Corporate Social Responsibility: The Sullivan Principles and South Africa

Kenneth R. Gray
Jackson State University

Robert E. Karp
Jackson State University

Follow this and additional works at: https://scholarworks.bgsu.edu/visions

Recommended Citation
Available at: https://scholarworks.bgsu.edu/visions/vol12/iss4/2

This Article is brought to you for free and open access by the Journals at ScholarWorks@BGSU. It has been accepted for inclusion in Visions in Leisure and Business by an authorized editor of ScholarWorks@BGSU.
ABSTRACT

The Sullivan Principles (first pronounced in 1977) were developed as a code of conduct to be followed by companies operating in South Africa in an effort to confront the racial problems stemming from the racial segregation policies of the South African Government known as apartheid (2). This paper examines the unique demands that the Sullivan Principles place upon the corporations who are its signatories. This is a rare occurrence in corporate history where companies have been called and are attempting to change the legal/political/social framework of a country and the impact of those companies on the larger South African society. The paper also evaluates the success of the Sullivan Code thirteen years after its introduction.

INTRODUCTION

The traditional role of business as essentially fulfilling a limited economic role has its articulate proponents (12, 16, 13). Friedman and others who see business as having a very central but limited role in society contend that the business of business is business—not social issues or politics. There are those who view business more broadly (20, 19, 6, 24), and take the viewpoint that business is both an economic and a social institution. Business and other institutions of our society cannot be 'pure', however desirable that may be. Their own self-interest forces them to be concerned with society and community and to be predisposed to shoulder responsibility beyond their own main areas of task and responsibility (7).

U.S. corporations doing business in South Africa have been confronted with political demands to cut their ties with that country. Businesses were expected to take a 'moral stance' vis a vis the apartheid practice. This external pressure has contributed to the partial dismantling of the pillars of apartheid such as a scrapping of the group area act, prisoners have been released, etc. Presently, we are witnessing moves towards a broad-based government, reflecting the
demographic make-up of this diverse nation. However, global interdependence is increasing and accelerating beyond all previous expectations. The changes occur the fastest in the field of technology and economics. They occur more slowly in terms of political and legal reactions. Changes occur at even a slower pace in education and public opinion. Finally, change is slowest with regard to social norms and ethnic attitudes.

The Sullivan Principles (first pronounced in 1977) were developed as a code of conduct to be followed by companies operating in South Africa in an effort to confront the racial problems stemming from the racial segregation policies of the South African Government known as apartheid (2). This paper examines the unique demands that the Sullivan Principle place upon the corporations who are its signatories. This is the first time in corporate history that companies have been called and are attempting to change the legal/political/social framework of a country. The paper continues by examining the impact of those companies on the larger South African society. The Sullivan Principles represented a radical departure from the usual economic/social responsibility functions that modern U.S. corporations assume. Is this an appropriate role for U.S. corporations?

As well, this paper attempts to evaluate the success of the Sullivan Code 13 years after its introduction. We will elaborate on the fact that while, African, Colored and Asians (according to South African racial categories) constitute 60% of the workforce, less than three percent occupy positions in management. Further, by law, those three percent cannot directly supervise or have white employees reporting to them. In effect, special management positions have had to be created.

THE DOCTRINE OF ENLIGHTENED SELF-INTEREST

In classical economic thought, the fundamental drive of business to maximize profits was automatically regulated by the competitive market place. As Adam Smith put it, each individual left to pursue his own selfish interest (laissez-faire) would be guided "as by an unseen hand to promote the public good" (Smith, A., 1776). The major contemporary proponent of a limited--strictly economic role for business is economist Milton Friedman. Friedman's fundamental argument is that business involvement in the social and political arena is a threat to freedom. He argues that if economic power is joined to political power, concentration seems almost inevitable. Friedman sees business as having a very central but limited role in society and contends that the business of business is business--not social issues or politics.

. . . 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 open and free competition, without deception or fraud. . . Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive doctrine (1962:133).
In contrast, Corporate Social Responsibility (CSR) is argued for, more or less, by the theorists who take social contract, legal creator, social responsiveness, social impact, power, interpenetration, reciprocation, corporate citizenship, and gratitude approaches. The first principle of these theories is that business and the corporation are social in nature. Given the social nature of business, corporations, their owners, managers, and directors should discard the archaic and incomplete vision of the corporation as a narrowly economic, private institution.

The competitive marketplace remains the principal method of harmonizing business and public interests, because it has proved over a very long time to be an efficient way of allocating economic resources to society's needs. Yet, governmental intervention has been required to promote and regulate the conditions of competition. Nowhere has this been better illustrated over the past twenty-five years in the United States than in the tobacco industry. Government also has intervened to guide economic activity toward major public objectives, as determined by the political process, when these cannot be achieved through the normal workings of the marketplace (4).

Business decision-making today is a mixture of altruism, self-interest, and good citizenship. Managers do take actions which are in the social interest even though there is a cost involved and the connection with long-range profits is quite remote. These actions traditionally were considered to be in the category of "good deeds." The issue today is that some people expect, and some managers wonder whether they should respond to, business's assuming a central role in resolving major social problems of the day in the name of social responsibility (19).

The self-interest of the modern corporation and the way it is pursued have diverged a great deal from the classic laissez-faire model. There is a broad recognition today that corporate self-interest is closely involved in the well-being of the society of which business is an integral part, and from which it draws the basic requirements needed for it to function at all--capital, labor, customers. There is increased understanding that the corporation depends on the goodwill of society, which can sustain or impair its existence through the acceptance or rejection of the corporations offerings. As Mr. Jim Bere, CEO of the Borg-Warner Corporation put it in a 1984 speech to students at the Harvard Business School, "business is a guest in the society where it functions."

This body of understanding is the basis for the doctrine that it is in the "enlightened self-interest" of corporations to promote the public welfare in a positive way. This view is supported by scholars like Sturdivant, 1990, Steiner, 1971, Davis, 1966, and Walton, 1967, who view business more broadly and take the viewpoint that business is both an economic and a social institution. The doctrine has gradually been developing in business and public policy over the past several decades to the point where it supports widespread corporate practices of a social nature, ranging from corporate giving to investments in attractive plants and other programs designed to improve the company's social environment.

According to William Fredrick (in Sethi & Falbe, eds. 1987:142-161), CSR rests on six fundamental principles:
1. Power begets responsibility. Because business firms often control enormous wealth and resources and affect the livelihood of many people, they automatically incur a degree of responsibility that matches their power.

2. A voluntary assumption of responsibility is preferable to government intervention and regulation. The preservation of businesses' autonomy and power of decision is paramount, and voluntary social action is believed to forestall social criticism and government intervention.

3. Voluntary social responsibility requires business leaders to acknowledge and accept the legitimate claims, rights, and needs of other groups in society. Within an organization's economic means, it is obligated to address stakeholder interests.

4. Corporate social responsibility requires respect for law and for the rules that govern marketplace relations. Adherence to legal and market rules is essential for maintaining the stability that permits the pursuit of profits.

5. An attitude of enlightened self-interest leads socially responsible firms to take a long-run view of profits. Short-run costs, for example those incurred in product recalls, are necessary for the sake of long-run profits, resulting from an improved public image and confidence in the company.

6. Greater economic, social, and political stability, and therefore less social criticism, will result if all businesses adopt a socially responsible posture.

This view of takes CSR as an alternative to government intervention and social criticism that curbs businesses' autonomy. A corporation that assumes CSR will prevent social criticisms and undue government intervention.

CSR takes on new dimensions outside of the USA with cultural variables, traditional hostilities, and differing moral and ethical conditions. A corporation's relations with a host governments can clash due to different policy priorities emanating from the home country (here, the USA) and the host country. In the Republic of South Africa, U.S. corporations are confronted by such a conflict.

THE SULLIVAN PRINCIPLES AND CSR IN SOUTH AFRICA

The Sullivan Principles are a code of conduct developed in 1979 by the Rev. Leon H. Sullivan, a member of the Board of Directors of General Motors, and Pastor of the Zion Baptist Church in Philadelphia, PA. The Principles are a code of conduct to be followed by U.S. companies operating in South Africa in an effort to confront the racial problems stemming from the racial segregation policies of the South African Government known as apartheid. The Principles were modeled along the lines of the Equal Employment Opportunity (E.E.O.) code in the U.S. By 1986 a total of 214 companies representing more than 90% of U.S. business there had voluntarily signed the Sullivan Code and agreed to abide by its provisions. Rev. Sullivan originally suggested that General Motors divest itself of interest in South Africa and pull out of that country in protest of the governments' policy of apartheid. The principles (Exhibit 1 in the appendix) were originally designed as a compromise agreement between Rev. Sullivan and the Board of Directors at General Motors for the corporation to
remain in South Africa. Up until 1984, the general consensus among multinationals was that they benefited the African population and would cause more harm than good by leaving. Multinationals had contributed 25% of the gross national product in 1984 and provided 84% of the social welfare funds not provided by the government. In addition, only a very small percentage of each company's local profits came from sales to government agencies (17). Businesspeople in general point out that if U.S. business does withdraw, there would be virtually no effect on South Africa's apartheid policies since many of the plants and facilities which would be left behind would be quickly purchased, at rockbottom prices, by less constrained competitors from Europe and Japan. Table 6 in the appendix shows the principle trading partners of South Africa in 1981 and 1985.

On the other hand, those who argue for disinvestment say that by having companies in South Africa, the regime of apartheid is strengthened and thereby more harm is being done to blacks than would be if economic sanctions were taken against the South African government, which will ultimately cause it to fail, and thereby end apartheid. Of the 326 U.S. companies operating in South Africa in 1982, only 131 remained in 1989. Former Mobil Oil chairman Allen Murry concedes that his company was pressured into leaving by the Rangle Amendment, a law that prevent U.S. companies from deducting taxes paid to South Africa.

Companies who voluntarily agree to subscribe to the Principles are required to report annually to the auditor, Arthur D. Little, on their performance. Most companies submit extensive questionnaires that elaborate on their contributions of money and time in the interests of social responsibility. Signatory companies attempt to improve Blacks' Coloreds' and Asians' (BCAs') education, training, advancement, economic opportunities, health care, housing and living environment.

In 1984 the U.S. House of Representatives amended its version of the Export Administration Act to require that American firms with investments in South Africa adhere to the Sullivan Principles. By being a signatory to these Principles we have the first time in history any corporations in any country, has attempted to change the legal/political/social framework of a country. As such, it is a radical departure from the usual economic/social responsibility functions that corporations assume. Is it an appropriate role for U.S. corporations?

THE SULLIVAN PRINCIPLES: A CRITICAL REVIEW

In South Africa, as elsewhere, society and environment pervade organizations and management. By following the "Classical" economic approach, there has been a tendency to focus heavily on internal organizational processes at the expense of developing more complete understanding of the environments in which formal organizations operate (15). The question here is that although organizations in South Africa may apply Western management concepts and practices in their human resource management programs and to their technical core with few major modifications, these imported ideas and practices are possibly found to be inadequate and/or inappropriate for the organizations' relationships with their environment (5).

Criticism of foreign and particularly U.S. methods to approach the racial problem in South Africa come under severe attack in
light of the American history of extermination and encampment of the American Indian population. As well, the E.E.O. program on which the Sullivan Principles were modelled have had some effect on the places in the U.S. most similar to the Republic of South Africa, however this progress is a long way from equity among the races. The State of Mississippi profile of social indicators is not unlike a similar profile of the Republic of South Africa.

Reports on the activities and progress of the signatory companies to the Sullivan Principles, prepared by Arthur D. Little, Inc. have been published since its establishment. These reports have outlined the programs, activities and accomplishments of those participating companies. Largely the reports have ignored the impact of the participating companies on the larger South African society. It was only the most recent report (1992) where possible impacts on the larger social environments were suggested and then only was it recognized that its impact would probably be negligible.

Employment by the Signatory companies represents only a small fraction of one percent of the economically employed labor force. It is not reasonable to expect this group of companies to have a large impact in South Africa based on their direct contributions of time and money (2).

As well, this most recent report acknowledged that it is not possible to quantify the contributions of the non-signatory companies to the dismantling of the legal system of separation of races.

Since the inception of the Sullivan program the representation of BCAs in management has been disappointing. Although BCAs constitute over 60 percent of the total workforce, less than three percent occupy positions in management (vs. 22 percent of the white workforce) (2).

CONCLUSION

As the authors stated early in this paper, a major objective was to evaluate the success of the Sullivan Principles 13 years after their introduction. For the following reasons, the authors believe that the Sullivan Principles have not been successful:

1. At best U.S. companies had approximately $2.5 billion of direct investment in South Africa and employ some 100,000 people. These are relatively small numbers when compared to the total foreign direct investment in South Africa and the total workforce of the country.

2. A corporate decision to be a signatory to the Sullivan Principles was voluntary. Some corporations decided not to sign because they felt that what they were already doing was as much or more than the Sullivan Principles required.

3. After thirteen years, while Africans, Colored, and Asians constitute 60% of the workforce, less than three percent occupy positions in management.

4. Because it is unlawful for Africans to supervise whites, many of these management positions had to be created.

5. As of the date of this paper, apartheid is still the official policy and law in South Africa.

6. Perhaps the most important reason
for the failure of the Sullivan Principles is that while African employees worked under one set of rules, principles, and guidelines, when they left the workplace, they were subject to a different set of laws. Those laws were the laws of apartheid or separateness between blacks and whites. They did not have the same kind of rights that they had within their corporate workplace.

7. It should appear that the power of a small group of U.S. corporations, however great their own economic sphere, is limited indeed when it comes to changing the political policy of any foreign country.

At this date (March of 1994) the recent changes and upcoming elections set for April 26-28, 1994 will have a profound effect on the South African economy and social life. In 1990, the South African Government released Nelson Mandela (the African National Congress candidate for President) after 27 years from his Ellis Island prison cell. Prior to this time sanctions played an important part in the African National Congress (ANC) strategy of placing international pressure on the South African Government. Just one example of the effects of sanctions in terms of tourism, African governments throughout the continent with only a few exceptions enacted laws prohibiting their citizens from traveling to South Africa (now these laws are being repealed). Commercial airline flights known to have originated or stopped in South Africa would not be allowed to land or to allow passengers to disembark for tourism or any other purpose.

The U.S. did not actively get involved in anti-apartheid activities until the 1960s. Sanctions have helped to bring down 42 years of apartheid rule and has crippled a once thriving industrialized economy. The historic elections represent a substantial change from the past. Despite much bloodshed, some 15 million blacks, 70% of the population will vote for the first time. These elections will probably produce a multi-racial parliament and a black-led government under President Nelson Mandela. President F. W. de Klerk may become vice-president and whites will, of course, continue to call many of the shots because of their economic power and armed muscle. That is the plan.

Now that South Africa is on the road to becoming a multiracial democracy, with free elections, and sanctions having been lifted, the economy has started to grow again. Profits at diamond industry leader DeBeers Consolidated Mines, Ltd. and gold producer Anglo-American Corp., South Africa's two largest corporations, have risen for the first time in several years, downtown Johannesburg is crowded with shoppers and entrepreneurship is the hottest topic among the emerging black middle class.

But as South Africa gets access to funds from the IMF and the World Bank, conditions for fiscal discipline will be set which will sit unhappily with many of the ANC's promises. There could be a repeat of the tensions experienced by East European countries moving to stable democracy. Unemployment, already nearly 50%, will not get much better this year (1994) and could get worse. The support of the white business establishment will be vital in getting the South African economy on its feet.

Investment should be the bright spot in the year to come. With a black-led government will come an outpouring of politically-correct money from America's pension funds. Expectation is that the stockmarket will do well. The spur to the economy
given by a successful transition will allow the South African economy to grow by about 4%.

As for African tourism and investors, South Africa seems to be the right place at the right time. South Africa resembles the U.S. demographically, in that it is a diverse multiracial, multiethnic society. American sitcoms and movies dominate the airways, with billboards advertising the latest recordings of pop stars such as Diana Ross and Michael Bolton.

However, the Sullivan Principles have attempted to do something that represents at best just one step in the direction of equal opportunity. Nonetheless, the composition of racial divisions as far as employment, equal opportunity and public welfare is concerned indicates that development takes a lot of time and continued effort before truly desegregated institutions become part of the social fabric of a country. The purpose of the Sullivan Principles thus far, have been to further rationalize corporate involvement in the Republic of South Africa and soothe the conscious of the stakeholders of U.S. corporations.

REFERENCES


APPENDIX


Principle 3. Equal Pay for All Employees Doing Equal or Comparable Work for the Same Period of Time.


Principle 5. Increase the Number of Blacks, Coloreds and Asians in Management and Supervisory Positions.

Principle 6. Improve the Quality of Employees' Lives Outside the Work Environment in Such Areas as Housing, Transportation, Schooling, Recreation, and Health Facilities.


*Later addition
### TABLE 1A

**SOUTH AFRICA POPULATION OF MAJOR GROUPS**  
(in Millions, 1986)

<table>
<thead>
<tr>
<th></th>
<th>Total (Mill)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>African</td>
<td>26.32</td>
<td>74.75</td>
</tr>
<tr>
<td>White</td>
<td>4.91</td>
<td>13.19</td>
</tr>
<tr>
<td>Colored</td>
<td>3.10</td>
<td>8.80</td>
</tr>
<tr>
<td>Indian</td>
<td>.91</td>
<td>2.58</td>
</tr>
<tr>
<td>Total</td>
<td>35.21</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Race Relations Survey 1987/88; South African Statistics 1986

### TABLE 2A

**SOUTH AFRICAN LABOR FORCE OF MAJOR GROUPS**  
(in Millions, 1986)

<table>
<thead>
<tr>
<th></th>
<th>Total Pop. (Mill)</th>
<th>Economic Active (Mill)</th>
<th>Economic Active (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>African</td>
<td>26.3</td>
<td>6.4</td>
<td>24.3</td>
</tr>
<tr>
<td>White</td>
<td>3.1</td>
<td>0.8</td>
<td>26.0</td>
</tr>
<tr>
<td>Indian</td>
<td>.9</td>
<td>0.3</td>
<td>33.0</td>
</tr>
<tr>
<td>Total</td>
<td>35.2</td>
<td>9.4</td>
<td>25.0</td>
</tr>
</tbody>
</table>

Source: Race Relations Survey 1987/88; South African Statistics 1986
### TABLE 3A
SOUTH AFRICAN ECONOMIC AND SOCIAL INDICATORS

<table>
<thead>
<tr>
<th></th>
<th>Per Capita GNP 1989</th>
<th>Life Expectancy 1989</th>
<th>Infant Mortality (per 1,000) 1988</th>
<th>Adult Literacy (15+, in percent) 1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>2,460</td>
<td>61.3</td>
<td>50.7</td>
<td>85.0</td>
</tr>
<tr>
<td>White</td>
<td>6,530</td>
<td>73.0</td>
<td>13.2</td>
<td>99.3</td>
</tr>
<tr>
<td>Black</td>
<td>670</td>
<td>57.4</td>
<td>57.4</td>
<td>80.0</td>
</tr>
</tbody>
</table>

Source: World Bank (1990a and 1990b)

### TABLE 4A
R.S.A. EDUCATION INDICATORS IN 1990

<table>
<thead>
<tr>
<th></th>
<th>White</th>
<th>Black</th>
<th>Colored</th>
<th>Asian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pupils (millions)</td>
<td>1.0</td>
<td>7.7</td>
<td>0.9</td>
<td>0.3</td>
</tr>
<tr>
<td>Pupil/teacher</td>
<td>18.6</td>
<td>40.8</td>
<td>23.3</td>
<td>21.7</td>
</tr>
<tr>
<td>Expenditure/pupil (rand)</td>
<td>4,087</td>
<td>907</td>
<td>2,406</td>
<td>3,055</td>
</tr>
</tbody>
</table>

Educational expenditure implied by the group's per pupil spending rate (percent of GDP)

Sources: South African Development of National Education; and IMF staff estimates.
### TABLE 5

RSA NATIONAL PUBLIC HEALTH EXPENDITURES IN 1990

<table>
<thead>
<tr>
<th></th>
<th>White</th>
<th>Black</th>
<th>Colored</th>
<th>Asian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure/pupil (rand)</td>
<td>322</td>
<td>147</td>
<td>304</td>
<td>330</td>
</tr>
</tbody>
</table>

Sources: South African Department of National Health and Population Development; and IMF staff estimates.

### TABLE 6

RSA PRINCIPLE TRADING PARTNERS 1981, 1985

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>imports</td>
<td>exports</td>
<td>imports</td>
<td>exports</td>
</tr>
<tr>
<td>USA</td>
<td>2,655.3</td>
<td>1,519.8</td>
<td>3,886.1</td>
<td>3,447.7</td>
</tr>
<tr>
<td>Germany</td>
<td>2,365.8</td>
<td>775.1</td>
<td>3,807.2</td>
<td>1,258.4</td>
</tr>
<tr>
<td>U.K.</td>
<td>2,161.2</td>
<td>1,193.0</td>
<td>2,772.1</td>
<td>2,124.6</td>
</tr>
<tr>
<td>Japan</td>
<td>1,961.8</td>
<td>1,409.7</td>
<td>2,280.1</td>
<td>2,829.1</td>
</tr>
<tr>
<td>France</td>
<td>877.4</td>
<td>458.2</td>
<td>1,041.1</td>
<td>614.1</td>
</tr>
<tr>
<td>Italy</td>
<td>633.1</td>
<td>381.7</td>
<td>720.2</td>
<td>1,023.4</td>
</tr>
<tr>
<td>Switzerland</td>
<td>314.5</td>
<td>1,155.3</td>
<td>477.8</td>
<td>2,124.6</td>
</tr>
</tbody>
</table>

Sources: Department of Statistics, Pretoria, South Africa Statistics, and Department of Customs and Excise, Pretoria, Monthly Abstract of Trade Statistics