance. In essence, the state has taken a lead in determining whether businesses are socially responsible using relatively narrow criteria; these may or may not be linked to the critical issue of sustainability.

[90] Comment by the Minister of Minerals and Energy, Minister Phumzile Mlambo-Ngcuka, on the process of developing the Mining Charter at conference entitled 'Towards South Africa 2004, Ten years of Freedom', 24-26 October 2003, London. The Mining Charter finalised in October 2002 is formally known as the Broad-Based Socio-Economic Empowerment Charter for the South Africa Mining Industry.

The state's role as BEE underwriter is also manifest in the number of institutional arrangements giving impetus to the empowerment imperative and the redistribution of opportunity.[91] Not least of these has been the massive transformation of public or development finance institutions (DFIs). The key DFIs include Khula Enterprise Finance, Ntsika Enterprise Promotion, the Industrial Development Corporation (IDC), the Land Bank and the Development Bank of Southern Africa (DBSA). Three of these, namely the DBSA, Land Bank, and the IDC are discussed below. These DFIs make targeted investment available to black groups (or emerging black farmers in the case of the Land Bank). In the 2000/2003 financial year, the government disbursed through the Department of Trade and Industry (DTI) a total of R2,2billion to fund BEE initiatives through DFIs. The IDC, in particular, financed over 690 empowerment deals from 1990 to 2003 valued at R6.6 billion (South Africa: Department of Trade and Industry 2003, Section 2.5.2 and 2.5.5).

The state's role as an underwriter is further evident in the creation of other institutional arrangements such as the National Empowerment Fund (NEF) to secure capital from the restructuring of SOEs[92] for black entrepreneurs, and the proposed establishment of a BEE Advisory Council. However, as in the case of other delivery, institutional structures are only one element in successful BEE delivery by the state. Although the NEF was gazetted in the National Empowerment Fund Act 105 of 1998, and established in 2001, its poor institutional performance has undermined its laudable goal of warehousing state-owned shares from restructured state assets before passing them onwards to black investment groups (Business Day 2003; Wadula 2003a, 2003b). Twelve previously state-owned enterprises, including Telkom, the Airports Company, South African Airways, Adventura and Alexcor were targeted, with between 5% and 10% of proceeds being retained by the NEF. In

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[91] The idea of BEE as redistributed opportunity was highlighted in a number of interviews with one informant defining BEE as a policy which 'merely gives black people the same opportunities afforded other [white] people' (Interviewee 88, African, male, business).

[92] As Larbi notes, SOE, and utilities in particular, tend to be enjoy posses 'non-competitive market power derived from natural monopoly rights' (Larbi 1999, p.24). Privatisation of these assets may be eschewed and ownership remains in state hands as has been the case of a number of South African SOEs such as ESKOM and TRANSNET. In such cases restructuring (in tandem with accountable management, state intervention and regulation) may increase performance and efficiency (Kamdar 2001; Larbi 1999). Whilst not all privatised, South African SOEs have all been restructured to meet central fiscal efficiency requirements, and BEE objectives.

five years, the only transfer to the fund was the government's 1.5% stake in M-Cell despite having over R200 million in available funds (Wadula 2003b; Foundation for the Development of Africa 2003). In mid-2003, the state suspended funding to the NEF raising questions about its ability to deliver on its mandate. Reportedly, the lack of intra-government unanimity about the respective roles of the NEF and DFIs, under-funding by government and limited capacity constrained the fund (Wadula 2003a).

In 2003, the state published a comprehensive Strategy For Broad-Based Black Economic Empowerment (BB-BEE) (South Africa: Department of Trade and Industry 2003). Using a scorecard approach, 'broad-based' empowerment combines ownership, management, employment equity, skills development, affirmative procurement, CSR, investment and enterprise development in one overarching process. Significantly, the addition of 'broad-based' to the formal definition of BEE is also a significant step in countering one of the salient criticisms levelled at BEE, that of elitism and 'enrichment'. I address this issue later in the chapter. The thrust of the Strategy appears to be a more coherent and wide-reaching BEE policy, and a concomitant broadening of empowerment beneficiaries. With close echoes of the BEECom definition offered above, broad-based black economic empowerment is defined as:

> ... an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people who manage, own and control the country's economy, as well as significant decreases in income inequalities (South Africa: Department of Trade and Industry 2003)

Mindful of the successes and failures of BEE to date, the Strategy 'seeks to balance growth, investment and transformation imperatives' in a manner which is both realistic and demonstrates an openness to critical debate (BusinessMap 2003b).

However, the Strategy and accompanying Act (South Africa 2003a) have been criticised for being vague, over reliant on Ministerial powers and significantly, omitting any reference to women, which explicitly exclude white women

(BusinessMap 2003c).[93] Like the exclusion of disability, excluding white women shifts the focus of the legislation from a concern with the remedying of past discrimination to being racially focussed. While better positioned than their black counterparts, white women constitute just 12% of total top white management and have undoubtedly experienced gender discrimination (Rumney 2003a). Arguably, the state is setting a dangerous precedent and possibly introducing divisive race politics into arguments around justice and equity. Indeed, the Act's failure to register women and the disabled prejudices black women and the black disabled, and makes these instruments vulnerable to constitutional challenge.

The state of BEE

The state of BEE health is primarily seen in equity ownership terms, and this is most accurately calibrated in terms of BEE listings on the JSE (Segal 1999; Financial Mail 1998). Here, BEE is mainly measured in terms of the size of black holdings in blue-chip companies on the Exchange or where BEE enterprises are listed. It should be noted that critics of this methodology have argued that the close scrutiny of the JSE ignores progress made by unlisted companies (Dispatch Online 2001). Indeed, BEE activity outside of the JSE is difficult to define and measure. Conversely, JSE measures indicate two important trends. It pegs the growth of BEE corporate activity, as well as allowing for a comparative performance of black-listed companies (Segal 1999). However, even in times of relative market stability, empowerment shares fluctuate dramatically often compromised by a presence in less favoured sectors such as IT. The table below illustrates the number of BEE companies listed on the JSE, their market capitalisation and the proportional value.

	NO FIRMS	MARKET CAPITALISATION (Rbn)	% of JSE
Oct-97	17	37	3
Nov-97	26	52	4
Feb-98	27	55	5
Jul-98	28	68	6

[93] By contrast, the 2001 Mining Charter includes white women as a previously discriminated group suggesting some inconsistency by government (BusinessMap 2003b; Rumney 2003a).

Sept-98	28	48	4
Nov-98	**33**	**66**	**7**
Jan-99	35	59	6
Apr-99	35	67	6
Aug-99	38	53	4
Nov-99	36	42	3
Feb-00	36	61	4
May-00	32	37	3
Aug-00	33	98	6
Nov-00	34	78	5
Feb-01	22	84	5
Mar-02	26	38	2
Jun-02	26	39	2
Sept-02	22	33	2
Dec-02	22	44	3
Mar-03	21	42	3
Jun-03	21	43	3
Sep-03	21	43	3

Table 5.1: Black controlled[94] companies on the JSE

Source: BusinessMap Foundation, REF No: 2003\056\BEE\CR (BusinessMap Foundation 2003a)

The measurement of black *ownership* in relation to black *control* might be higher or lower depending on whether the measurement includes pension funds and other passive ownership assets. The fluctuation of BEE on the JSE appears to be the result of the transfer of shares between companies in the absence of real growth. Delisting and dilution of management also alters the empowerment status of companies, such as Real Africa Investments, until 2002 considered a JSE black-chip but now delisted and no longer black-controlled (Reddy 2003a, p.9). BusinessMap calculates BEE ownership in six ways illustrating the complexity of using the above classifications. Whilst BEE performance has been variable, overall empowerment gains appear to have stabilised. In 2002, BusinessMap maintained that black ownership of the JSE stands at 15% when this is calculated to include both active and passive ownership

[94] Firms where black-control is exercised but which do not necessarily have majority black ownership.

based on both local and foreign owned shares. This figure rises to 22% black ownership as a proportion of locally owned shares[95]. Overall, by the end of the first quarter of 2003, the BEE market capitalisation on the JSE was approximately R40 billion (Reddy 2003a, p. 9).

While listings prevail in conditions where there is a need to raise capital, empowerment groups are recognising that unlisted companies hold the benefit of control and greater focus (BusinessMap Foundation 2003, p.4). There is an emerging trend among BEE enterprises to delist or revert to original ownership, a route elected by large former black-chips Wiphold, Kunene Technology, Moribo, African Harvest, Real Africa Investments and NAIL (Gqubule 2003, p.31; Reddy 2003a, p.11). Along with greater control, delisting has protected them from volatile market sentiment whilst also permitting allocated dividends to be ploughed back into the companies. But, delisting from the chief barometer of BEE reflects a diminished number of black-controlled and black-owned companies among top South African companies. The largest black-chips, MTN, Johnnic and ARMgold remain dominant listed BEE companies. Such is their dominance, the market capitalisation of BEE on the JSE was hardly altered by the exit of eight BEE companies from the JSE by March 2003 (Reddy 2003a, p.9). If measured *only* in terms of how many blacks own shares in blue-chip companies, BEE has had disappointing impact (Gumede 2002a, p.207). Thus, the very index which arguable signals BEE health only reflects a narrow band of prosperous listed companies but fails to number many others.

Certainly, although other indicators are important, equity ownership is still considered *the* critical benchmark of empowerment and the state's Strategy employs equity transfer through sectoral charters, and is strengthened through balanced scorecard methodologies. The latter highlights the obvious issue that in accruing value and building black wealth, ownership has a strategic corollary: control. Issued shares give the empowerment investor influence and control of board member appointments, greater control of strategic decisions by the company, greater control

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[95] Similarly, Empowerdex, an empowerment rating agency which rates enterprises according to their levels of black ownership suggests that that historically disadvantaged groups own almost 10% of the equity of all the top 115 JSE-listed firms (Wu, Khoza, and Ngcobo 2002).

of internal transformation and the opportunities to develop a cadre of black managers to reach a critical mass level (Ndlovu 2003; South Africa: Department of Trade and Industry 2003, Appendix A, p. 21).

Black control of companies

However, despite some evident gains in terms of equity transfer, there is an under-representation of black directors among senior management. Indeed, the number of black directors, especially in executive positions, is a good indicator of BEE health. In late 2002, 260 blacks held some 367 directorships in 387 South African based-companies on the JSE securities exchange; the majority of these positions (83%) were non-executive directorships (Wu *et al.* 2003). Gqubule notes that in 2003, there were 64 black executive directors of JSE listed companies, of whom only three were women (Gqubule 2003). Black directors are generally employed in black-controlled companies where black owners are more likely to push the Employment Equity agenda more forcefully (Reddy 2003b, p.23). Overall, the influence of these black directors is limited given that black-controlled companies represent such a small proportion of market capitalisation of the JSE. Instead and unsurprisingly, real economic influence still lies with the approximately other 98% of executive directors of companies listed on the JSE who are mostly white men (Gqubule 2003 , p. 31). In addition, with delistings the numbers of black executive directors and managers in South African companies listed the JSE is likely to appear even lower if that is to remain a chief measurement of black control among top South African companies.

Whilst senior positions in companies remain largely the domain of white males,[96] Employment Equity legislation has significantly shifted employment patterns. For example, the Commission for Employment Equity (CEE) reported that black representation at management levels increased by 1% from 11.8% in 2000 to 12.8%

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[96] As elsewhere, women are under-represented at managerial levels occupying just 12% and men 88% of top management positions in South Africa. The proportion of women improves at professionally qualified levels of empowerment where women hold 38% and men 62% of positions (South Africa: Department of Labour 2002, p.10). BEE companies were more likely to better perform in terms of gender equity than their mainstream counterparts (Reddy 2003b), and evidence suggests that public and private sector procurement opportunities have had a positive impact in promoting procurement opportunities to women (Bhoola 2003).

in 2001, and at senior management level, black managers increased from 15.4% in 2000 to 16.4% a year later (South Africa: Department of Labour 2002, p.44).

The increase in black managers is apparent in the public sector. In 2001, there were 62,561 African managers in the public sector compared to 19,860 in the private sector (Gqubule 2003). Public sector employment equity is especially important because the state is the largest employer with over a million people at all levels. In addition, for obvious political reasons, the public sector has led on the employment of blacks and women, particularly at managerial levels. Citing a report by Thompson and Woolard (2002), the CEE revealed that by 2001, 51% of public sector managers were African compared to 30% in 1995. In addition, black representation among public service managers increased from 40% to 63% in the same period (South Africa: Department of Labour 2002, p.41). These figures suggest that at the level of redistribution of employment opportunities, BEE has been successful particularly in the public sector though less so at higher management levels in the private sector.

Sector charters: stepping up BEE

As discussed earlier, the move towards shareholder-negotiated charters to broaden the impact and beneficiaries of BEE is highly illustrative of important shifts in the South African business and policy environment. Charters and attendant legislation are aimed at transforming whole sectors. Whilst newly developed charters which pertain to the minerals and energy, mining and finance sectors[97] did not constitute any part of the empirical research, they are, nonetheless, important in terms of highlighting key trends on the part of the state, big business and other empowerment stakeholders.

Some critical issues are usefully illustrated by the evolution of the charters. The first is the role of multi-stakeholder dialogues in negotiating a sustainable outcome around BEE. For example, the Energy Charter and the Minerals and Petroleum Development Act (South Africa 2002) provided a model for further charters and

[97] The Tourism Charter was the first charter to be developed through multi-stakeholder dialogue and was initiated by business rather than government. This Charter does not share the same status as others and is discussed in the next chapter.

secured high level of buy-in and consensus, particularly between government and large business.[98] Second, charters result in the transfer of significant sectoral assets to black groups (as well as targets such as the management and control of industries) and involve the private sector in redress efforts aimed at the broader population.[99] The increasing focus on broader empowerment is significant since the direct beneficiaries of BEE were limited. Twinned with this, broader empowerment initiatives have yet to be promoted to deliver empowerment gains both more broadly and further along the value chain. However, the transfer of some economic assets from whites to blacks has begun. Separate sectoral initiatives, many already underway[100], are likely to pursue industry specific charters and stakeholder-negotiated targets to deliver empowerment gains more broadly.

BEE: Black empowerment or black enrichment?

The state's rethought empowerment agenda highlights the broad-based benefits of BEE. Commentators argue that this is in no small part a reaction to the political sensitivities around charges of elitism that has historically been linked to the growth of the middle class and empowerment to date (Cargill 2003, p.27). For many BEE critics, black and white alike, the new black elite is the fault-line running through BEE. As one cynical informant asserted: 'They tell you its empowerment but don't believe them ... its empowerment for whom? For how many?' (Interviewee 14, white, female, NGO). In reality, most BEE deals involved the same handful of beneficiaries, many of whom enjoy political connections as a consequence of moving out of liberation politics into business (Gumede 2002; Moti and Mabaso 2001; Ludman 2003).

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98 The Energy Charter negotiations included all key players in the fuel energy industry, including major oil companies. They agreed to transfer 25% of the industry to blacks within a decade. The transfer of assets, currently at 14% but due to reach 25% by 2014, ahead of schedule (Msomi 2002; Gumede 2002; Alexander's Gas and Oil Connections 2002)

99 For example, the Finance Charter seeks among other aims to redress the 'discriminatory redlining' by banks of townships and inner city neighbourhoods making it impossible for the poor to leverage credit to start businesses or pay for tertiary education by using their property as collateral (Gumede 2002).

100 At time of writing, charters for the transport, construction and information, communications and technology (ICT) industries were being negotiated.

In 1999, Mbeki called for the creation and the strengthening of a black capitalist class and for the formation of a 'black bourgeoisie', later adopted aphoristically by ex-activist black business people as the 'patriotic bourgeoisie'.[101] The Marxist epithet, now no longer enjoying currency, was a residue of the socialist discourse then still employed by the ANC, and a marker of its attempt to reposition itself 'in response to the real world' (Mbeki 1999). Mbeki articulated what was for many, a difficult and politically awkward position:

> This is, and must be, an important part of the process of the deracialisation of the ownership of productive property in our country. Ours is a capitalist society. It is therefore inevitable that, in part -and I repeat, in part - we must address this goal of deracialisation within the context of the property relations characteristic on a capitalist economy. As part of the realisation of the aim to eradicate racism in our country, we must strive to create and strengthen a black capitalist class. Because we come from among the black oppressed, many among us feel embarrassed to state this goal as nakedly as we should (Mbeki 1999).

Through BEE policies, the state actively promotes the growth of a black corporate class. Affirmative employment legislation ensures the upward mobility of a black middle class; deal-brokering and patronage ensures the ascendance of a black elite and affirmative procurement creates the institutional support for the development of black SMEs. Procurement also aims to achieve broad-based economic empowerment, with desired consequences which see value-creation trickling down beyond the primary beneficiaries of BEE initiatives. Marais argues that building a 'patriotic bourgeoisie' is hardly an ideological anathema to successful liberation movements (Marais 2001). Similarly, Gumede argues that a black middle class serves as a bulwark against pressures from mass constituencies and other partners in the tripartite alliance such as labour (Gumede 2002). Moeletsi Mbeki criticised BEE for its political, rather than economic, imperative arguing that BEE created a black elite class that protects white business rather than being a coherent economic strategy (Ludman 2003).

For others, this black middle-class is regarded as fundamental to a sustain the democratic transformation and create conditions for sustainable growth and

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[101] One interviewee described the high proportion of ex-socialists in the new black middle class as 'class snuggle' (Interviewee 99, white, male, academic).

'therefore in the interests of all South Africans' (Foundation for the Development of Africa 2003). The rise of an African capitalist class is seen to secure the deracialisation of South African society, as well as the sustainability of the capitalist system:

> This sub-project [BEE] of the 'national democratic revolution' is expounded on the grounds that transformation within a capitalist system will be sold short if the heights of the economy remain exclusively in white hands. The rise of African capitalists there is also deemed to address a facet of the 'national question' (Marais 2001, p.240).

The ideological indeterminacy involved cannot be better illustrated than in the case of trade union investment companies (TUICs), which are explored below. The emergence of a black middle class - in particular, a black corporate class - has established nearly 10% of blacks as the top fifth of earners in South Africa, compared to 2% in 1990 (Gumede 2002). A stinging criticism of the black middle class - one often heard in my own research - has been their ostentatious show of wealth (Gumede 2002; Haffajee 1998; Koch 1997a). Indeed, BEE has seen massive wealth accumulation by a small number of well-positioned individuals[102] whilst the black middle class remains exiguous constituting a mere 4% of the country's economically active population (Gqubule 2003, p.31; Heese 2003). Twinned with this is the enduring picture of poverty and unemployment which characterises the lives of the majority of South Africans. Through a sceptical prism, it might be argued that the robust pursuit of BEE policies by the state and other BEE stakeholders has also created patterns of intra-racial economic inequality not dissimilar to the general patterns of inter-racial economic equality that obtain. One informant argued: BEE is an ideological tool rather than redress of historically entrenched inequalities based on race' (Interviewee 117, white, male, NGO). The issue raised by BEE critics and the Left, is that BEE is not about deracialising South Africa as claimed by state rhetoric but about deracialising wealth and continuing patterns of inequality.

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[102] Among the most notable are the new politically well-connected 'comrades in business' including Tokyo Sexwale, Cyril Ramaphosa, Mathews Phosa, Moss Mgoasheng, Jeff Radebe and Patrice Motsepe (See Gumede 2002a for more detail).

But whilst criticisms about the new elite enriching themselves persist, is it not impossible for any successful capitalist society to exist without the concomitant accumulation of wealth and the shoring up of value in the form of profit?[103] Many of the new black elite are 'unapologetic' and confident capitalists. Indeed, the Minister of Minerals and Energy, Phumzile Mlambo-Ngcuka, defended new black money arguing that a black elite was desirable and that people legitimately engaged in business to become rich.[104]

Other criticisms of the new elite have concerned corporate governance issues, linked to cronyism and political patronage, as well as a failure to engage with CSR/CSI issues in a proactive way that is not strategically linked to the award of tenders and concessions. This raises the relationship between BEE and CSI: if a company has strong BEE credentials, or is simply owned and controlled by black people, does this suggest social responsibility? One consultant with a long history in the anti-apartheid struggle asserted: 'I have no hesitation in saying they [BEE companies] are less socially concerned and engaged' (Interviewee 95, white, male, business). Indeed this was borne out by my own research in which just a clutch of large BEE companies had CSI programmes, notably Johnnic, Kagiso, MTN, MIC, Nail and J&J. Company size appeared an important factor in CSI programmes. The same informant generalised that most black business people saw their business contribution as sufficient, raising a question regarding the apparent 'double standards applied to black and white businesses when it comes to social engagement' (Interviewee 95, white, male, business. Another senior manager concurred: 'Where are the black empowerment companies? What have they put back? They have done nothing!' (Interviewee 89, white, male, business). Indeed, one black businessman described his company's CSI programme as 'making deals with other black companies and employing blacks in the business' (Interviewee 88,

[103] Adam, Van Zyl Slabbert and Moodley make the point that these patterns of enrichment and consumption are not particular to South Africa but are evident in new elites in the former Soviet Union and China where ideology prevented private accumulation (Adam, Van Zyl Slabbert, and Moodley 1998).

[104] Minister Phumzile Mlambo-Ngcuka argued this position whilst answering a question regarding the appropriateness and desirability of a black elite at the conference entitled 'Towards South Africa 2004, Ten years of freedom', 24-26 October 2003, London.

African, male, business). Another senior black manager criticised this apparent failure and the rationale regarding delayed accumulation:

> Many of them don't even have that welfare thinking. But they can't get away with it. And you can't say, we will contribute when we have more money. You can never make enough money' (Interviewee 84, African, male, business).

Another commentator agreed that black companies were operating on a differed standard regarding CSR. He argued that given black businesses were in 'unhelpful funding structures', they were engaged in 'primitive capital accumulation'. He hoped that once these companies had matured (in terms of capital accumulation), they would look beyond their own interests (Interviewee 72, African, male, NGO). Another director of a large listed company explained that whilst they had no CSR programme, they had simply advanced equity to disadvantaged groups (Interviewee 29, African, female, business). Like a number of other BEE companies who at the time did not have CSI programmes, this company has since created one.

It is unclear whether social responsibility has been put on the agenda because these companies have 'matured in terms of their capitalist accumulation imperatives', they see business as a social institution and CSR a moral responsibility or whether they see it as a business imperative given the requirement to complete for government contracts and tenders. Indeed, CSI activity by large black entities was reportedly significantly increased: large black-owned and black-controlled companies now voluntarily contribute to social investment programmes (Wadula 2003d). However, voluntary CSI contributions, both for empowerment companies and transitional established businesses, may be under pressure as a result of the increase in financial and non-financial obligations placed on businesses by sector charters (Wadula 2003c).[105] At the very least, the problematic raised significant questions concerning the relative importance and relevance of traditional CSI activities in relation to BEE in the current South African business environment.

[105] For example, mining houses (many listed in London and now with significant black equity ownership as a result of the Mining Charter and attendant legislation) applying for mineral rights are now obliged to submit a social plan outlining their CSI activity (BusinessMap Foundation 2002e).

The black middle-class and the new black elite are entrenched and their ranks are growing. For Sisk, this elite coalescence - an indigenous elite more specifically - is a precondition to democratisation and indeed the spread and deepening of democracy (Sisk 1995, p.250). Indeed, this is likely to be the case in the South African context as long as capitalism is seen to be successfully embraced by *black* South Africans, and as long as access to BEE benefits continues to accrue in ever-widening circles.

Trade union investment companies

Trade union investment companies (TUICs) have emerged as important BEE entities. In recent years, interest in their trade union affiliation and the controversy that attended their creation has waned. They have simply melded into the cohort of BEE enterprises that survived the vagaries of the market. However, at the time of my field research, the issue of TUICs was hotly debated and affected trade union identity and the empowerment landscape. Like other BEE companies, they emerged in the context of proactive state policies to create and extend a black presence in the economic mainstream. Like their non-union cohort, they grabbed the opportunity for 'relatively rapid accumulation' that existed (Dexter 1999, p. 82). Like the plethora of other BEE entities emerging under favourable conditions in the latter part of the 1990's, TUICs became large institutional investors in JSE-listed companies, their primary driver being the broader pressures around capital accumulation, both globally and locally and its allocation in a local context.

As I have argued, the state played a pivotal role in the emergence and entrenchment of a black corporate class. I have asserted that the state advanced BEE for a range of ideological and political reasons to meet its transformation imperatives and stabilise the political economy. TUICs, however, differ from their mainstream cohorts in one critical regard. As investment companies of the trade union movement, they have had to bridge an ideological divide that has generally resulted in conceptual and semantic gymnastics in terms of their membership's political sympathies (ka'Nkosi 1997a).

Trade union rhetoric remains opposed to 'capitalist globalisation' which, consistent with Marxist analysis, 'is riddled with economic and financial crises' (Madisha

2000; Cosatu Central Executive Committee 2000). As late as 2000, the Trade Union Investment Council rationalised trade union investments companies as 'one of the instruments to transform the current South African capitalist economy into a socialist and worker controlled economy' (Cosatu Investment Council 2000). Trade unions have used other arguments to justify their engagement in market activity such as theirs' was 'capitalism with a human face' and that trade union investment strategies were a 'means of ensuring the means of production were owned by the workers' or marked an 'inevitable period of [socialist] accumulation' (McKinley 1999; Dexter 1999; ka'Nkosi 1997a). The rank-and-file discourse of the trade union movement per se has remained socialist, or at least highly ambivalent about the market, whilst trade union leadership appears to have embraced the market (Koch and Day 1997). As entities distinct from their trade unions, these companies allowed trade union officials (silk-and-tie socialists) to apparently elide this inherent contradiction although their critics raised other questions regarding accountability and transparency (Dexter 1999, p.84).

Uys has argued that: 'The paradox is substantial market-orientation at union official level but old fashioned militancy among shop stewards and workers' (Uys 1997, p.273). Indeed, the trade union movement's hostility to privatisation and its continued militancy including the organisation of strike action and sit-ins in 2001 stands in contradiction to instances where TUICs have been empowerment partners in the privatisation of state assets (Randall 2001).[106] As a consequence, TUICs have been expressly forbidden to invest in SOEs as part of Cosatu's opposition to GEAR and macroeconomic liberalisation which saw thousands of worker retrenchments but benefited a small group of empowerment players (Heese 2003; Also in Daniels and Kindra 2001). These tensions also speak to a greater and enduring disapprobation between the trade union movement and the government (partners in an enduring if fraught political alliance) around macro-economic policy, and the perception by trade union militants that the capitalist ANC was anti-union (Madisha 2000; Vavi 2000; Xundu 2001).

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[106] In 1997, Cosatu's investment company was part of a consortium bidding to buy the tourism parastatal, Aventura. They argued that this was not contradictory to their militant anti-privatisation stance as Aventura was not 'an essential service'. Statement found at http://gate.cosatu.org.za/pipermail/press/2002-October/000155.html.

At the height tensions, Cosatu attempted but failed to curtail directors' fees and share participation rights which made a number of ex-activists into millionaires (Haffajee 1998). Through the Cosatu Investment Council, it also attempted to manage the direction, ethics and shape of TUICs, and end the growing competition between investment companies Kopano ke Matla and Union Alliance Holdings (which comprises 13 TUICs). The trade union movement was concerned that massive accumulation undermined the goals of socialism by benefiting only a proportion of blacks and 'workers would be passing the chance to influence patterns of accumulation' (Dexter 1999, p.82). However, the engagement was steeped in ambivalence at best and even as late as 2000, investment companies were considered threatening to the trade union movement: 'the practice of investment companies holds many threats to the unions, [and] there is a need to align union investment company strategy with union principles' (Cosatu Investment Council 2000). Trade union rhetoric, however, softened in the recent past and TUICs are operating under the same conditions as other BEE enterprises, often delivering positive returns to shareholders. The debates regarding the legitimacy of union investment have fizzled out and the enmity seems to have receded.

Whilst TUICs were vulnerable to the same market fluctuations as their BEE cohort, there was probably been greater scrutiny of their performance. Initially, a number of TUICs were considered to have questionable corporate governance operating in secrecy and opportunistically. A number of trade union companies declined to disclose financial information arguing they were private companies; however, millions of union members made up their shareowners and were explicitly entitled to such disclosure (BusinessMap 2000a, p.60). Moreover, few trade union companies have concerned themselves with socially responsible investment (SRI) practices, instead 'adopting the capitalist logic of ruthless exploitation of all opportunities' (Adam, Van Zyl Slabbert, and Moodley 1998, p.3). In addition, unionists were concerned about the creation of a trade union 'bourgeoisie' instead of concentrating on the empowerment of the poor and the commercialisation of the ethics of a labour movement underpinned by the ideals of solidarity and collectivism. Indeed, many questioned the motivation for TUICs and the identity of their ultimate beneficiaries.

One success story is the Mineworkers' Investment Company (MIC), which other than from R3million seed money received no funding neither from its parent union, the National Union of Mineworkers (NUM), nor from provident or pension funds. Charged in 1995 with generating wealth for the Mineworkers Investment Trust (MIT), MIC has disbursed R88 million to mineworkers and their families in the form of bursaries, rural development funds and SMME development among other projects. Many of these ideological issues endure unresolved within the broader BEE debate on what has constituted empowerment. A number of dominant players emerged, including the South Africa Railways and Harbour Workers' Union (Sarhwu), South African Clothing and Textile Workers' Union Investment Group (Sactwu), the National Union of Metal Workers' (Numsa) Investment Trust, Union Alliance Holdings, Cosatu's investment company, Kopano ke Matla, and most notably, the Mineworkers' Investment Company (MIC). A decade on, many of these trade union investment players are now mature companies, and like other BEE companies face the challenge sustainable empowerment shareholding as well as sustained value.

Development Finance Institutions (DFI)

Empowerment has been embraced by public sector investment companies in line with government policies. Development finance corporations explicitly reflect the government's proactive stance on empowerment and socio-economic transformation. There is significant political pressure on the state-owned enterprise to deliver BEE both within its institutional framework and within its strategic operations. The Land Bank, the IDC and the DBSA, which are of concern here, are classified as DFIs and constitute three of five such public finance enterprises. In each, the South African state is the sole shareholder and each has a sectoral remit whether agriculture, infrastructure, and industry and small business development. I focus on three areas to examine the transformation of DFIs; employment equity, affirmative procurement and strategic operations.

DFIs and Employment equity

Public sector companies set empowerment standards, particularly in the case of employment equity. Parastatals like the DBSA, the Land Bank and the IDC have a much higher proportion of black directors than in the private sector, leading to the assertion that 'black people run the public sector and parastatals, while white people run the private sector, the engine room of the economy': for example, Africans account for 71% of management positions in the public sector and a mere 9.4% in the private sector (Gqubule 2003, p.31). Throughout the public service, blacks and women are well represented at all levels.

Affirmative procurement

Procurement is a powerful lever and incentive for empowerment and transformation, potentially delivering huge opportunities and rewards to companies. Affirmative procurement is an example of redistributed opportunity, particularly in the context of disappointing BEE performance on the JSE (Gumede 2002a, p.207). As outlined in Chapter Four and accented above, the state (and now major sectors through charter commitments) leverages policy changes through corporations, whether by the threat of legislation or by significant rewards and incentives. Government tenders, licenses and concessions are the lifeblood of many industries, and the award of such contracts depends on black control or ownership of equity. Moreover, the state is the major purchaser of goods and services with its annual R120 billion procurement budget (Gumede 2002). Indeed, this makes the state procurement budget a key policy tool for leveraging transformation in the economy. SOEs are required to procure affirmatively under affirmative procurement the Preferential Procurement Policy Framework Act of 2000. The Act attempts to develop business-like efficiency in the public sector whilst simultaneously advancing empowerment.[107] With legislative obligations on the part of SOEs, the implication is the natural development of emerging businesses to meet the need for goods and services by

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[107] In addition to procurement by the public sector, it should also be noted that affirmative procurement is also a concern for the private sector; a policy driven by the BEE scorecard which entails a preferential procurement element (South Africa 2003; South Africa: Department of Trade and Industry 2003). Affirmative procurement is considered an indirect empowerment score along with investment in black-owned or black-controlled businesses (South Africa: Department of Trade and Industry 2003).

government and its institutions. It also means a greater demand for finance to bankroll emerging businesses from DFIs such as the DBSA and, in particular, the IDC.

However, with enormous resources at stake and some experience, critics argue that a leading model of affirmative procurement has failed to emerge (Terblanche 2003, p.102). Indeed, affirmative procurement has matured since its formal adoption a decade ago: from its beginnings as the limited outsourcing to black suppliers[108] of services, to procurement by CSI/CSR programmes, to its establishment at the heart of business operations. But the shortage of black suppliers particularly as a consequence of a widespread business-skills deficiency hampers affirmative procurement in both the public and private sectors.[109]

Within the public sector, the state's procurement framework is a complex set of guidelines, administered by some 15 000 buyers across all spheres of government (Terblanche 2003, p.104). The regulatory Act (South Africa 2000) details the criteria against which suppliers are scored, as well as providing a weighting for preferences such as whether the supplier company is black-owned or the product locally manufactured. Some 17 'aims' which advance state preferences are adumbrated including, among those already mentioned, female ownership, ownership by the disabled, regional location, youth empowerment and the use of local labour.

Whilst this sub-section has looked at the significance of affirmative procurement to public finance institutions, it is important to reiterate that the state's Strategy for BB-BEE rewards similar private sector leveraging regarding the development of emerging SMEs. Partnerships and joint ventures are most often set up between established companies and emerging black businesses. These business 'marriages' ensure that preferences for procurement tenders are more easily met but while skills transfer may occur, these arrangements make emerging businesses vulnerable to

[108] While institutional racialism and limited access to finance are enduring problems for emerging businesses, most interviewees noted that the key obstacle is a paucity of black skill. Most SMEs fail (BusinessMap Foundation 2003a), and the demand for black suppliers exceeds the supply.
[109] Within the private sector, most large companies, such as Sanlam, Sun International, SABMiller and most notably, Anglo America's Zimele have set up procurement funds to develop and ensure affirmative suppliers (Terblanche 2003, p.102-107).

'fronting'. However, more forward-thinking private sector companies such as Anglo's Zimele have recognised the need for sustainable black suppliers and, where no black company or affirmable business existed to meet the need, the companies have simply created them, acting as both business developers and venture capitalists to black equity partners. It might be argued that here the private sector is championing government policy. Similarly, some private sector companies such as Sanlam and Sun International are, in turn, compelling their suppliers to procure affirmatively. Indeed, this further raises the demand for reliable and sustainable black supply partners. In effect, the 'carrot-and-stick' control is reproduced further down the value chain this time by private sector partners and buyers themselves: compliance being rewarded with continued business and non-compliance with sanction and business-withdrawal. Thus affirmative procurement creates the conditions for the redistribution of opportunity in both the public and private sectors. In line with the BB-BEE Strategy, affirmative procurement policies broaden the pool of empowerment beneficiaries and in such a way that the state directs the market environment and business' respond to these structural incentives.

Development Bank of Southern Africa (DBSA)

Established in 1983, the Development Bank of Southern Africa (DBSA) provides finance and expertise to enable infrastructural development by provincial and local governments, including and especially the former homelands (the TBVC States[110]). At a time when the DBSA was extensively bankrolling the Bantustan system, it funds came from the South African government or were raised on the country's capital markets (Lewis 1990, p.50). In 1996, under democratic rule and then under a new constitutional dispensation, the DBSA was re-enacted via the Development Bank of Southern Africa Act, No 13 of 1997. The Bank was identified for targeted and accelerated transformation under the leadership of CEO Ian Goldin. Its new mandate was transformed to align with RDP, and later also GEAR values: 'to address the social and economic imbalances that obtained, and to improve the quality of life for South Africans' (Development Bank of Southern Africa 2003).

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[110] Bantustans included the 'self-governing and independent States' of Transkei, Ciskei, KwaZulu, Bophathutswana, Lebowa, Venda, Gazankulu, KaNgwane and QwaQwa.

The DBSA operates explicitly in a very broad, multi-stakeholder environment, numbering among its development partners national and provincial government, local authorities, district councils, provincial development corporations, Parks Boards and tourism entities, statutory institutions, SADC countries[111], and finally, the private sector. The Bank's stated mission is 'to maximise our contribution to development by mobilising and providing finance and expertise for infrastructure development in order to improve the quality of life of the people of Southern Africa'. A manager described the DBSA as a 'change agent for the socio-economic development of Southern Africa' (Interviewee 118, white, female, DFI). It development mandate meant a 'move from bulk infrastructure to the heart of change - social infrastructure - like clinics, schools and community centres' (Interviewee 13, African, male, DFI). Whilst providing infrastructural and development finance to its key intermediaries is the Bank's chief activity, its mandate also covers the financing of sustainable development through public private partnerships (PPP). It also acts as a catalyst for investment (Development Bank of Southern Africa 2003).

Internal transformation was described by one senior manager as 'incremental' (Interviewee 13, African, male, DFI). Employment equity was unequivocally addressed in the Bank's empowerment agenda through a transformation committee (Interviewee 13, African, male, DFI). A senior manager responsible for this asserted that the DBSA had 'taken more decisive action that whoever did not fit in would be retrenched'; she was referring to the problem of 'dead wood', 'white old-guard employees' who were retrenched (Interviewee 64, African, female, DFI).

The Bank, like other DFIs, claims a business 'market niche' (Interviewee 13, African, male, DFI). The niche is located between government grants and the private sector. Indeed, no longer the recipient of government grants, the Bank competes with other commercial banks on the capital markets (Interviewee 13, African, male, DFI). This has fundamentally altered the Bank's business orientation. Importantly, the Bank's target group (and those of the Land Bank and the IDC) is not the 'poorest of the poor' but borrowing institutions (and individuals in the case of the latter two)

[111] At the time of research, the DBSA also worked in Lesotho, Swaziland, Mozambique, Namibia, Botswana, Zimbabwe, Mauritius, Malagascar, Seychelles and was soon to fund projects in the Democratic Republic of Congo and Angola (Interviewee 13, African, male, DFI).

who are overall financially sustainable. Its business-orientation means that the Bank must manage both risk and cost-recovery. Thus, the Bank awards development funding on the basis of any institution's capacity to meet its ongoing financial and public service obligations, as well as its ability to leverage co-financing from other agencies, including government and the private sector (Development Bank of Southern Africa 2003). However, one critical manager at the DBSA questioned whether fundamental values of social justice had not been overridden by an agenda directed at wealth creation and growth (Interviewee 79, white, female, DFI). Having positioned itself thus, it is interesting to note that the Bank has never engaged in a social impact study or social assessment appraisal of its delivery (Interviewee 3, African, female, DFI; Interviewee 115, white, female, DFI; Interviewee 114, white, female, DFI; Interviewee 79, white, female, DFI).

As a financially self-sustaining institution, the Bank assumed the language, style and management systems of an efficient business-like institution. A chief challenge is to be both a banking and development institution. Not surprisingly, in the light of its business alter-ego, one senior manager lamented: 'it gets confused with business, yet it has this social obligation and development angle' (Interviewee 13, African, male, DFI). This tension was alluded to by a number of the Bank's senior staff (Interviewee 64, African, female, DFI; Interviewee 3, African, female, DFI; Interviewee 79, white, female, DFI). Admittedly, as a DFI with development imperatives the business model causes tensions (Development Bank of Southern Africa 2003). The Bank recognises that whilst it is desirable to maximise private sector funding and involvement, it is not in a position to compete with private sector: it is essentially expected to support projects with higher levels of risk (Development Bank of Southern Africa 2000). This approach, which is often developmentally legitimate, may also frustrate the Bank's twin objective of being a self-sustaining financial institution. The Bank also recognised early on, the power of affirmative procurement to leverage transformation and promote BEE in its operations (Development Bank of Southern Africa 2001b).

BEE was not explicitly articulated in DBSA policy (unlike the IDC, the Bank is not perceived as a BEE champion). Instead, as a development institution it saw empowerment as a core value within its institutional arrangements and, most significantly, at an operational level. Finance is increasingly geared towards facilitating access by BEE groups, particularly in the case of PPPs (Loxton 2002), but with a focus on financing local government and regional projects. But the key to the Bank's empowerment strategy has been its radical re-invention of itself, from an apartheid structure to one which epitomised the new dispensation. Critics argue too, that in line with given interpretations of BEE policies, it is the new middle class that benefits from this DFI.

The Land Bank

The Land Bank provides financial services for the agricultural sector. The tension between servicing the poorest in society and servicing an emerging black middle class was demonstrated in a dramatic way in the case of the early years of the Land Bank's transformation.[112] This conflict between the needs of the poor and creating a black middle class is a sustained political theme, and government directed BEE policies evoke this enduring tension.

The tensions associated with the ANC's transition from a broad-based liberation movement containing within it socialist ideals, to a political party, to a government facilitating the development of a black-middle class, is inherent in the narrative of the Land Bank's painful and rutted transition. Nevertheless, before her departure Dolny oversaw significant changes in the Bank, following the recommendations of the Strauss Commission, to transform the provision of rural financial services (Strauss Commission 1996). The Commission highlighted the role of the state in facilitating and co-ordinating the provision of financial services for the rural poor, especially women. It also pointed to the role of the state in complementing the

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[112] In 1999, the CEO, Helena Dolny resigned following accusations of 'racism, nepotism and corruption'. She was cleared of 11 of 12 allegations by the Katz Commission which assented that she had been insensitive to voices on the Land Bank's Board who resisted her implantation of salary increases (Isaacson 2001). However, a more likely cause, and the same one that dogged Derek Hanekom, the then Land Affairs Minister of similar political persuasion, relates to the fact that Dolny was 'white leftist' (Isaacson 2001; Barron 2001; Robertson 1997). Indeed, the internal transformation of the Land Bank was often conflict-filled. Dolny's successor, acting CEO Totsie Memela, was also accused of malfeasance and nepotism and was later cleared. Smear campaigns directed at both Dolny and Memela were widely covered in the press (Mboyane and Mokoena 2001; Business Day 2001h; Mothibeli 2001; Farmer's Weekly 2001; Robertson 1997).

private sector and improving efficiency by supporting the market (Dolny 2001, p.57). In line with these recommendations, the focus of the Land Bank's operations has also shifted in line with national priorities: from a 'clientele of largely white commercial farmers', the Land Bank began to focus on blacks, women and emerging farmers, the previously 'non-bankable' (Mahlangu 2001; Strauss Commission 1996). True to this mandate, 68% of the banks new 'step-up' clients were black women (The Land Bank 1999, p.18). Indeed, the wholesale transformation of the Land Bank also meant reducing bureaucracy, a more efficient business model and management structure, and addressing the demographics of the top management structure (The Land Bank 2000). The most overarching transformation involved making the Bank's business relevant and appropriate to new development demands.

The implementation of employment equity was also uneven given the Land Bank staff demographics. Until the transformation process was initiated in 1996, the Land Bank still served the white farming community as it had since its inception in 1912. It actively avoided lending money to black farmers and did not support black farmers in freehold areas or the Bantustans, although middle class white farmers in these 'states' were serviced (The Land Bank 2001a). In 1948, The Bank was served 'a specific mandate to serve and support white Afrikaans-speaking farmers' (The Land Bank 2000). Indeed, the Land Bank's staff reflected its clientele. Retrenchments and redeployment followed initial transformation: 'the affirmative action story was an ongoing sore point with white males who for decades had been the powerhouse of the Bank' (Dolny 2001, p.171). For example, the 1999 Annual Report accounts that as an employment equity process was initiated, staff at Head Office was reduced by 59% (The Land Bank 1999a, p.25).

The Land Bank reconstituted itself as a *development* institution (Interviewee 62, white, male, DFI). It transformed its governance and management structures, implemented aggressive employment equity policies and crucially, realigned its business. In realignment Land Bank re-designed its products to establish distribution channels which accelerated financing to black and women farmers (The Land Bank 1999a, p.23). It also provides loans for land reform beneficiaries, first time agricultural property purchase, assistance with rescheduling debt for black farmers, lower interest rate products for commercial farmers to create incentives for job creation as well as land and housing improvement on established farms. The Bank established micro-loans schemes for emerging black farmers in primary agriculture. It also set up satellite offices to make the Land Bank more accessible to poor black rural farmers (The Land Bank 2001; 1999, p.7-11). In tailoring loans for emerging black farmers, the Bank flouted conventional banking wisdom which pegged loans to collateral, the most common stumbling block experienced by black entrepreneurs; instead loans were delinked from the 'collateral fetish' and adjusted to track record and repayment potential (Dolny 2001, p.109-111). A number if interviewees from the Bank pointed to this key tension between profit and responsibility, and cost recovery and development (Interviewee 49, African, male, DFI; Interviewee 50, white, male, DFI; Interviewee 54, coloured, male, business; Interviewee 89, African, male, DFI)

Whilst the poor were not yet part of the Bank's existing clientele[113], the Bank is actively training and grooming emerging farmers from disadvantaged communities to become full-fledged clients (Interviewee 54, coloured, male, business; Interviewee 49, African, male, DFI). In the interim, the Land Bank instituted its CSI-type programmes, awarding non-repayable grants rather than loans to small farmers to facilitate business skills development, training, capacity development and alternative farming methods (Raboroko 2001; Meintjies 2001). Percentage profit from the Bank's development finance model accrues towards this CSR activity. An interviewee acknowledged that these grants were seen by commercial clients as a subsidy for black farmers but he argued: 'The Land Bank's commercial imperative is linked with its development imperative' (Interviewee 54, coloured, male, business).

At the time of field research, unlike the DBSA, the Land Bank (which was not subject to the Procurement Act) had hardly begun to look at the empowerment potential of affirmative procurement (Interviewee 50, white, male, DFI). Given the

[113] Emerging black farmers account for just 2% of the Bank's business (Interviewee 49, African, male, DFI).

emphasis on affirmative procurement just a few years later, the Land Bank's targeted procurement policy surprisingly lacked substance and any operational detail (The Land Bank 2001b). The procurement policy lacked significant operational detail despite recognition of its broad based potential and strategic importance to the Bank and its mandate (Interviewee 49, African, male, DFI; Interviewee 50, white, male, DFI; Interviewee 54, coloured, male, business).

The Land Bank's transformation and leadership controversy received significant media coverage. What was less well covered, however, was the Bank's ground-breaking social accounting report (The Land Bank 1999). *Measuring our Mandate* was a brave and progressive move to measure and report on the impact of the Land Bank on its stakeholders. It joined a small number of private sector companies in providing social reports which suggest good governance, along with a high level of accountability and transparency. The Bank's social account occurred at a time of great flux and great possibility: unfortunately, the exercise was never repeated. The social report exercise, however, underscored the importance of stakeholder management as well as the issues of good governance, accountability and reporting which are gaining momentum globally and which are strongly associated with investor confidence.

The Industrial Development Corporation

Of the DFIs, the IDC has been most robustly geared to deliver around BEE. Like the Land Bank, prior to transformation the IDC's clientele was largely drawn from the white Afrikaans-speaking community. Established in 1940, the IDC was established to remedy the 'poor white' problem and to provide financing to white entrepreneurs (Morathi 2003), as well as spur industrialisation. War shortages led to an amendment by Parliament to allow the IDC to establish as well as operate industries. Afrikaans businesses were established or equity was taken in a number of large corporations including Sasol, Foskor, South African Industrial Cellulose Corporation, Sappi, Synthetic Rubber company, Sapekoe, Palaborwa Mining, Iscor and the forerunner to Richard's Bay Minerals (Ngqula 2003). In the 1980s, the IDC transferred its assets to the Small Business Development Corporation, launching a venture capital scheme to assist entrepreneurs in high-technology manufacturing. As well as identifying and exploiting new industrial opportunities, as a DFI the IDC had to address the transformation of its existing business in line with the new constitutional dispensation in which it operated. In the 1990s, the IDC was given the mandate of advancing BEE and developing SMEs by providing development finance for emerging industrialists and entrepreneurs (Morathi 2003). The IDC began to prioritise BEE with significant funding commitments to BEE in the tourism industry, the warehousing of shares for BEE groups and loan finance to black consortia to finance equity stakes in the first two of South Africa's cellular communications operations. The IDC also embraced a broader African role in line with NEPAD, establishing partnerships and projects in 21 African countries, such as funding for the Mozambique Aluminium Smelter. In addition, its own internal human resource transformation is reflected in 78% of its top management and 80% of its professional staff being drawn from designated groups, namely, blacks, women and disabled people (Industrial Development Corporation 2003a).

BEE is a strategic business sector within the IDC and its priority is reflected in a new management structure which has the oversight of empowerment as the chief role of one of three top executives (Singh 2003). The IDC's empowerment agenda is embedded in its financing criteria. Empowerment financing alone accounts for 32% - or R6 billion - of all financing projects (Ngqula 2003; Industrial Development Corporation 2003). The IDC claims a broad-based knock-on effect with 13,000 jobs created as a result of BEE development financing in 2002 (Industrial Development Corporation 2003a). The IDC has positioned itself as the key financer of BEE, financing equity, quasi-equity and loan finance across all industrial and some service sectors. BEE is a growth area and the need to finance empowerment activity has been accelerated by increasing pressure for public and private sector affirmative procurement, as well as new legislation and sectoral empowerment charters. However, a strong politically-driven BEE agenda has embroiled the IDC in some controversy: the selection of empowerment partners over established business with strong BEE credentials has revealed some selection inconsistencies (Shone 2003; Thole 2003).

Like the DBSA and the Land Bank, the IDC's transformation and empowerment imperatives have to operate in the context of a business imperative to maintain financial independence and profitability. Indeed, achieving the requisite balance of business sustainability and transformation are issues that also affect the private sector. With the state as sole shareholder in each, these DFIs generally appear to be managing the tension successfully. Moreover, as public investors in BEE, DFIs are obligated to advance BEE whilst ensuring sustainable development in South Africa and the region.

Conclusion

This chapter has examined the articulation of the state and market relationship in one key sector, investment companies. It examined BEE companies in general, as well as TUICs and public sector DFIs. In exploring how policies are driven in the investment sector, I have focussed on the political and economic imperatives of BEE in a SCSD framework.

The SCSD framework advanced in this thesis argues that the state and market are co-partners in social and economic development. Applying the framework to the investment sector raises a number of pertinent issues. At the most abstract level it presents a sectoral case study which establishes BEE as a social development imperative. It also established a directive and underwriting state, and corporate social engagement in response to the particularities of the market environment. BEE policies are principally concerned with the allocation of investment capital and the concomitant redistribution of opportunity. BE policies are social and economic, as well as strongly political and ideological in nature. Thus, the framework can be usefully applied to BEE since the state and market operate in concert to transform the socio-economic patterns.

Unlike welfare-type social policies which redistribute wealth directly, BEE relies on the market mechanisms to redistribute opportunity. Employment equity and affirmative procurement are crucial to broadening the benefits of BEE.[114] The creation, facilitation and exploitation of empowerment opportunities are crucial elements since BEE policies focus on market-driven social development. The state and market act in concert to shift patterns of wealth, access to business opportunities and market benefits as has been demonstrated empirically at least for a narrow band of beneficiaries. Thus, the SCSD framework can be usefully applied to BEE and its expression in the investment sector, in both public and private arenas.

The majority of BEE activity occurs in the investment sector, making it highly illustrative of the tensions that exist around BEE. BEE companies require definition given the potential rewards and opportunities they might exploit. This raises the tension between ownership and control of entities and the apparent a disjuncture between BEE policy and implementation, notably in the private sector. While actively seeking to redress economic imbalances, early narrowly interpreted BEE failed because it stressed the acquisition of equity at the expense of other empowerment. The most obvious and apparent transfer of wealth has benefited a small number of people, usually the black professional and corporate classes and a politically positioned black elite. This disjuncture and the development of black elite interests are particularly evident in the investment sector. BEE has altered the racial complexion of privilege but deep economic inequalities still obtain. Broad based policy attempts to promote more inclusive strategy aimed at the social and economic development of the whole of black society.

BEE is a highly contested policy which seeks to appease a number of different stakeholders. Government argues BEE is a mechanism for delivering growth, development and enterprise formation. Racial minorities and investors are ambivalent about BEE policies, the latter quick to interpret these policies as redistributionist and to demonstrate their discontentment with sanction. Most black people lack the necessary capital to exploit BEE opportunities which ostensibly meets the criteria of social justice but which relatively few enjoy. Local and global investors constitute another stakeholder groups who are especially concerned with

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[114] With reliance on market forces, there is, of course, no guarantee that BEE will necessarily result in the broad redistribution of wealth.

return on investment. BEE companies must to meet this same obligation while sustaining their empowerment profile, particularly where these credentials have resulted in the award of contracts and licences, and where further business is sought from the state.

Government is a robust and committed driver of BEE. BEE is generally seen as a non-negotiable policy with which all stakeholders must comply although the state seeks to develop consensus between stakeholders. At the time of field research, many prominent white business people were still uncomfortable with the political and legislative processes underway. One privately called the non-negotiable nature of BEE policies 'coercive redistribution' and evidence of a 'failed social contract' although ironically the same businessman was seen to support BEE (Interviewee 20, white, male, business). A BEE commentator explained that 'companies don't like prescription' (Interviewee 133, white, male, business). Another saw BEE as 'state failure to protect the competition imperative of markets' (Interviewee 38, white, male, business organisation). However, despite resistance, the state has been able to pursue BEE regardless. Government is the major consumer of goods and services and thus can leverage social and economic transformation through targeted procurement. Procurement opportunities offered by the state, SOEs, DFIs and voluntarily by the private sector are likely to develop a larger cadre of black businesses for the supply of goods and services. Through extensive policy and legislative instruments, the state has created strong incentive for the development of SMEs.

It is clear that industries will continue to pursue sector-specific targets for the transfer of the economy to black hands. One might argue that the government's strategy to encourage private sector partnerships in the development of sector charters is likely to build a movement for economic transformation driven by a wide range of stakeholders (Gqubule 2003). Moreover, visible success in certain sectors creates a political and even normative pressure on other sectors to lend unequivocal support to economic transformation as it is defined in the discourse of BEE. The state's role in supporting empowerment is a critical lever for BEE.

Whilst there is a long-standing and well developed CSR/CSI culture, BEE is not a CSR capacity. As far as business engagement is concerned, CSR/CSI is unevenly embraced by South African business depending on their size, market position and public profile. Generally, CSR remains a corporate add-on based on normative principles practiced by large corporations, and increasingly by those seeking BEE credentials linked to the award of state contracts. Sectoral charters also emphasise social engagement in the form of CSR programmes alongside equity transfer. BEE, however, is *the* key strategic issue, far surpassing the perceived relevance and impact of CSR. This has implications for the SCSD framework: corporate social engagement as CSR is limited whereas social and economic engagement which lies at the heart of business concerns has far greater capacity to alter economic patterns, a stated aim of BEE.

Smaller black-owned and black controlled businesses have wider opportunities to exploited empowerment. Access to credit and to skills development would potentially deliver empowerment further down the value chain, and accrue significant legitimacy for the government's BEE policies among the poor and the sceptical. More especially, whilst BEE has benefited the small but growing black middle class through employment equity legislation, skills development, enterprise charters, and access to credit, among other mechanisms, the chief challenge remains to make BEE broad-based and more equitable.

Finally, investment companies are geared towards the accumulation and allocation of capital. Investment companies illustrate the chief challenges facing South Africa: to deliver post-apartheid redress, ensure growth and stability, and become globally competitive. The state has laid a premium on business activity, which was for the most part accepted by most stakeholders as part of the reality of doing business in South Africa. BEE as redistribution of opportunity accords with market principles, and such strategies are congruent with imperatives for global competitiveness. As one interviewee stated: 'In the long term, 'business is business' whether you are black or white. Global forces do not distinguish. The determining economic factor is supply and demand' (Interviewee 23, African, male, business). Investment companies offer, in a single sector, many of the key issues and challenges facing SCSD in South Africa.

The following chapter looks at the second sectoral case study, tourism. Many issues explored in this chapter - particularly regarding BEE - are further developed with reference to the tourism sector in South Africa.

CHAPTER SIX: TOURISM

Introduction

The second empirical chapter of the thesis analyses the tourism sector. Like the previous chapter, which examined investment companies and BEE, this chapter scrutinises the sector with reference to the state-corporate social development (SCSD) framework. This case study examines state-underwritten forms of market transfer within the tourism sector and the response of the private sector in terms of corporate social engagement. I continue to explore the development and implementation of BEE policy and corporate responses in light of the particular business drivers of the sector.

I wish to rehearse my reasons for selecting tourism as a case study. First, tourism is perceived as an economic and social 'fix all', and is given primacy in the state's national agenda for its perceived potential to deliver social and economic development. Second, in response the sector has in recent years begun to co-ordinate its activities to better exploit its potential and begin to address broad issues of transformation. Third, the tourism industry is a highly complex and diversified industry. It encompasses other aligned sectors such as transport and catering and hospitality, and can further be differentiated into business size and tourism type. The social responses of large corporations may differ from smaller ones but in concert are likely to have impact. Fourth, tourism is highly dependent on strong stakeholder relationships for its viability, requiring a working social contract that ensures a safe and stable environment. Finally, the state has recognised its own leverage in the tourism industry given the opportunities it has to award concessions and licences. The state contends that tourism might be a powerful lever to advance the government's empowerment agenda.

The first section of the chapter presents an overview of tourism as a diverse sector, examining its importance to the economy and its potential as an instrument of development. South African tourism is located within the global industry, examining some of the key issues and trends including the challenges of transformation. I explore the role of the state, and responses of corporations to BEE with reference to tourism. The second particularly presents three case studies of unequal length, drawn from the field research: (a) the government's Lubombo Spatial Development Initiative (SDI) in the Greater St Lucia Wetland Park in northern KwaZulu-Natal, a government-initiated ecotourism tourism development node; (b) CCAfrica, a private-sector ecotourism enterprise; and, (c) three of the largest hotel businesses in South Africa, namely, Southern Sun, Sun International and Protea Hotels. Each of these traditionally white-owned businesses has engaged with the imperative to transform in different ways. The chapter concludes with a discussion on stakeholding and the social contract in tourism.

PART ONE: An Overview of Tourism in South Africa

Global Tourism as development catalyst

It is important to locate South African tourism within the international tourism arena. Globally tourism is considered on the key drivers for economic and social development, particularly in the developing world (WTTC 1998). Travel and tourism are the largest earners of foreign currency, involving the free cross-border flows of both capital and people. Worldwide, tourism's contribution to GDP is 12% (DEAT 2000, p.13), accounting for more than 200 million jobs worldwide (WTTC 2003a). Tourism is one of the world's largest and fastest growing industries (WTTC 2003a) and the principal export for one third of developing countries. The growth in tourism can be attributed to rising standards of living in developed countries, declining travel costs, changing demographics, globalisation, and the increased demand for exotic travel experiences (Goodwin 2000).

Within the extensive literature on tourism, critiques of tourism in developing countries and as a strategy for development and poverty alleviation are particularly relevant. Harrison notes that most tourism scholarship operates - implicitly or explicitly - from a position derived broadly from modernisation theory, which contends that:

> Tourism is seen as a valuable aid to national, regional and local development, with capital investment and the transfer of skills specific

to tourism leading to increased employment and general prosperity through changes in the infrastructure and through the operation of the various kinds of Keynesian multipliers. According to this perspective, there is no doubt that capitalism, and capitalist-run tourism, brings development (Harrison 1994, p.249).

As a number of authors caution, the automatic positive correlation between a burgeoning tourism industry and economic growth needs to be viewed critically (Harrison 1992, p.15-17; Mowforth and Munt 1998; Sautter and Leisen 1999; Scheyvens 1999; WTTC 2002e). Some critics argue that failure to place tourism and its impact within a development framework 'also perpetuates class and regional inequalities, economic problems and social tension' (Britton 1982, p.332). However, for many countries, particularly developing countries, tourism retains its promise of generating foreign exchange, increasing employment opportunities and attracting investment capital (Aylward and Lutz 2003; Business Day 2001d; Letsema Consulting 2002; Sinclair 1998).

Tourism is commonly characterised as an 'instrument' of development because consumption occurs at the place of production. In mature economies, the tourism sector is an important source of employment and revenue. In developing economies, it is often seen as a 'panacea for economic malaise' (Opperman and Chon 1997, p.16, citing Cater 1987; Also in Hay 2000, p.153). The most positive outcomes occur when there are business linkages between tourism and other economic sectors, and also when tourism is successfully integrated into the local economy to advance developmental goals (Freitag 1994; The Cluster Consortium 1999). Linkages with other sectors have a potentially high impact on the local economy; both formal and informal (DEAT 2002; Moosa 2001 (circa); Opperman 1993, p.536, p.538-9; South Africa 1996; South Africa Foundation 1999). These development goals are enabled most effectively when there is minimal cost to the environment and culture (Sautter and Leisen 1999, p.313; Ashley, Boyd, and Goodwin 2000). However, as Opperman observes, there are macro-economic and structural limitations to what tourism can realistically achieve, with the diffusion or trickle-down of benefits often exaggerated (Opperman 1993, p.539-541). This research confirms this view, with one informant cautioning: 'Tourism has been blown out of all proportion in terms of what it is expected to deliver' (Interviewee 57, white, female, DFI).

Nonetheless, multiple benefits from tourism are likely with economic diversification. This diversification occurs as local economies meet tourists' demands entailing investment, the production of capital, as well as for consumer goods and services (Harrison 1994, p.236; Ashley, Boyd, and Goodwin 2000). For instance, in the case of ecotourism, Oldham *et al.* indicate that the supply of ecotourism facilities requires capital input in land and infrastructural investment, as well as labour. Various other ancillary provision is necessary such as food and beverages, power, water and transport. The downstream supply of these goods and services has important employment implications, while expenditure on wages (as well as on goods and services) generates a multiplier effect which creates employment indirectly (Oldham, Creemers, and Reback 2000, p.176-177; WTTC 1998).

Social policy has increasingly been concerned with pro-poor and integrated social development, a critical trend that extends into debates around tourism. Pro-poor tourism (PPT) attempts to place poverty at the centre of the tourism agenda; an agenda that aims at generating net benefits for the poor (Ashley, Boyd, and Goodwin 2000; Goodwin 2000, p.2). These benefits are chiefly in the form of employment and business opportunities, although the majority of opportunities for the poor are located in the informal sector (Department for International Development (DFID) 1999; Roe, Goodwin, and Ashley 2002). Advocates of PPT criticise national governments and donors for failing to take the specific needs and opportunities of the poor into account (Ashley, Boyd, and Goodwin 2000).[115] Whilst not appropriate for all tourism environments, PPT is successful at 'tilting' the economic margins; it is most effective in multi-stakeholder partnerships, in remote areas where the impact of tourism is significant and where opportunities exist 'for reducing vulnerability for many and providing exits from poverty for some' (Ashley, Goodwin, and Roe 2001; Pro-Poor Tourism 2002; Roe and Urquhart 2001). PPT attempts to involve communities as stakeholders in securing tangible economic

[115] PPT also underscores the negative impact and distribution of the social, environmental and economic costs and benefits of tourism. For instance, women are more likely than men to suffer from natural resource scarcity, as well as cultural and sexual exploitation. They also benefit most from the provision of infrastructure such as piped water and electricity which are often consequences of tourism development (Goodwin 2000, p.3).

benefits. The PPT model is congruent with the SCSD framework developed in this thesis, particularly since it emphasises the role of the market, in concert with the state in delivering social and economic development.

Tourism in South Africa

The strategic importance of tourism in South Africa must be seen as part of the fundamental restructuring of the economy, away from primary production (namely mining and agriculture) towards a more diverse economy with a greater emphasis on the service sector, including tourism (DEAT 1997, 2001; South Africa 1996). Indeed, by 2002, tourism had surpassed mineral production in terms of export value (Abedian 2004).

Tourism is an important sector in terms of its revenue-earning potential. In 2002, tourism's (direct and indirect) contribution to the GDP was R72.5 billion, 7.1% of the total national GDP (South African Tourism 2003; WTTC 2002e). The importance of the tourism sector to the South African economy is outlined below:

Economic impact of travel and tourism in 2002	
491,741	*Direct* tourism jobs representing 2.9% of total employment
R32.8 billion	*Direct* contribution of travel and tourism to GDP (2.9%)
1,118,530	Direct and indirect tourism jobs (7.3%)
R82.7 billion	Direct and indirect contribution of travel and tourism to GDP (7.3%)
R43.4 billion	Travel and tourism exports, services and merchandise (12.1%)
R25.6 billion	Travel and tourism capital investment (14.1%)
R1.0 billion	Government travel expenditures (0.6%)

Table 6.1: Direct and indirect economic impact of travel and tourism in South Africa, 2003

Source: Adapted from South African Travel and Tourism Satellite Account, WTTC, 2003

South Africa has also been marketed with 'evangelical zeal' promoting, its climate, scenic beauty, cultural diversity, political history and eco-tourism attractions, all underpinned by highly developed transport and telecommunications infrastructure. South Africa markets its product as 'an African experience' of high quality (Letsema Consulting 2002, p.7).

In recent years the South African tourism industry has enjoyed substantial growth, which has been both steady and sustained (Business Day 2001i; Fraser 2002; South African Tourism 2001; 2002, p.7; Thiel 2004). Statistics indicate that there were 6.4 million foreign tourists in 2002, compared to 5.9 million in 2000 (South African Tourism 2003; Grant Thornton Kessel Feinstein 2001),[116] the world's greatest growth of 11.1%. Regional tourism from Africa accounts for 72% of arrivals in South Africa; land-based travel from neighbouring Southern African Development Community (SADC) countries represents 92% of these (South African Tourism 2002, p.14).

Tourism growth coincided with the end of apartheid which saw increased international travel from prime markets in the UK and Europe (especially former cultural boycott supporters). Overseas tourist arrivals increased by 52% from 1994 to 1995 alone (National Investment Promotions Agency and DEAT 1999 circa). South Africa has a vibrant and well-established domestic tourism industry (WTTC 2002e, p.18). Domestic tourism remains the mainstay of the industry (South African Tourism 2003, p.11; Haffajee and Goodenough 2001; Business Day 2001i).[117] Democratic transition saw an expanding black middle class and the removal of travel restrictions imposed on black people domestically (Allen and Brennan 2002). The domestic tourism market is expected to grow as 'historically disadvantaged people become tourists and travellers' (DEAT 2002, p.2).

[116] The 2002 boom can partly be attributed to increased travel to conferences such as the World Summit on Sustainable Development (WSSD), and the African Union Summit (South African Tourism 2003).
[117] The viability and growth of international tourism to a country is directly linked to the strength of the domestic tourism industry. Domestic tourism's share of the market is 66% which augurs well for future international tourism (Unnamed informant, personal communication, May 2004).

Trends in South African tourism

Some key trends are critical to the sustained ability of the tourism industry to meet the high expectations as a 'strategic industry' enabling socio-economic development goals (Mafisa Planning and Research 2002; Koch 1998).[118] These drivers include the competitive advantage of diversity, global industry dynamics, state capacity and harmonisation, as well as leadership and coordination of the sector. A further factor is strong social contracts required to promote a stable, crime-free and tourist-friendly environment. The final driver is a strong institutional base with government-driven market incentives advancing a BEE agenda which broaden the benefits for social and economic development (Segel 2001).

Industry diversity

The South African tourism industry is a complex and diverse industry and has been described as an 'anarchic sector' (Addison 2001). Tourism occurs within a complex nexus of stakeholders and interest groups, encompassing multiple government departments (primarily DEAT but also Trade and Industry, Arts and Culture and Foreign Affairs), provincial and local government, tribal authorities, municipalities, provincial tourism authorities, large JSE-listed corporations, industry associations, a wide range of accommodation and transport providers, leisure business, adventure and cultural tours operators, lodge owners, ecotourism operators, game farmers, national parks interests, township operators, conference operations, casinos, heritage operators, trade unions, secondary service providers and suppliers, banks and DFIs. It is clearly a challenge to coordinate such a complex groups of stakeholders, and harder still to co-ordinate these efforts to maximise and harmonise tourism to ensure broader development gains.

Global dynamics

Like elsewhere, the South Africa tourism market is 'prone to rapid and erratic changes in performance' (Hay 2000, p.152). The greatest threat to the global - and

[118] The environmental affects of tourism, closely linked with sustainability issues raises a set of debates with which I will not engage further.

South African - tourist economy is global economic recession (South African Tourism 2003, p.18). Many of the problems of the South Africa tourism industry are also those experienced by emerging industries globally. These include the hck of institutional control, stakeholder co-operation, and professionalism, as well as short-termism and the challenges of balancing regulation and entrepreneurialism. In addition, South Africa's specific social and economic milieu, characterised by high unemployment and a racially skewed distribution of wealth, creates unique challenges for transforming the economy, not least of all, the tourism sector. Where opportunities exist for smaller enterprises to become established, weak business linkages within the private sector, and between the public and private sectors limit growth (The Cluster Consortium 1999).

Government capacity

In line with liberal economic policies, the state has restructured (or is in the process of restructuring) its assets. At the highest level, government has shown a strong commitment to the sector. Tourism is both a national and provincial concern - with relatively limited capacity in the latter - and it appears that provinces formulate their own tourism policies, often in competition with each other (Addison 2001). Tourism development strategy and the roles of national, provincial and local government are outlined in a slew of government policy documents.[119] The White Paper also goes so far as to adumbrate the roles of all stakeholders involved in the industry (South Africa 1996, p.47-59). However, the low rate of investment, 'the insufficient focus on implementation and limited return in investment' have hampered tourism's projected development (WTTC 2002e, p.4).

During interviews, some business informants criticised government for over-regulating the business environment, stifling the emergence of enterprise and reducing price competition among larger players. A number also criticised the state for high levels of corporate tax and unsustainable labour legislation. The tourism

[119] Key policy documents informing South African tourism strategy, include 'Institutional Guidelines for Public Sector Tourism Development and Promotion in South Africa'(South Africa 1999), 'White Paper on the Development and Promotion of Tourism in South Africa' (South Africa 1996), 'National responsible tourism development guidelines for South Africa' (DEAT 2002) and 'A Transformation Strategy for the South African Tourism Industry' (DEAT 2001).

industry has spawned over 70 sector specific pieces of tourism legislation and policy protocols (Interviewee 5, white, male, government).[120] Regulation was a common point of concern among informants across sectors reflecting a key challenge for government in balancing over-regulation and adequate control of a disparate sector. The tension also operates at a macro-economic level where the overarching concern for government is social and economic transformation whilst competing in the global investment marketplace.

Aviation policy

Given the nature of the industry, airlines cannot easily adjust their capacity seasonally. This inflexibility results in increased ticket prices and compromises profitability (South African Tourism 2003, p.23). South African aviation policy has been criticised as needing liberalisation particularly to attract long-haul services and develop regional networks (Finance Week 1999; WTTC 2002f). Aviation policy can be a 'tool for the broader development of travel and tourism and job creation' (WTTC 2002e, p.9). In attempting to liberalise South Africa aviation, South Africa is privatising its national carrier South African Airways (SAA) as well as engaging in some 'hard ball' bilateral negotiations regarding 'open skies' policies (Cole 2001a; WTTC 2002e, p.42-45.). For a developing country to own its own airline is more than a political statement since it reduces the country's dependency on other countries and foreign airlines (Interviewee 21, African, male, business/parastatals). One informant in the tourism industry remarked: 'It is in our best interest to have as many flights as possible coming into South Africa. After all, if our job is to create demand for the destination, we must ensure we have the capacity to meet it. But it is not that simple.' (Unnamed informant, personal e-mail communication, January 2004).

Liberalising aviation policy is a complex problem. However, despite these difficulties, South African tourism appears to maximising opportunities. Whilst a long-haul destination, South Africa markets itself as an 'overnight destination'

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[120] In relation to the plethora of legislation in South Africa, the same interviewee pointed out that tourism companies in Mozambique enjoy 100% tax-break.

stressing its competitive advantage as a no-jetlag destination: a convenient branding of 'aperitif, nice dinner, sound nap and *voila*! You're in sunny South Africa!' (Interviewee 12, African, male, government). In addition, South Africa has proved itself capable of exploiting other opportunities in niche markets, such as sports events, conferencing, the gay and lesbian market, and the culture and cultural history market (Finance Week 1999; Grant Thornton Kessel Feinstein 1997, p.7; Joseph 2001; Sekeleni 2001; Streek 2001; WTTC 2002e).

Leadership and co-ordination

The tourism sector has historically lacked leadership. One informant called it a 'fractured, fragmented and diverse industry' (Interviewee 111, African, female, business organisation). There are a number of industry associations but their relationships have often been characterised by narrow self-interest and rivalry. Tourism business leaders led an important initiative comprising a wide range of over 650 tourism stakeholders - from tourism businesses, government, unions, industry associations, consultants, NGOs - called the Cluster Consortium. A significant output of the Consortium's *Strategy in Action* was the development of the *Charter of Empowerment and Transformation in the Tourism Industry* (the Tourism Charter) (Tourism Business Council of South Africa 2001a). This process secured the co-involvement of business as partners in South Africa's tourism policy, its strategic direction and implementation (South Africa 1996, p.35).

The effect of crime on tourism and the social contract

This final sub-section on trends in South Africa tourism takes a detailed and sector-specific look at the issue of crime. Crime, the world over, is a considerable obstacle to tourism. South Africa is not unique in facing this problem (Interviewee 5, white, male, government initiative). Public insecurity is generated by perception of the risk of 'random' crime (Marais 2001, p.196-7; South African Tourism 2003a).[121] Poor rule of law and inadequate policing contribute to these perceptions (Leeman 2001).

[121] Crime disproportionately affects the poor and women, and largely occurs in the home where the victim knows the attacker.

Indeed, perceptions of South Africa as a violent destination, well publicised in the media, are likely to be signalled to both investors and tourists (Chait 2000; DEAT 2000c; Hay 2000, p,153; Hood 2000; Mackay 2000; Thiel 2000). High levels of crime, both real and perceived, are obstacles to tourism numbers, entrepreneurship and investment (Aylward and Lutz 2003, p.417; Business Day 2001f; Kathrada, Burger, and Dohnal 1999).

Both the state and the private sector acknowledge crime as a threat to tourism sustainability. Whilst the reasons for crime are various and complex, the incidence of both endemic poverty and raised expectations following democratisation are certainly contributory factors (Interviewee 117, white, male, NGO). While tourism crime has been concentrated around centres like Johannesburg, Cape Town and Durban, tourists are increasingly targeted in rural areas and at popular outlying attractions (Hlatshwayo 2002). Current public-private initiatives between government and business attempt to tackle crime given its potential to undermine tourism sustainability (Graham 2000).[122]

Crime, of course, has an injurious impact beyond the tourist economy. Managing the problem is hardly simple. Business organisations such as the Business Trust and BAC have identified crime as a key barrier to tourism growth, and more broadly, investment in South Africa. These policies are premised on the relatively 'crude' assumption that economic growth and investment (foreign and local) will directly lead to job creation and socio-economic development (Interviewee 117, white, male, NGO). The rise of global terrorism also threatens the stability of the global tourism economy in which South Africa is embedded (WTTC 2001, 2002c, 2002a, 2003b; WTO 2002c).[123]

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[122] In 2001, partnering government, a business-funded NGO, Business Against Crime (BAC) installed CCTV systems to protect businesses and tourists in high profile areas in the Cape Town (piloted) and Johannesburg central business districts (CBDs) with a reported decline of street crime by 80% and 50% respectively (Business Against Crime 2004; Business Trust 2002). Following this success, other cities and towns in South Africa are using the strategy and expanding the implementation of CCTV cameras. (Personal e-mail communication with Nomfundo Mqadi, Programme Manager, Business Trust, January 2004).

[123] The effects of the World Centre attacks on tourism were estimated by the WTTC to have resulted in a decline of 7.4% in world travel and tourism in 2001 and 2002, and worldwide loss of employment of over 10 million jobs (WTTC 2002c).

A government informant pointed out that crime was more detrimental to smaller businesses than big business, the later having greater means to protect themselves (Interviewee 70, white, male, government). Crime may hold tourism hostage given tourism's reliance on a safe environment. One interviewee in the tourism sector explained that:

> You need to protect the tourist from the threat of crime. The involvement of the community is required from the start to deal with the threat to the business and the guests, from crime, hijacking and [wildlife] poaching (Interviewee 35, white, female, business/foundation).

Within the tourism sector, stakeholder relations are more patent than in most other sectors, including for example, the investment sector. Crime is a threat to the nature and sustainability of tourism, and a direct threat to the creation or maintenance of social contracts between stakeholders. At a macro-level, the existence of high crime levels undermines trust in the government, its institutions and capacity to impose rule of law. One informant lamented that:

> I think there is strain on the social contract between the populace and the government in terms of law and order, safety and security. Many people, black and white, feel that the government is reneging on its responsibility in providing a safe environment (Interviewee 125, white, male, organised business).

Another confirmed that the 'failure by government to get on top of the crime situation and the lack of perceived prioritisation of the problem is probably one of the major sources of distrust' (Interviewee 117, white, male, NGO). Again, popular perceptions of the problem fuel the failure of trust between stakeholders with potentially devastating consequences. What one might call the secondary effects of crime - the flight of skills through emigration, the resistance of foreign investors, sensational media representations and the fear of crime - may be as harmful to South African development as crime itself. The sustained growth of South Africa's tourism industry depends on a workable social contract to ensure a safe tourist environment and stable environment for investment through an urgent amelioration of the causes of crime and through socio-economic development.

The State in South African tourism: tourism transformation

South Africa's global economic position and recent political history have resulted in an imperative to transform its tourism industry. Although business represented by the Tourism Business Council has developed an empowerment and transformation charter, the *state* is the primary driver of tourism transformation. Transformation has necessarily involved the state-directed repositioning of the sector in multiple ways:

Global repositioning

The state has recognised the imperatives of market forces in globalisation, and their impact on tourism in South Africa. There is local and international competition for customers, employees, tourism products and investment. Countervailing trends exist wherein some of South Africa's competitive advantage lies. South Africa can satisfy a demand for predictable services and standards and unique location-driven experiences. For the tourism sector to be globally competitive, stakeholders acknowledge that the state and market have to work in concert. Indeed, the state has demonstrated necessary political will to ensure that tourism performs as a global industry. Tourism is identified as a key engine for growth, and the state's macroeconomic policy, GEAR, has positioned the state and market strategically for global competitiveness.

Macroeconomic repositioning

In line with GEAR, the state has privatised tourism assets. As one informant explained:

> [Tourism] is basically undergoing a form of privatisation. There is a restructuring of the [conservation] industry under neo-liberal economic pressure, whatever you want to call it. It is obviously a state-driven process. This includes the South African National Parks (SANP), the renamed National Parks Board (NPB). [The State] is concessioning out the development of the National Parks system (Interviewee 9, white, male, business).

Like elsewhere, the debates around privatising state assets and running them along market lines raise issues beyond those of transfer. This takes place against the backdrop of trade union protest and private sector approbation. Privatisation is often justified in terms of BEE and the transformation of ownership particularly given the warehousing of privatised assets for BEE investment, and the BEE obligations attached to government contracts. BEE in tourism is discussed in greater detail below. For some, privatisation is also more socially and environmentally responsible, given higher levels of accountability and the need to meet competitive tender criteria (Interviewee 32, black, African, business/parastatal; Interviewee 119, white, male, business) (Letsema Consulting 1999).[124] Mahoney and Zyl view the commercialisation through privatisation of state assets as a strategy to ensure the fulfilment of government's environmental obligations. They argue that since government budget cuts invariably damage the environmental management function, it is valid to employ privatisation and strategic investment as mechanisms ensure environmental management compliance (Mahoney and Zyl 2001). Linked to privatisation, a number of joint ventures between the state and the private sector, particularly in conservation areas aim to direct benefits to adjacent rural communities (Ashley and Jones 2001).

Industry repositioning

The state has sought to transform tourism, a strategy exhibiting a number of characters. One, globalisation has meant greater outward focus with regards to tourism. Two, the industry has shifted from serving a white middle-class tourism market to developing a black domestic tourism culture (Letsema Consulting 2002, p.4; Marx 2003). Three, a more commercial attitude has been developed. Under apartheid, SANP saw its mandate as biodiversity conservation, with a secondary mandate to provide subsidised recreation for middle-class whites. There was no cost recovery imperative. Now, such organisations, whether managing conservation, heritage sites or state-owned and run recreation areas have to adapt to a new political and business environment, becoming self-sustainable and more business-like. Four, tourism is perceived explicitly as a vehicle for redress and broader state transfer. As

[124] As in other sectors, privatisation is less likely to affect smaller tourism enterprises. Tourism SMEs are less likely to have designated social and environmental responsibility programmes, and there is typically less demand for such accountability although this may change as they compete for procurement contracts.

in other industries, there is pressure by the state for the transfer of equity and control of privately owned businesses. The state's commitment to redress has meant special attention in the tourism industry to policy and regulatory actions to promote job creation and higher growth rates (Mbeki 2001).

Repositioning human capacity

The state's focus on tourism as a development vehicle has emphasised transforming and deracialising the required skills base.[125] Capacity building in the industry is perceived as key to both BEE and to professionalising tourism. The Skills Development Act of 1999 created a Sector Education and Training Authorities (SETAs) for key sectors. The Tourism and Hospitality Education and Training Authority (THETA) comprises multiple stakeholder groups, including employers, trade unions and the government. As well as identifying areas of employment in both the formal and informal sectors, the THETA also aims to address the lack of tourism skills in the industry, as well as advance youth employment though learnership schemes (Business Day 2001f, 2001e, 2001k; Jackson 2001; Khan and Hemson 2002, p.299; The Star 2001).

Investment

Investment remains an economic priority generally and in the tourism sector specifically. Both local and international investment capital, however, is limited. International investment capital is attracted by high returns in the sector and sound financial performance. Companies seeking investment from international or domestic sources seek to demonstrate their viability in the marketplace and their potential to add-value. The bilateral public-private partnership between the government and businesses (such as the Business Trust and Tourism Business Council of South Africa) has invested in tourism marketing, capacity building, training, and support for tourism enterprises (The Cluster Consortium 1999; Jackson 2001; Business Day 2001e; Finance Week 1999; Thomas 2000). It is commonly held that adequate domestic private sector investment necessarily prefigures foreign

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[125] The private sector has also affirmed the importance of tourism skills development primarily funded through the Business Trust (Business Trust 2000a; DEAT 2000f).

direct investment in the sector. Additionally, there has been significant government investment in tourism, including high-profile marketing aimed at increasing international tourism through South African Tourism,[126] training and capacity building, infrastructure development, malaria eradication and crime prevention.

State focus on tourism has been sustained since it is seen as a vehicle for delivering market-driven redistribution which is consistent with the SCSD framework. However, despite apparent political will and institutional and legislative arrangements already in place, redistributive delivery requires sustained investment and market performance, and cannot be guaranteed. Moreover, the BEE process has been largely to the benefit of few individuals rather than a broad-based redistribution. There are concerns that the optimism about what tourism can and will deliver is overstated (Mafisa Planning and Research 2002, p.6).

Tourism and Black Economic Empowerment

In preceding chapters, I have explored the state's prioritisation of BEE as a redistributive mechanism. As with other economic sectors, the ownership and control of tourism remains largely white (Letsema Consulting 2002, p.7; Business Report 2000; Streek 2000; Graham 2000; Cole 2001a). The TBCSA acknowledged that the industry was white dominated in all respects and that it 'needs to reflect the demographics of South Africa' (Tourism Business Council of South Africa 2001b).

What then does BEE mean specifically for the travel and tourism industry? If BEE seeks meaningful restructuring of the South African economy to advance black participation in the economic mainstream, then transformation of the industry requires an increase in black ownership and control, as well as increased participation in the benefits of tourism including as consumers (DEAT 2000d; Graham 2000). In the tourism sector, the move from pure equity ownership deals, which is a cruder indicator of BEE than those involving broader participation, is especially apparent. Perhaps even more than other sectors, the evolution of BEE is

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[126] South African Tourism is a parastatal mandated with marketing South African tourism: 'to contribute to an increase in Gross National Product, create jobs and improve the redistribution and transformation of our economy and society' (South African Tourism 2002, p.3).

apparent. In 2000, in an internal discussion paper, the government was reported to have set ambitious goals of 60% black-ownership of the tourism industry within five years (Mvoko 2000; Business Day 2001c). No such benchmarks were set and this proposal was never advanced publicly. The notion of high levels of black ownership is congruent with first wave empowerment agendas, replaced now by broader-based strategies which anticipate the BB-BEE legislation and are clearly outlined in the Tourism Transformation Strategy (DEAT 2001; South Africa Government Communications 2001). Whilst shareholding remains an important indicator, it is, in itself, too narrow a measure. BEE in tourism is better measured in terms of advances made in capacity development (management and staff), affirmative procurement and supply chains, CSR/CSI and corporate governance (Business Day 2001j). In more mature areas of industry such as large hotel corporations, broader-based empowerment is more developed, business linkages are established and there is greater evidence of the knock-on multiplier effects on the industry. This is particularly apparent in the case of procurement.

There have been multi-stakeholder initiatives to address the issue of black participation in the sector. As mentioned earlier, the private sector has been seen to spearhead transformation. A highly significant process, the TBCSA led to the development of the *Charter of Empowerment and Transformation in the Tourism Industry* (TBCSA 2001a). Along with business' commitment to develop initiatives to achieve broad-based empowerment is a self-monitoring commitment to report and account progress (Letsema Consulting 2002, p.7; DEAT 2001). Significantly, the Tourism Charter pre-empts the newer conception of BEE as outlined in the BB-BEE Strategy and Bill by envisioning a broader, more inclusive and more diversified notion of black empowerment. The Charter is an explicit commitment on the part of business to further BEE in the industry. Whilst groundbreaking, the Tourism Charter received relatively little attention compared with other more formal charter processes that resulted in legislative obligations. This precursive multi-stakeholder process advanced a social contract between interest groups, particularly around the need for sector transformation and BEE. The charter adumbrated issues of ownership, business development, management opportunities and community development. Tourism business leaders stated:

> Far from being a government-imposed cost on reluctant businesses, [BEE] offers clear benefits to those who are able to develop and implement a clear, business-driven empowerment vision (Letsema Consulting 2002, p.5).

As the Cluster Consortium contended, the most sustainable empowerment outcomes are those which balance social and market imperatives (The Cluster Consortium 1999). BEE was seen by business as central to the sustainability of the sector (Bramdaw 2000).

The government has made significant specific investments in advancing BEE in tourism. Like other sectors, significant barriers such as access to credit and markets hamper emerging black entrepreneurs. To this end, in October 2001, the Minister Valli Moosa announced that R66 million had been set aside for black tourism enterprises (Business Day 2001c). The development of a Tourism Enterprise Programme (TEP) in a PPP has levered over R585 million in deals assisting black entrepreneurs (Marx 2003). As a result of explicit government intervention and promotion, 200 black-owned enterprises were given international marketing exposure at the 2002 Tourism Indaba (Moosa 2002a). DFIs, in particular the DBSA, IDC, Ntsika and Khula have created sectoral focal points to fund the development of tourism, largely by the leveraging of finance to develop SMMEs. Outsourcing and procurement (mostly by statutory bodies) in tourism present opportunities that favour emerging entrepreneurs in generating local economic growth, as well as broad-based growth with concomitant financial gains for the economy as a whole (BusinessMap 2001; Rogerson 2000).

The procurement leverage has substantial benefits for both government and corporations in their supply relationships. The opportunities and potential benefits are significant given the size and diversity of the sector. In addition, as I have argued elsewhere, the potential to procure goods and services from black-owned businesses along a complex supply-chain can effect empowerment in a broad and substantial way. As illustrated later in this chapter, some large businesses have mirrored some of the state's empowerment tender criteria in their own supply relationships. In effect, this is a 'second-tier' affirmative procurement process. Others have created partnerships with black entrepreneurs where no appropriate established supplier existed. As in other sectors, affirmative procurement policies tend to be initiated by government and state-owned enterprises but these filter into the private sector, albeit unevenly. Corporate policy, like that of the state, is driven by the significant buying power of large enterprises. In turn, the stronger a given companies' empowerment profile, the stronger their position in terms of winning contracts from the state. However, as demonstrated by the case-study research, affirmative procurement does carry increased transactional costs for the business. This appears to be a cost most large businesses are willing to incur in the short term in anticipation of the benefits and value of future business from the state and other private sector partners.

PART TWO: Three Case Studies

The second part of this chapter presents three case studies which serve to illustrate the operation of a SCSD framework in the tourism sector. The cases illustrate state-directed policies that seek to ensure socio-economic development through market redistribution, and the responses of corporations. The first, an examination of the Lubombo SDI's Greater St Lucia Wetland Park (GSLWP) forms the major part. It looks at a state-driven process which focuses on infrastructural development, tourism investment and the impact on local communities. The second looks at a private ecotourism company, CCAfrica whose empowerment focus lies primarily in social responsibility and rural development. The final case study looks at the diverse empowerment strategies of three large, established hotel companies.

Case Study: Lubombo SDI's Greater St Lucia Wetland Park

The Lubombo SDI through its anchor project the Greater St Lucia Wetland Park (GSLWP) is illustrative of the SCSD framework as a state-led social and economic development initiative. Moreover, the strong focus on BEE and local economic development represent two state objectives in the empowerment process.

The Spatial Development Initiatives (SDIs) include nine government-identified investment promotion areas. Originally, the SDIs form part of South Africa's industrial reorganisation, creating spines of infrastructural development to ensure long-term economic gains and international competitiveness (Interviewee 12, African, male, government). In line with GEAR, government identified these areas since they were economically undeveloped but had potential for significant growth. Thus, the SDIs explicitly aimed to seek new ways to develop sustainable local economies in targeted areas (Ashley and Jones 2001), and in the case of the Lubombo SDI agriculture and especially tourism and were identified as the only viable environmentally sustainable sectors for economic growth (Koch 1998).

Some SDIs are considered outright failures. All have been criticised as having 'clumsy' beginnings and slow delivery (Interviewee 57, white, female, DFI). Resource-based SDIs were described as 'spectacular failures' and 'a terrible flop' (Interviewees 8 and 9 respectively, both white, male, business). However, the Lubombo SDI, through the GSLWP, is a notable exception. Initial progress was concrete and visible with positive achievements in infrastructure development, malaria management and the establishment of a regulatory framework. Delivery around tourism investment was significantly slower.

Focussing on infrastructure development such as the roads, the Lubombo SDI both provided a tourism route and local people with a tar road (called the Spine Road). This is important as perception of the GSLWP as tourism development infrastructure has generally elided the issue of local development.[127]

[127] If the objective was only to provide tourism infrastructure, then tar roads which connect important regional centres like Mbazwana and Manguzi would have been rerouted.

Figure 6.1: Map of the Greater St Lucia Wetland Park

Source: GSLWP Authority, 2003

The SDI facilitated statutory legislation in 1999[128] that created the GSLWP, a smaller area of 250 000 hectares within the SDI. The Park which now has World Heritage status,[129] aligned national conservation and development interests to create an important biosphere consolidating 16 'parcels' of land and a patchwork of existing reserve areas under one authority (Office of the Deputy President 1999; Marx 2003, p.18). The Act established the GSLWP Authority as a 'business-friendly institution' to develop the Park, and manage it on an 'on-going basis through a negotiated, contractual arrangement with the provincial conservation agency who [acts] as state manager' (Interviewee 9, white, male, business).[130] The GSLWP's

[128] The World Heritage Convention Act 49 of 1999.

[129] World Bank research suggests that World Heritage status has a positive impact on tourists' destination preferences (Lindberg and Dellaert 2003).

[130] KwaZulu-Natal Wildlife is responsible for conservation management.

mandate required the balancing of three different imperatives, namely, conserving the Park's World Heritage status, ensuring commercial development, and ensuring local communities benefit from both conservation and tourism.

Multi-stakeholder partnerships

The Lubombo SDI is a complex multi-stakeholder partnership, described as a tourism initiative that was 'led by government, driven by the private sector and community based' (Interviewee 12, African, male, government) (DEAT 1999). As indicated, significant regional co-operation has resulted in strategic partnerships with the governments of Mozambique and Swaziland (DEAT 2000a). Tourism has offered opportunities for regional cooperation (Hay 2000, p.145). The SDI has enjoyed significant sustained support from government.[131] It also achieved something of notorious difficulty; intergovernmental and interdepartmental co-ordination and government departments, including DEAT, DTI and Public Works (Interviewee 8, white, male, business). Co-operation was secured between national government departments and between three tiers of government, including 14 tribal authorities. Community representation in rural areas is largely through tribal authorities, themselves politically complex structures (Ashley and Jones 2001). These multi-stakeholder relationships are significant in terms of the sustainability of the Park's infrastructure (Interviewee 12, African, male, government). There have been extensive cross-sector tourism partnerships between the private and public sectors. One informant ascribed the SDI's achievement to its high level of successful coordination, particularly inter- and intra-governmentally (Interviewee 8, white, male, business). The SDI's management of a plurality of institutional players, and most especially the public and private sectors, is congruent with a SCSD framework. Figure 6.2 represents the GSLWP within a nexus of relationships acting in response to multiple environmental pressures.

[131] The Lubombo SDI was also championed by former DEAT Minister, Valli Moosa.

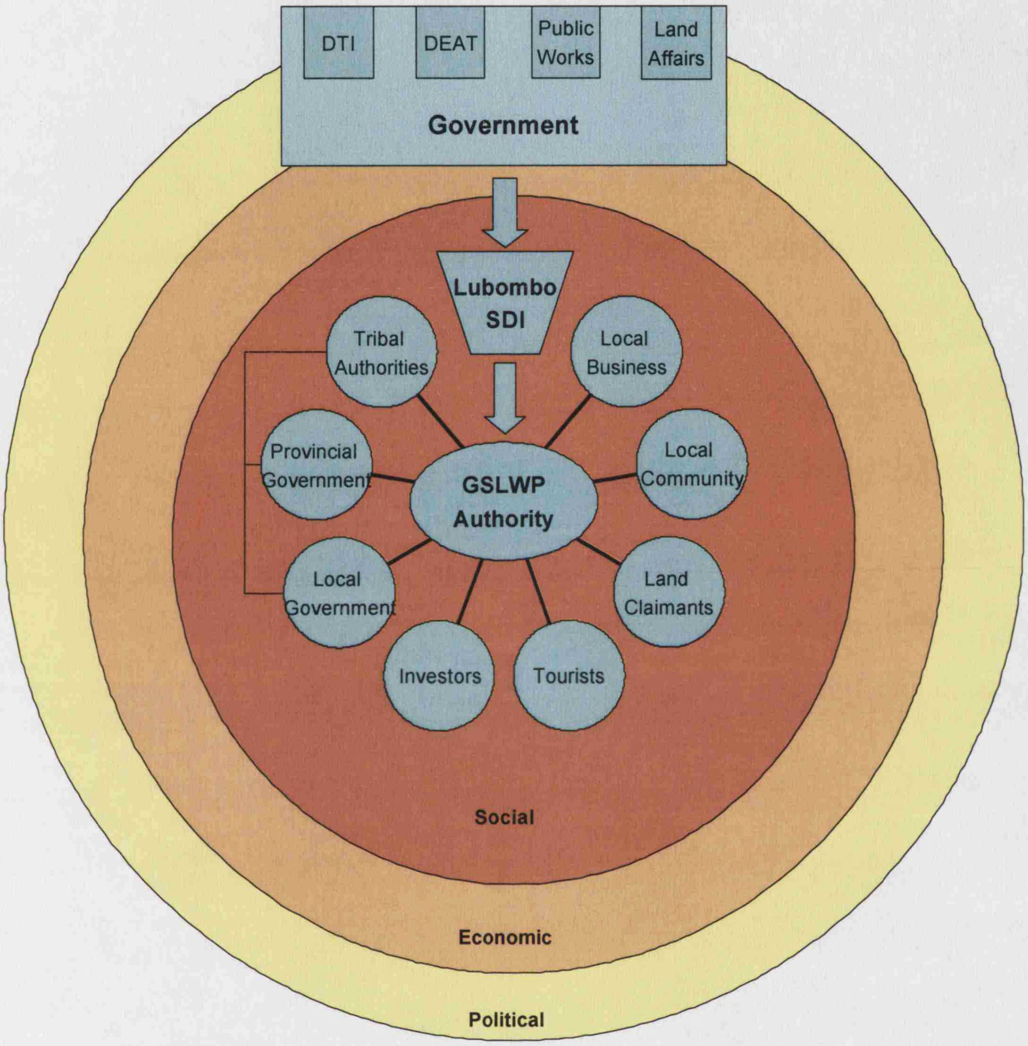

Figure 6.2: Stakeholder relationships in the GSLWP

Strategic components

The Lubombo SDI has four key components. The first is infrastructure. Governments in developing countries commonly influence tourism development. They most often do this through fiscal and investment policy (Opperman and Chon 1997, p.20). The Lubombo SDI tourism node exhibits all of these development strategies. Investment in costly infrastructure - mainly road construction, the provision of electricity, water and sewerage treatment - also benefits the local communities (Opperman and Chon 1997, p.20-21; Bramdaw 2000; Mbeki 2001), whereas fencing and game-stocking relate to conservation infrastructure. Second, is malaria eradication, previously a major threat in the area. The SDI, in partnership with the Business Trust and Medical Research Institute (MRI) are in the process of eradicating malaria by systematic spraying (Business Trust 2003b; GSLWP Authority 2002; Graham 2000). As part of the trans-frontier protocol, malaria has also been eradicated in the Mozambican areas of the Lubombo SDI (DEAT 2000e).

The third component is institutional development, which saw the creation of the GSLWP managed by the GSLWP Authority (as described above). In principle and policy, the GSLWP reserved a 'limited role for the state' in a regulatory role, facilitator of private sector development and as primary land manager (Interviewee 12, African, male, government; Interviewee 9, white, male, business) (Mills 1999). The GSLWP operates along business rather than bureaucratic lines (GSLWP Authority 2003). In reality, government has to date remained the primary driver in the Park (with private sector and community roles less pronounced). Explicitly, the SDI's function was to mobilise investment (DEAT 2000e; GSLWP Authority 2000a; Lubombo Spatial Development Initiative 2001 circa). It also set up a financially sustainable management arrangement to cover both its running costs and eventually its capital input costs. This difficult balance arguably frames the partnerships established around tourism development in the Park.

The final component relates to the development of mechanisms to ensure that benefits accrue to local communities. The GSLWP's pro-poor tourism model values tourist contact with local communities, community participation as a means of delivering development and, most importantly, the exploitation of economic opportunities through employment and building local business capacity. Community development occurs in four ways:

One, as a tourism node, strategies emphasise tourist contact with local communities. Local communities have traditionally enjoyed few benefits from protected tourism areas like the GSLWP despite often being displaced by them (Koch 2001c). The Authority has self-consciously avoided the weakness of enclave tourism which typically fails as a form of rural development since tourism managers seek to minimise economic exchanges between tourists and local communities (Freitag 1994, p.538; Opperman 1993, p.537). Since GSLWP tourism development was delayed by the investment process and has now only recently begun, it is premature to comment on whether local communities are benefiting from direct contact with tourists (DEAT 2003).

Two, consistent with GSLWP strategy which links development and local democracy, Walker argues that the increased 'emphasis on participation by local communities in resource management and decision-making provides important opportunities for improving the effectiveness and equity of conservation programs [sic]' (Walker 1999, p.259). Despite clear policies and evidence that local community participation is a priority, this has been a thornier issue for the Park Authority, particularly with land claims and complicated local politics (Interviewee 57, white, female, DFI).

Three, creating local employment opportunities has a significant multiplier impact on effect on local economies. The area is poor and undeveloped with few formal employment opportunities largely with poorly-paid unskilled labour.[132] To ensure that higher levels of local employment are provided for local people, the tender process took into account not only the number of jobs but also the human resource development plan (Interviewee 91, white, female, government initiative). The strategy has been to link better-paid job creation with skills development and through investment strategies. In reality, although at least 900 permanent jobs for local people are anticipated, the employment capacity of the Park is unclear (DEAT 2003).[133]

Lastly and significantly, SMEs are regarded as potentially delivering broader economic benefits more broadly. Local businesses have developed in response to opportunities presented by increased investment in the Park, and BEE opportunities

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[132] For example, proposals by Richards Bay Minerals, a subsidiary of multinational Rio Tinto, to dredge-mine the GSLWP's dunes for titanium were supported by many local people who saw it as an immediate source of employment (Preston-Whyte 1996; Walker 1999, p.271).

[133] Regulations stipulate limits on the development of the Park and the number of possible jobs.

more broadly. A paucity of local SMEs existed prior to the advent of the SDI which saw an increase in such enterprises, initially in road construction. One informant claimed that there were now a significant number of SMEs tendering for state contracts in the Park and in adjacent areas (Interviewee 5, white, male, government initiative). Moreover, every piece of infrastructural development has been built by companies with significant black ownership, although these may not be locally based. Local SMMEs constructed 30% of the first phase of the 'Spine Road', rising to 60% of the fourth phase (Kupka 2004). Moreover, a key strategy is creating equity partnerships with local communities around accommodation developments, activities (guiding, horse riding, boating etc), procurement (outsourcing of services), as well as employment. Land claimants are mandatory partners such as Bhangazi Trust in Cape Vidal (GSLWP Authority 2003d). Local communities have a stake in the GSLWP through restitution agreements and the mandate of the Authority (GSLWP Authority 2002a). This appears to reflect a significant departure from other conservation-led approaches apparent elsewhere.

Conservation, land issues and investment: a development 'balancing act'

From the outset, the state's role has been to facilitate the allocation of scarce resources in the GSLWP balancing among other things, utility, efficiency, environmental issues, ethical issues, and equity. Certainly, decisions of this nature often benefit special interest groups, and high levels of trust must obtain between interest groups for effective resolution (Allen and Brennan 2002). Preston-Whyte cautions for the potential of rent-seeking by interest groups in the GSLWP given resource scarcity and potential economic rewards (Preston-Whyte 1996). In its role of development facilitator, the state negotiates with multiple stakeholders in order to discourage rent-seeking and resolve claims on scarce resources in line with its development objectives.

Conservation

Conservation in South Africa has a gnarled history (See accounts in Allen and Brennan 2002; Draper 1998; Ellis 1994). Deeply embedded in the apartheid political economy, conservation contributed to land dispossession, to overcrowding in apartheid-era Bantustans and, among black South Africans, 'feelings of deep hostility towards environmentalism, viewing it as a white middle-class concern' (Bonner 1994, p.24; Mafisa Planning and Research 2002; Walker 1999, p.270, citing Cock 1991). These dynamics are present in the GSLWP. Whilst I do not explore further the complex politics of conservation and development, I wish to indicate the importance of the debate, not only in South Africa but also in the rest of Africa. Importantly, South Africa has consciously developed new conservation models that are more developmentally appropriate, and more inclusive in character. To this end, the Park's social development funding is largely levered through land rentals which could eventually generate surpluses to fund bio-diversity programmes and the cross-subsidisation of surrounding social and community development. In the GSLWP, this leveraging towards social development is known as the SEED (Social, Economic and Environmental Development) programme.

Land issues

Land issues pose a significant obstacle to the GSLWP since ecotourism and tourism investment often rest on the successful resolution of land claims.[134] The majority of South African land restitution claims have yet to be resolved (Koch, Massyn, and Niekerk 2001, p.142; McLaughlin 2003, p.130). Many of those interviewed, particularly businesspeople, expressed fears about the threat of Zimbabwe-style land. Koch *et al.* described the land issues as 'not only one of the most defining political and development issues, but also perhaps one of the most intractable' (Koch, Massyn, and Niekerk 2001, p.131). Indeed, the land issue remains a pressing concern with a highly racially skewed pattern of land ownership (James, Ngonini, and Nkadimeng 2004 (forthcoming); Walker 2004 (forthcoming)). Despite extensive institutional arrangements like a Land Claims Courts and a Regional Land Claims Commission to progress claims, land reform - comprising restitution as well as redistribution - is an area of apparent under-delivery by government. This lag in

[134] After 1994, the South African government (Department of Land Affairs) committed itself to redistributing 30% of arable land by 2015 on a willing-buyer willing-seller basis, or expropriation with compensation after a lengthy court process. The land reform programme also importantly covered tenure reform.

delivery is due to the complexity of claims, and the application of liberal market principles which can inflate land prices.

Within the Park's communities, land ownership comes with 'risks and advantages' and 'land represents an enduring tension between tribal elite and peasant interests' (Interviewee 5, white, male, government initiative). In the absence of land ownership, ecotourism can promote a set of local interests which involves the control of land and related resources as a way of effecting BEE (Interviewee 9, white, male, business). Within the GSLWP, 25% of land is under claim with a resultant tension between the ownership and use of land, as well as a tension between land claims and conservation (Interviewee 5, white, male, government initiative). Just 10% of the reserve is privately owned. Progress in advancing ecotourism in the area has been slowed by land restitution programmes which reflect the state's broader commitment to social equity (Koch 1995; Radebe 2003; Walker 1999, p.278). Diverse stakeholder positions' have had to be managed sensitively in light of these diverse political currents.[135] For example, land claim settlements in Mabaso and Mbila have provided a precedent: land ownership was transferred to the claimants subject to the land not being reoccupied by claimants and its use being restricted to conservation, in return for a portion of concession fees (GSLWP Authority 2002). Moreover, as mentioned, land claimants receive a percentage of turnover generated by commercial activities, as well as being privileged as mandatory partners in concessions and procurement activity (GSLWP Authority 2002a).

The importance of being sensitive to diverse stakeholder claims was underlined by a senior government official in the case of the GSLWP:

> There were land claims involved in the GSLWP. Consultation became imperative. Government has been accountable to those communities and has to manage the stakeholder expectations and its given mandate (Interviewee 12, African, male, government).

[135] Another stakeholder group whose interests have had to be managed were 4x4 leisure vehicle beach drivers. A ban was imposed on beach driving, ostensibly to the detriment of vehicle sales (Jenkins and Sewsunker 2004).

The land issue has a direct bearing on the capacity of communities to exploit the benefits of tourism, particularly where these are significant tourism and conservation assets (Mahoney and Zyl 2001, p.44; Preston-Whyte 1996). However, it is important to note the difference between the *ownership* and the *use* of land which has been highlighted as an issue in the Park. As illustrated above, where land claims have been resolved, for the land claimants, these have meant 'a financial package and weak symbolic rights to the land' (Interviewee 9, white, male, business). The state has expressed interest in transferring title to the land under claim because local communities have a *stake*, which creates economic incentives to promote better resource stewardship. This entrenches conservation as land use. Land owners (or those with title claim) accrue a proportion of commercial revenues generated from the land. One commentator argued that this is likely to throw the GSLWP financial modelling into crisis and it is unclear how this problem might ultimately be resolved (Interviewee 9, white, male, business).

Investment

Investment bids for hotel developments were only secured in late 2003. Failure to attract adequate investment would have put the GSLWP development and the initiative's tri-national development goals at risk (Marais 1998; DEAT 2000b). An interviewee argued that associated BEE conditions made the exercise more challenging:

> In a climate where it is particularly different to procure investment, [BEE] tends to be diluted as it tends to be seen as an extra business cost (Interviewee 9, white, male, business).

However, a senior government official conceded that this cost was worthwhile since, given the injection of government public infrastructure and skills training, among other benefits '[some development] success will have been achieved' (Interviewee 12, African, male, government). Significantly, as a public sector initiative, with greater political scrutiny and accountability, the Park's capacity to 'simply cut a deal' without fulfilling its BEE mandate was constrained (Interviewee 5, white, male, government initiative).

Indeed, it is the combination of government and private investment that makes the GSLWP empowerment vision possible. However, more broadly, empowerment in the GSLWP has been difficult to tackle, in part because of fraught local politics between traditional authorities, local government, political parties and local communities in defining 'local' and 'community' in terms of target empowerment beneficiaries (Interviewee 5, white, male, government initiative).

Empowerment has largely been defined within the GSLWP process in those terms laid out by government tender: ownership, jobs, procurement and training. Investment criteria stress BEE and the given business model 'promotes business linkages and equity partnerships' (Interviewee 8, white, male, business). Investment criteria were BEE driven given the 'major lever that the state has' and the lever of procurement, which 'holds a lot of promise' (Interviewee 9, white, male, business). The Authority set up institutional linkages to provide financial incentives (mostly from DFIs), support and training for SMEs and black businesses (DEAT 2001a; GSLWP Authority 2003b; Wildnet Africa 2001). Empowerment criteria also considered broader-empowerment benchmarks alongside equity ownership including jobs, training and procurement (GSLWP Authority 2003c).

The World Heritage Convention Act places a public access duty on the Authority creating a tension with the Park's requirement to maximise revenues. As it stands, one interviewee offered, the 'prices of [national] parks excludes most people' (Interviewee 57, white, female, DFI). The difficulty lies in making Heritage sites affordable and accessible but commercially viable. GSLWP planning suggests it will cater to a range of tourism needs from high end to affordable, aimed at both the domestic and international market (DEAT 2003; GSLWP Authority 2000; Office of the Deputy President 1999). Moreover, ensuring compliance in keeping with the Park's Heritage Site status requires on-going regulation and oversight by the state of other stakeholders.

Investment was difficult to procure partly because the GSLWP is largely state-owned land. However, in 2003, when eight concessions were awarded investment was boosted by R432 million (DEAT 2003). The empowerment requirements secured investment from companies with more than 70% black ownership. Moreover, the Minister confirmed that 50% of resort construction would be awarded to small local businesses (DEAT 2003). The Authority has, in addition, added a remarkable document to the swathe of concession agreements presented to successful investors. A Social Compact Agreement (Annexure 8) outlines the principles under which the concessionaire, the Authority and representatives from the community come together to achieve the success of the development sites. The Compact is a formal - though not litigable – social contract constituting an agreement which outlines the roles and responsibilities of all stakeholders in a spirit of cooperation (GSLWP Authority 2003a).

Critiques of the Lubombo SDI

The GSLWP is too young to have yet realised its planned vision. It cannot, therefore, be evaluated in terms of its delivery as a state-driven tourism initiative. However, what can be critiqued is the vision at its centre, its institutional development and sustainability, and its track record to date.

A number of criticisms have been levelled at the GSLWP, not least by the Authority's own representatives. A key member of the GSLWP Authority admitted that the Lubombo SDI was criticised for not having 'a strong enough social compact with local communities' (Interviewee 5, white, male, government initiative). Another informant repeated criticism that the SDI was 'top-down' and lacking grassroots 'participatory process', and even 'bulldozing the community' (Interviewee 57, white, female, DFI). This criticism was reflected in a report on the Lubombo SDI (Altman 2001, p.13). Nonetheless, extensive consultations did take place and were built into the process from the outset (GSLWP Authority 2000). Moreover, multiple formal and justiciable agreements exist which established the rights and responsibilities of key stakeholders.

Government recognised that with different objectives, constraints and leadership, each SDI would evolve differently. Under the direction of Zaloumis, the process was considered dynamic; a synergy of consultation and leadership (Interviewee 57, white, female, DFI). For another informant, the 'charismatic leadership has been instrumental' (Interviewee 9, white, male, business). Another assented that 'success can be attributed to a dynamic champion' (Interviewee 8, white, male, business). Indeed, the Lubombo SDI has outperformed any other SDI in terms of delivery. However, dependence on an individual's leadership does not make for a sustainable institution.

The Park has also been highly constrained by lack of capacity. Whilst the Board boasts high profile members, the Authority has admitted to 'being thin on the ground' (Interviewee 5, white, male, government initiative). Another informant was concerned that each of the strategic positions in the executive was held by whites (Interviewee 57, white, female, DFI),[136] and a current shortage of skilled blacks. There was also reluctance among skilled black people to live and work in rural areas (Interviewee 91, white, female, government initiative). Nonetheless, the management team has thus far been characterised by specialised professionalism, efficiency and a flat structure which is conducive to 'quick and responsive management and rapid decision-making' (GSLWP Authority 2003).

To date, the state has borne all major infrastructural costs. The pace of securing private sector investment was slow. As one interviewee mused: 'Looking at positive economic return on state investment as a benchmark, I am not at all sure that those figures eventually stack up' (Interviewee 9, white, male, business).

The Park's development is set against the context of market forces with 'business models orientated to an international market' (Interviewee 9, white, male, business). The model 'twins commercialisation of state assets with a procurement method that favours black South Africans' (Mafisa Planning and Research 2002). However, the investment process was slow and difficult. Moreover, with a commercial business model, cost structures are geared towards affluent foreign consumers while local demand is flat (Mafisa Planning and Research 2002).

[136] The racial composition of senior staff in the Authority has been problematised since government-aligned institutions are expected to take a lead on Employment Equity.

GSLWP and BEE

The GSLWP appears almost to have two BEE strategies working simultaneously. At a critical primary level, enormous resources and capacity have been engaged in procuring investment that has significant black equity and ownership. Indeed, the GSLWP has determinedly driven a BEE agenda, going so far as delaying the roll-out of tourism development until it secured appropriate black investment. Investment tenders have also been linked to skills development and human resource development. At another level, black SMEs have been involved at each stage of infrastructural development. Policies are in place for the engagement of black enterprises in different capacities in the Park. These have, and ostensibly will result in further development of local enterprises in response to affirmative business opportunities. These new enterprises, economic benefits generated on claimants' land, newly developed employment opportunities as well as significant black equity ownership and control of large-scale private investment number among key BEE gains for the GSLWP.

It is worth noting that the two ends of the empowerment continuum - equity control and ownership on the one hand and local development on the other - are both evident in the GSLWP BEE policy and implementation. The state has in the first instance set and advanced the BEE and development agenda in the GSLWP. With investment secure, the Authority has oversight to ensure on-going delivery of empowerment aims. However, the Park cannot cure all the areas economic ills. The majority of the local population are unlikely to become direct beneficiaries in the short term. However, despite shortcomings the GSLWP is illustrative of the SCSD framework as a state-led social and economic development initiative.

Case Study: CCAfrica and private sector ecotourism

Conservation Corporation Africa (CCAfrica) developed from a family business into one of Africa's largest ecotourism companies. It is now a South African-owned multinational enterprise which runs 22 high-end lodges in six African countries. Its flagship lodges are the Londolozi and Phinda Lodges, both located in the GSLWP (Varty and Buchanan 1999). Operating in the same space as the GSLWP Authority, CCAfrica provides a different tourism development model. CCAfrica's 'empowerment strategies' have largely focused on (obligatory) Employment Equity policies and voluntary CSR strategies through rural development. The case study illustrates that it too accommodates a SCSD framework which seeks social and economic development.

CCAfrica's stated commitment to ecotourism, sustainability and rural development ensured on-going foreign investment despite an effective international boycott (Allen and Brennan 2002). In theory, ecotourism ensures the sustainability of businesses and resources in the conservation area through co-stewardship (Segel and Sprague 2001). Set against a global trend to include indigenous people in stewardship and management, these ideas have almost become common wisdom. One informant explained that although ecotourism was 'still under government guidance', ecotourism has required significant private sector investment (Interviewee 111, African, woman, business organisation). The importance of private sector investment is highlighted in Oldham *et al.*'s study into game lodges in the area. They concluded that the 'expansion of ecotourism in the direction of large, exclusive, self-sufficient luxury lodges requires investment on a significant scale' (Oldham, Creemers, and Reback 2000, p.178).[137] To this end, CCAfrica has made considerable investment in setting up, game restocking and sustaining its reserve (Segel and Sprague 2001). It has also invested in infrastructure and social development programmes ordinarily undertaken by the state:

> It is necessary for the private sector to act as development facilitators especially in remote areas where the government's programmes cannot reach because of lack of infrastructure and services (Interviewee 53, white, female, foundation).

For example, CCAfrica acts as a delivery intermediary in the provision of rural clinics and schools. Communities benefit directly from CSR and the social engagement of the private sector. At the time of research, CSR was not yet linked to the awards of concessions and licences. However, the sustainability of these social

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[137] Different categories of accommodation require different levels of investment. The investment in land and infrastructure is revealed by the capital cost per bed. CCAfrica required overall investment four times higher than less well-appointed lodges, requiring more than R1,000,000 to support a luxury double room (Oldham, Creemers, and Reback 2000, p.177-178).

benefits is linked to the sustainability of the business. This is discussed in greater detail below.

Rural employment

As outlined in the first part of this chapter, tourism is a chief employer in under-developed rural areas.[138] For example, ecotourism already accounts for 27% of formal employment in the trade and catering sector of the sub-region (Oldham, Creemers, and Reback 2000, p.179). CCAfrica raises certain household income in the area but opportunities are limited with only 135 local people employed at lodge camps (The Cluster Consortium 1999, p.406). Over 90% of all staff employed by the lodges are drawn from local areas (Interviewee 18, white, female, business) given the remoteness of the lodges (Interviewee 104, white, female, DFI). Nonetheless, whilst direct employment is constrained, a multiplier effect creates indirect employment (new incomes further create a demand for other good and services) (Koch 1998, p,7). Benefits flowing from the lodges are experienced in the immediate hinterland of the reserves (Mafisa Planning and Research 2002, p.14). This trend is borne out by a recent World Bank study of nature tourism in the area which suggests a positive economic impact locally in terms of employment and capital (though neutral to positive in enterprises and households) (Aylward and Lutz 2003, p.21). It estimates that 21% of KwaZulu-Natal's GDP originated from ecotourism (Aylward and Lutz 2003). Another study of the regional employment multiplier in KwaZulu-Natal suggests that for every two formal tourism jobs created in the region, another is created indirectly (Oldham, Creemers, and Reback 2000, p.179). The same study also found that only a small percentage of the multiplier expenditure leaked from the target area suggesting a direct benefit to the local economy. However, the multiplier effect is limited and the positive economic impact of tourism concerns like CCAfrica are somewhat mitigated by the fact that many of the local suppliers import goods from urban centres or overseas (Oldham, Creemers, and Reback 2000, p.181).

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[138] Another parallel debate surrounding employment and land use argues that agriculture is a preferred land use option to high-end ecotourism. If argued purely in terms of employment, agriculture employs more people. However, tourism pays those are employed much higher wages. Tourism generates other benefits to the local and surrounding regional economies which agriculture can not (Oldham, Creemers, and Reback 2000, p.185).

Management of lodges tends to be by non-local whites (Interviewee 24, white, female, business).[139] With over 300 employees company-wide, CCAfrica is subject to Employment Equity and skills training legislation (Workplace Equity 2001). One interviewee acknowledged that the implementation of legislation was an important catalyst for compelling the company to prioritise black advancement (Interviewee 24, white, female, business). Whilst staff training to develop black and local capacity is apparently in place, the growing incidence of HIV/AIDS hampers staff advancement (Interviewee 18, white, female, business; Interviewee 24, white, female, business). One informant lamented that many employment equity gains were undermined by HIV/AIDS. She stated: 'HIV/AIDS is coming down on us like a freight train' (Interviewee 24, white, female, business). A Community Development Budget was established at the time of interviews to treat staff with disclosed positive status with antibiotics and provide care packages for those no longer able to work (Segel and Sprague 2001).

Rural development, stakeholding and CSR

Like the GSLWP, CCAfrica has had to manage land claims and the tension between land ownership and land use. Elsewhere in the company's African ecotourism operations, they have employed a community-based natural resource management (CBNRM) approach where the proximity of conservation land to community land ensures extensive economic incentives for land and wildlife stewardship (Interviewee 9, white, male, business) (Leach, Mearns, and Scoones 1999). Whilst land-use agreements do not resolve these tensions, they do create a 'workable and mutually beneficial' compact between the company and its community stakeholders (Interviewee 35, white, female, business/foundation). For example, there are reciprocal bush clearing schemes with local communities where hard woods used in production of charcoal (now a self-sufficient business owned by individuals in the community) are harvested, as are reeds for building, and iLala palms for crafting, basketry and emergency food for livestock. These negotiated agreements with subsistence communities in the immediate hinterland - both formal and informal -

[139] Conservation is also well-known for being male dominated (Draper 1998).

form social compacts which ensure (some) balance of interests between the company and the community (Segel and Sprague 2001).

CCAfrica established CSR programmes which address socio-economic rural development in adjacent communities (The Cluster Consortium 1999, p.406). The company itself identified CSR as its primary BEE capacity (Interviewee 18, white, female, business). Since 1992, a separate and independent foundation aligned to CCAfrica, the Africa Fund: the Rural Investment Fund (RIF) has channelled money for rural works programmes, road construction, water reticulation, clinic services, schools, training centres, environmental education, bursaries targeted at the hospitality industry and ecotourism, and small businesses such as charcoal manufacturing, sewing and brick production (Africa Foundation 2000; Mafisa Planning and Research 2000).[140] The RIF is separated from the core business and relies on donor funds.

Strong stakeholder relationships are important in effecting socio-economic development in adjacent communities, and the communities that serve as a labour pool. One informant external to the company acknowledged:

> CCAfrica has a strong social responsibility ethic. It is strong due to the need to create good relationships [with adjacent communities] and promote rural development (Interviewee 8, white, male, business).

Here, rural development has a clear commercial imperative. CSR is driven by normative as well as strategic factors; the latter holding value for CCAfrica's reputation and legitimacy, as well as its conservation interests. As a consequence of the Fund's CSR programmes, CCAfrica enjoys increased acceptability among surrounding communities:

> There has been a change of the perceived value of the company [by the community] because of community liaison and the value of conservation to community organisations' (Interviewee 24, white, female, business).

[140] The foundation was originally the Phinda Community Development Trust Fund which started as a bush clearing project (Interviewee 35, white, female, business/foundation).

Moreover, company and community fortunes appear mutually dependent, albeit unevenly. The business is embedded in the local environment whilst the sustainability of the business means continued company supported rural development and employment. Improved stakeholder relationship has also met the important objective of stabilising the area with regard to crime and poaching (Interviewee 35, white, female, business/foundation).

Critiquing the CCAfrica business and development model

CCAfrica has been criticised for a number of reasons, ranging from its status as a private sector, commercial enterprise to its development model. Surprisingly, a senior employee acknowledged a number of perceived problems and volunteered some reasons. In the first instance, among other things, there was a deep and enduring suspicion of the private sector in the conservation sector, in government and within local communities (Interviewee 53, white, female, foundation). CCAfrica has also been criticised for having 'arrogant directorship with regard to financial management and the control of the development spend'. The informant also offered that the lodges were not yet profitable or were newly profitable, because they were 'top heavy' making operational costs too high (Interviewee 53, white, female, foundation). At the time of fieldwork, CCAfrica were not yet making profits. According to another informant, CCAfrica has been unprofitable because of heavy investment in land management and restocking, given that 'wildlife is a fugitive resource – it runs away' (Interviewee 9, white, male, business).

Most significant criticism relates to CCAfrica's development model which does not transfer equity to local stakeholders. The CCAfrica employee justified this position in a number of ways. She stressed that given low profitability and high costs, community equity was unlikely to be considered in the short term. The 'lodges are not sustainable' and CCAfrica was in 'competition with other companies for a small slice of business'. It was necessary to manage community expectations. In addition, shorter-term competencies in social development as education, skills and entrepreneurship needed to be addressed such before equity transfer would be considered (Interviewee 53, white, female, foundation). This strategy was confirmed by an external informant who argued it was 'paternalistic':

> There are problems with the [development] model used by CCAfrica. First, the donor money is often used as a subsidy for the lodge to do stuff like bush clearing which would ordinarily come out of the operational costs. This touches on borderline ethics. The other weakness is that the foundation is donor driven. It does not reinvest in the community nor does it use tourism as a productive engine (Interviewee 8, white, male, business).[141]

CCAfrica does not share company equity with its community partners. Where CCAfrica land is privately owned, adjacent communities are effectively excluded from any decision-making associated with land-ownership. Communities are 'expected to enjoy the benefits of conservation and ecotourism, but largely as passive beneficiaries' (Allen and Brennan 2002, p.161). The company's social responsibility programmes are impressive but viewed as corporate philanthropy, increasingly seen as limited in the South Africa context. The company's use of CSR as a marketing strategy and leverage funding has also been criticised (Allen and Brennan 2002).

As a counterpoint to the GSLWP, CCAfrica is a privately owned white business that retains equity and control in its community engagement. Whereas the state has taken an active directive stance in the Park, CCAfrica's social engagement has been voluntary, motivated both by normative and strategic business concerns. CCAfrica's CSR programmes are notable examples of corporate philanthropy and corporate rural development. However, the case study sits somewhat uncomfortably with the SCSD model since the state is not proactive, the market itself is not a redistributive tool, and there are limited opportunities for development beyond employment. Moreover, whilst a major employer in the area and the instigator of rural development programmes in adjacent communities, the social and economic impact of the company is limited and localised.

[141] Fungibility raises an important debate and is often posited as a reason on the part of those opposed to social development investment (that is, investment in social spending as part of general development rather than social sector investment).

Case Study: Large Hotel Companies

In this final section, I consider three large hotel enterprises, Sun International, Southern Sun and Protea Hotels. I examine their different responses to pressures from the state and other stakeholders. Each has used their empowerment drivers to differentiate their operations as well as for competitive advantage.

Sun International

Sun International, which established a casino industry in the former Bantustans,[142] is the leading enterprise in South Africa's gaming and leisure industry. The linkage between gaming licences and BEE prompted the company to restructure its operations (Rogerson 2000, p.6-7; Kim, Crompton, and Botha 2000). The National Gambling Act (1996) stipulated that no single operator could operate more than 16 casino licences countrywide (up to two per province). Importantly, the Act attached BEE criteria to the potentially lucrative award of gaming licences and CSR obligations (National Gaming Board of South Africa 2001).[143] Both Sun International and Southern Sun are key players in the gaming industry.

As a consequence of these licensing obligations, there have been significant numbers of large BEE deals in the gaming sector (BusinessMap 2001; National Gaming Board of South Africa 2001; Kyriakidis, Wright, and Wallace 1996; Rogerson 2000, p.11). Provincial Licensing Boards stipulated the contractual fulfilment of BEE criteria. The licence criteria have resulted in significant black ownership and control in these enterprises. The strategic response by the private sector to gaming legislation was the formation of new corporate vehicles in which there was a substantial black equity ownership.[144] Gaming enterprises have shown

[142] Sun International and Southern Sun have thrown off the notoriety of founder, Sol Kerzner who during apartheid exploited political contacts and contradictions inherent in the 'independent homeland' system.
[143] At informant at Sun International claimed as part of its CSR programmes, that they were the first to institute counselling programmes for responsible gambling at each of their casinos. Other interviewees were critical about casinos, voicing ethical concerns that gaming was detrimental to the poor (Interviewee 79, white, female, DFI; Interviewee 92, white, male, business; Interviewee 46, Indian, male, NGO).
[144] An informant explained that there were 3-5 applications for each gaming concession; each cost about R20 million on risk (Interviewee 94, white, male, business).

themselves to be highly lucrative (Interviewee 57, white, female, DFI) (BusinessMap 2001; The Cluster Consortium 1999, p.405). An informant claimed gaming was, 'a licence to print money!' (Interviewee 95, white, male, business). All gaming companies were subject to the same legislative and licence requirements so that as an industry start-up, none was competitively disadvantaged by BEE or CSR obligations (Interviewee 11, white, male, business). The same informant explained that CSR obligations were wider than the gaming tax which benefited the local municipality. He explained: 'It is not just a community social issue, it is a business imperative' (Interviewee 7, white, male, business). The same informant added that 1.5% of taxed profits went into CSR (a typical CSR spend by large enterprises).

Alongside equity, Sun International's empowerment strategy is driven by affirmative set-up and operational procurement (Interviewee 81, white, male, academic). Sun International has spearheaded affirmative procurement in the private sector. With a shortage of black supply firms, limited affirmative procurement opportunities were initially in construction, gardening services, guest transport, dry cleaning, cleaning services and even a coffee shop in Carnival City (Rogerson 2000, p.20). Sun International has initiated a broader affirmative procurement policy beyond it licence obligations although it imposed a premium on the business. A company representative admitted: 'We did pay a premium of up to 10% on contract but we paid with our eyes open' (Interviewee 7, white, male, business).

The restructuring of Sun International was reported to have refocused the group's operations resulting in staff reduction from 12 000 to 8 800 employees between 1994 and 1999. Restructuring has seen Sun International create out- and in-sourcing arrangements.[145] As a BEE strategy, affirmative procurement involving out- and in-sourcing was first mooted in 1998. The strategy was purportedly developed in line with national growth goals, social policy objectives of the RDP and market-driven wealth transfer (Sun International 1998). Sun International has established former black employees and emerging SMME in specialist service providers. Rogerson argues that these employment arrangements bestow certain advantages on the

[145] Both Sun International and Southern Sun employ outsourcing and in-sourcing of non-core operations as efficiency and cost-cutting measures (Rogerson 2000, p.13).

company in that its complement of paid employees (and attendant obligations) is reduced (Rogerson 2000, p.10). Conversely, the company argues the arrangement better suits the seasonality of the tourism industry, and that opportunities are created for emerging empowerment companies in the sector. An informant explained: 'We have to invest in them; they are the stakeholders' (Interviewee 7, white, male, business).[146] To this end, construction work (a minimum set at 30% of total value) is awarded to emerging black businesses, some of which Sun International assisted in creating (Rogerson 2000, p.12).

An interviewee commenting on the Sun International's BEE framework argued that the company embarked on an aggressive affirmative procurement strategy because it anticipated 'legislation from government to increasingly drive [affirmative procurement]' (Interviewee 104, white, female, DFI). Whilst Sun International has led on affirmative procurement, public and private views are not always in accord. An informant shared some scepticism regarding the philosophy:

> If a black man comes to you and tenders, he must be given preference. That in itself is anti-competitive. And more especially, it is anti-democratic and it is anti-free market. It goes against all the principles of a free-market economy (Interviewee 7, white, male, business).

Such perceptions were often shared during interviews; what is surprising is that the Sun International source was at the same time also arguing the *business case* for the vigorous promotion of affirmative procurement, by its own suppliers.

In addition, and anticipating the BB-BEE strategy, which underscores affirmative procurement, Sun International instituted an arrangement whereby company suppliers take responsibility for supporting the growth of emerging SMMEs. To this end, the company has created a formalised structure to support out-sourcing enterprises. In other words, Sun International's (private sector) suppliers have to take extensive responsibility for developing capacity in emerging businesses within

[146] Under trade union pressure, the company committed itself, where possible, to buying South African made products. For example, negotiations with the South African Clothing and Textile Workers' Union resulted in a social compact with Sun International regarding the provision of quality, delivery time and price to promote South African manufacturing (Interviewee 7, white, male, business).

their sphere. Sun International monitors supply companies in terms of their empowerment profiles, compliance with contractual obligations and any failure to support emerging SMMEs. Failure to meet these requirements is likely to threaten further contracts with the company. Contracted companies in turn have to manage their own stakeholder relationships though public community meetings and multi-stakeholder partnerships. Notably, the transactional costs in developing partnerships with SMMEs are borne by the suppliers and not by Sun International.

Although the motivation for Sun International's progressive affirmative procurement policies appears in the preservation of 'free' markets, its business model is one which self-consciously uses the somewhat visible hand of the 'free' market to ensure company value, as well as transfer. The model's strength lies in the fact that it genuinely results in broader-based BEE by developing and providing opportunities further along the value chain. This widens the pool of economic beneficiaries. Moreover, the impact of Sun International affirmative procurement strategy is deepened in its secondary affirmative procurement policy places BEE obligations on its suppliers.

Southern Sun

The Southern Sun Group (hereafter Southern Sun), along with City Lodge, dominates the domestic business tourism industry (Rogerson 2000, p.6). The Group is wholly owned by SABMiller which is quoted on the London Stock Exchange. Its gaming business is co-owned by Tsogo Sun Investments 'making it the country's largest black empowerment hotel and gaming group' (Southern Sun Hotels 2004). In strategic partnerships with Six Continents Hotels and the Accor Group, Southern Sun operates, among others, the franchises of Intercontinental, Crowne Plaza, Holiday Inn and Formula One brands. Southern Sun is also the largest time-share operator in southern Africa. Southern Sun is a multinational presence with hotel franchises in seven other African countries.[147] Like Sun International, Southern Sun has extensive gaming interests.

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[147] These are Kenya, Mauritius, Mozambique, Seychelles, Tanzania, Zambia and Zimbabwe.

Corporate citizenship reporting was a notable transformation initiative by Southern Sun. Its initial report in 2000 made it the first company to engage in social accounting in the tourism industry. The social reporting standards for company accounts, are primarily from the Global Reporting Initiative, as well as Accountability 1000 (Institute of Social and Ethical Accountability) and ISO 14001 (International Organisation for Standardisation).[148] Corporate citizenship reports are concerned with sustainability issues and reflect a multi-stakeholder process. The Group reports on economic, social and environmental indicators, corporate governance, partnerships and investors. It also systematically reports on its key stakeholder relationships; employees, customers, suppliers, government, industry, the environment, as well as on its BEE performance (Southern Sun Hotels 2002). One interviewee described the context in which social reporting was initiated as a 'very difficult trading time when the hotel industry is suffering and its fortunes going up and down with the economy' (Interviewee 11, white, male, business). The same informant admitted that many throughout the business saw the reporting process as 'an extravagant programme', 'soft' and 'not core to business operations'. The difficulty in gaining acceptance of such processes is not unique to Southern Sun. Indeed, given the onerous task of including resistant stakeholders, it is all the more remarkable that the company has maintained its commitment to producing a subsequent report in 2002.

Like its competitor Sun International, Southern Sun's efficiency drivers have resulted in in-sourcing of services such as housekeeping.[149] The development of a model around in-sourcing services by Southern Sun identified candidates from existing staff. Selected staff were provided with business training and awarded a trial contract prior to a longer-term contract. In addition, Southern Sun provided seed capital and ongoing training and mentorship for newly established businesses (The Cluster Consortium 1999, p.400). The group claimed significant successes with the programme. However, the programme was suspended following a Labour Court

[148] Social accounting is an important process but not one which forms the core concerns in this thesis. More information on the social accounting standards I have mentioned can be found at www.globalreporting.org, www.accountability.org.uk and www.iso.ch.

[149] Southern Sun has been attributed with evolving the in-sourcing arrangement (Rogerson 2000, p.13).

judgement which ruled that since it was linked to retrenchments, Southern Sun had a responsibility to maintain income levels for these staff.

Companies like Southern Sun and Sun International have to balance efficiency imperatives with affirmative procurement programmes, which might in themselves appear to be creative redistributive mechanisms. However, the judgement that led to the suspension of in-sourcing reduces the commitment to such programmes since they undermine company efficiency and involve the risk of litigation. It may be argued that the power of the labour movement is waning and certain interests already regard the development of black enterprise are a critical element in broadening the benefits of BEE.

Protea Hotels

The Protea Group is a leading hotel group which owns and/or manages almost 90 hotels around South Africa, as well as in surrounding African countries (Rogerson 2000, p.7). It claims to be the largest hotel group in Africa in terms of numbers of hotels (Protea Hotels 2004). Among Protea's management contracts are the state-owned Aventura resorts. The contract was awarded when the resorts failed to be privatised in 1999.

Of the three largest hotel companies, Protea has embarked on the most conventional of empowerment strategies. In 2001, non-listed Protea Hospitality Corporation (PHC), the holding company for Protea hotels sold 18% of its shares to a BEE consortium.[150] The deal focussed on equity as the 'biggest critical factor in the industry' (Protea Hotels 2001). This is resonant of the first wave of BEE where equity-driven deals were most common. Given the problems of special purpose vehicles (SPVs) and the failure of many empowerment deals in that first wave, the Protea deal used private compacts between existing and new owners. With problems of leveraging funding, the company's existing executive directors, underwrote the

[150] The consortium comprised two trade union investment companies, Basebenzi Investments, the investment company of the Federated Allied Worker's Union (FAWU) and Popcru Investment Holdings. The consortium also included black business interests Hoyohoyo Hotels and Resorts, Siphumelele Investments and two private shareholders.

deal themselves. Protea's shares were warehoused whilst the consortium purchasers made payment of a substantial deposit (Hospitality Online 2002 circa). The deal was essentially facilitated by the commitment of existing directors to underwrite the deal and enter a compact with their new empowerment partners. The management core remained intact and new empowerment members were added (Protea Hotels 2001).

Protea's unusual funding arrangements mitigated some of the problems associated with BEE deals and SPVs. Given that this arrangement is underwritten by individuals, this suggests the strategic importance of securing BEE partners. In this case, Protea has responded to the state-created environment by advancing equity to BEE partners. Again, this arrangement directly benefits a relatively small number of people, with a wider pool of beneficiaries involved through institutional investors.

Conclusion

Tourism is a crucial sector of the South African economy. Consequently, it has attracted significant political interest and investment by both the public and private sector. In accord with the SCSD framework, government seeks to transform existing economic patterns and ensure economic prosperity by transforming key industries like tourism. State strategy in the political economy of tourism has seen it establish a specific and non-negotiable business environment which seeks to use the market for redistribution. It has also used the market to expand the distribution of opportunity and create incentive for transformation through potential massive rewards. Indeed, as demonstrated by the cases, through the incentives of such lucrative instruments as concessions, gaming licenses, infrastructure contracts and the on-going supply of goods and services, the state has been able to use the market towards economic - as well as social and political - ends. Corporations, in turn, respond to this environment in ways that maximise their strategic benefits. For example, empowerment businesses have been established to win contracts and licenses with empowerment obligations.

A recurrent theme in this chapter has been the importance of stakeholding to the tourism industry. Trust is also imperative for broader South African social objectives of a social contract 'based on trust, empowerment, co-operation and partnerships'

(DEAT 2002, p.5). The existence of trust between stakeholders in a working social contract is vital for creating a safe and stable environment to sustain tourism. To keep a competitive advantage in tourism diversity, South African enterprises need the support of a wide range of stakeholders. But trust which is the glue for social contract is not an unlimited resource. The state has to manage stakeholder relationships and tourism resources, whether human, wildlife, cultural or environmental. In this role, the state has to facilitate the development of stakeholder trust to shore up any social contract. On one level, the tourism industry represents the broader South African project which seeks to negotiate the interest of diverse groups and which seeks economic transfer along market principles. Moreover, whilst stakeholding and the social contract are essential normative concepts, tourism's *dependence* on their existence shifts their importance to an instrumental or strategic level.

The engagement of tourism business with the social transformation of the economy is multi-dimensional. In the first instance, tourism enterprises have to manage a unique relationship with the state to secure this environment and the necessary infrastructure for their operation. Moreover, since the state is the major consumer of goods and services throughout the economy, tourism businesses have responded to the commercial rewards that flow from a good relationship with the state. To access these rewards, tourism enterprises have had to attend to their institutional arrangements, corporate governance, patterns of ownership and the management of affirmative legislation regarding employment, and procurement in particular. The nature of the particular tourism enterprise will also determine the relative importance of different stakeholders, whether the state, local communities or overseas tourists.

In this and the preceding chapter, I have argued that BEE is a form of market-driven state transfer. In the tourism sector, there are significant differences in the nature of distribution between equity-ownership leveraged by government at one end of the spectrum, and the benefits of land clearing programmes at the other. The impact of these benefits on communities is very different. How these two ends of tourism BEE cohere, and how the social and economic benefits of the sector are spread more broadly are the challenges to SCSD, and to the state and businesses as tourism stakeholders.

CHAPTER SEVEN: ANALYSIS AND CONCLUSION

Introduction

This thesis examines the dynamic relationship between the state and the market in South Africa with particular regard to the redistribution of social and economic goods and opportunities. The twin challenges of ensuring global competitiveness, whilst redressing apartheid legacies through social development have created a political economy that seeks to meet the interests of divergent social groups. To better understand this tension, I developed a new framework, state-corporate social development (SCSD) to describe and analyse the state-market relationship in this contemporary developing country milieu. The framework theorises this relationship in the global context of shifting expectations regarding the role of the state in managing social well-being. SCSD comprises two concepts. First, the notion 'state-corporate' highlights the dynamic tension between the state and the market in a contemporary political economy. Second, 'social development' underlines the specific public and particularly, private institutional responses to social development goals. The thesis explores how the South African state as purposeful and proactive actor has created a set of specific market conditions through policies such as black economic empowerment (BEE). These policies seek to ensure economic and social transformation through market-driven mechanisms. The thesis also explores the responses of business to these legislative, institutional and environmental conditions. As a social policy framework, SCSD does not seek to deliver social goods directly. Rather, it leverages the market, and key institutional relationships (between the state and the private sector) to these ends.

The thesis demonstrates how the state has created an environment in which to advance a particular set of economic, social and political outcomes. The primary political driver is the imperative to redress the legacies of apartheid and accelerate the integration of black South Africans into the economic mainstream. The state has used multiple levers to ensure this, including, most notably, the market mechanism. As the major consumer of goods and services, the state employs market incentives or sanctions as the primary means of effecting economic transfer. The thesis analyses this redistributive strategy with reference to the investment and tourism sectors.

Social contract and stakeholder theory are used to frame SCSD. Located within a left liberal spectrum, these theories permit the accommodation of pluralism. This is relevant for governance both by the state and business sector. Moreover, the analysis is enhanced by the synergistic employment of these theories. Social contract theory operates at a highly abstracted level as a heuristic device informing policy, whilst stakeholder theory functions at an operational level in the practice and implementation of policy.

The research employed qualitative methods including 135 face-to-face stakeholder interviews and extensive analysis of both published, grey literature and electronic sources. The empirical case studies explored SCSD as it pertains to contemporary South Africa, especially with respect to the policies and implementation of BEE.

The research had a number of explicit aims:

The primary aim was to employ a social development perspective to better understand the state-market relationship, in general, and the social role of corporations, in particular.

Second, in theorising the state-market relationship, the thesis developed a new conceptual framework and interrogated its appropriateness to describe and analyse the state-market relationship and socio-economic development in South Africa.

Third, it described the economic and social drivers established by the South African state to transform the business environment, and the responses of corporations to a given social and economic milieu.

Fourth, in line with corporate responses, the thesis interrogated the capacity of traditional forms of corporate social engagement, namely CSR to ensure social well-being or alter economic patterns.

Fifth, since the purview of CSR was assumed (and later established) to be limited, the thesis interrogated whether state-directed policies aimed at market-driven economic transfer patterns are more apposite to advance corporate social responsibility.

Sixth, within a left liberal paradigm, the research established the relevance of social contract theory and stakeholder theory as important theoretical frameworks in the formulation of a SCSD framework. With reference to a social development framework and policy formulation, social contract theory informs why these questions are asked in the first place. Stakeholder theory informs what questions are asked and how given objectives might be achieved.

Finally, the thesis engaged more specific research questions using empirical data drawn from the research. The thesis examined the development and evolution of current South African policies such as BEE. Using case study data, it questioned whether BEE could deliver particular economic outcomes that are socially responsible and whether these can potentially deliver social justice.

Critical Empirical Findings

The research findings provide a picture of the South African political economy at a particular time in the country's history. The thesis generated a framework for the analysis of the state-market relationship and the social responses by corporations in contemporary South Africa. The empirical data highlighted a number of important issues. Chief among these is the role of the state in determining market environments. Indeed, the South African government's political agenda - the redistribution of wealth into black hands through BEE policies - crucially determines this business environment. This environment is defined by a number of laws and institutional arrangements that have altered the distribution of economic opportunity, albeit largely for a middle class, elite, and the relatively privileged employed labour class. Opportunity is redistributed through employment equity policies and practice, while social investment is advanced through skills development and affirmative procurement legislation, under an overarching constitutional framework which guarantees equality. At one level, this environment is non-negotiable. The state's role as an underwriter of BEE is one of a directive and 'visible hand' in the 'free' market in the way to seeks to allocate opportunity. The market is influenced by the state's political imperative, as well as the incentives created by the state to which business has responded strategically. The research identifies the general (although not universal) acceptance of capitalism and market forces as the primary mechanism for wealth creation and redistribution. Moreover, as described in Chapter Four, there are multiple stakeholder fora for the negotiation of these issues, seeking the reduction of risk and reinforcement of liberal pluralism.

The apparently non-negotiable nature of the market environment characterised by a high level of state intervention was an issue of concern for many business people. A number of informants were ambivalent about the directive role of the state and what they considered the highly regulated contour of South African business. Interestingly, some elite representatives who were largely (but not exclusively) white criticised the apparent over-regulation by government as inefficient, as rent-seeking and as undermining competition. It also became clear that there was often a distinction between the public discourse of companies and the private opinions of their representatives during interviews. These informants raised concerns that excessive legislation hampered the efficient operation of the market. Of BEE legislation, again mostly white business people expressed concern about the racialised quality of economic redress and concerns about the business skills of their black counterparts. There also appeared to be an enduring distrust of government policies among some white business elites. Finally, there are enduring concerns about the sustainability of BEE. Since the 'cost' of BEE is justified in terms of redress and equity, concerns regarding the sustainability of BEE policies remain particularly in light of the fact that there is no stated time-line or proposed termination date for policies which are essentially remedial, aimed at post-apartheid redress. Again, the on-going costs of BEE policies have to be set against South Africa's need to compete in the global market-place.

The sectoral case studies presented in Chapters Five and Six are not intended for direct comparison although some common trends and differences are noteworthy.

Relationships with the state as a primary stakeholder are crucial for both investment and tourism enterprises. In the case of investment companies, a stable economic environment is vital for the attraction and retention of on-going investment both domestically and internationally. Certain enterprises require greater state approbation than others such as those seeking the award of contracts in industries which are subject to greater regulation including the media, broadcasting and telecommunications. However, the primary mandate of these companies is the (responsible) return on shareholder investment. Moreover, many of these investment companies owe their existence to opportunities made available to empowerment investment companies and these companies' further mandate involves investment in companies with credible BEE credentials.

In the case of tourism enterprises, the state is also a crucial stakeholder for a number of reasons. First, the industry depends on a stable and crime-free environment, the product of political commitment, practical implementation, on-going vigilance, and significantly, state management of the social and economic causes of crime. At the same time, tourism is also dependant on other tourism stakeholders such as local communities to ensure this environmental stability and the co-stewardship of certain tourism assets. Second, licenses to operate assets in conservation areas, for example, and those in tourism-aligned industries such as transport and gaming are awarded on the basis of empowerment profiles and behaviour. The case studies also illustrate sectoral differences which suggest alongside stakeholder interests, the nature of the business in question is important to its corporate social engagement responses.

BEE seeks to integrate black people into the economic mainstream through various legislative and institutional mechanisms. Chapter Five demonstrated that in the first wave of BEE, many of these strategies failed. First wave empowerment largely benefited a small number of politically-connected individuals who now constitute an entrenched black elite and growing middle class. However, despite earlier failures, recent developments in the BEE framework have resulted in a broader-based strategy which seeks to widen the mechanism for empowerment and its pool of potential beneficiaries. BEE is the redistribution of opportunities to black people rather than merely the transfer of equity ownership. The state has used its purchasing power and its relationship with the private sector to compel deracialisation in the workplace, and create incentive for the transformation of business. A key constituent of this strategy is affirmative procurement. Affirmative procurement is seen as a progressive, market-driven strategy that increasingly results in the exploitation of market opportunities by the formation of BEE entities. The ability of black entrepreneurs to exploit these opportunities is often restricted by lack of access to capital, a problem only partially resolved by the state through DFIs. Affirmative procurement is not, however, an appropriate transformation mechanism for all circumstances such as in the case of small businesses that do not seek state contracts or which operate in sectors where procurement represents a small portion of the business.

A consequence of emerging black wealth has been a significant shift in the racial demographics of the middle class and among economic elites. Wealth inequality remains a serious challenge to South Africa. Chapter Four establishes that whilst poverty is still largely black, the middle-class has become increasingly deracialised. Inequality is increasingly an intra-racial phenomenon. There has been significant criticism of the government's prioritisation of black middle-class interests at the expense of the interest of the poor. A key question emerging from this research has been the problematisation of BEE and for whom it ultimately delivers empowerment.

The thesis also found that although a desirable corporate engagement strategy, CSR (or CSI) is in itself limited as a social development policy. CSR is ameliorative. Its impact is often local and uneven, and it does not seek to transform existing economic patterns. There has been little critical attention given to the appropriateness of importing what is essentially a construct of corporate social engagement from the global North to South Africa or other Southern countries. This thesis has argued repeatedly that many of South Africa's challenges are developmental in nature and as such, CSR is not a panacea for local challenges. Like their Northern counterparts, South African companies have justified CSR on normative but also, more interestingly, on strategic grounds. Despite its limitations, CSR successfully leverages strategic benefit for business in two ways. First, the long-term sustainability of business is linked to the perceived legitimacy of its economic and social benefits to stakeholders beyond its shareholders. Business has to be seen to be investing in social development capacity. Second, there are direct, realisable strategic benefits to CSR for those companies seeking business from the state since tendering requirements adumbrate CSR among criteria for the award of contracts. However, as both empirical chapters demonstrated, CSR alone does not result in any significant transfer and has to be viewed in the context of other transformative policies like BEE. The notion of corporate citizenship is more appropriate than CSR to the SCSD framework.

Utility of existing theoretical and conceptual approaches

In developing and applying the SCSD framework, the thesis has made extensive links between existing theoretical approaches. In particular, the SCSD framework employs the concept of political economy, left liberalism, social development, social contract theory and stakeholding.

The thesis and SCSD are grounded in a political economy approach which is embedded in the left liberal and social democratic traditions. They in turn advance roles for both the state and the market and seek to accommodate a plurality of interests. Thus, SCSD is a normative framework rooted in an ideological position that holds that the redistribution of resources is a basic and necessary requirement of social development. The political economy approach when operationalised, seeks to manage the relationship between the state and market in promoting social and economic development.

The thesis drew on the operational concept of social development towards developing a framework which accommodates the extension of institutional responsibility for development and the promotion of social and economic well-being to non-state institutional actors, particularly, business. SCSD highlights the role of a directive state in creating the enabling conditions for socio-economic development by ensuring capacity (through social investment) and opportunity. Social development also underlines the importance of the market in ensuring redistribution through growth. Also relevant to the SCSD framework, a social development perspective uses contracts between social partners and institutions to accommodate diverse interests through managed pluralism. It also allows for targeted policies which are context-specific. In the case of South Africa, this means positive discrimination.

SCSD also employs stakeholder theory to understand the corporation's position within a nexus of societal relationships, and social contract theory to explain the rights and obligations extant between stakeholders. Stakeholder theory explains and guides the operation of the corporation from the fundamental premise of its accountability to numerous stakeholders beyond its shareholders. Corporations engage with stakeholders for descriptive, normative as well as strategic reasons. As a mechanism for managing diverse interests, a stakeholder theory of the corporation links advantageously to the liberalism and managed pluralism inherent in the social development framework. A central and on-going challenge in stakeholder theory is defining the corporation's stakeholders. Donaldson and Preston utilise social contract theory to define those who hold a stake: a social contract exists between stakeholders and the corporation, expressed or implied (Donaldson and Preston 1995). This was the approach followed here.

SCSD employs the social contract as a heuristic device to define the rights and responsibilities of different stakeholders. It also employs the social contract at a macro-level to describe the political, economic and social arrangements explicitly negotiated in societies, such as South Africa's new liberal social democracy. Through a system of rights and responsibilities, social contract theory explains the relationship between the state and the market; between institutions, as well as between these institutions and the society in which they operate. Social contracts themselves may operate at different levels of abstraction. The SCSD framework which employs stakeholder theory on a normative and strategic basis is congruent with social contractarian notions. In turn, both of these theoretical positions support SCSD arguments that seek to advance the social engagement of corporations. The social contract is also especially useful for understanding the state-market dyad, and for advancing an understanding of the redistribution of goods in society. Classical social contract theories of Hobbes, Locke and Rousseau are concerned with the

origins and working of the state, and the limits of political authority and obligation. Modern theory uses the social contract as metaphor (rather than a formal and litigable contract) and is concerned with relationships of obligation in a general conception of justice.
The thesis has explored the necessary conditions for the achievement of social justice. To this end, it invokes Rawlsian social contract and his Principles of Justice in particular, to justify and explain unequal social and economic arrangements such as the affirmative policies in South Africa which direct material benefit and opportunities to black people. The thesis finds theoretical justification for BEE in Rawls' social contract, as well as the social development framework that permits the affirmative treatment of certain groups and individuals through targeted redistribution.

Contributions of the research

This thesis contributes to academic research in a number of ways:

This thesis has developed and advanced a SCSD framework to analyse and explain the state-market relationship, redistribution through social investment and affirmative opportunities through the market, the management of diverse stakeholder interests and the social engagement of corporations. SCSD is defined as a framework for planned and strategic change for social well-being in which economic and social development are integrated and mutually supportive in a context-specific environment, and where the state is the chief driver and the market its primary mechanism in achieving social goals.

A key contribution of the SCSD framework is that it theorises the state-market relationship and advances an explicit engagement by corporations in concert with the state in the promotion of social well-being. The thesis extends existing conceptions of social development by focussing on the role of the market as a social development vehicle whilst regarding the directive state as the primary policy driver. In developing the SCSD framework, the thesis harmonises in a single framework a number of constituent approaches, the conjunction of which extends both theoretical and empirical insights into the state-market relationship in a developing country context. Moreover, the SCSD is found to be an appropriate analytic framework when tested against empirical data.

The thesis incorporates perspectives from various disciplines such as sociology, politics, development studies and business management. It draws together insights from these disciplines and from areas of attendant interest, including law, political philosophy, political economics, ethics, and governance. The thesis' multidisciplinary orientation is consistent with perspectives inherent in its home discipline of social policy. However, by drawing from such a wide range of perspectives, the thesis offers a unique and integrative view of the phenomena and situations under investigation. As a consequence, the thesis represents an important contribution to the discipline of social policy, and also to other multidisciplinary areas such as development studies, governance and even business management. The thesis demonstrates the interaction of two key institutions, the state and the market, in advancing social and economic development. It has offered an analysis that steps beyond mere presentation and description. It develops a critique of the state-market dyad, corporate social engagement and BEE policies which is coherent, rigorous and insightful. Thus, the thesis draws together in a single analysis such disparate ideas as political economy, liberalism, social development, CSR, corporate citizenship, and BEE represented through a multidisciplinary prism which builds a picture of SCSD in South Africa. In so doing, the thesis breaks new theoretical and empirical ground.

The thesis extends current conceptions of corporate social engagement which have largely been concerned with CSR. Corporate philanthropic activity is often an important funder of social development programmes in a developing country context. However, these interventions are limited contributors to overall social welfare. Drawing on the values of corporate citizenship, the thesis establishes a corporate social development perspective in which social concerns are embedded in the strategic and operational imperatives of business. SCSD advances CSR and corporate citizenship issues by moving them from the normative to the strategic level. The SCSD framework holds that corporate social engagement has a normative basis and that it is ethical and virtuous. However, SCSD acknowledges that businesses seek profit maximisation and value-creation. SCSD contributes to the impact of corporate social engagement beyond that of CSR and corporate citizenship by harmonising responsible business with the broader social and economic imperatives of extending benefits and opportunities. It is clear, as demonstrated by the empirical data in this thesis that SCSD potentially results in corporate social engagement that is beneficial to all stakeholders.

The thesis has tested the SCSD framework within two key sectors of the South Africa economy, taking account of contextual specificities, and found it to be appropriate. South African society is characterised by striking economic and social inequalities. The SCSD framework focuses attention on the contextual appropriateness of a purposeful, interventionist state operating in tandem with proactive market institutions. The thesis demonstrates that government policy has targeted the market as an intermediary to extend economic and social opportunities through empowerment policies. The thesis contributes to a small but growing critical analysis of BEE. The thesis substantiates the notion that the South Africa government creates the environment for business operating licences using sanctions and positive incentives. The thesis presents evidence that corporations respond to these incentives for normative and, particularly, strategic reasons. In scrutinising BEE policies in general, and within two sectors in particular, the thesis tracks the evolution of BEE from a narrow equity-driven strategy to a broad-based strategy aimed at managing the social and economic needs of a greater number of citizens. The thesis' treatment of BEE represents a significant contribution to this body of literature. SCSD theorises BEE within a social development and left liberal theoretical framework utilising both stakeholder theory as well as the abstract heuristic device of the social contract.

The thesis has contributed new analysis and explored empirical terrain in the sectoral cases of investment and tourism by its application of the SCSD framework. Empirical data supports the assumption that the SCSD conceptual and operational framework is compatible with the theoretical rubrics of social contract theory and stakeholder management. Both theoretical frameworks offer important guidance and direction with regard to understanding the management of conflicting interests.

Together these theoretical rubrics show that pluralism is guaranteed and social cohesion ensured despite the existence of political, economic and social division.

A further contribution by this thesis is a picture of the operation of SCSD in South Africa at a particular period in the country's transition. The thesis reflects and benchmarks the perceptions of elite stakeholders from diverse spheres to a range of issues of concern to the SCSD framework. Thus, the research establishes a useful empirical baseline for further research in this area, in the case studies and other sectors.

Methodological issues and future research

The research findings presented in this thesis reflect the methodological sensitivities inherent in applying the same analytic framework to different sectors, registering common trends and also specific institutional and operational dynamics of each sector. The evolution of BEE as a SCSD outcome has been demonstrated in both sectors. In addition, the research was sensitive to the relative importance of various stakeholders for different sectors, and even within sectors according to given business models. A number of limitations to the research were outlined in the first chapter including methodological problems inherent in subjective interpretation (of researcher and informant), case study methods, research undertaken with limited time and resources, representing information given in confidence, accessing elite informants and critical sanction given the highly politicised subject matter. However, the research managed these in a forthright and conscientious manner to construct a coherent and rigorous picture of SCSD in contemporary South Africa.

As indicated above, the thesis provides a platform for further research by providing a rigorous framework for the analysis of state-market relationships and the social engagement of corporations. It also provides a platform for describing and analysing redistributive mechanisms through the market. This research was time-bound, and has usefully established a baseline for further similar research in these areas. Here, there is greater scope for longitudinal studies which would permit SCSD to be used over a period of time to evaluate the performance of sectors against social and economic goals. In addition, the SCSD framework can usefully be applied to investigate the dynamics of other sectors such as the mining, transport and finance industries. As the thesis excluded analysis of the role of NGOs, a different framework which might contain some elements of the SCSD may be usefully applied to accommodate instances of local NGO sector pressure on both the state and business as in the case of pharmaceutical industry. Moreover, the SCSD framework might also be tested in the case of multinational corporations. The application of the framework to other developing nations could also be pursued.

The issue of BEE is an under-researched area and little critical scholarship exists on the subject. Whilst it is widely agreed that the South African economy must become more effective and competitive, it is generally suspected that BEE distorts the market by imposing a premium on business' licence to operate. Controversially, recognising the immediate and urgent need for transformation of the South Africa economy, future research might interrogate the longer-term impact of other indirect costs of BEE such as the emigration of white skills, investment costs or increased transactional costs borne by both the state and the private sector. However, since the state has not proposed a discontinuance of BEE policies, the cost of this ongoing state intervention to business of BEE must be evaluated against the clear gains of BEE.

Implications for policy and practice

Increasingly, policy makers around the globe focus on the relationship between the state and the market to ensure in promoting overall social well-being through social and economic development. Social policy, particularly in developed countries, has traditionally assumed that the role of the state was to ensure redistribution through social goods and services. The retrenchment of the state in recent years, however, has challenged this assumption and policy makers have had to consider other ways of realising social goals. Other institutions, particularly the market, are seen as appropriate co-partners for the state in achieving these socio-economic objectives. This thesis has argued that key policy issues relate to the balance of market intervention in market transactions in order to achieve a dynamic and responsive political economy acceptable to all stakeholders. The state, in concert with the private sector is forcefully accelerating BEE for the purposes of socio-economic transformation.

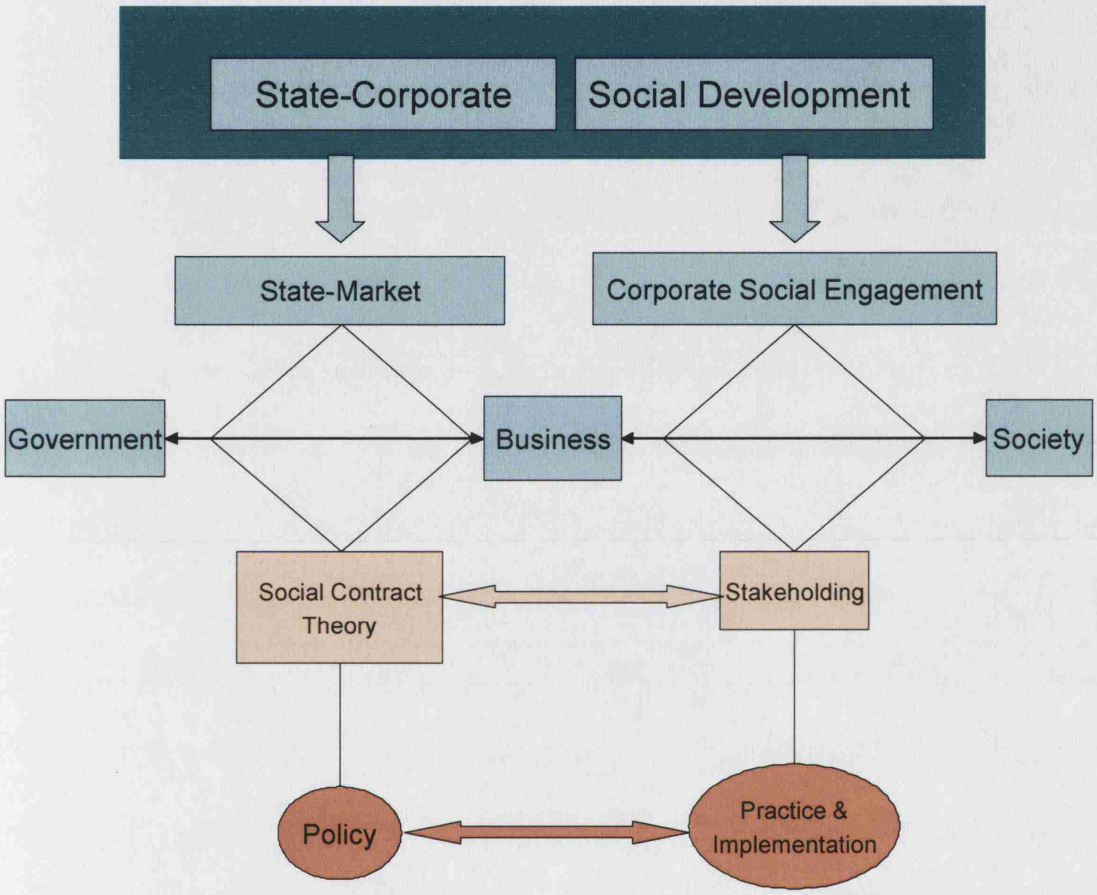

Figure 7.1: Diagrammatic representation of SCSD as a policy framework

Figure 7.1 offers a diagrammatic representation of SCSD as a discursive, analytic, policy and practical framework. It deconstructs SCSD into its two primary constituents; the state-market relationship which establishes the business environment, and the social engagement of business in response. It shows the key institutional stakeholders in the framework. It also points to the theoretical rubric informing SCSD. Social contract theory is reflected in the political economy at a macroeconomic level. In other words, the social contract is the product of a negotiated agreement between state and market actors which in turn informs the overarching policy environment. Stakeholding explains and guides operational and practical concerns that inform the implementation of policies.

South Africa's liberal social democracy exhibits both Keynesian and neo-liberal characteristics in its macroeconomic policy, GEAR. GEAR emphasises macroeconomic stabilisation through fiscal restraint by the state and conservative economic policies which seek to create an enabling environment for market directed growth. Whilst GEAR is seen as a self-imposed structural adjustment policy, it also retains a link with RDP objectives which emphasise social redistribution through the provision of health care, education, housing, water and so on, as well as the alleviation of poverty through employment creation, including extensive public works programmes. Thus, GEAR establishes a macroeconomic environment which is greater than the sum of its parts since it privileges both liberal economic values in the market, and social democratic values in its social redistribution. Moreover, GEAR has been described as social contract (May *et al.* 1998, p.64; Mokate 2000; Friedman 1992). It advocates a social compact primarily between the state, business and labour to facilitate wage moderation, accelerate investment and employment and improve service delivery (Friedman 1992). Each of these elements of GEAR is congruent with social policy formulation in a left liberal framework. Here, SCSD provides a useful discursive, analytic and policy framework. However, both the market and redistributionist elements of South African social and economic policy have to be strengthened and sustained to ensure continued social transformation. This requires greater efforts by the state and the market to eradicate poverty and address the hugely divisive social and economic inequality that exists. The success of coordinated state-market strategies will depend on a number of factors. These include progressive and flexible policies underpinned by sustained political will to alleviate the plight of the poor, efficiency in the delivery of social goods, the proactive broadening of empowerment to a wider pool of beneficiaries, and institutional stability to manage the risks and opportunities of globalisation in the interest of human development.

Institutional co-operation described by SCSD requires a reified social agreement which mitigates conflict and the increased risk associated with political and economic instability. A culture of dialogue presupposes such a social contract. Social contracting is a democracy-consolidating exercise which ensures greater stability, stresses mutual obligation and promotes pluralism. Indeed, the act of articulating the purview of such a social contract among stakeholders can provide an important means of fostering agreement on shared goals and visions. South Africa's tradition of dialogue serves the notion of the social contract well, as it does the multiple formal and informal social contracts that obtain. At the core of the South African social contract is a set of rules and obligations that establish the manner in which different stakeholders engage, and how their interests are advanced. However, enduring stakeholder compacts based on trust require continuous revisiting and ongoing commitment by all contractors whether these are abstract or grounded, litigable contacts. The SCSD framework establishes the policy framework to promote and strengthen social contracts among stakeholders; between business and the state, and business and its various stakeholders. By using the social contract as the fairest and most just mechanism for the distribution of goods, SCSD ensures the state meets basic needs, and in concert with other institutions, promotes social investment and opportunity creation.

An important policy insight relates to the shift from normative to strategic business responses. CSR, as corporate philanthropy and corporate citizenship has largely been regarded as normative social engagement by business. The SCSD framework argues that whilst these responses are desirable, their impact may be maximised if embedded with a policy framework which recognises their strategic importance. Stated differently, the power of economic self-interest is harnessed for broader social development and restorative social justice. Here, the state as a major consumer encourages a range of corporate behaviours through material incentives which operate in the mutual interest of the state and business. By providing incentives, the state ensures that businesses are 'socially responsible', that they assent to a range of transformation policies which they might otherwise resist, and even reproduce these incentives along their own supply chain. Whilst CSR remains voluntary and non-mandatory, state licensing and procurement policies have ensured that in order for businesses to win contracts they have to look and behave in state-sanctioned ways. The implication is that companies have repositioned themselves in line with this socially responsible vision that advances BEE to commercial self-interest. Companies demonstrating greater demographic representation are commercially better placed to exploit market opportunities. A further implication is that where CSR and philanthropy ends, the market extends social and economic development. Policy must address transformation in innovative and creative ways which importantly also address business imperatives. Most companies, especially large business, see the process of adopting BEE as critical to their business sustainability in the long term. Thus, state policies as well as corporate social policies recognise the power of commercially-driven incentives and extend the potential of both state and market institutions to deliver social and economic benefit.

At a corporate level, it is clearly important for the sustainability of businesses that they adopt policies that are both commercially viable and politically strategic. Corporate social policies must be seen to be adding value. But beyond reputation management and legislative compliance, there is a strategic benefit in value-based empowerment policies and practice which are infused throughout the organisation from board level, through management to staff. Stakeholder management within the business enterprise is more likely to result in a shared culture, as well as a common strategic and operational vision. Race is a dominant issue in contemporary South Africa, and BEE is the critical facet in corporate social engagement. However, it is important that other forms of diversity including gender and disability remain priorities, both in policy or practice.

It is imperative that BEE policies deliver broad-based economic empowerment. In order to be effective as a mechanism for redistribution, and to remain a legitimate policy option, BEE must in relatively short order provide broader benefits to larger numbers of people. It is imperative that the state continues sensitively to manage the inevitable divergent interests that obtain. To this end and given the significant economic stakes, the state must ensure that policies are consultative building on an established social contract, and that implementation is fully transparent and accountable. The trend of 'empowering' politically well-placed individuals rather than on the basis of commercial capability weakens the government's claims regarding fairness, market process and transparency. Accountability and transparency with regard to both the state and business are critical to continued economic stability and to attract sustained foreign direct investment. Indeed, broader-based BEE attempts to redress the contradiction inherent in narrowly conceived empowerment strategies by further inclusion and by focussing on social investment and the creation of market opportunities.

Government policies are driving corporate behaviour with respect to employment, equity investment and now recently, CSR. It is clear that sectoral charters are providing effective vehicles for this agenda although they by no means cover the whole economy. Whilst each charter is industry specific, they arguably significantly and appropriately widen the concept and beneficiaries of BEE. A notion of BEE which pivots on equity alone as was characteristic of the largely failed first wave of empowerment is bound to fail for structural reasons and thus a broader and more inclusive notion must prevail.

Indeed, South Africa competes for investment, goods and services with other developing economies in global markets. South Africa shares many of the same social and economic challenges as other middle income developing economies. However, South Africa's particular history of apartheid creates significant political pressure on the state to ensure social and economic redress. South African competitiveness may be compromised in the long-term although the market appears willing to accept significant state intervention to address the question of equity. What would otherwise be regarded as market inefficiencies in this current phase of transition are tolerated in redressing exceptional circumstances and in the interest of social justice. Elements of BEE are widely considered by the business community as 'anti-market' trade-offs. It is also clear that BEE will have to be unwound in due course although no such policy termination has been mooted and acute race and wealth differentials are likely to persist in the future.

As an operational framework SCSD does not seek to deliver social goods alone. Rather, it leverages relationships to this end. SCSD seeks to ensure that capacity is in place and opportunities are created for market-driven redistribution to occur. SCSD provides appropriate ways of managing need and opportunity through offering concerted policy frameworks and promoting implementation by multiple institutions, particularly the state and the market.

APPENDIX ONE: Interview Schedule

Introduction to parameters of research, including:

- *Reiteration of purpose of research*
- *Assurance of confidentiality*
- *Anticipated time interview will take*
- *Seek permission to record interview and permission to quote anonymously*

Interview

Ask for short description of company, organisation or project.
Probe areas of personal responsibility in company
Connect to disaggregated research areas.

Corporate Social Engagement

How would you define corporate social engagement? Or CSR/CSI?
What term do you prefer to use to refer to corporate social engagement, and why?
What are the debates as you see them?
How responsible are South Africa companies? Explain.
Probe company specific CSR programmes or corporate citizenship commitments.
What are the benefits or vulnerabilities associated with this position?
To what extent does your company disclose its non-financial performance? Why?
With what perceived results?

Role of Business

What do you perceive to be the role of business? Explain.
To whom is business accountable? (To whom is your company accountable?)
Do you see stakeholding as an acceptable business practice? Why?
Who are your (company's) stakeholders? What stakeholders are specific to your sector?
How are these relationships managed and to what end?
What are the major challenges faced by (your) business in this climate?

Role of the State

What is the role of government? Explain.
What is the relationship between government and the business sector? (Other stakeholders?)
How do you perceive government's management of social and economic challenges?
How would you describe the level of trust between government and business?
How do you see a social contract operating in South Africa?
What is your general assessment of government's approach to the private sector and investors?

Legislative and Policy Framework

What is your view on the legislative framework in which you operate?
What are your views on government policies towards business since 1994?
Probe specific legislation: employment equity; skills development
How have labour regulations/legislation impacted on your business?
How has your company responded to recent empowerment legislation?
What are the challenges you face in compliance? With what benefits?
What are the biggest problems facing business? (Your business?)

Black Economic Empowerment

How would you define BEE and its purpose?
What is your general assessment of BEE as an economic and social policy?
What are the strengths and weaknesses of BEE?
How has BEE changed?
What are your BEE policies? Why do you engage in these? What are the key challenges?

South Africa and Globalisation

What do you perceive to be the key debates?
How would you define globalisation?
What are the key challenges facing South Africa in terms of global economic competition?
How important an issue is this to South Africa's development?
To what extent are the state and business responding to the challenges? (Probe: your company?)

Stakeholder relationships

In general, how do various stakeholder constituencies view each other in South Africa?
What is your view on NEDLAC? And on other multi- and bilateral organisations?
What are the challenges associated with managing different interests? (For your company?)
In what ways do you communicate your values?
How important are these values to the way in which you do business?
Does your company consult with any societal groups (environmentalists, community groups, political groups, government)?

Other (if appropriate)

What are the challenges and opportunities facing your sector?
What are the key sectoral policy/legislative frameworks affecting your business?
Have these assisted or prohibited growth or operations of your business?

Probe general points raised in discussion for further detail (where necessary).

- Is there anything else you would like to add to this discussion?
- Ask for additional contacts (if appropriate).
- Ask for details of people or institutions mentioned in interview.

Thank interviewee

APPENDIX TWO: List of Interviewees and Organisational Affiliations

NAME	POSITION	INSTITUTION
Adele Thomas	Director: South Africa Management Project	Graduate School of Business Adm., Wits University
Adrian Bird	Chief Director: Employment and Skills Development Services	Department of Labour
Aggrey Klaaste	Editor-in-Chief	Sowetan
Andre Bester	Corporate Clinical HIV/AIDS Manager	Gold Fields Limited
Andre Lambrecht	Executive Director	Barloworld Limited
Andrew Donaldson	Chief Director Financial Planning	Department of Finance/ Treasury
Andrew Zaloumis	Chief Operating Officer	Lubombo Spatial Development Initiative
Andy Maclaurin	Group Human Resources Director	Southern Sun
Ann Bernstein	Executive Director	Centre for Enterprise and Development
Anthony Reznick	Group Purchasing Manager	Sun International
Asghar Adelzadeh	Research Director and Senior Economic Modeller	National Institute for Economic Policy
Bernie Fanaroff	Managing Director	Resolve Crime and Security Solutions
Bheki Sibiya	Executive Director: Human Resources	Transnet Limited
Bonang Mohale	Executive Vice President	South African Airways
Brendan Pearce	Director	Umhlaba Development Services
Brian Whittaker	Chief Operating Officer	Business Trust
Bronwyn James	Manager	Lubombo Spatial Development Initiative
Busi Pilane	Public Relations Officer	Johnnic Communications Limited
Charles Nupen	Chief Technical Advisor	International Labour Organisation/Swiss Project
Chris Heymans	Consultant	McIntosh Xaba and Associates

Christian Rogerson	Professor	Geography and Environmental Studies, Wits University
Clifford Elk	Executive Director	Mineworkers Investment Company
Courtney Sprague	Senior Researcher and Lecturer	Graduate School of Business Administration, Wits University
Daniel Malan	"Manager	Business Ethics Consulting"
David Barnard	Executive Director	Southern African NGO Network
David Story	Director	The Resolve Group (PTY) LTD
Deborah Fox	Director	CCAfrica
Deon Basson	Journalist and researcher	Financial Times, Finansies and Tegniek and Moneyweb
Dirk Geldenhuys	Procurement	Land Bank
Douglas Ramaphosa	Group Executive	ABSA
Eddie Koch	Director	Mafisa
Eric Molobi	Executive Chairman	Kagiso Trust Investment Company
Eric Ngubane	Executive Director: Human Resources	Anglo American Platinum Corporation Limited
Eric Ratschikhopha	General Manager: Corporate Affairs	Gensec Bank Limited
Eugene Saldanha	Director	The Non-Profit Partnership
Eugene Van As	Chairman and Chief Executive	Sappi Limited
Francis Antonie	Senior Economist	Standard Bank of South Africa
Gail Campbell	Head: Absa Foundation	ABSA
Gavin Anderson	Chief Executive Officer	Leadership Regional Network for Southern Africa
Gavin Pieterse	Chief Executive	African Renaissance Holdings Limited
George Oricho	General Manager: Development Markets	Land Bank
Gillian Hutchings	Director: Membership and Communications	National Business

		Initiative
Grace Rapholo	Policy Analyst Social Development	Development Bank of Southern Africa
Graeme Simpson	Chief Executive Officer	Centre for the Study of Violence and Reconciliation
Hilton Appelbaum	Executive Director	Liberty Foundation
Ian Russell	Managing Director	Transformation Africa
Ingrid Miot	Financial Director	Ashira Legal Consultants (PTY) LTD
Isaac Shongwe	Director	Letsema
Jan Harrison	Human Resources	CCAfrica
Jan Mahlangu	Provident and Pension Fund Co-ordinator	Congress of South African Trade Unions
Jayendra Naidoo	Chief Operating Officer	Jay and Jayendra (PTY) LTD
Jeff Molobela	Chairman	Black Top Holdings
Jimmy Manyi	Head: Business Development and Marketing	Peoples Bank
Johan Muller	Manager	Land Bank
Jonathan Yudelowitz	Director	Gemini Consulting
Joseph Claassen	Corporate Affairs Manager	Sentech
Karen Hesse	Director	BusinessMap South Africa (Pty) Ltd
Karin Mahoney	Spatial Development Initiatives	Development Bank of Southern Africa
Kedibone Letlaka-Rennert	Director	Phambili Strategies and Solutions
Keneiloe Mohafa	Social Investment Manager	Gold Fields Limited
Kevin Dunne	Senior Manager	Nedcor
Kevin Handelsman	Corporate Finance	Dimension Data
Kevin Wakeford	Chief Executive Officer	South African Chamber of Business
Khetla Shobane	Chief Executive Officer	Nelson Mandela Foundation
Leonie Van Lelyveld	Chief Internal Officer (acting)	Development Bank of Southern Africa
Les Kettledas	Deputy Dir-General: Labour Policy	Labour Market Programmes, Department of Labour

Leslie Boyd	Executive Vice Chairman	Anglo American Plc
Lewis Rosen	Managing Director and Director	Global Edge Consulting (PTY)LTD/ KPMG
Lisa Klein	Chief Operating Officer	Jay and Jayendra (PTY) LTD/ ex-Executive Director Nedlac
Livhu Ramabulana	Chief Operations Officer	African Legend Investment Company
Lot Ndlovu	Executive Director	Nedcor
Louisa Mojela	Executive Director	Wiphold
Lucy Kaplan	Researcher	Mafisa
Makaziwe Magwentchu	Office Bearer/Consultant	African Renaissance/Eskom
Malcolm Gray	Asset Management	Investec Asset Management
Mamathe Kgarimetse-Phiri	Senior Analyst: Affirmation Action and Gender Unit	Development Bank of Southern Africa
Margie Keeton	Executive Director/Trustee	Tshikululu Social Investments/Anglo American Chairman's Fund
Marie Kirsten	Policy Analyst	Development Bank of Southern Africa
Mary Cole	Operations Evaluations Specialist	Development Bank of Southern Africa
Merle Favis	Board Member	South African Grantmakers Association
Mervyn King	Chairman	Brait South Africa Limited/King Commission
Michael Boyns	Company Secretary	Johnnic Holdings Limited
Michael Rea	Senior Manager: Global Risk Management Solutions	PriceWaterhouseCoopers Inc
Michael Spicer	Executive Director: Corporate Affairs	Anglo American Corporation of South Africa Limited
Moketsi Masola	Chief Director: Tourism Development	Department of Environmental Affairs and Tourism

Morne Havenga	Social Accounting	Land Bank
Neil van Heerden	Executive Director	South Africa Foundation
Nick Binedell	Director and Professor	Gordon Institute of Business
Nick Segal	Dean and Professor	The Graduate School of Business, University of Cape Town
Nick Smythe	Group Industrial Relations Manager	Gold Fields Limited
Nicky Young	Consultant and Trustee	Africa Foundation/Getty Foundation
Nonie Makose	Executive	New Africa Investments Limited
Oupa Bodipe	Co-ordinator of the Secretariat Office	Congress of South African Trade Unions
Oupa Mokuena	Manager: Strategic and Business Planning Unit	Development Bank of Southern Africa
Patrick Bond	Associate Professor	Graduate School of Public and Development Management, Wits University
Paul Edwards	Group Chief Executive	Johnnic Holdings Limited
Paul Graham	Executive Director	IDASA
Peter John Massyn	Director	Mafisa
Phillip Armstrong	Managing Director	ENF Corporate Governance
Phillip Dexter	Executive Director	National Economic Development and Labour Council
Pieter Cox	Deputy Chairman and Chief Executive	Sasol Limited
Priscilla De Gasparis	Social Impact Specialist	Development Bank of Southern Africa
Raymond Parsons	Overall Business Convenor	National Economic Development and Labour Council
Reg Rummney	Director	BusinessMap South Africa (PTY) LTD
Richard Wilkinson	Executive Director	Institute of Directors of Southern Africa
Rick Menell	Chief Executive Officer	Anglovaal Mining

		Limited
Robin Lee	Director	Robin Lee Associates
Ross Kriel	Chairman	Ashira Legal Consultants (PTY) LTD
Roy Silver	Director	Business for Good
Sabello Macingwane	Chief Executive Officer	National African Federated Chamber of Commerce and Industry
Saliem Fakir	Country Programme Coordinator	The World Conservation Union
Sam Tsima	Constructive Employment and Development	ABSA
Samantha Terblanch	Foundation Manager	CCAfrica/African Foundation
Sandile Zungu	Executive Director: Group Strategy and Empowerment	New Africa Investments Limited/Ex-Union Alliance Holdings
Saro Persaud	Office Bearer/Consultant	Accountability Institute South Africa
Sean de Cleene	Director	African Institute for Corporate Citizenship
Sean Mackay	Manager	Centre for Policy Studies
Steve Fitzgerald	Group Managing Director	CCAfrica
Steven Friedman	Director	Centre for Policy Studies
Steven Gelb	Policy Analyst	Development Bank of Southern Africa
Stiaan Van der Merwe	Chief Executive Officer	Transparency South Africa
Susan Hyde	Proprietor	Susan Hyde and Associates Workplace AIDS Programmes
Teboho Mahuma	Executive Director (acting)	South African Grantmakers Association
Teuns Eloff	Chief Executive	National Business Initiative
Thomas Qhena	Group Director: Human Development and Social Investment	Johnnic Communications Limited
Tinka Wiswe	Head: Corporate Secretariat	Development Bank of Southern Africa
Tiyani Mongwe	Board Secretary	Land Bank
Tumelo Motsisi	Executive Chairman	Prosperity Holdings

		(PTY) LTD/Ex-Kopano
Veronica Motsepe	Assistant Director	Tourism Business Council of South Africa
Victoria Clarke	Specialist: Tourism Planning and Development	Development Bank of Southern Africa
Vincent Maphai	Corporate Affairs Director	South African Breweries
Wayne Visser	Senior Manager: Environmental Health and Safety Unit	KPMG
Zoe Budnick-Lees	Executive Director	Industrial Environmental Forum of Southern Africa
Zwelake Sisulu	Chief Executive Officer	New Africa Media

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