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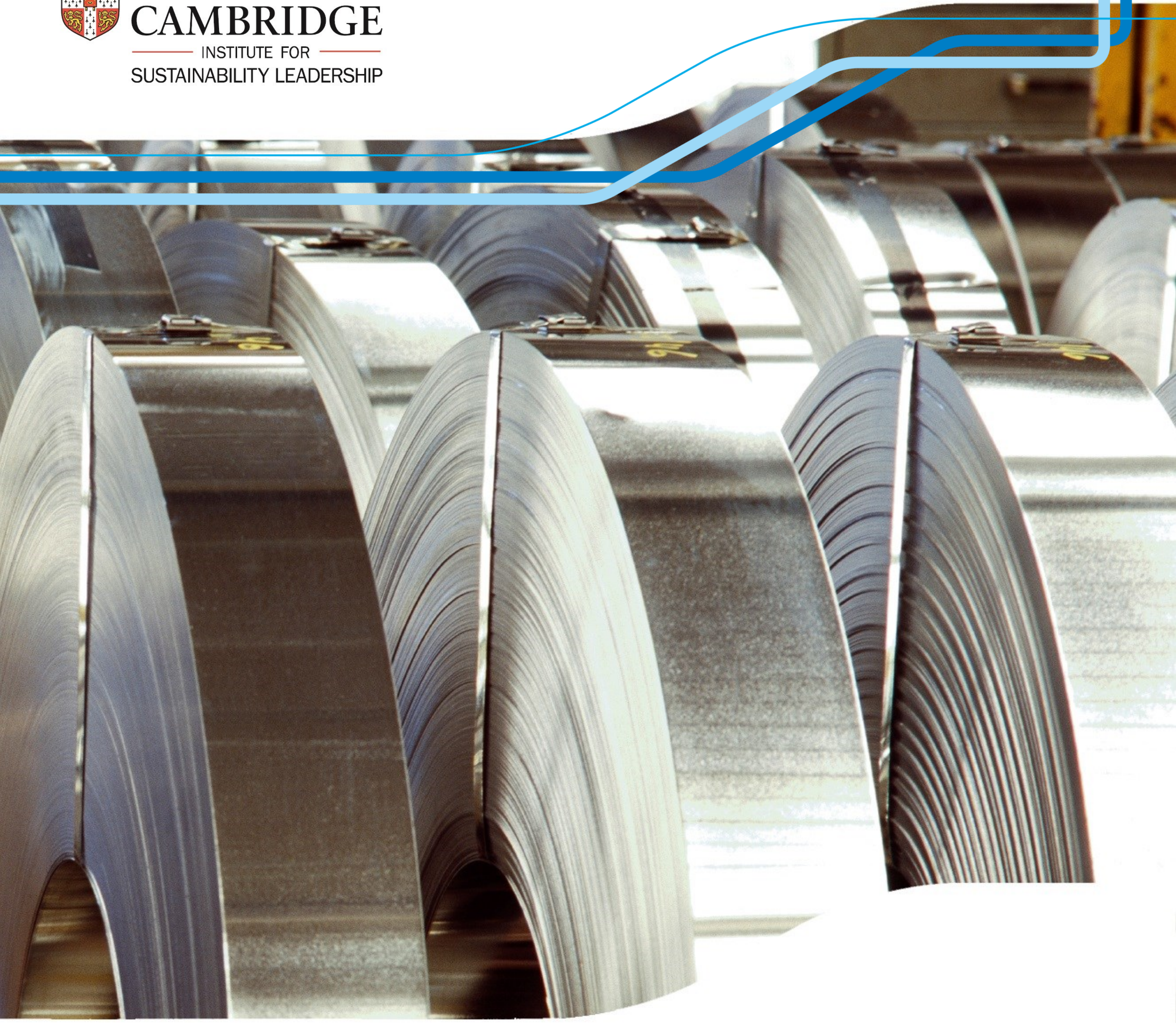

# Should investment in Africa consider sustainability?

## A comparison between South African and Chinese business experiences

An exploratory paper by Han Cheng, August 2015

#RewireEconomy

# About this paper

This paper considers how foreign investment by Chinese companies could be used to promote strategic leadership around sustainability in South Africa.

This project was supported by the University of Cambridge Institute for Sustainability Leadership (CISL). It draws heavily on stakeholder consultations in South Africa by CISL's Visiting Researcher, Han Cheng, with supervision from its Director, Sustainable Economy, Dr Jake Reynolds, and the former Director of CISL's South African office, Peter Willis, and Professor Richard Calland.

The author would like to acknowledge the valuable contribution of those participating in interviews and/or reviewing this paper.

The research has significantly benefited from CISL's thought leadership, practical expertise and influential network. CISL established a presence in South Africa 12 years ago since then, it has played a key role in building public and private-sector capacity to tackle critical sustainability challenges. With its focus on Chinese investment in South Africa and the African continent, this paper is designed to contribute to this evolving agenda.

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The University of Cambridge Institute for Sustainability Leadership (CISL) empowers business and policy leaders to tackle critical global challenges.  By bringing together multidisciplinary researchers with influential business and policy practitioners across the globe, we foster an exchange of ideas across traditional boundaries to generate new, solutions-oriented thinking.

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# Working papers

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## 1. Lay the ground

As the world's third largest foreign investor[1], China is increasingly shaping the global market through its private sector. The environmental and social footprint of international Chinese businesses has spread along with their sectoral and geographical expansion. This footprint is felt through the direct operations of these businesses, as well as through their global supply chains and cross-border trade.

Over the past few years, instances of poor social or environmental management linked to Chinese foreign investment projects have caused concern both in the international community and in China itself. Chinese executives are relatively inexperienced in running companies of a multinational nature. As a result, they often have little familiarity with sustainability-related business risks in foreign markets. It therefore makes sense for Chinese businesses to collaborate with more experienced international and local actors to manage such risks. Success here will enable China's foreign investors to demonstrate that they are delivering positive social impacts. This, in turn, will help bolster their strength and reputation in the global market.

The Chinese government appears aware of this opportunity. It has recently passed various regulatory measures designed to improve the sustainability performance of businesses that operate overseas. In 2008, for example, the state-owned Assets Supervision and Administration introduced the 'Guidelines on CSR Fulfilment by Central-Level Enterprises'. In 2013, meanwhile, the Ministries of Commerce and Environmental Protection jointly issued the 'Guidelines on Environmental Protection in Foreign Investment and Cooperation'. Although these measures are non-binding, they demonstrate a willingness by Chinese policy-makers to address sustainability issues as they relate to foreign investment activities.

At the same time, Chinese civil society organisations and the international community are making continuous efforts to promote global best practice and demand-driven approaches from host countries. These include support for certification standards in forestry, fisheries, palm oil and other product areas, as well as backing for initiatives such as the Extractive Industry Transparency Initiative, the Equator Principles, the Model Mining Development Agreement and the African Mining Vision, among others.

Despite China's evident policy push and the promotion of practical instruments, however, the adoption of sustainability best practices among Chinese foreign investors remains limited. What appear to be missing are clear business drivers that would persuade international Chinese businesses to act. One such motivation is an understanding of the risks associated with acting unsustainably in their African operations. If awareness of such risks were to increase, it can be assumed that Chinese businesses would consequently adopt better practices.

This project does not seek to fix individual companies' policies or practices. Instead, it sets out to provide a broad investigation into the specific local context in South Africa (as seen primarily through the eyes of South African businesses) and to consider how this might drive Chinese businesses to implement sustainability practices.

## 2. Methodology

This project deployed a research methodology based on in-depth, semi-structured interviews in South Africa. These were conducted face-to-face. The approach sets out to provide first-hand insights into leading practices as well as to offer an understanding of business drivers for the adoption of sustainable management. In addition, it seeks to draw on cross-cultural comparisons and to point to potential pathways for knowledge transfer.

In total, 25 key interviewees participated in the research. These included senior business executives, corporate sustainability managers, academic scholars, community experts and other practitioners. The South African participants were recruited via contact lists supplied by CISL. All are recognised as having contributed significantly to sustainability theory or practice. Chinese participants were approached through the author’s research network, all of whom are employed by Chinese companies operating in South Africa. Although the limited number of interviewees may restrict the overall representativeness of the study, it remains large enough to provide a nuanced and perceptive analysis.

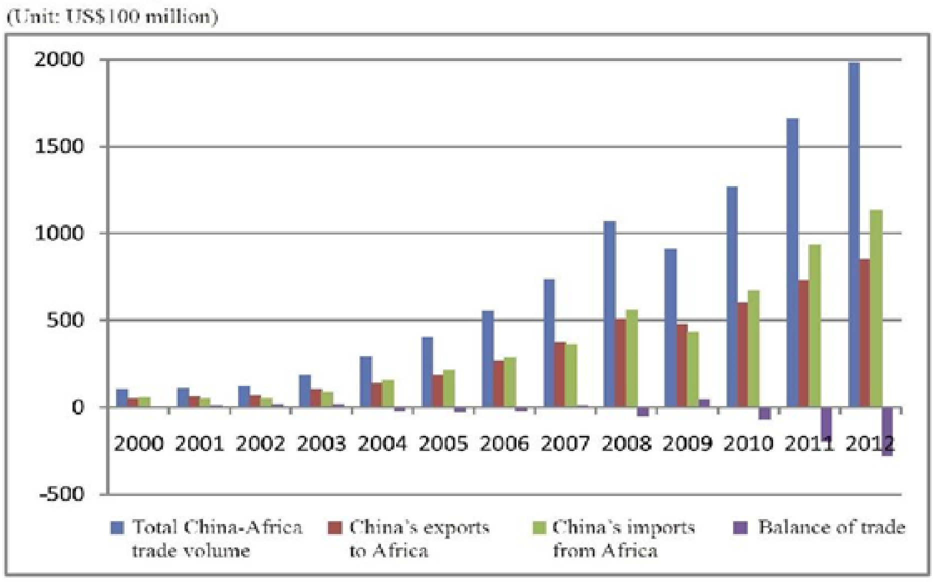
In terms of country context, South Africa provides an apt focus of research because it has a large amount of Chinese investment. This investment is only set to increase in the future. In addition, South Africa presents a uniquely structured pattern of robust regulatory frameworks, complex socioeconomic context, and a long history of business engagement with the rest of Africa. This marks it out in the region. The drivers that South African businesses cite as reasons for addressing sustainability challenges both at home and in other African countries should provide valuable peer-to-peer lessons for Chinese investors.

Since the survey of advanced practices in this paper is based primarily on domestic businesses or multinationals operating in South Africa, the number of leading role models is limited.  It should also be noted that there is still considerable space for South African firms to strengthen their sustainability leadership. That said, their experience of implementing sustainability remains instructive for Chinese businesses, whether successful or less successful.

## 3. Chinese business interests in Africa and South Africa

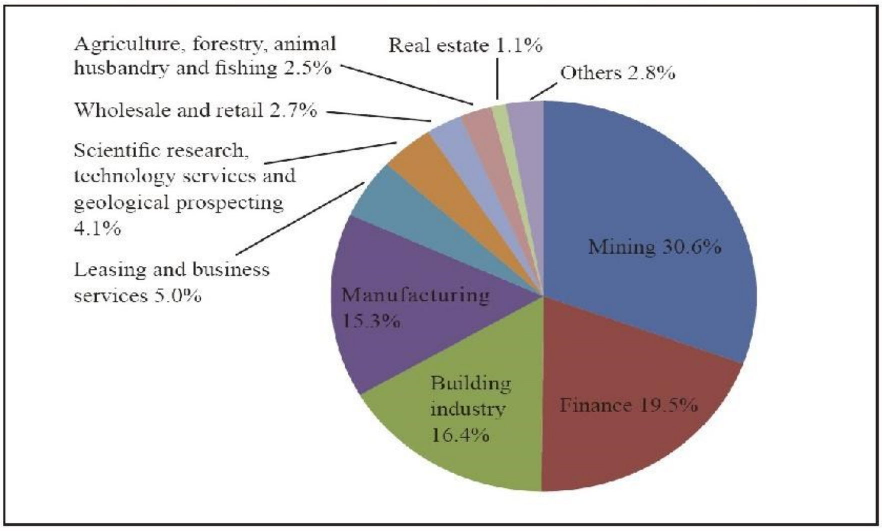
Africa has begun to attract increasing interest from Chinese businesses over recent years. China is now the continent’s largest trading partner, with bilateral trade hitting a total of US$198.5 billion in 2012[2]. According to official government figures[2], China's direct investment in Africa increased from US$1.44 billion in 2009 to US$2.52 billion in 2012, representing an annual growth rate of 20.5%.

**Figure 1: China-Africa Trade Volume (2000-2012)**




Source: China-Africa Economic and Trade Cooperation White Paper 2013

**Figure 2: Distribution of China's Direct Investment in Africa (by the end of 2011)**




Source: China-Africa Economic and Trade Cooperation White Paper 2013

Within Africa, South Africa is China's largest individual trading partner, at a volume of US$20.2 billion[2]. According to the South African government[3], between January 2003 and January 2014, a total of 38 foreign direct investment (FDI) projects were recorded. These represent a total capital investment of around US$1.24billion.

| Number of firms | Until 1994 | 1995-1999 | 2000-2005 | Since 2006 | Unknown | Total |
|---|---|---|---|---|---|---|
| Mining | | 1 | | 5 | 0 | 6 |
| Manufacturing | 2 | 4 | 1 | 8 | 2 | 17 |
| Infrastructure & Construction | 1 | | | 7 | 1 | 9 |
| Finance | | 1 | 2 | 3 | | 6 |
| Telecommunications | | | 2 | 1 | | 3 |
| Business & Consumer Services | | 1 | | 3 | 4 | 8 |

Table: Chinese investment in South Africa: Sectoral distribution

Source: Meibo Huang and Peiqiang Ren (2013). A Study on the Employment Effect of Chinese Investment in South Africa, Centre for Chinese Studies, Stellenbosch University, based on information from Economic and Commercial Counsellor's Office of the Embassy of the People's Republic of China in South Africa, 30 May 2012

China has gained significant importance in Africa, and in South Africa particularly, on account of the high levels of trade and investment undertaken by Chinese businesses. The economic activities of these firms are not only large in scale, but encompass a range of sectors too.

Given this preeminent role, it is in the interest of both African stakeholders and Chinese businesses to jointly help in understanding and resolving relevant sustainability challenges. This will ultimately assist Chinese businesses in realising the latent potential that they have to positively contribute to Africa's sustainable development.

To this end, Chinese businesses have much to gain from enhancing their perception of the local business context in South Africa. The same is true when it comes to integrating sustainability insights into their decision-making processes around sustainability. South African businesses have considerable experience in foreign investment within the African continent, which may offer comparative lessons for Chinese business counterparts. This learning process need not necessarily be all one-way. As Chinese foreign investors improve their understanding of sustainability in South Africa, considerable opportunity exists to create the peer-to-peer exchange of experiences through research and dialogue.

## 4. Investigation of South African business sustainability drivers

Many of South Africa's leading domestic and multinational businesses are able to identify clear business drivers for becoming more sustainable and have put in place rigorous sustainability practices. These help them to address the challenges presented by the country's unique and complex socioeconomic context.

### 4.1 Generic drivers

1) **Sensitivity to local contexts** requires thorough understanding of the business operating environment and careful handling of social demands in relation to business development. South Africa boasts a young democracy, having shed its history of brutal racial segregation (known as 'apartheid') only 20 years ago. As a result, young South Africans have inherited a vocal commitment to human rights and social justice. However, the legacy of apartheid continues to impact the country's social and economic conditions. South Africa still suffers from a pattern of considerable inequality and high unemployment, for instance, as well as low levels of education and public service delivery. Racial minorities (the so-called "coloured" or "black" communities) are disproportionately affected. The country's governance system and institutional infrastructure lack strength and maturity too. This results in many South African businesses having to fill the gap left by the government. A recent increase in civil unrest, sparked by perceived governmental failings, has complicated the socio-political situation on the ground. Public protests are supported by the rapid growth of social media, which is occurring within a culture committed to free speech. Civic demands for greater public accountability and transparency are also on the rise, which compels businesses and other public actors to be more open in their activities.

2) **An emerging crop of sustainability networks and standard-setting bodies** are advancing the frontier of business leadership at a global level. Such governing institutions play a key role in agenda setting and rule making, as well as raising standards of industry leadership. Examples of such developments include the Extractive Industry Transparency Initiative and the International Council on Mining and Metals (resource sector), the Equator Principles (financial sector), the United Nations Global Compact, the Global Reporting Initiative and ISO 14000, among others. The business implications arising from these phenomena are twofold. At a practical level, guidance from authoritative external groups offers technical support, peer intelligence and the relevant expertise for specific sectors. These institutions and initiatives

also promote collaboration within the business sector, including among competitors. As a strategic level, meanwhile, a sustainability mindset is seen as providing a vital lens through which to determine emerging and future social trends. As such, institutions that focus on sustainability are generating important collective insights that foster a more predictable business environment. This is of particular value to businesses that hold to a long-term perspective.

Feature box: Shell Global, and Extractive Industry Transparency Initiative

**Royal Dutch Shell - Payments to governments**

Shell has adopted a policy of disclosing the details of its payments to governments in the main countries in which it operates. Implicit within this policy is a suggestion by the Anglo-Dutch oil major that governments should increase transparency regarding the use of these funds. In 2003, Shell became the first business to disclose its royalties, taxes and other payments to the Nigerian government. Such transparency can reduce business risks, promote good governance and increase the proportion of oil sector revenues that go towards social and economic development.

**Extractive Industry Transparency Initiative (EITI)**

EITI is a global voluntary initiative set up by the UK government in 2002. Its stated goal is to increase the transparency of revenues that governments receive from oil and mineral activities. These include signature bonuses, taxes and royalties. It adopts a multi-stakeholder approach that seeks to engage governments, NGOs, regulators and businesses. EITI's focus is on countries with a high dependency on mining and other forms of natural resource extraction.

Source: Shell Global, "Payments to governments"[4]

3) **Companies that have a clear and long-term vision of the role of business in society** tend to be among the most active in addressing social, environmental and other sustainability issues. Internationally, there is a growing push for effective business engagement in global development. The private sector is perceived as being able to bring a unique set of skills, knowledge and resources to the table. Public-private partnerships and other cross-sector models offer a transformative opportunity to undertake innovative development projects in conjunction with the public sector. Such approaches also provide the private sector to assess and manage its relationship with key stakeholders in society. In South Africa, private companies often find themselves compelled to go beyond business-as-usual practices and adopt a more proactive role in society. This is because of the lack of government capacity to deliver key services and the custom of citizens to look to other powerful actors in society for support. As a result, businesses are now expected to balance their requirements for short-term profit with a demonstrable contribution to the country's longer-term development.

4) **Strict extra-territorial compliance** influences the behaviour of South African businesses that have an international footprint. South Africa's global businesses not only operate overseas but maintain an international governance structure too. A number of significant South African firms are headquartered in London or are listed on the New York stock exchange, for example. This reality imposes extra-territorial compliance on many of their business operations. These include examples such as the Foreign Corrupt Practices Act and the Dodd

Frank Act in the US. The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas marks another. Such extra-territorial compliance measures aim to promote human rights, environmental protection, labour relations, financial transparency and other sustainability-related issues. Some international compliance mechanisms adopt a sector-specific focus, addressing problems such as conflict minerals in the mining, jewellery and electronics industries. These tend to involve stricter monitoring, inquiry and punishment protocols than the non-mandatory guidelines currently adopted by China. Problems exist with regulatory consistency, however. This can be seen in the case of South African-based businesses that operate overseas because South Africa imposes less stringent compliance requirements on the foreign operations of domiciled businesses than it does for companies from the US and other advanced economies.

5) **Sustainability-related accidents or crises** can have a 'game-changing' effect on a company. Such negative experiences do not necessarily need to affect the whole business directly to accelerate a widespread cultural shift across the whole organisation.
Community protests, negative media exposure or legal sanctions can bring home the importance of sustainability for senior management and cause them to give the issue greater attention. Failure to do so, meanwhile, can result in a business finding its access to operations, land or markets restricted. Although difficult at the time, such threats to companies' so-called "license to operate" can kick start an internal process that sees a corporation's culture and policies transform. This, in turn, is often shown to lead to tangible improvements in sustainability practices across an organisation.

6) **State-owned businesses** tend to have unique social and cultural characteristics. This derives, in part, from their position in strategic sectors and their role in securing what are viewed as critical national assets. In addition, the social mandate that such businesses have to provide a nation state with public revenues and key services also differentiates them from privately-owned firms. The legal statutes of state-owned companies usually require them to generate returns that have a social and developmental nature rather than being purely financial. These might include job creation, ethnic inclusion and gender equality, for example. On a broader scale, state-owned firms can legitimately be expected to contribute to increases in economic opportunity, social development and environmental welling. To be successful in doing so clearly requires a firm commitment to the principles of sustainable business, both within a state-owned company's immediate operations and through its wider value chain.

7) **Carbon policy** creates a new market environment, within which international businesses must respond. At the United Nations-backed global climate negotiations in Copenhagen in 2009, South Africa made an ambitious greenhouse gas (GHG) emission reduction target. The government's commitment to combat global warming has translated – albeit imperfectly - into a series of countrywide actions aimed at reducing overall carbon emissions and pursuing a competitive 'green growth' economy. The planned introduction of a carbon tax in 2016 has made South African businesses more aware of climate change and the need to manage their carbon impacts. One influential carbon-related policy already in place is the Integrated Pollution and Waste Management. South Africa's commitment to a low-carbon trajectory, meanwhile, is integral to a number of key policy initiatives such as the Industrial Policy Action Plan and the Integrated Resource Plan for Electricity Generation. Similar low-carbon strategies and green finance regulations are being promoted in Nigeria, Kenya and elsewhere in Africa, highlighting the fact that sustainability represents part of the policy landscape wherever foreign investors choose to invest.

8) **Cost-saving represents a major driver** for sustainable management. Businesses can reduce their environmental footprint significantly by increasing their energy efficiency, developing innovative product designs and introducing effective environmental management systems. These also reduce costs by cutting resource use, particularly with respect to energy and raw materials. This marks a critical business issue for power utilities, manufacturing firms, mining companies and other sectors with high energy consumption. Sustainability practices can also bring cost advantages by decreasing staff turnover, reducing absenteeism and increasingly productivity. Younger generations place an especially high value on the sustainability reputation of their employer or potential employer.

9) **Sustainability is not about corporate social responsibility (CSR)** but a lens through which to evaluate a company's core business interests. CSR is widely perceived as non-strategic, under -resourced and unrelated to core business interests. Strategic sustainability, in contrast, is increasingly viewed as generating 'shared value', both for society at large and the business in particular. Such an outcome, however, requires integrated action across a company's operations, from procurement and manufacturing through to employment and consumer relations. While responsibility for the development and implementation of sustainability policies may fall to a dedicated management team, any commitment to sustainability must be owned by the business as a whole to be effective. If it forms an isolated silo within a company, limited outcomes will emerge. Few South African companies have achieved such a holistic, business-focused approach to sustainability. Even those that have established a clear strategic vision for their company lack the combination of long-term internal incentives, forward-looking leadership and engaged employees that characterise leading-edge sustainable businesses.

10) **Engagement with stakeholders** serves as a central function in sustainability management. This helps flag up potential risks, while also highlighting possible opportunities. Civic dialogue has played a key role in South Africa's transition to full democracy and to social inclusion since the end of the apartheid era. The notion that companies should work in a way that shows due regard for the opinions of external stakeholder groups is therefore relatively natural. This does not necessarily mean that stakeholder dialogue is undertaken in a strategic fashion. Nor does it suppose that companies will readily articulate a stakeholder-centric view when discussing their role in society. However, the cost and risk benefits associated with stakeholder engagement are arguably more readily understood in South Africa than elsewhere.

11) **A prosperous society benefits business** by creating a fruitful economic environment in which companies can grow. Long-term social development also leads towards greater political stability and civic harmony, which again provides a sound basis for corporate growth. A compelling case can therefore be made for the private sector to contribute towards community development and inclusive prosperity. The banking sector provides a case in point. Commercial banks generate income from a range of economic activities, ranging from trade transactions and business investments to private loans and savings. A vibrant society transacts more and saves more, two activities that benefit a bank's bottom-line and rationalise its wider investment in society.

12) **Competition is deeply rooted** in South African business culture. Mechanisms such as indexes and industry rankings can therefore serve as a powerful motivator towards better sustainability practices. Industry competition alone is insufficient to sustain a prolonged and integrated sustainability movement in South Africa, however. That said, it can be highly

effective in providing initial momentum to company's sustainability effort.

13) **Water scarcity comprises a significant constraint** to local and national socioeconomic development. South Africa is a water-scarce country. Without significant policy intervention, the country is set to suffer an estimated 17% gap between water demand and supply by 2030 (2030 Water Resources Group, 2009). At present, 1.4 million households in the country do not have sanitation services, according to a detailed report in 2014 by the South African Human Rights Commission[5]. This includes one in every eight (12.5%) households in the Eastern Cape. A similar proportion (14%) of household in KwaZulu-Natal, meanwhile, have never had access to potable water. South Africa's water problems are reflected in many other areas across the African continent. As such, companies are under pressure to optimise the management of water resources and be seen not to waste this scare resource. Water efficiency not only reduces running costs for businesses. It also mitigates water-related conflicts with local communities, and the consequent reputation and operational risks these bring. Given their extensive water footprint, extractive firms, power generation companies, and food and beverage businesses are especially vulnerable to such risks. In South Africa, the issue of good water management is rising up the agenda for domestic firms. Foreign investors would be well advised to follow suit.

4.2 Drivers unique to mining, manufacturing, and utility sectors

14) **Reducing the risk of social conflict** represents a powerful motivation to promote local, inclusive employment and harmonious community relations. Recent years have witnessed a series of high profile and large-scale labour strikes in South Africa. Social tensions such as these have a detrimental effect on business stability and the safety of corporate employees. Large infrastructure projects with high labour requirements often encounter social problems. This is partly because of the domestic and foreign migrant workers who come seeking direct employment or indirect business opportunities. This is often the case with major mining investments, for example. In such circumstances, project sponsors should have a clear strategy in place so as to mitigate the social tensions that may arise as a result of their investment. This might include commitments to employ local labour and source goods and service locally wherever possible. Other steps may include offering skills training and small-business development assistance, as well as targeted community investments. Proactive management in this area will serve to increase a project's social legitimacy and ensure greater business stability in the long-term.

15) **Energy security is an increasing concern for businesses** in South Africa. This is due to long-term under-investment in Eskom, the state-owned utility, which faces numerous challenges relating to both the generation and transmission of electric power. Eskom's room for manoeuvre is further restricted by the rising cost of running coal-based power stations due to the knock-on effect of the government's low-carbon energy policies. One positive trend to emerge from South Africa's power constraints is an increase in interest among private businesses in renewable energies. Small-scale wind, solar and other low-carbon energy alternatives are seen as an attractive pathway to securing greater energy security.

16) **Robust domestic regulatory frameworks** in South Africa seek to encourage a more socially inclusive economy. This is pushing businesses to take a more active role in promoting economic development and furthering the cause of sustainability. One area where the government has focused considerable policy attention is around inclusive employment,

especially with respect to gender and race equality in the workplace. Another priority theme is procurement. Under the Broad-Based Black Economic Empowerment (see below box), for instance, businesses are required to give preferential treatment to suppliers that are owned by, or which directly or indirectly support, marginalised groups such as blacks, women and rural dwellers. Similarly, South Africa's Renewable Energy Independent Power Producer Procurement Programme makes specific requirements for local economic development. The intent of such regulatory interventions is to move away from voluntary corporate social responsibility and instead mandate the private sector to pursue their business interests in a manner that generates social and environmental capital for the nation as a whole (without excluding financial returns for individual businesses at the same time).

It should be noted that policy makers and regulators across Africa are taking inspiration from South Africa's model of inclusive economic growth. Corporate philanthropy can still be expected to play a function in the region for some time to come, but philanthropy alone will not help businesses meet the inclusion-orientated regulations that are increasingly coming into force across the region. Instead, a clear, long-term sustainability strategy is needed.

Feature box: South Africa's Broad-Based Black Economic Empowerment Act

South Africa's Broad-Based Black Economic Empowerment Act (B-BBEE) aims to unleash the economic potential of black people and other marginalised groups. It seeks to do so by enabling and enhancing their participation in the productive economy. Such participation is achieved through greater access to employment, business opportunities and skills training. The Act specifically requires businesses to adopt a preferential procurement policy that incorporates marginalised groups. Other objectives of the Act include encouraging the development of small and medium enterprises, and the advancement of co-operatives.

Source: Economic Development Department, Republic of South Africa, "Broad-based Black Economic Empowerment"[6]; Department of Trade and Industry, Republic of South Africa, "B-BBEE Procurement, Transformation and Verification"[7]

Feature box: Local content and economic development in South Africa's Renewable Energy Independent Power Producer Procurement Programme

South Africa's Renewable Energy Independent Power Producer Procurement Programme (RE IPPPP) seeks to promote additional benefits alongside the development of renewable energy. It does so by stipulating that clean energy projects must make a demonstrable contribution to economic development and must include a degree of local procurement. At the bidding stage, projects are scored 70% on cost and pricing consideration and 30% on their contribution to economic development. This second factor follows parameters set by the B-BBEE framework. Mandatory criteria include: the promotion of local enterprises, socio-economic development, local ownership by black people and those from marginalised groups, and local job creation. In addition, project developers must give an equity share in the project to local communities. 'Local' is defined as communities within a 50-kilometre radius of the project.

Source: Chabourne, "South Africa: Lessons From Projects Financed To Date; REFIT, Local Content Rules, Economic Development Requirements, Security Arrangements"[8]; Tyndall Centre for Climate Change Research, "South Africa's Renewable Energy Procurement: A New Frontier", June 2014[9]

17) **Being alert to the different cultural, social and political landscape** in Africa is critical for Chinese companies investing in the region. Likewise, South African companies need to be sensitive to differences when operating elsewhere in the continent. Above all, management must keep an open mindset, avoid fixed assumptions and be ready to adapt. One area where foreign investors may have to pay particular attention relates to community relations, which can be uncertain, complex and sometimes volatile, especially in conflict-affected or high-risk areas. In order to understand their local operating context as fully as possible, Chinese companies are strongly advised to engage their relevant stakeholders in a comprehensive and on-going manner. Such engagement should be as transparent and inclusive as possible. While traditional political structures (such as those governing many tribal communities) must be respected, efforts to engage marginalised stakeholder groups such as women and youth must be made as well. In summary, investors should be ready to adapt their business systems, operational practices and even commercial models in line with the local context where necessary.

4.3 Drivers unique to retail and financial sectors

18) **Bottom of the Pyramid business (BoP) opportunities** motivate some service providers, consumer goods firms and other retail-focused businesses to explore new market opportunities among low-income communities. Those living on or around the poverty level in South Africa represent a huge untapped market. The same is true for the remainder of Africa. Products and services need to be tailored to this specific consumer segment. Often this requires a reduction in product size or quantity, or even a major design overhaul. Examples of initial success in the BoP market range from food and healthcare items sold in small sachets through to micro-loan and micro-insurance products.

Feature box: M-Pesa: Vodafone, Safaricom Kenya, and inclusive banking

Access to banking services is a crucial factor in providing socio-economic opportunities for poor individuals. For financial institutions, meanwhile, it can extend their client base significantly. This will bring long-term benefits as their low-income account holders gradually increase in prosperity. M-Pesa (Swahili for ‘money’) is one of Africa’s most successful examples of inclusive banking for the poor. Initiated in Kenya in 2005, the system enables unbanked individuals to make payments and other financial transactions via SMS on their mobile phones. The initiative was launched by Vodafone and Safaricom Kenya, two major mobile operators. When M-Pesa started, only two million of Kenya’s 32 million population were banked. The SMS-based system offers a fast, cheap and secure means of making financial transactions. Users are also able to withdraw cash and make deposits with a wide network of participating retailers. M-Pesa has since been adopted in South Africa, as well as Tanzania, Afghanistan, India and others. In total, more than 11 million registered customers now rely on their mobile phones for money transfer, airtime top-up and bill payments.

Source: Karugu, Winifred & Mwenda, Triza, “Vodafone and Safaricom Kenya: Extending the Range and Reliability of Financial Services to the Poor in Rural Kenya.” GIM Case Study No. A039. New York: United Nations Development Programme, 2008[10]; Vodafone, “Vodafone empowers unbanked in South Africa,” 16 March 2010[11]

Feature box: Danone, Clover, and nutritional yogurt

Many of South Africa's poor lack access to high-cost nutritional products. Considerable business opportunity exists for companies in the dairy industry if they can customise their products for this market. To this end, French food business Danone and a local dairy company Clover recently partnered on a project to sell vitamin-enriched Danimal yogurt in individual pots rather than in a multi-pack. The product sells for one Rand, making it affordable to almost all income brackets. Pricing is only one factor, however. Success also depends on developing tailored marketing and delivery innovations, especially with the so-called 'last-mile'. Danone and Clover established a new distribution network designed specifically for low-income communities in the project's focus area of Johannesburg. The also involved local women in promoting the nutritional benefits of the yoghurt product in townships and schools. The companies were able to reduce the product's cost by selling direct to consumers rather than through middlemen, as is customary in poorer and often remote communities. Launched less than two years ago, sales by volume of single-pot Danimal yoghurt are already outstripping many well-established national brands in the Johannesburg area.

Source: Eric Onstad, New York Times, "Big corporations try to tap a market they have ignored," 4 June 2007 [12]

## 5. Investigation of Chinese business sustainability drivers

Chinese businesses operating overseas approach sustainability issues with a particular set of goals, motivations and business drivers. These are framed by China's historical context, its prevailing business culture and Chinese perceptions of stakeholder engagement. Some crossover between Chinese and South African attitudes towards corporate sustainability can be seen, but there are a large number of points of divergence as well.

1) **Legal risks and obligations in overseas markets** such as South Africa represent a major driving force for Chinese investors to adopt sustainable business practices. Fulfilling the minimum legal requirements relating to employment, the environment and other key issues is seen as an important way of legitimising a company's presence overseas and that of its operational assets. Compliance is not usually a problem as most Chinese companies have strong legal due diligence processes. In addition, less-developed countries tend not to have regulatory requirements that exceed those that Chinese companies face in their home market. South Africa's inclusive regulatory framework (as discussed above) is a notable exception in this regard.

2) **Social and environmental responsibility** has risen up the agenda of Chinese businesses in recent years. This is influenced in no small part by the business risks resulting from irresponsible corporate behaviour, which have led to widespread community protests and public scrutiny of business practices. Such risks pose a direct threat to property, employees and other tangible assets. These knock-on effects can also jeopardise companies' short-term operations as well as their long-term financial performance. While not necessarily always illegal, corporate irresponsibility can result in regulatory sanctions as well as the suspension or cancellation of contracts. Culturally, Chinese companies do not exhibit the levels of transparency or publicly accountability that people now expect in many overseas markets. When investing in foreign markets, Chinese companies should therefore be prepared for greater scrutiny of their activities by the media, civil society organisations and other

concerned groups. Ignoring or hampering such scrutiny is ill advised.

3) **Meeting China's domestic laws and policies** remains an obligation for Chinese companies even when they are operating overseas. In addition, the Chinese government has issued a number of guidance frameworks relating to sustainability, which domestic firms are strongly encouraged to adhere to (although, for the most part, these are non-binding). Examples include the Guidelines on Environmental Protection in Foreign Investment and Cooperation, issued jointly by the Ministry of Commerce and Ministry Environmental Protection in 2013. State-owned companies, meanwhile, are expected to comply with the Guidelines on CSR Fulfilment by the State-owned Assets Supervision and Administration Commission, released in 2008.

4) **Cost saving through energy efficiency measures** makes economic sense for companies as well as strengthening the price competitiveness of energy-intensive products. Arguably, China's recent Five-Year-Plans include some of the world's strictest and boldest energy efficiency measures. These are supported by government incentives for firms promoting energy efficiency and low-carbon technologies. One of the reasons that China's manufactured products are so competitive on the global market is due to the cost-savings achieved through energy efficiency measures. Chinese companies typically retain their commitment to energy reduction when operating overseas.

5) **Access to local and export markets** incentivises Chinese businesses to manage their sustainability practices well. This enables them to comply with developed countries' exacting import requirements, as well as building brand reputation and consumer trust. This is important as some products created by Chinese companies in Africa are exported to the EU or the US where expectations of sustainability and ethical conduct are high. In developing countries, meanwhile, Chinese companies are motivated more by winning and retaining public trust rather than regulatory compliance, which is often less demanding than in developed markets. If they are shown not to act responsibly, this can reduce public trust and hit their sales and damage their overall business success.

6) **The intended lifespan of an investment** has substantial impacts on a company's approach to sustainability issues. Businesses with long-term investment plans naturally have a stronger motivation to invest in building public trust and to establish good relations with their stakeholders. Mining companies are typical in this regard. Chinese construction contractors represent the opposite extreme, usually exiting a country after projects are completed. Furthermore, because they often win contracts by underbidding their competitors, their operational budgets typically do not allow for investments in additional social or environmental activities.

7) **The role of Chinese financial institutions can be leveraged** to promote improvements in corporate sustainability. Commercial loans to foreign investors offer the opportunity for the loan provider to set social and environmental conditions on the loan recipient, such as non-financial due diligence procedures and social risk assessments. The same is true of loans to businesses by the government or by state-owned banks. However, in this second case, state loans are often made direct to the counterpart African government, thus reducing the conditions that can but put on Chinese businesses.

8) **The practice of 'helping the less fortunate'** is deeply rooted in Chinese culture. This translates into philanthropic practices by Chinese companies operating in regions such as Africa. Beyond straight cash philanthropy, Chinese companies express this sense of

responsibility through practices such as the in-house technical training of local people and support for institutions providing skills training, as well as youth enterprise projects (often in conjunction with local governments).

9) **A true 'win-win'** is possible only if with cross-sectoral partnerships. Corporate-community conflicts may be ignited by a sense of wrongdoing by a private sector operator. However, there is almost always a developmental context to such conflicts. Widespread unemployment or poor access to health and education facilities, for example, can add fuel to the fire. Mitigation measures at a local level, therefore, will only resolve tensions on a temporary basis. More comprehensive measures are required to remedy underlying discontent and ultimately build a healthy society and prosperous economy. This is only possible through concerted and collaborative effort. Such collaboration may occur within industry, but it is most effective when the state and other actors are also involved. By adopting a more holistic and participative view to resolving social tensions and other sustainability related challenges, a 'win-win' model can be created. This ultimately reduces business risks and brings economic opportunities.

## 6. Closing the gaps in approaches to sustainability

Chinese businesses have much to learn from benchmarking their sustainability practices, policies and perceptions against those of leading companies in South Africa. Above all, such an assessment suggests that Chinese companies should consider the issues through a widened lens, and adopt a more holistic and strategic approach to sustainability management.

- **Managing unconventional risks in a complex environment**: The socio-economic and political complexity of South Africa's business environment requires Chinese businesses to embrace a different and more proactive role in society. Failure to do so will make them vulnerable to a potential high level of non-financial risks. In order to fulfil the role expected of them, Chinese investors clearly need to understand the environment in which they are operating. This is only possible through extensive and authentic stakeholder dialogue. In South Africa, public accountability and social inclusivity are much higher priorities than in China. In some cases, these priorities manifest themselves in explicit regulations or public policy interventions, such as the BBBEE. However, a history of comparatively weak government social provision in South Africa has lead to unmet social demand for public services and economic opportunities. Businesses often find themselves having to fill these state failures and help address complex social challenges. This challenges the narrow interpretation that Chinese businesses have traditionally adopted with regard to their role in society. They must go beyond superficial CSR practices oriented towards public relations. Instead, they should look to develop strategic practices and policies that address the unique social and developmental challenges faced by South Africa. It is imperative for them to promote a model of inclusive business and, ultimately, to demonstrate that their foreign direct investment results in shared social and economic value. Only then can they hope to secure their license to operate, win public trust and reduce the non-financial risks to their investment.

- **Sustainability as a new lens through which to explore opportunities**: sustainability is, and should be, far more than a 'cost' to businesses. Social and environmental challenges also present an opportunity for companies to develop business opportunities in the short-term, as well as long-term business leadership. Some Chinese businesses continue to perceive sustainability negatively, believing it to be a regulatory burden and a sideshow to the real business of business. This view, however, neglects the new market opportunities, leadership status and financial returns that innovatively addressing critical sustainability issues can bring. As is the case among leading South African businesses, a strategic sustainability vision and concomitant practices improve business performance by empowering employees, attracting talent and anticipating emerging trends, among other knock-on benefits. Immediate business opportunities, such as those to be found in BoP markets, coupled with longer-term leadership building, combine to offer businesses a strong impulse to develop a more strategic and holistic approach to sustainability.

## 7. Likely trends for South Africa and Africa and requirements for business success

Change is afoot in South Africa, as it is in the rest of Africa, with respect to sustainability. The responsibilities and social roles now expected of business are increasingly all the time. As such, engaging with the sustainability agenda and showing leadership in this space will be a defining characteristic of successful businesses in the country – be they South African or Chinese in origin.

- Macro trends: 1) Increasing resource constraints, coupled with a rising pollution burden, will increase pressure on businesses to optimise their consumption of energy, water, raw materials and other resources; 2) lower public tolerance for inequality or social exclusion, will increase the influence of stakeholder demands and require businesses to become more publicly accountable; and 3) increasing calls for the private sector to engage with the global development agenda, thus making it increasing less acceptable for businesses to focus solely on pursuing shareholder profit.
- Micro trends: 1) Africa's economies are piped to grow significantly in the coming decades, yet the business environment remains very complex. A prerequisite for business success in the African market will therefore be mastery of effective stakeholder engagement; and 2) national governments are more and more looking to the private sector to contribute to local economic development. Avoiding this expectation will become progressively more difficult.
- The implications of these trends for Chinese businesses are as follows:

1) Businesses will be required to identify and build a long-term role in society. Failure to adopt a more socially inclusive approach to business will reduce their opportunities for business success and may well impinge on their business survival in the long term;

2) Businesses will have to engage stakeholders proactively, inclusively and strategically. These include national and local regulators and government agencies, employees, local community representatives and civil society groups more widely, consumers, suppliers and shareholders. Business leaders will benefit in terms of their external image and public trust from such a policy, as well as insights into business risks and opportunities. The full effect of stakeholder engagement and business inclusion will only be felt if all a company's employees are involved.

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