

# CitizenW

Good Corporate Citizenship  
in the South African Wine Industry

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**CAPE WINE ACADEMY**

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by  
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*To live is to build a ship and a harbor  
at the same time. And to finish the harbor  
long after the ship has gone down.*

- Yehuda Amichai (From *A Letter*, 1996)

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## 1. EXECUTIVE SUMMARY

All industry sectors and countries face an increasingly complex and challenging set of economic pressures, political uncertainties and growing, often contradictory, stakeholder expectations. In response to these challenges, the concepts of corporate citizenship and corporate social responsibility are moving beyond the boundaries of legal compliance and glamorous philanthropy to a more central and challenging position.

Corporate citizenship, therefore, is an issue closely related to the unique competitive positioning of a country, an industry or a company, and cannot be adopted as a general initiative to pacify outside demands. Foremost strategists are now positioning corporate citizenship as part of any organisation's strategic framework – which demands that it becomes an issue that requires direction and accountability from a board of directors.

Globally, legislation regulates a comprehensive set of business procedures that facilitate good corporate citizenship. In addition, more contemporary guidelines and prescriptions relate specifically to certain aspects of sustainability and environmental or social stewardship. South African examples include the King Report on Corporate Governance and the establishment of the JSE's Socially Responsible Investment Index.

The realities of Africa and South Africa – its diversity, its history and the unique aspirations of its communities – necessitate a distinctly African response to corporate citizenship challenges. The concept of *Ubuntu* has been put forward as defining good corporate citizenship for the continent. A Nguni word, *Ubuntu* speaks to the interconnectedness of people and the subsequent responsibility that flows from this connection to each other. It speaks to accountability as entrenched in relationships and the interconnectedness of people, communities and business.

This supports the stakeholder approach, where corporate social responsibility is replaced with corporate stakeholder responsibility.

Historically, good corporate citizenship issues in the wine industry were approached in a conservative, patriarchal fashion, with the emphasis on farm worker development and eradication of the tot system. A stakeholder approach offers a much more transparent,

inclusive and comprehensive conversation about the future of good corporate citizenship in the industry.

Using the Five Faces of Good Corporate Citizenship Model, nine stakeholders in the South African wine industry have been identified: government, shareholders/investors (representing the financial community), the market and retailers, employees, the community and NGOs, the environment, media, anti-alcohol lobbies and the industry representative bodies themselves. Their perspectives and requirements constitute the driving forces that facilitate the conversation - and finally offer five elements that are particularly relevant to the industry's agenda about good corporate citizenship.

The seminar considers several international and local examples of good corporate citizenship, and concludes that the South African wine industry needs to engage its stakeholders and support the emerging leaders in this area. Good corporate citizenship in the South African wine industry needs to address those issues particularly relevant to the industry and society, and needs to support initiatives which are aligned with government policy.

## 2. LITERATURE REVIEW

*“...corporate citizenship involves thinking about the well-being of multiple stakeholders over a relatively long time span. It is making products that are safe and useful and affordable. It is treating employees well and respecting the natural environment. Improving the communities, both local and global, in which business is conducted. And it is adopting a timeframe that asks what is good “in the long run.” – Dave Messick*

In the years before the French Revolution, the Roman Catholic Church owned most of the vineyards in France. The church by its nature lived according to the practices of what we today know as good corporate citizenship. After the French Revolution, however, vineyards were confiscated and converted into small plots for individual ownership. Centuries later, the French industry, like most wine producing industries across the world, is experiencing a period of consolidation again. This time, however, it is not the beneficial hands of the church that is taking up collective ownership of the industry, but competitive business entities.

Fortunately, there is increasing pressure on companies to enhance their competitive edge by good environmental and social practices – behaviour that characterise a good corporate citizen. The objective of this seminar is to consider good corporate citizenship in the South African wine industry. As an industry that produces an alcoholic product that is potentially harmful, and furthermore produces it in a social and political context that offers its own complexities, the wine industry needs to address a set of very particular and unique issues.

The seminar starts with a comprehensive literature review that offers a view of both the legislative and the more popular approaches to good corporate citizenship. The subject has been extensively researched, especially in the US, and encompasses all areas related to social responsibility and investment.

The literature review is followed by good corporate citizenship profiles of the two biggest international liquor companies, Diageo and Allied Domecq, after which three South African examples are put forward: SABMiller, Distell and Winecorp. In the latter two cases, which

are particularly relevant to the wine industry, in depth interviews with the relevant people had been conducted.

A stakeholder approach has been selected as the most astute way to consider the drivers for good corporate citizenship in the wine industry. The stakeholder approach has motivated the creation of a model that facilitates a comprehensive and systemic conversation about the subject – the Five Faces of Good Corporate Citizenship.

Having elaborated on all the elements of the model, the seminar concludes with a summary of the findings and a set of recommendations - to ensure that good corporate citizenship provide a sustainable and competitive edge to the future of the South African wine industry.

## **2.1 Introduction**

Since the turn of the millennium, the global business world has been confronted with a growing number of failures in corporate governance and ethics. Trust in business and its leaders remain low. Moreover, every industry sector and country face an increasingly complex and challenging set of economic pressures, political uncertainties and growing, often contradictory, stakeholder expectations.

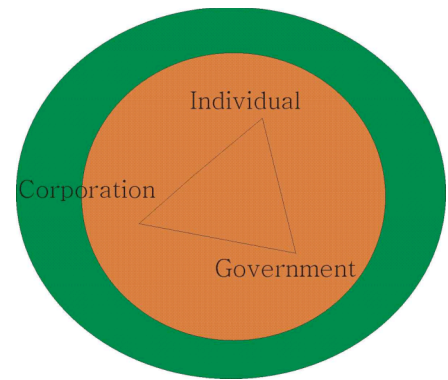
In response to these challenges, the concepts of corporate citizenship and corporate social responsibility are moving beyond the boundaries of legal compliance and glamorous philanthropy to a more central and challenging position. (Nelson, 2004: 5)

## **2.2 The scope of corporate citizenship**

Corporate Citizenship concerns the way companies behave as “corporate citizens”, that is to say as members of society showing responsibility and concern for others while exercising their right to trade freely and maximise long term value for their owners. (Tuffrey, undated: 3)

Although corporate citizenship has a strong orientation towards managing stakeholders, it requires of corporations to become more informed and enlightened members of society and to understand that they are both public and private entities. Whether corporations like it or not, they are created by society and derive their legitimacy from the societies in which they operate. They need to be able to articulate their role, scope and purpose as well as understand their full social and environmental impacts and responsibilities. (Zappal, 2003: 4)

Corporate Citizenship relies on a healthy relationship between the individual, the corporation and the state. This three way relationship provides the basis from which economic, social and environmental beliefs and actions are formulated and driven. It takes into account both practical and ethical dimensions of doing business and the nature of the work environment. It is both local and global in its remit and applies equally to large or small companies, industry or even the state in its economic capacity.



The practices that advance good corporate citizenship involve a more holistic and integrated approach to sustainable development than has previously been the case. (Webster, 2003: 1)

### **2.3 Corporate Strategy**

According to Trialogue's "The Good Corporate Citizen", the notion of good corporate citizenship requires a paradigm shift. "Some companies seem to think that they can climb aboard the citizenship bandwagon merely by repackaging themselves in sustainability language and reporting, whilst in reality carrying on as themselves." The starting point for any company that is serious about its future as a corporate citizen, is to identify its operational, social and environmental risks. This should be followed by a strategy, long term objectives and action plans that create a corporate culture in line with a citizenship vision. (Freemantle, 2003: 4)

In evaluating a company's commitment to good corporate citizenship, its strategic framework would offer the first indications of the extent to which core business is aligned with citizenship values. Pearce and Robinson, in their book on competitive strategy, positions social responsibility with company mission at the top of the strategic management model. This gives very high visibility and strategic importance to stakeholders claims for responsible behaviour.

Pearce and Robinson divide the stakeholders of any particular company into "inside stakeholders and outside stakeholders". They argue that "the insiders are the individuals or groups that are stockholders or employees of the firm. The outsiders are all the other individuals or groups that the firm's actions affect. The extremely large and often amorphous set of outsiders makes the general claims that the firm be socially responsible." The

demand, therefore, is that “insiders’ claims be subordinated to the greater good of the society”.

Pearce and Robinson admits that good corporate citizenship offer issues that are numerous, complex and contingent on specific situations. “Thus, rigid rules of business conduct cannot deal with them. Each firm, regardless of size, must decide how to meet its perceived social responsibility.” (2005: 46 – 48)

Corporate citizenship, in other words, is an issue closely related to the unique competitive positioning of a company, and cannot be adopted as a general initiative to pacify outside demands. The fact that Pearce and Robinson position corporate citizenship as part of the strategic framework of a company suggests that it inevitably becomes an issue that requires direction and accountability from a board of directors.

## **2.4 Business perceptions**

Today, 52 of the largest economies in the world are corporations. With that strength and power comes reach and presence. In the same vein, many industries are more influential and powerful than most governments. They determine infrastructure, employment, education, research and economic welfare. One such corporation or one such industry has the potential to become a catalyst for change – with real resources such as people and products, good corporate citizenship becomes a reality that brings positive growth. Not just individual wealth.

One of the most comprehensive surveys on perceptions about corporate citizenship was done in the US in 2003. Some of the highlights of the survey are:

Companies believe:

Good corporate citizenship helps the bottom line	82%
Corporate citizenship needs to be a priority	82%
Many companies do a great deal more for their Communities than is talked about	85%
Corporate citizenship should be completely voluntary – No laws should govern it	80%
The public has a right to expect good citizenship	74%

Some of the key elements perceived to be inherent to good corporate citizenship are ethical business practices, treating employees well and providing safe and reliable products/services.

Traditions and values are perceived as the most important drivers of good corporate citizenship, followed by company reputation. External drivers come from customers and consumers, the community and government.

There is less agreement on the barriers to good corporate citizenship, according to the report. A lack of resources and lack of support by top management are listed as the most important answers to this question.

33% of those surveyed, (515 members of the US Chamber of Commerce, which include small and medium size enterprises) have a company volunteer programme that is involved in community outreach programmes.

Looking at the future, the companies surveyed believe that the most important corporate citizenship issues will be:

Cost and access to health care	63%
Threat of terrorism and homeland security measures	36%
Increased environmental regulations	35%
Performance of public schools	32%
Legislation/regulations to change financial governance and accountability	31%

Business, the report concludes, believe they should play the most active role in education, health care, development of alternative energy sources and in bridging the “digital divide”. (The Trustees of Boston College, 2003: 2 – 26)

It is evident that business leaders understand that they have to find a balance between financial and corporate citizenship issues, but that by far the majority also believe that this should be driven from a company’s strategic intent and not governed purely by law.

## **2.5 More than a legal imperative**

There is a significant difference between citizenship on an individual level and citizenship on a corporate (or industry) level. A good individual citizen is someone who gains the respect of

community and society because he or she has high ethical values and makes a sound contribution to a sustainable future. By creating legal entities (such as companies and corporations), individuals are turned into collective corporate citizens. But, where individuals are responsible for their own actions, the legal persona potentially removes individual liability from the equation. (Freemantle, 2004: 2)

This is one of the core weaknesses that led to scandals such as Enron, Worldcom and Parmalat.

Existing laws govern regular business procedures in a global context. More contemporary guidelines and prescriptions relate specifically to certain aspects of sustainability and environmental or social stewardship.

Legislation was passed in France in 2002, for example, requiring listed companies to report extensively on their environmental and social impact. In South Africa, following the second King report into corporate governance, all companies listed on the Johannesburg Securities Exchange have been required since 1 September 2003 to report on their social and environmental performance using the GRI as their framework. (Zappal, 2003: 11)

The following table provides an overview of legal imperatives and initiatives:

<b>Formal precedents for good citizenship</b>		
	<b>International</b>	<b>South Africa</b>
<b>Prescribed laws, conventions and standards</b>	<ul style="list-style-type: none"> <li>• Universal declaration of human rights</li> <li>• International Labour organisation standards</li> <li>• ISO 9000</li> <li>• ISO 14000</li> <li>• OHSAS 18000</li> </ul>	<ul style="list-style-type: none"> <li>• SA Constitution and Bill of Rights</li> <li>• Basic Conditions of Employment Act</li> <li>• Labour Relations Act</li> <li>• Occupational Health and Safety Act</li> <li>• National Environmental Management Act</li> <li>• Mineral &amp; Petroleum Resources Development</li> </ul>

		Act <ul style="list-style-type: none"> <li>• National Water Act</li> <li>• Directors' fiduciary duties</li> <li>• Common law &amp; judicial precedent</li> <li>• NOSA grading</li> </ul>
<b>Guidelines</b>	<ul style="list-style-type: none"> <li>• Global Reporting Initiative</li> <li>• AA1000 Series</li> <li>• SA8000 Standard</li> <li>• Global Compact</li> <li>• Sigma Guidelines</li> <li>• Dow Jones Sustainability Index</li> <li>• FTSE4Good Index</li> </ul>	<ul style="list-style-type: none"> <li>• King II</li> <li>• JSE Listing Requirements</li> <li>• JSE SRI Index</li> </ul>
<b>Transformation initiatives</b>	<ul style="list-style-type: none"> <li>• Region specific initiatives</li> </ul>	<ul style="list-style-type: none"> <li>• Broad Based BEE Act</li> <li>• Employment Equity Act</li> <li>• Skills development Act</li> <li>• Industry Charters</li> </ul>

(Freemantle, 2004: 20)

## 2.6 Citizenship timeline

International publications and events that have shaped the definition of good corporate citizenship include:

**1933** The OECD Guidelines for Multinational Enterprises (MNE) are adopted by multinational enterprises operating in 33 countries, and recommend policies on transparent and accountable business conduct. They were revised in 2000.

**1977** The Sullivan Principles list eight values to encourage companies and their business partners worldwide to promote social, economic and political justice.

**1987** The Brundtland Report, "Our Common Future" coins the term "sustainable development"

**1987** Responsible Care is a global chemical industry initiative to handle products safely throughout their life cycle.

**1990** The Domini 400 Social Index is launched. The first index of its kind, it comprises 400 USA corporations selected on a wide range of social and environmental criteria.

**1991** The International Chamber of Commerce launches the business Charter for Sustainable Development, covering 16 principles on making the environment a corporate priority.

**1992** UnCED, the UN Conference on Environment and Development (the Earth Summit) is held. Nations of the world agreed on human and environmental action plan for the next century.

**1992** The UK's Cadbury Commission addresses standards of corporate behaviour. It produces a code focusing on company control, reporting and auditing. All companies listed on the LSE are required to indicate whether they comply.

**1992** The King Committee on Corporate Governance is constituted in South Africa under the auspices of the Institute of Directors.

**1994** Ethical business practice is institutionalised in South Africa by the publication of the King Committee's King Report on Corporate Governance.

**1994** The Caux Round Table Principles for Business embody the aspirations of principled business leaders around ethical and responsible corporate behaviour, and provide business leaders worldwide with a foundation for action.

**1996** The Global Reporting Initiative (GRI) is convened to create a common international framework for triple-bottom line reporting. It provides generic and sector-specific guidelines as tools to help organisations disclose their economic, environmental and social performance.

**1998** The Calvert Social Index is introduced as a broadbased benchmark to measure performance of US based socially responsible companies. It screens the largest US companies on four basic criteria: products, environment, workplace and integrity.

**1999** The Global Sullivan Principles are constituted, arising from the original Sullivan Principles, launched in 1977.

**1999** The Sigma Project is launched. Its Sigma Guidelines comprise a set of principles, a framework for mainstreaming sustainability into core business, and a toolkit to help organisations improve their triple-bottom-line performance.

**1999** The Dow Jones Sustainability Indexes are established as the first global indexes tracking the financial performance of leading sustainability-driven companies worldwide.

**2000** The UN Global Compact is launched to address some of the world's more intractable problems by challenging business leaders to adopt and apply nine operational principles across human rights, labour and environmental practices.

**2000** At the Millennium Summit, over 150 Heads of State agree on the Millennium Development Goals, an ambitious agenda to reduce poverty, improve lives and protect environmental resources. Targets are set, most for 2015, using 1990 as a benchmark.

**2001** The FTSE develops its FTSE4Good Indexes, a group of socially responsible investment indexes comprising listed corporations committed to environmental sustainability, developing positive relationships with shareholders, and upholding and supporting universal human rights.

**2001** The London Principles are written, comprising a charter for investment decisions. At their core is a risk assessment of the ongoing environmental and social balance of business activity.

**2002** King II is launched. It reviews the 1994 King Report and provides a comprehensive range of recommendations for corporate governance standards and practices in South Africa. (Freemantle, 2004: 4-15)

**2002** The Sarbanes-Oxley Act was signed into US law and introduced highly significant legislative changes to financial practice and corporate governance regulation. It introduced stringent new rules with the stated objective: "to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws". (The Sarbanes-Oxley, 2003)

**2003** The JSE launches its Socially Responsible Investment Index to track listed companies' responsiveness to South Africa's socio-economic and environmental challenges. The top 161 companies are eligible for evaluation for the Index.

**2003** The Broad-Based Black Economic Empowerment Act, No 53 of 2003 is promulgated, with the aim of providing a legislative framework and of empowering the Minister to issue codes of good practice in this regard.

**2004** The first BEE Codes of Good Practice is published by the Department of Trade and Industry. The Codes are to be applied in the development, evaluation and monitoring of BEE charters, initiatives, transactions and other implementation mechanisms.

## **2.7 African Agenda for Good Corporate Citizenship**

The realities of Africa and South Africa – its diversity, its history and the unique aspirations of its communities – necessitate a distinctly African response to the corporate citizenship challenges that the continent face. The Second African Corporate Citizenship Convention held in September 2004 highlighted these issues, particularly the difference between the agenda for the “North” and the agenda for the “South”.

According to the Convention report, “corporate citizenship in Africa reflects the concerns of a wide variety of stakeholders, including small, medium and micro enterprises (SMMEs), suppliers, factory workers, farmers and communities. The fundamental sustainable development challenges confronting these groups, including poverty, livelihood insecurity and the need for market access, require a more proactive approach that goes beyond the tenet of ‘do no harm’ that has characterised approaches to corporate citizenship espoused in the North. (African Institute of Corporate Citizenship, 2004: 2 – 3)

In the African and South African context, the concept of *Ubuntu* has been put forward as defining good corporate citizenship for the continent. A Nguni word, *Ubuntu* speaks to the interconnectedness of people and the subsequent responsibility that flows from this connection to each other. It speaks to accountability as entrenched in relationships and the interconnectedness of people, communities and business.

*Ubuntu*, according to the AICC convention report, allows for the conceptualisation of good corporate citizenship on the basis of interdependent relationships as opposed to one-way paternalistic relationships characteristic of a more philanthropic approach. (AICC, 2004: 18 – 19)

The AICC, which drives the good corporate citizenship conversation in Africa, is a non-governmental organisation committed to promoting responsible growth and competitiveness in Africa by changing the way companies do business in Africa.

AICC's long-term goals are to ensure:

- Responsible growth and competitiveness throughout Africa.
- Corporate Citizenship is an integral part of how companies do business in Africa.
- Transparency in companies' interaction with governments.
- Non-financial reporting is as important as financial reporting.
- Governments play a role in ensuring corporate accountability in Africa.
- South Africa adopts corporate responsibility guidelines, which are best suited for South African companies operating in Africa.
- Corporate Citizenship becomes part of the curriculum at business schools throughout Africa.
- International standards on Corporate Citizenship support the African context and promote responsible business and competitiveness. (AICC, 2005: 1)

As proposed during the 2004 Convention and supported by the CSI Handbook, good corporate citizenship in South Africa has a broader domain than the European model, brought on by external developments that place it within a context of empowerment, transformation and business sustainability. (Rockey, 2003: 8) A far wider spectrum of stakeholders is involved.

Critical issues that pose a threat to good corporate citizenship include HIV/Aids, land redistribution, government capacity to manage development processes, housing, access to credit and education. In South Africa, the traditional perception that large donations will suffice as development strategy, is rapidly becoming displaced. (AICC, undated: 1)

## **2.8 A strategy of change**

The African Institute of Corporate Citizenship defines three levels of citizenship in the South African context.

*Limited corporate giving*

This involves a company or organization having a broad awareness of wider societal issues and giving of funds and gifts in kind where this is appropriate to support local initiatives. This can either be done on a collective or individual company or organization basis.

#### *Active corporate social responsibility*

This involves a company or organization providing more than just financial support and gifts in kind but active programme and executive support to local civil society organizations and government programmes. A response of this kind would involve an integrated development approach, including partnerships, the committing of staff time to development programmes, volunteering initiatives, consultancy support and secondments.

#### *Pro-active corporate citizenship*

This involves companies integrating corporate social responsibility strategies into their core business strategy. It requires developing business linkages and supply chain management in a way that promotes a wider development agenda. (undated: 3 – 5)

Although international standards, supply chain pressures and public recognition are demanding higher levels of involvement in good corporate citizenship, it is still a voluntary point on the business agenda.

A year after the launch of the JSE's Socially Responsible Investment Index, only 51 of the 161 listed companies invited to participate, met the criteria for inclusion in the index. Of the 161 invited, only 74 took part in the process. The Index is the first of its kind in an emerging market. (Temkin, 2004: 14)

In South Africa, participation and visibility remain low, and there is widespread agreement that performance and reporting in the areas of good corporate citizenship needs to improve dramatically over time.

## **2.9 The Stakeholder Approach**

Considering the wide range of beliefs, attitudes and activities that direct the corporate citizenship agenda, there is one central argument that seems to facilitate the most balanced strategy: the stakeholder approach.

In the US, the Centre for Corporate Citizenship at Boston College did a study on the perceptions of business about corporate citizenship. According to the 2003 report,

companies believe that stakeholders have a right to expect good citizenship. Furthermore, a vast majority of companies believe that it helps the bottom line and that it needs to be a priority for business. 80% of those surveyed recommended that corporate citizenship be voluntary and not be governed by laws.

The study shows that stakeholders form a large part of perceived external pressure on companies to perform well as corporate citizens. Customers, consumers and the community have a much higher impact than laws or political pressure. Internal stakeholders, i.e. employees, are also a driving force, but company tradition and values, reputation and strategy determined the internal agenda for corporate citizenship to a very large extent. (2003: 6)

Another effort that supports the view that stakeholders constitute the essence of good corporate citizenship is the 100 Best Corporate Citizens awards by Business Ethics magazine. According to Asmus, "service to a variety of stakeholders is the essence of good corporate citizenship. That's what the 100 Best Corporate Citizens listing is about. While traditional measures for success focus on stockholder return, this list defines success more broadly. Using social ratings... plus total return to shareholders... our list ranks companies according to service to seven stakeholder groups: stockholders, community, minorities and women, employees, environment, non-US stakeholders and customers. Good Corporate citizens serve all constituencies well. That's the emerging definition of corporate success." (2005: 2)

In an article in the Breakwater Business, Frank Horwitz argues that "we need to replace corporate social responsibility with corporate stakeholder responsibility". He alleges that capitalism is about social co-operation and that "we cannot create shareholder value without collaborating with stakeholders. Great companies create value for stakeholders – customers, employees, shareholders and suppliers. If a company is doing a great job for each of these stakeholders and doing good work in its community, then it is being profoundly socially responsible." (2005:10)

Considering the South African wine industry as a national citizen, I would therefore argue that the stakeholder approach would constitute the most balanced view to evaluate expectations and options in determining opportunities and measures for a successful corporate citizenship agenda.

### 3 PROFILE OF THE SOUTH AFRICAN WINE INDUSTRY

South Africa is the world's tenth largest wine producer, accounting for 2.5% of global production. In 2003, the turnover of the industry was estimated at R10,675 million of which more than one third was generated by export sales. In addition to this, the wine industry indirectly generated another R4,198 million via tourism receipts. With respect to employment, the South African wine industry directly provides 109 000 jobs; 44 000 in primary agriculture, 21 000 in processing and 43 000 in the services sector (wholesale, retail and transport). In 2003, State revenue from the industry via excise duties and VAT was R2 000 million. This represents a 100% increase in comparison with 1995 levels.

Much of the growth in the South African wine industry has been due to its stellar export performance. From 1992-2003 exports grew at an average rate of 24,4% per annum, and the current export propensity of the industry is 30%.

With respect to destination, South Africa's wine exports are heavily concentrated in the European Union, with the United Kingdom absorbing 44% of exports, followed by the Netherlands (18%) and Germany (8%).

The profitability of export sales has recently come under scrutiny as the industry has had to contend with an appreciating rand. At the end of 2001, the Rand had depreciated to an average of R 12 to the US dollar while the average for 2004 has been R 6.50 – this volatility has made export planning and management complex.

A major factor influencing South Africa's ability to grow its market share in the European Union, is the increasing emphasis this region's consumers are placing on the origin of products and production processes. For the South African industry this translates into concerns about i) employment conditions of farm workers (ethical trade movement), ii) the success of the land reform programme and other transformation issues, iii) environmental factors and iv) the traceability of products due to concerns about the use of genetically modified material and the protection of Designations of Origin. (Tregurtha, 2004: 1 – 3)

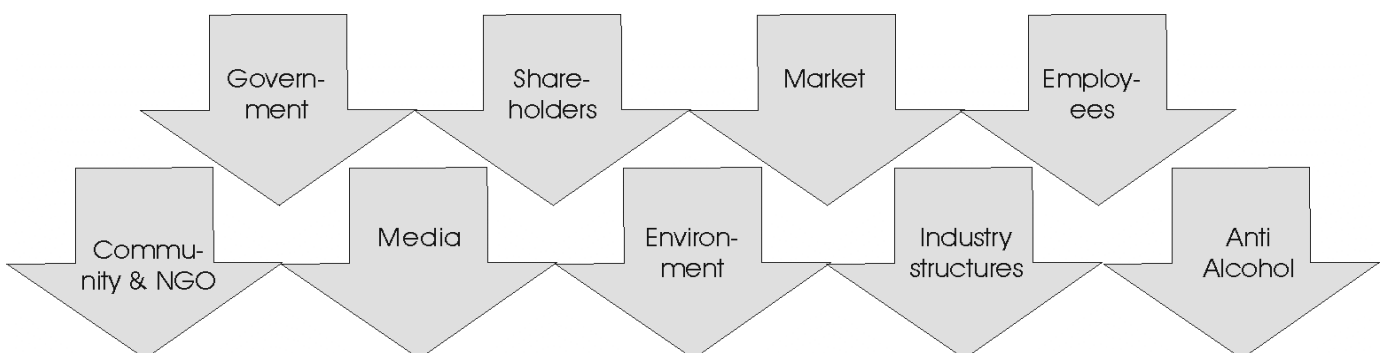
These concerns are important arguments that support the good corporate citizenship conversation in the industry. They furthermore echo the issues that are being raised in the process of designing a Wine Charter Scorecard to facilitate Black Economic Empowerment in the industry. In the following section these driving forces will be explored in detail, followed

by a framework to comprehensively address good corporate citizenship in the South African wine industry.

### 3.1 The drivers of good corporate citizenship in the South African wine industry

Historically, good corporate citizenship issues in the wine industry were approached in a conservative, patriarchal fashion, with the emphasis on farm worker development and eradication of the tot system. The Rural Foundation was established and funded in order to manage these functions on behalf of the industry's farmer members, and focused mainly on education and health. When the Rural Foundation was disbanded by its donors in the early 1990s the response from the industry was slow, but eventually individual corporate development initiatives took form. Today, good corporate citizenship is less driven by politics and more by real stakeholder needs and inputs.

Adopting the stakeholder approach, as set out in 2.9, the South African wine industry would today typically consider nine main stakeholders driving the perceptions and industry agenda about corporate citizenship. These stakeholders are government, shareholders/investors (representing the financial community), the market and retailers, employees, the community and NGOs, the environment, media, anti-alcohol lobbies and the industry representative bodies themselves. Companies in the wine industry that consider corporate citizenship to be a strategic commitment, need to consider the expectations of every one of these stakeholders.



**Fig 1: Driving forces of Good Corporate Citizenship in the South African wine industry**

#### 3.1.1 Government

Government is one of the key stakeholders for any company. It determines the legal framework for doing business, facilitates trading and offers lucrative contracts. Government also has a vested interest in good corporate citizenship.

Good corporate citizenship enhances the competitiveness of a nation, it offers innovative partnerships between government, business and NGO's and has the potential to complement and strengthen government's social policy.

Recent trends and evidence provide good grounds for believing that there is a role for government in corporate citizenship, but that role is not necessarily a regulatory one. While corporate citizenship has traditionally been regarded as an activity that companies engage in voluntarily, the growth and influence of the 'corporate citizenship movement' has led to increasing calls for governments in several countries to regulate the social behaviour of companies. (Zappal, 2003: 4 - 8)

The British government's approach, for example, is widely regarded as the best example of the 'non-regulatory activism' model of corporate citizenship. It has introduced a range of policies, systems and frameworks to encourage responsible business practice. These include being the first country to have a Minister for Corporate Social Responsibility. The Minister, whose portfolio lies within the Department of Trade and Industry (DTI), has provided strong political leadership and promotion of corporate citizenship and made it a central tenet of Britain's national competitiveness strategy. The public policy framework with respect to corporate citizenship has been to:

- ensure coordination of corporate citizenship policies and activities across the whole of government
  - raise the profile of CSR and corporate citizenship
  - promote the link between corporate citizenship and productivity
  - assist in the development of corporate citizenship skills through the provision of education and training
  - assist smaller and medium sized firms in applying corporate citizenship practices
  - fund research into corporate citizenship
  - create incentives for the development of CSR clusters, and
  - enact a range of 'soft' or 'enabling' legislation of relevance to corporate citizenship.
- (Zappal, 2003: 13)

The UK Department of Treasury has a further programme to support corporate citizenship. HM Treasury has committed itself to building strong, healthy and active communities. The businesses that operate in these communities make a valuable contribution to this aim.

As a part of the Government's commitment it seeks to facilitate and incentivise companies to get involved in two ways. The first is through the provision of tax incentives, and the second is through support for a range of organisations which seek to ensure companies have access to all the information and resources they need. (HM Treasury, 2003: 1)

In South Africa, government's agenda for good corporate citizenship is less visible, and is driven by several departments, such as Finance, Health, Social Development and the Department of Trade and Industry. South African legislation, seen from a corporate citizenship perspective, is enabling, rather than prescriptive. Government has a business friendly approach, and has to a large extent delegated the role for transformation on all levels to the business sector itself, and will probably only step in with hard targets if the business response is inadequate. (Freemantle & Rockey, 2004: 24)

Driving this soft approach is Finance Minister Trevor Manuel. He has been a leader in promoting good corporate citizenship, with consistent calls for an increase in business' commitment to sustainability reporting. (Temkin, 2004: 14)

Specific issues on government's agenda, and the areas in which business are therefore expected to focus their support are:

- The eradication of poverty and its social manifestations
- Mitigating the social and economic impact of HIV/Aids
- An economic transformation that will bring about significant increases in the number of black people who manage, own and control the country's economy
- Providing education and training in order to create an employable workforce

In South Africa, government also participates in the conversation around Foetal Alcohol Syndrome (FAS), particularly on a provincial level. This is an issue that is particularly relevant to the wine industry.

Several government institutions, such as the local and provincial departments of health and the SA Medical Research Council, support and are involved with the work done by FARR (Foundation for Alcohol Related Research), an independent, not-for-profit organisation. FARR establishes sustainable programmes aimed at eliminating FAS as a preventable

disorder among new-born children in South Africa. The foundation has helped to establish South Africa as a global centre of excellence in the field of scientific and medical research into FAS. (Viljoen, 2005: 1 – 7)

Government is also publicly raising the profile and awareness of FAS. In a speech by Lynne Brown, the Western Cape MEC of Finance, Economic Development and Tourism, at the launch of an anti-liquor abuse booklet in May 2005, she paid particular attention to this matter. She explained that her department had produced a booklet, “Tackling Alcohol Problems” in an attempt to promote a culture of responsible alcohol consumption. It aims to educate the liquor trader. “We want liquor traders to become responsible citizens of the community”.

She gave a valuable historical perspective on liquor trading in the province by saying that “while aware of the harmful effect of the liquor trade, the Department... also understands that during the apartheid era this industry was for many black communities the only source of economic activity.”

She also added that “while the new liquor regulation is aimed at regulating the industry, efforts like the booklet go a long way in ensuring that we attach a human and caring face to liquor trade.” (Western Cape Provincial Government, 2005: 1 – 3)

It is therefore clear that government is currently supporting rather than prescribing initiatives that fall within the sphere of good corporate citizenship.

From the perspective of government, good corporate citizens in the wine industry might be measured according to whether they:

- Operate in line with the Constitution, the Bill of Rights and all relevant legislation.
- Adhere to local rules driving the transformation agenda, common law and director fiduciary duties.
- Provide employment
- Pay taxes and levies
- Conduct an open conversation with government about industry needs in terms of development
- Align their initiatives with Governments social, economical and educational agenda, supporting in particular those programmes relating to HIV/Aids, BEE and poverty alleviation.

### 3.1.2 Shareholders/investors

Business' primary task is to make a profit for shareholders. Only then can the other aspects of development be realized. A company's economic progress is therefore one of the pillars of sustainable development – and the key to its ability to act as a good corporate citizen. (Freemantle, 2004: 52)

In the financial community there is a discernable difference in approach to corporate citizenship as a business driver between investment analysts (primarily concerned with share dealings) and long term fund based investors. The latter, according to Cooper, are more inclined to be sensitive and attentive toward corporate social responsibility considerations. (2004: 2)

The South African wine industry has traditionally been based on the co-operative system as a business model. This model facilitated a very closed industry where “shareholders” were all farmers with a direct interest in their co-operative. Today, shareholders are no longer primarily farmers, but also include financial institutions and BEE partners. This has created a completely different corporate citizenship agenda from the shareholder perspective. Most shareholders, however, maintain a very long term view of the industry.

Investors always take a keen interest in the corporate practices of companies. In a survey done by the World Economic Forum, over 70% of the companies surveyed expected to see increased interest in corporate citizenship issues by mainstream investors in the future. (Nelson, 2004: 13)

Good corporate citizens in the wine industry will have to satisfy claims from shareholders for:

- Making a profit and paying dividends
- Regular assessment of risk and a plan to manage risks
- Accounting standards that support transparency and accuracy, and highlight issues of concern
- A board of directors and management that reflect the South African demography, and include non-executive directors and an independent chairman
- Reporting that adhere to the triple bottom line guidelines as set out in King II
- Stakeholder mapping to manage the entire value chain optimally
- Reputation that drives perceptions about future returns.

### 3.1.3 Market & Retail

The UK, South Africa's biggest export market for wine, is also the biggest fair trade market in the world. The UK spends about £130 million a year on ethically traded goods. (Duffy 2005: 1) Fair trade is an important component of good corporate citizenship, as it promotes ethical and sustainable business principles and strongly supports traceability.

In the UK, the fair trade sector is experiencing 40% year-on-year growth, while 60% of consumers in France claim to be aware of the concept. Internationally, the movement is regulated by the FLO (Fairtrade Labelling Organisation), which imposes certain criteria. European governments, however, aim to establish a world wide standard for the EU by 2006. (Datamonitor, 2005: 1)

Retailers, especially in the UK, the wine industry's largest export market, have taken a strong stance on ethical trade. A group that subscribes to the Ethical Trading Initiative, pledged finance to help set up Wieta (The Wine Industry Ethical Trade Initiative). The group, which included Coop, Tesco, Sainsbury's, Marks & Spencer, Asda, Safeway, Somerfield and Waitrose, buy about 40% of South Africa's bottled wine exports. (Mathews, 2004: 1) As such they have enormous power in demanding that suppliers conform to the principles of good corporate citizenship.

Suppliers of products of the vine are increasingly asked to list their corporate social investment activities in tender documents and vendor profiles. (Freemantle, 2004: 125) Suppliers often commit to a code of conduct, and are independently audited to monitor compliance. Wine companies that are serious about good corporate citizenship not only adhere to such codes, but enforce similar codes of conduct on their suppliers. This has the effect of enforcing sustainable principles as basic conditions of contracting.

Typical examples of such requirements are issues such as the prohibition of child labour, the establishment of a healthy and safe working environment, the right to collective bargaining and freedom from discrimination. It also calls for measures to reduce dependence on alcohol. (Mathews, 2004: 2)

In a market such as the UK, five buyers represent the vast majority of wine consumers. These retail buyers determine the market standards, prices, trends and the overall availability of wine brands and labels. They hold enormous power in their offering to consumers, but are also guided by consumer demand and market perceptions of certain products.

Where corporate identities, in cases such as Diageo or Allied Domecq, are far removed from the identity of particular liquor brands, it is unlikely that consumer choice decisions are made on the basis of corporate citizenship perceptions. However, Cooper highlights the fact that corporate citizenship becomes highly significant when some element of citizenship is mishandled or becomes bad publicity, particularly if a consumer group or special interest lobby becomes involved and encourage activities such as consumer boycotts. (2004: 1) In this instance, the gap between corporate and brand identity can be leapt very quickly, and for companies such as KWV, where the corporate and brand identities are synonymous, the stakes are that much higher. This risk was clearly evident in a case such as the recent Sauvignon blanc flavouring incident.

Research from the UK Social Market Foundation (SMF) think tank shows that 82% of consumers prefer to purchase goods and services from companies that are socially and environmentally responsible, including 23% who would choose to do so even if the ethical option is more expensive. The research does however find that such aspiring consumers are currently unable to put their money where their morals are due to a lack of clear and credible information about the ethical practices of companies. (Du Toit, 2003:2)

For wine companies, perceptions of good corporate citizenship from consumers and retailers would include:

- A preferential procurement policy that adhere to fair trade principles
- Providing products according to specifications, that are safe and healthy
- Sharing of information and building partnering relationships
- Marketing and promotional activities that provide true product representation and use legitimate and credible campaigns
- Aligning brands with corporate values and ethics.

#### **3.1.4 Employees**

The behaviour of good corporate citizen companies with regards to their employees encompasses a broad range of operational issues, including fair pay, a safe workplace, equal opportunities, the promotion of diversity and support for employee development.

According to a report commissioned by The Corporate Citizenship Company, organisations' commitment to corporate citizenship can impact on staff morale, motivation, commitment and performance. The report confirms that employee community involvement does have a

real impact on morale and motivation. Even those who are aware of company schemes, but not personally involved, tend to be more likely to recommend the company to others and be motivated to do their jobs than those who do not know of any schemes. (Tuffrey, undated:3 – 5)

Where employees are concerned, good corporate citizens in the wine industry might be measured according to whether they:

- Value and practice the human rights enshrined in the Constitution, Bill of Rights and various items of legislation that pertain to employment.
- Provide a safe and healthy work environment
- Respect employee's right to privacy
- Are committed to Employment Equity, as well as equal pay for equal work
- Have specific policies related to good corporate citizenship and support voluntary work and projects by employees in their communities
- Have a code of ethics signed by all employees
- Have an alcohol testing and treatment policy, as well as life skills training programmes
- Encourage active involvement by unions, employee bodies and workplace forums.

### **3.1.5 Community & NGO**

Wineries, estates and wine farms contribute substantially to their communities through the jobs they create, the services they provide, the taxes they pay and the sense of “community” that they instill. But as much as they benefit society, they owe a debt to the community through the profound consequences they have on people's livelihood, health, welfare and moral wellbeing. A responsible approach ensures comprehensive engagement with the community, and joint solutions that are mutually beneficial.

In the wine industry, the Rural Development Network (Rudnet) is the most prominent association of non-governmental organizations. It acts as a network of 45 organizations committed to enhancing the quality of life of farm working communities – addressing issues such as poverty, social conditions, alcoholism, education and health. (Rudnet, 2005: 1)

Dopstop, an association campaigning for the improvement of the social conditions of farm workers, is affiliated with Rudnet. It has played a key role in eradicating the tot system in the Western Cape.

These organizations are partly funded by SAWIT (The South African Wine Industry Trust), and depends on contributions and co-operation from companies and individuals in the wine industry in order to create a better life for farm workers and communities.

In societal context, good corporate citizens might therefore be measured according to whether they:

- Have specific social policies in place related to societal impact of physical operations
- Undertake social impact assessments and conduct stakeholder mapping exercises to understand how communities are affected by their operations
- Disclose their practice guidelines
- Consult with communities and engage more broadly with other relevant institutions that might have a vested societal interest in the operations,
- Adhere to international guidelines and standards
- Engage in community development, through activities that develop the communities in a way that is sustainable for business and community. (Freemantle, 2004: 118 – 120)

### **3.1.6 Media**

Acts of good corporate citizenship is often in itself not newsworthy. Investments in long term corporate responsibility initiatives are also generally not the gripping, immediate and entertaining material that attracts media coverage. The media therefore needs to make a special commitment to promote the principles of good corporate citizenship in their reporting.

A recent summit to debate the role of media in covering corporate responsibility created controversy among participants, according to Aleksandra Dobkowski-Joy from the Ethical Corporation. A New York Times business editor argued that the media fulfills a public service by ensuring that “the truth” about corporate performance is highlighted. He stated that the media contributes to business ethics not by congratulating companies that act well, but by focusing on bringing to public debate questionable activity. “Our role is to be a watchdog – not a cheerleader.”

The contrasting argument was that media coverage of business excellence in the areas of corporate responsibility and ethics was critical to establishing good examples. (2005:1)

Locally, a good example of positive reporting and promotion of good corporate citizenship is the Mail & Guardian’s Greening the Future and Investing in the Future Awards. The latter

has been running for 15 years, whereas the Greening the Future Award was launched in August 2003. This competition focuses on environmental best practice and investment in sustainable development. (Mail & Guardian, 2003: 1)

The exposure given, through these awards, to companies, not-for-profit organizations, public enterprises and community based organizations have already raised awareness and public interest in this area considerably.

In terms of the media, good corporate citizens in the wine industry might be identified according to whether they:

- Nurture a relationship with media representatives that is transparent and ethical
- Support industry whistle blowing and the media's role in this
- Willing to share lessons learnt – transparent about failures as well as successes.

### **3.1.7 Environment**

The South African Constitution prescribes the right to an environment that is not harmful to our health or well-being. This suggests that companies have to protect the environment for the benefit of present and future generations.

According to the International Centre for Alcohol Policies (ICAP), most major alcohol producers comply with or exceed governmental requirements and international norms governing environmental impact of the products they produce through improvements in the use of water, packaging, greenhouse gases, energy, solid waste, air emissions, hazardous substances and transport. (2003: 1)

Good corporate citizenship in terms of the environment would dictate that business in the wine industry subscribe to eco-efficient practices that consider issues such as packaging, product disposal, energy requirements and recycling. (Freemantle, 2004: 96)

To support environmental objectives in the wine industry, the Integrated Production of Wine was launched in 1998 under the Scheme for Integrated Production of Wine. IPW attempts to raise the awareness of environmental production of wine over a broad spectrum. The scheme is supported by 80% of cellars, producing wholesalers and bottlers, representing more than 95% of all wine grape production in the industry. (Tromp, 2004: 1 - 2)

According to the scheme, both grapes and wine have to be judged according to 15 guidelines each, before a wine can qualify as in IP-wine. These guidelines include training, vineyard layout, nutrition, irrigation, integrated pest management, the handling of chemicals, record keeping, substances added to wine, wastewater management, noise and air pollution and packaging materials. (Tromp, July 2004: 1 – 3)

Membership of IPW and adherence to the scheme's guidelines demand a minimum standard of environmental operation in the wine industry.

A recent initiative to acknowledge wineries that play an exemplary role in conserving the highly threatened species of fauna and flora found in the Western Cape Winelands, the Biodiversity and Wine Initiative (BWI), has raised the level of awareness of the environment, and conservation in particular, in the wine industry. As a partnership between the South African Wine Industry and the conservation sector it is an important contributor to sustainable wine production.

The initiative aims to:

- prevent further loss of habitat in critical sites
- increase the total area set aside as natural habitat in contractual protected areas
- promote changes in farming practices that enhance the suitability of vineyards as habitat for biodiversity, and reduce farming practices that have negative impacts on biodiversity, both in the vineyards and in surrounding natural habitat
- create marketing opportunities for the wine industry by positioning the biodiversity of the Cape Floral Kingdom and the industry's proactive stance on biodiversity as a unique selling point to differentiate Brand South Africa. (Winter, 2004: 1 – 2)

For wine companies, indicators of performance with regard to the environment would include:

- Specific environmental policies in place
- Support BWI's biodiversity conservation stewardship programme
- Compliance with national regulations and IPW guidelines
- Conducting regular environmental impact assessments
- Commitment to an environmental management system and an eco-management and audit scheme and/or certification standards (such as ISO 14000)
- Adherence to international guidelines and standards
- Engagement in environmental management capacity building
- Conduct environmental impact analyses for products. (Freemantle, 2004: 114)

### 3.1.8 Industry structures

Before focusing on the structures in the South African wine industry that drive the good corporate citizenship agenda, it is relevant to consider some of the international initiatives. The leading example of this was the creation of the International Centre for Alcohol Policies by ten leading drinks companies in 1995. With representation from the beer, spirits and wine sectors, ICAP's mission is to focus on broad societal issues.

ICAP has dedicated itself to improving the understanding of alcohol policy internationally, through active partnerships with government, the alcohol beverage industry, and the public health community. Based in Washington, ICAP has worked in more than 40 countries to reduce reckless drinking and help build the tools to create sustainable alcohol policies in both mature and emerging markets. (2003: 1)

The Amsterdam Group, an EU alliance of beverage alcohol producers – initiated the first European Forum for Responsible Drinking, an event that brought together all sides of the debate on how to best address responsible marketing. The group is also setting forth broad-based initiatives that can be adapted to meet local needs in various EU countries. The Amsterdam Group is attempting to draw in not only the producers of alcoholic beverages, but also distributors, retailers and on-premise operators. (Impact, 2004: 33)

In the local wine industry several formal structures support and direct the good corporate citizenship agenda. They are the South African Wine and Brandy Company (SAWB), the Association for the responsible use of alcohol (ARA) and the Wine Industry Ethical Trade Initiative (Wieta).

The **SAWB** is a non-profit company that was established in 2002 by representatives of wine producers, cellars, labour and wholesale merchants. The SAWB prepared the Wine Industry Strategy Plan (WIP), which serves as the strategic framework for cooperation and action in the SA wine industry. The SAWB's approach is inclusive of all stakeholders, and it acts as a lobbyist for the industry.

The strategic goals for the South African wine industry, as set out in WIP are:

- To increase global competitiveness and profitability;
- To generate equitable access and participation within the wine value chain;
- To enable environmentally sustainable production systems; and

- To promote socially responsible consumption of the produce of the vine.

These goals clearly support a good corporate citizenship agenda and are driven and managed through a range of industry related programmes and responsibilities. (SAWB, undated)

**ARA**, the Industry Association for Responsible Alcohol Use, has been established by the major producers of alcohol beverages in South Africa, to co-ordinate and direct activities which counter and reduce the abuse of their products. It dates back to 1981, but changed its name to ARA in 1996. Corporate members are SABMiller, Distell, Guinness UDV, DGB, Jonkheer Farmers' Winery, VinPro, E Snell, KWV and Mooiuitsig. The organisation has about 50 associate members.

ARA is the representative authority and policy making body of its members on the social aspects of beverage alcohol. It fulfils its mandate through constructive participation in dialogue with the public health community and other stakeholders. It initiates and support relevant research. It supports programmes to educate children and adults on alcohol abuse and responsible alcohol use. It ensures responsible marketing and promotional activities through effective self regulation. (Du Plessis, 2003: 25)

**Wieta** was founded in 2002 to establish a multi-stakeholder code initiative, focusing on improving labour conditions in the wine industry. It is a not-for-profit, voluntary association which, by April 2005 has accredited six of the 42 producer members' sites which had been audited. (Taylor, 2005: 1 – 2) Membership and accreditation by Wieta would be a minimum requirement for a corporation professing to subscribe to good corporate citizenship practices.

In the wine industry, good corporate citizens might be measured according to whether they:

- Are contributing, active and participating members of ARA, Wieta and the SAWB
- Whether they actively consider, assess, measure and manage the impact of the industry's products on the market place and society.
- Advertise and market their products responsibly.

### **3.1.9 Anti Alcohol lobbies**

Two decades ago, the activists who demanded that companies practice a higher standard of social responsibility were scattered throughout a disparate collection of international

organizations, each focused, for the most part, on a single issue. According to Cogman in an article from the McKinsey Quarterly, this is not the case any more. "Today's lobbyists are a well co-ordinated and effective force. And they have teeth. In a recent poll of about 25 000 people in 23 countries, 60% of the respondents said they judged a company on its social record, 40% took a negative view of companies they felt were not socially responsible and 90% wanted companies to focus on more than just profitability." (2002: 2)

Anti-alcohol lobbies, especially in the US, have their roots in Prohibition, the 13 year ban of alcohol, which shaped much of the culture, social mores and diverse religious points of view relating to alcohol consumption. Many people regard the three tier distribution system in the US as a legacy of Prohibition, which ended in 1933. Alcohol, an article in the Wine Business Monthly points out, is the only consumer product that is even mentioned in the Constitution (Penn, 2005: 1 – 2). Seventy years later, the divide between the alcoholic beverage industry and anti-alcohol forces appears to be ever deepening world wide. While dialogue between the opposing sides is not unheard of, industry groups in the US say battles are escalating, incited by a spate of what many in the beverage alcohol industry believe to be "neo-prohibitionist" recommendations and research.

The most high profile work recently came from a National Academy of Sciences panel, which at the request of the US Congress, offered recommendations for curbing misuse. Recommendations from the panel included higher taxes, increased use of roadblocks and increased zoning of restaurants and other venues for the sale of beverage alcohol. (Impact, 2004: 33)

In South Africa, the anti-alcohol lobby is still fragmented and also to a large extent science based. One of the louder voices came from Science in Africa, an online science magazine, which early last year called for the establishment of an alcohol injury fund. A report written by Dr Sebastian van As estimated alcohol abuse to be in excess of R9 billion per year. Excise duties constituted just about half of this amount, which offer scope to argue that additional funding is needed.

The report claims that the social costs of alcohol-related trauma and accidents in South Africa far exceed those of most other countries. Motor vehicle related injuries and incidents of inter personal violence are particularly strongly related to alcohol abuse.

Van As argues that existing government programmes and interventions are insufficient and that more robust and comprehensive interventions are required. "Increasing taxes on alcohol

will correct for externalities associated with alcohol consumption, which are currently not being paid for by alcohol consumers and also raise revenue for programmes to reduce the social burden associated with alcohol abuse.”

He welcomes recent increases in tax and excise, but asks whether they go far enough. “Expenditure on a range of intervention programmes needs to increase... Trauma units... have insufficient equipment and resources. “

Van As promotes the establishment of an alcohol injury fund along the lines of the Road Accident Fund. (2004: 1 – 5)

The anti-alcohol agenda in South Africa is clearly not co-ordinated well, and mostly driven by individuals lobbying public and government support.

Anti-alcohol lobbies would typically demand of good corporate citizens in the wine industry to:

- Illustrate their commitment to reduce the impact of alcohol abuse by investing in activities that do not deliver direct benefits to shareholders (drinking and driving campaigns, for example)
- Adhere to legislation, norms and good practice in the sales and marketing of their product.
- Launch and maintain programmes and research that reduce the harmful effects of alcohol.
- Target high risk groups such as youth and farm workers communities in their outreach programmes.

## 4 INTERNATIONAL CITIZENSHIP PROFILES

When considering the corporate citizen profile of the South African wine industry, it is meaningful to benchmark the activities of the biggest local players, with global drinks companies. Many of the largest drinks companies in the world, such as Diageo, Allied Domecq and Pernod Ricard, publish extensive reports detailing their corporate citizenship activities.

A summary of the corporate citizenship activities and approaches of the two top liquor companies, Diageo and Allied Domecq, follows.

### 4.1 Diageo

Diageo is the world's leading premium drinks business with an outstanding collection of brands across spirits, wine and beer categories, and serving the consumer in some 180 territories on five continents. The company is listed on both the London and New York stock exchanges.

Diageo's vision is based on its values:

*Proud of what we do* – we act sensitively with the highest standards of integrity and social responsibility

*Be the best* – we set high standards and try hard to exceed them. We deliver results, win where we compete and celebrate our success

*Passionate about consumers* – we're innovative, constantly searching for new ideas that drive growth and developing them across the business

*Freedom to succeed* – we give ourselves and each other the freedom to succeed because this fosters an entrepreneurial spirit

*Valuing each other* – we seek and benefit from diverse people and perspectives. We strive to create mutually fulfilling relationships and partnerships.

Diageo's citizenship approach takes a broad inclusive approach, involving all stakeholders. Commitment to good corporate citizenship, according to Chief Executive, Paul Walsh, starts with the company's board of directors, who endorses future priorities and the specific targets set by the company's executive. (Diageo, 2004: 1)

The company reports annually on its corporate citizenship performance in a separate publication that accompanies the annual financial report.

According to Geoffrey Bush, director of corporate citizenship at Diageo, the rationale behind corporate social responsibility can be attributed to five prime motivations: protecting reputation, brand equity and engendering trust; attracting and motivating talent; managing and mitigating risk; ensuring licence to operate in respect of legislative control over advertising and the like; building stable and prosperous operating environments. (Cooper, 2004: 1)

In a presentation to investors, Peter Nash, Head of Development – External Affairs for Diageo Ireland, sets out the company’s approach: “As a leader in beverage alcohol, we will enthusiastically embrace all dimensions of responsible behaviour, and Corporate Citizenship is a great framework for this.”

He identifies the benefits of corporate citizenship as:

- Retaining customers – and consumers
- Controlling risk by building trust with other stakeholders
- Attracting great business partners and employees

Diageo Ireland has identified the following industry projects as their core citizenship initiatives, that fit into the global framework to which the company has committed itself:

Responsible server programme

Reducing the incidence of intoxication and under-age drinking

MEAS – Social Aspects Organisation for Ireland

Educating the consumer to drink sensibly

Central Copy Clearance Ireland

Minimising the likelihood of inappropriate advertising and promotion

Designated Driver Programme

Facilitating a reduction in drink-driving

The company has also formulated a Code of Marketing Practice and regularly audits itself in this regard. (Nash, 2004)

Diageo’s corporate citizenship framework is built on the following concepts:

**Promoting responsible drinking and reducing harm**

Leadership in responsible drinking  
Responsible marketing and innovation  
Actively promoting responsible consumption  
Drinking and driving  
Responsible serving  
Young people  
Our employees  
Partnerships

**Understanding and serving consumers**

Product quality  
Consumer satisfaction  
Product information  
Genetic modification  
Consumer privacy and data protection  
Counterfeiting

**Community investment and partnerships**

Investing in our communities  
Working in partnership  
Benchmarking our performance  
The Diageo Foundation  
Evaluating community investment  
Tomorrow's people

**Releasing the potential of our people**

Inclusion and diversity  
Employee engagement  
Inspiring and developing our people  
Recognition and reward  
Creating inspiring work environments  
Employee relations  
Occupational health and safety  
HIV/Aids

**Environmental management and performance**

Environmental management

Performance

Energy and climate change

Water management

Materials and recycling

Air emissions

Spills and other incidents

Biodiversity

### **Investment and creating value**

Investing for sustained growth

Pension schemes

Returns for investors

Paying taxes

Partnering with suppliers

Supporting our customers (Diageo, 2004: 5 – 27)

Diageo's strategic and operational commitment to good corporate citizenship practices offers an excellent example in the global liquor industry. The company's reputation for social and environmental initiatives is firmly embedded in its values, which does not only direct the corporate strategy, but also inspires individuals to support and expand Diageo's initiatives. Diageo is also widely regarded as a leader in its reporting and auditing of good corporate citizenship practices.

## 4.2 Allied Domecq

Allied Domecq operates globally in the businesses of spirits, wine and quick service restaurant. It is the second biggest drinks business in the world, after Diageo.

Allied Domecq is a dynamic, market-led brands company focused on delivering results by maximizing the strength of its portfolio, its presence in key markets and the talents of its people. Its aim is to maximize long-term value for its shareholders by building a truly sustainable business – profitable, responsible and ethical.

The company operates in more than 50 markets worldwide and owns or controls distribution for around 90% of its sales volumes. It owns or distributes 14 of the top 100 international premium spirits brands, and its portfolio commands world number one or two positions in six leading spirits categories.

Strategically, Allied Domecq drives organic growth in three important ways:

- through consumer-led marketing — investing around £420 million in advertising and promotions in 2004 (of which about 60% supported nine core spirits brands), and focused spending on markets with strong potential for growth, including the US, Spain and South Korea
- by investing in product innovation and brand extension — recent successes include WET by Beefeater, Malibu Pineapple and Malibu Mango
- by improving the way they manage brands and by carrying out a number of major initiatives — including investing in more efficient business processes and structures, and progressive supply chain integration, to optimise their cost and capital base.

Two years ago, Allied was the first drinks company to put responsible drinking messages on its advertising and point-of-sale material.

As a leading drinks company, Allied Domecq approaches its responsibilities as a good corporate citizen through these themes:

- Alcohol
- Food
- Environment
- Supply Chain
- Health and Safety

- Our employees
- The Community
- Shareholders
- Leadership
- Business policies and ethics

In each case the company's approach is to go "beyond compliance". Under "Alcohol", for example, its targets for 2005 are to:

- Use our experience of running the UK stakeholder exercise to do something similar in North America, Latin America and Asia Pacific. Include the results and the action we're taking in our Annual Report and Accounts, and online.
- Make the marketing code absolutely integral to the work of the marketing department, and develop robust ways of measuring our performance in this area.
- Use the insights gained from our knowledge of responsible drinking messages to develop a new and more effective approach.
- Continue to take an active role in social aspects organisations in all our main markets, especially the Century Council, the Portman Group, FISAC, and ICAP.

In terms of its commitment to shareholders, Allied Domecq promotes "responsible thinking" and "responsible actions". This is implemented by setting robust targets, making social and environmental issues part of the company's daily working and by engaging, involving and incentivising its people.

Allied Domecq's corporate citizenship initiatives are extensive, and driven on a geographical basis. It encompasses employee voluntary projects, donations, fundraisings, responsible drinking projects, sponsoring of art festivals, recycling and educational workshops. These projects are driven by a set of policies:

- Code of business conduct
- Marketing code
- Environmental policy
- Health and safety policy
- Ethical trading policy

The company's code of conduct is a brief statement of the standards of business conduct which should guide the everyday decisions of its employees. The code addresses issues such as laws and industry practices, social responsibility, health and safety, environment,

compliance relationships, communication and personal data, conflicts of interest, confidentiality and information security, customers, competition, share dealing, improper payments, trade controls, financial reporting and fraud, software, information technology records and privacy, violations and enforcement.

Allied Domecq's ethical trade policy is the responsibility of its Global Supply Chain Director and addresses issues such as child labour, rights of workers, regular employment, living wages, work hours, discrimination, right to security, harsh or inhumane treatment, human rights and protection of the environment.

Allied Domecq does not make donations to political parties, but it endeavours to work with governments and legislative bodies around the world in a range of issues. (Allied Domecq, 2005)

Even on the eve of a possible merger with Pernod Ricard, one can assume that the new entity will continue the good corporate citizenship practices embedded in Allied Domecq's business strategy.

## 5 SOUTH AFRICAN CITIZENSHIP BENCHMARKS

### 5.1 The South African liquor industry

#### 5.1.1 SABMiller

From its South African origins, SABMiller has become one of the world's largest brewing companies. With operations in over 40 countries, it has more beer brands in the world's top 50 than any other brewer and it ranks among the top three brewers in more than 30 countries. Every minute of the day, consumers the world over drink an average of over 46 000 pints of SABMiller beer.

SABMiller is regarded as one of the best examples of sustainability driven companies in the world. It is included in the Dow Jones Sustainability Index, the FTSE4Good Index and the JSE's Socially Responsible Index.

SABMiller's approach to good corporate citizenship comprises four main commitments:

1. To work towards the goal of sustainable development that is inherent in our corporate values and guiding principles
2. To act on these commitments where we have direct responsibility, and where we do not have control, to exercise our influence
3. To engage with our stakeholders for form mutually beneficial and enduring relationships
4. To report how we are living up to these commitments, integrating them into our business strategies and operation, managing our key impacts and measuring our performance.

Key issues for the company are:

- Promoting alcohol responsibility
- Reducing environmental impact
- Tackling HIV/Aids
- Benefitting local economies
- Engaging with communities
- Managing partnerships

In its drive as a good corporate citizen, the company has formulated an Alcohol Manifesto, with policy objectives and a detailed Code of Commercial Communication. The Manifesto

aims to promote responsible use of alcohol, to promote the company's own brands and to be sensitive to cultural norms, lifestyles and individual behaviours.

Highlights in the promotion of alcohol responsibility:

- During 2004, SAB Ltd developed a major road safety campaign – not only addressing drink-driving issues, but much wider aspects of road safety, including road worthiness, driver fatigue, safety belts and pedestrian awareness.
- SAB Ltd developed and launched an industry television and radio campaign to discourage underage drinking.
- It helped develop a code of good practice, co-ordinated by industry body, ARA, among informal retail trade.

Water is one of the most important raw materials in the production of beer, and is also a natural resources that is increasingly under pressure. Thus, managing water has become one of the focus points in SABMiller's corporate citizenship drive. The company aims to minimize its impact on downstream users, to reduce overall water consumption footprint and to effectively treat effluent.

In tackling HIV/Aids, SABMiller offers voluntary testing; knowledge, attitude and practice (KAP) surveys; counseling and testing, followed by managed health care. The programme, fully funded by the company, means that employees not already covered by health insurance have the full costs of treatment met by SABMiller.

SABMiller combines its drive for commercial success with the commitment to make all stakeholders share in the wealth and opportunities created by the business. Purchasing, for example, has a very significant impact on the communities and countries where the company trades. To build local supplier capacity, the company helps to develop small and medium sized enterprises. It also encourages job creation in its value chain.

In South Africa, BEE forms an important part of SAB's corporate citizenship. In 2003 the company was recognized for its efforts through winning the inaugural Business map Foundation Black Economic Empowerment Award for the "Most Progressive Established Company" of the year. One of its best known initiatives has been the owner-driver scheme where more than half of the company's deliveries are made through 248 individual drivers.

It has also during 2004 rolled out a project offering training for independent taverners.

SABMiller believes that corporate social investment is an essential part of its commitment to community engagement. This encompasses the making of cash and sometimes in-kind contributions to a wide range of projects in the communities where it operates. The range of such projects is very diverse, with South African examples including Project Noah (helping individuals overcome the negative effects of retrenchment) and a business start-up course.

Good corporate citizenship at SABMiller is supported by a governance structure that consolidates the various aspects of corporate accountability, social responsibility and sustainable development. It has created a corporate accountability and risk assurance committee (CARAC) of which the main objective is to assist the board in discharging its duties relating to corporate accountability. A group corporate accountability team is tasked with implementing activities as directed by CARAC. At operating level, country managing directors are responsible for ensuring adherence to the group's values and business principles.

In its annual social review, SABMiller for example reports on injuries, diversity (including women in managerial positions), average years of service, customer complaints about advertising and political funding.

In its annual environment review, SABMiller for example reports on effluent compliance, the water to beer ratio in production, greenhouse gas emissions, waste removal, biodiversity and GMO technology. (SABMiller, 2004: 1 – 41)

SABMiller is clearly managing its global footprint in terms of good corporate citizenship, and in South Africa, in particular, it has a history and reputation that affirms its leading position on this agenda. It has the most advanced policies in place, and shows a true commitment to managing stakeholder expectations in all matters that demand good corporate citizenship.

## 5.2 The South African wine industry

### 5.2.1 Distell

Created in 2000 through the merger of Distillers and Stellenbosch Farmers' Winery, Distell is the biggest producer and marketer of fine wines and spirits in South Africa. It is listed on the Johannesburg Stock Exchange and owns some of the leading liquor brands in the country. These include Nederburg, Oude Meester, Plaisir de Merle, Amarula, Savanna, Hunters, Klipdrift, Tassenberg, Chateau Libertas and Graca. It has a potential annual production of 180 million litres of wine, which is distributed through a network that consists of 20 depots situated in all regions of the country. It is exporting an increasing percentage of its wines.

Distell commits itself to good corporate citizenship based on what it defines as "The Distell Way". These principles are:

1. Always complying with the law
2. Quality products
3. Customer service
4. Community investment
5. Responsible alcohol use
6. Black economic empowerment
7. Employee development
8. Inclusivity and shared values
9. HIV/Aids
10. Sharing information
11. Building relationships
12. Fostering pride
13. Recognition
14. Teamwork
15. Respect
16. Innovation and risk taking
17. Performance

Corporate Affairs director, André Steyn, is responsible for good corporate citizenship on a centralised basis. The development of his corporate citizenship strategy has been guided by the Virtue Matrix, a tool created by Roger L. Martin. According to Martin, this tool "helps

companies assess socially responsible behaviour and become as innovative in enriching society as they are in enriching shareholders.” (2002: 4)

The Virtue Matrix has four components, which directs different aspects of good corporate citizenship.. Distell has adopted and adapted the four components in their strategy to reflect:

- statutory requirements
- community norms
- business objectives
- personal values of the decision makers

The Distell board of directors determines the criteria for involvement and strategic objectives at the beginning of every financial year, after which a central budget is established for projects, supported by initiatives on brand level. Projects and initiatives on all levels receive combined reporting in the annual review.

According to Steyn, the merger of Distell and SFW resulted in an inward focus and an extensive process of collecting information on the corporate citizenship activities that were being initiated in different parts and on different levels of the organisation. Going forward, the corporate affairs department is restructuring and a senior manager has been appointed for the social responsibility portfolio.

One of the immediate challenges for the liquor giant now is to extend its involvement with the promotion of the responsible use of alcohol beyond membership of ARA. The newly restructured department will focus in creating new models and encouraging the interchange of ideas between the social responsibility manager and brand managers.

Distell believes in funding corporate citizenship initiatives according to their requirements and not according to a set percentage of EBIT, for example. It further recognises that the internal audience is one of the most important stakeholders to receive news about citizenship projects, as it builds pride in the organisation.

Steyn sees corporate citizenship in the wine industry becoming a basic requirement and no longer “a nice to have”. He believes the principles of good corporate citizenship should be an integral part of business success. He also envisages that this area will demand more expertise and become more professional. (2005 interview)

In terms of the environment, responsible initiatives include:

- Treatment of effluent
- Recycling
- Integrated Production of Wine
- Organic winegrowing
- Biodiversity and Wine initiative
- Amarula Elephant research programme
- WWF-SA and Peace Parks Foundation
- Kenya Wildlife Society
- Sedgwick's Old Brown Sherry/Oceanographic Research/WWF-SA Fish Tagging Project

In terms of Public Health, responsible initiatives include:

- Responsible Drinking
- Distell's advertising principles
- Hospice Palliative Care Association of South Africa
- Organ donor foundation of South Africa
- Mothers 2 Mothers (M2M) project

In terms of Arts and Culture, responsible initiatives include:

- Distell Foundation for the Performing Arts
- Festivals and other projects (includes Klein Karoo Nasionale Kunstefees, Suidoosterfees, Jazzart, Hilton festival, Youth Music Festival, etc)

Corporate responsibility towards employees includes the following:

- Distell Inspirers
- Employee Performance Management System
- Mission-Directed Teams
- Rewards for Awards
- Wine Business Management Training
- HIV/Aids awareness
- Responsible drinking

The company is also dedicated to responsible skills transfer, BEE and its heritage collection.  
(Distell, 2005: 1)

### 5.2.2 Winecorp

Winecorp is a 1.5 million case wine company that is owned by Spier Holdings (Pty) Ltd in Stellenbosch. It used to consist of a listed and a private company, one driving a private label wine business and one managing the branded wine business, but since 2005, it has been consolidated into one. Its major wine brand ranges are Dumisani, Spier, Fat Ladies, Longridge and Savanha. (Van Zyl , 2005: 548)

Good corporate citizenship at Spier has a values driven approach that has its roots in the Enthoven family, who bought the property in 1993. A director on the board of Spier Holdings, Methvin Tanner, holds the portfolio of Director of Sustainable Development, and directs corporate citizenship initiatives by means of a network of employees that are tasked with sustainability actions. (Interview with Vernon Davis, 2005)

Winecorp's vision is "to take our wines to the world".

Its mission is "to become the South African wine industry leader and reward wine lovers the world over with a diversified portfolio of quality brands."

Winecorp describes corporate responsibility as "issues that are really close to our heart".

Part of Spier Holdings (Pty) Ltd, Winecorp subscribes to the values that drive the group:

- Our Cape African heritage
- Our diversity
- Our social justice
- Our natural environment
- Excellence

Winecorp's specific values are:

- Teamwork
- Service
- Creativity
- Integrity ([www.winecorp.co.za](http://www.winecorp.co.za))

MD Vernon Davis describes the Winecorp philosophy as a contextualized approach, considering Winecorp firstly as part of a new South Africa, then as a member of the wine industry and then as belonging to the Stellenbosch community. All resources are managed within this framework, and according to a sustainability principle.

Winecorp was the first South African wine company to receive ISO 9000 certification for its entire operation in 2001 (Georgeson et al, 2003: 4) and also the first to receive Wieta accreditation for its entire operation in May 2004. The decision to participate in the Wieta audit was a strategic one and in line with company values. The entire company was subjected to the audit and Winecorp has appointed a full time employee to drive such sustainability projects throughout the company. "It is a management philosophy that has become a lifestyle at Winecorp", Vernon Davis argues. The emphasis is on continuous training on all levels in order to ensure a fair, ethical, safe and sustainable working environment.

The company's commitment to improve the quality of human life has led to the following initiatives:

- Integrated eco-village development for mixed income groups
- Redressing of previous disadvantages in employment
- Job creation and local employment
- Worker empowerment: company shares, housing schemes and lifeskills training
- Training of workers at the Vineyard Academy
- Facilitation of pre-primary and primary education at the Lynedoch school
- HIV/Aids awareness programmes
- 

Winecorp's natural environment is protected by the following means:

- Minimization of use of the four generic resources: energy, water, land and materials
- Maximisation of resource recycling
- Minimisation of air, land and water pollution
- Creation of a healthy, non-toxic environment
- Minimisation of damage to sensitive landscapes ([www.winecorp.co.za](http://www.winecorp.co.za))

Spier regards its community as being within a 15km radius of the Spier base of operation and are affected in some way by the company's operations. Winecorp acknowledges a further scope of responsibility for communities in Franschhoek, Groot Drakenstein, Cillie, Kylemore, Languedoc, Mbekweze, Muldersvlei, Paarl, Pniel, Simondium, Suider, Wellington and Wemmershoek. (Methvin, 2005: 13)

Spier's Sustainability Report for 2004 deals extensively with water use, setting out sources and consumption. As is the case with the rest of the Spier facilities, Winecorp uses the Biolytix system to treat wastewater. However, currently none of this wastewater is being

reused. Winecorp's vineyards consume 39% of Spier's total water consumption, and the winemaking facilities a further 6%. (2005: 25 - 26)

Energy sources include electricity, petrol, diesel, liquid petroleum gas and wood. Apart from measuring the use of energy, and admitting that no meaningful energy conservation initiatives have been launched, the Spier Sustainability Report publishes figures on waste and emissions. Waste and recycling is also addressed. (2005: 26 – 32)

In its social review, Spier reports on employment, employment equity, training and development, labour management relations, basic conditions of employment, CCMA cases, living wages, housing and tenure security, health and safety, HIV/Aids, procurement and empowerment, corporate social investment and key Spier policies. (2005: 38 – 52)

According to Davis, they are addressing black economic empowerment on different levels. Ownership is expected to be achieved through shareholding of at least 74% in Afrika Vineyards, a subsidiary in which Winecorp currently holds 92.6% and which comprises the grape farming activities of Winecorp. On board and management level there is good representation of blacks. (2005 interview) Spier's total equity profile shows, for example a 200% increase in black male representation on management level between 2003 and 2004. (2005: 39).

Good corporate citizenship is embedded in the values and practices within the group. Procurement, for example, is not based on accepting the lowest tender, but considers good value for money, quality, and buying from companies that match the Spier values. Recruitment is also done based on values and attitudes, and not merely on skills. The 2002/2003 business plans for the various businesses were the first that had to, besides financial, include social and environmental aspects.

Spier regards its commitment to sustainability as a competitive advantage. (Georgeson et al, 2003: 11-13)

Lessons learnt by Spier on its road to sustainability include:

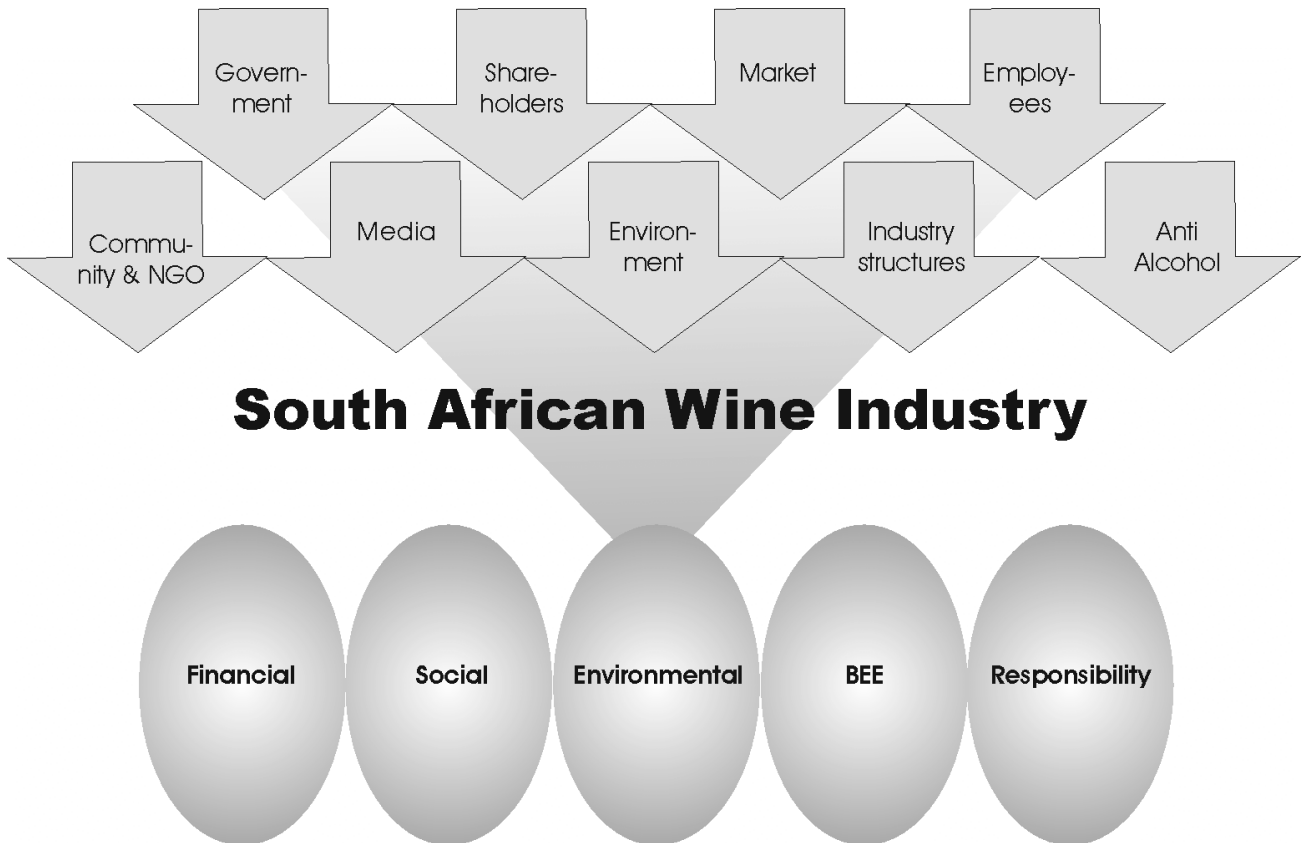
- It has to be driven from the top
- Change perceptions and beliefs by ongoing dialogue
- Integration of projects and future planning important
- Every staff member has to be involved (Georgeson et al: 2003: 22)

## **6 THE FIVE FACES OF GOOD CORPORATE CITIZENSHIP IN THE SOUTH AFRICAN WINE INDUSTRY**

One of the biggest challenges faced by the global wine industry today is its commitment to good corporate citizenship. It is becoming a critical business essential. Along with public concerns over corruption, poor service delivery, conflicts of interest, the integrity of food products and labour exploitation, the wine industry in particular has to deal with alcohol concerns as well. The abuse of alcohol, health warnings, social cost and deaths ascribed to alcohol all heighten the scrutiny the industry faces from public and government bodies.

The core business of companies operating in the South African wine industry concerns the production of beverages that are enjoyed by millions, and when consumed responsibly, can be part of a balanced and healthy lifestyle. The majority of members of the industry, however, acknowledge that irresponsible or excessive drinking can cause harm to the individual consumer and others. This is a corporate citizenship dilemma particular to the industry, just as Black Economic Empowerment is a citizenship dilemma particular to South Africa. These two aspects therefore have to be considered parallel to the conventional triple bottom line in order to create a set of qualifiers for good corporate citizenship in the South African wine industry.

The model proposed to consider and create a balanced view of good corporate citizenship - where the agenda is driven by stakeholder requirements – is called the five faces of good corporate citizenship. It offers a comprehensive and integrated approach to ensure that such a strategy would add value to an organisation. It considers the macro, micro and company specific context in which to formulate strategy, develop policy and implement the practices of good corporate citizenship.



**Fig 2: The Five Faces of Good Corporate Citizenship in the South African Wine Industry.**

### 6.1 Financial

The key contributions that business in the wine industry (or any business for that matter) can make to good corporate citizenship are through:

- Achieving profitable performance, resulting from resource efficiency and enhancement, responding to consumers needs and opportunities, developing positive stakeholder relationships and managing risks and reputation, and
- Leveraging business multipliers, such as generating investment, income and foreign exchange, creating jobs, developing human resources, providing appropriate goods and services, building local business systems and linkages with small and medium sized companies, sharing international standards and business practices in areas such as corporate governance, ethics, health, safety and the environment, transferring technology, and establishing institutional and physical infrastructure. (Africa Economic Summit, 2002: 1)

An industry that supports sustainable growth and the creation of wealth, will offer a proud face in terms of its financial citizenship. The wine industry's profitability is typically cyclical in nature – a recent study by Deloitte has shown that nearly a third of all wineries were operating at a loss in 2004. (2005: 3) The financial benchmarking and efficiency of the industry is still not at an optimum level, and one that will remain an important factor in company's ability to create capacity for a citizenship agenda.

## **6.2 Social**

The social face of good corporate citizenship focuses on addressing social issues beyond company walls. Such initiatives may involve providing cash donations from business itself or from corporate foundations as well as in-kind support from employee volunteer programmes, donations of products, services and premises. Through support for projects that concentrate on building sustainability in the long term, particularly in key areas such as health and education, working in partnership with other sectors and capacity-building individuals and institutions as part of its work, companies can make a real impact on social development in the wine industry. (Africa Economic Summit, 2002: 1)

The Good Corporate Citizenship Report of 2004 supplies a yardstick for corporate social investment, stating that large corporates contribute approximately one percent of pre-tax profit. It is also clearly stated that such investments should not be primarily marketing orientated but should be directed externally, and in the South African context should achieve some form of upliftment. (Freemantle, 2004: 126 – 127)

## **6.3 Environmental**

In addition to the products a company sells, the environmental impact of its operations represents the most overt part of the business – one that is right in the public eye. The vineyards of the Cape might be considered an environmental asset that generates enormous tourism interest, but from an environmental point a view it remains a monoculture that threatens the biodiversity of the Cape's natural habitat.

Environmental issues in the wine industry, as in most other industries globally, is increasingly driven by an ever expanding range of legislation, best practice standards and international codes. The majority of bigger producers in the wine industry adhere to these standards and codes, and although almost the entire industry subscribe to the guidelines of IPW, the environment is not yet a priority stakeholder. The prominence and support

achieved by initiatives such as Biodiversity and Wine will be a good measure in presenting this face of the wine industry to the world.

#### **6.4 Black Economic Empowerment**

Black Economic Empowerment (BEE) can be 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 number of black people who manage, own and control the country's economy. It is a uniquely South African item on the good corporate citizenship agenda, and one that has a high profile in the wine industry.

In order to facilitate BEE in the wine industry, negotiations around the wine charter – a strategic framework and scorecard for BEE in the wine industry – has been launched in November 2003. The Charter identified the unique characteristics of the industry which should drive the transformation agenda:

- A highly skewed ownership regime
- A history of problematic labour relations
- Economically viable and market driven BEE
- The importance of becoming integrated into the value chain
- The need to support human social capital development and to mobilise knowledge, business acumen and capital. (Van Wyk, 2005: 3, 23 – 24)

Good corporate citizenship would require of South African wine companies to actively participate in the discussion around BEE, the formulation of the charter and the determination of scorecard measures, as well as commit to the national agenda for BEE.

#### **6.5 Responsibility**

ARA states that a healthy liquor industry is dependant on a healthy society. The fact that alcohol can harm those who abuse it, and can result in undesirable consequences for society, has put it very high on the corporate citizenship agenda. It is an issue that requires serious attention from all players in the industry.

Examples of the adverse effects and costs to society of alcohol abuse include:

- According to a study commissioned by the National Agricultural Marketing Council in 2002, households affected negatively by alcohol abuse report that 42% of people drink inexpensive white wine (less than R15 per litre) every day. A third of those get drunk

every day. Cheap white wine drinkers are more likely to be drunk every day than other alcohol drinkers. Although bottled beer is the most frequently drunk alcohol, cheap white wine is the main contributor to social problems. The report, however, recommends that the education of people about the harmful effects of inferior products would constitute the most effective way of addressing the problem. (Flanagan et al, 2002: 2 – 3)

- A multi-centre study in South Africa shows that over half of all trauma unit patients are victims of violent injuries and between 36% and 79% of patients tested positive for alcohol. Fifty two percent of patients dying in transport-related incidents had an elevated blood alcohol content, according to the third annual report of the National Injury Mortality Surveillance System. The majority of these cases (91%) had alcohol levels greater than the legal limit of 0.05g/100ml. Pedestrians and drivers had the greatest percentage with positive blood alcohol levels. Of all homicides 53% were alcohol-related and of these, 89% had blood alcohol levels of more than 0.05g/100ml. Forty three percent of all firearm-related deaths were alcohol-related, while 77% of people who died due to sharp objects had positive alcohol levels, compared to 54% for assaults with a blunt instrument, 26% for strangulation and 45% for burns. A strong correlation between intimate partner abuse and alcohol abuse by the male partner has recently been reported. (Van As, 2004: 1 – 2)
- One of the industry's legacies in alcohol abuse is the Tot System, which is defined as the practice where any person supplies liquor to a person in his or her employ as wages or remuneration or supplement thereof. It has since 1963 been illegal and persons who practice it are liable for prosecution. The practice has been reduce from an incidence of 54% in 1987 to 14% in 1989 and has been less than 1% since 1995. (KWV International, 2005: 5)

This is the most vulnerable face that the wine industry is showing to the world, and the one that can potentially damage the industry's reputation as a good corporate citizen, most.

## 7 GOOD CORPORATE CITIZENSHIP FOR THE SMALLER WINE PRODUCER

Although the scope of this report has mainly been in the league of corporate entities operating in the wine industry, the principles of good corporate citizenship are applicable to any size operation. The Five Faces of Good Corporate Citizenship Model is just as relevant to a family operated wine farm as it is to a listed company – the application and implications may simply be different.

Some examples of existing initiatives on a producer level are:

- **Thandi**, the empowerment concept initiated by Paul Cluver in Elgin in 1995, is one of the major success stories in good citizenship in the wine industry. With the support of mentors in the fruit and wine industry, this community has produced the first wine brand in the world to receive Fairtrade accreditation. (Thandi, 2004)
- **Bouwland winery**, which is owned and run by a group of farm workers in partnership with winemaker Beyers Truter.
- **Lutouw Estates** near Lutzville on the West Coast, where a joint venture between farm workers, two established farmers and SAWIT has resulted in a major wine farming project. (Hooper, 2000: 1)
- **African Terroir** has been one of the pioneers in the participative farm worker approach with their Winds of Change concept. Winds of Change (WoC) was launched in 1999 to specifically fund social and economic black empowerment in the South African Wine industry. Although still in its embryo phase, more than a million bottles have been sold under the label, generating in excess of R650 000 for the development. The WoC funding concept is based on a partnership between African Terroir and the buyers of WoC. Each party to the agreement equally contribute a percentage of the selling price to the WoC levy. To date the majority of the wine was exported to the United Kingdom and for each case (12 x 750ml), £1 is contributed towards social and economic empowerment. (African Terroir, 2002)
- Rudnet's Farm Health award promotes the Momberg family farm in Stellenbosch, **Middelvlei**, as one of the best examples of an integrated social responsibility example. Middelvlei explains: "The well being of the Middelvlei community has always been high on our priority list. To this end, a qualified social worker, Evy Olivier, sees to the welfare of Middelvlei employees and coordinates projects with the youth and women's club. There is also a well-equipped day-care centre with experienced staff members, a community hall, a clinic and a library. Our commitment to the community is an on-going concern and our current project is to introduce the youth to the world of information technology at our computer centre. The centre recently received a donation from the

Discovery Centre in the form of a computer – a battery-driven machine with four keyboards on which people can learn to type. Middelvlei does not only receive wine awards – in 2003 the farm received a Gold Innovative Farm Health award from the Rural Development Network (RUDNET) for its contribution to the upliftment of farmworkers. Delilah Cupido, our community worker who has been living and working on the farm since 1968, received the award of Farmworker of the Year in both 2003 and 2004, also awarded by RUDNET. Delilah is actively involved in the community. She oversees the day-care facility and assists the school children with their homework in the afternoons. She is also in charge of the library and the toy library and encourages the whole community to read more. It was also her initiative to use the community hall as a recreational centre for the community to play games and meet socially after working hours.” (2005: 1)

As an example of a family wine business which has aligned its citizenship strategy closely with the family’s values, vision and goals, **Simonsig** deserves a separate mention. Here, a high level of strategic integration of the family and its community is visible. Simonsig’s vision statement already includes its intent: “It is our vision to be a world class winery and to provide a safe and secure future for the dependents of Simonsig.”

The Malan family currently facilitates a variety of social upliftment programmes for its employees, ranging from day care centre and sports development to economic empowerment by means of a self-sustaining agricultural project, all managed by the workers themselves.

“We aim to create windows of opportunity for all our people by empowering the workers themselves. Social improvements that make a difference on the ground are definitely reflected in the lives of our workers,” says Francois Malan, co-owner and viticulturist of Simonsig.

The primary objective of Simonsig’s social responsibility policy is to improve its surrounding environment through the investment of financial resources as well as the provision of skills and leadership training. (Simonsig, 2005)

Smaller wine producers and family wine businesses often do not have the financial resources to support extensive citizenship programmes, but these operations have the advantage of being in much closer contact with the communities that require good citizenship interventions. Citizenship outreach therefore is acted out on a much more

personal level, and is difficult to measure in the way that a corporate programme is managed. This does not in any way underplays the importance and value that these producers offer in supporting the broader aims of corporate members of the South African wine industry.

## 8 CONCLUSION

Parties opposed to the idea of Good Corporate Citizenship faithfully quote Adam Smith's *Wealth of Nations*, where he argues that general welfare was better served by people pursuing their enlightened self-interest than by misguided attempts to serve society. But, considering the number and profile of companies who publicly promote the sustainable principles of the Global Reporting Initiative, it is evident that Smith's vision has been found wanting. With the likes of Proctor & Gamble, IBM, Motorola and Hewlett Packard having appeared on the five year list of top good corporate citizens, and giants such as General Electric enforcing self-imposed restrictions on greenhouse gases, there is evidence of a rise in corporate conscience. (Murray, 2005: 1 – 2) The rising awareness around these issues has obviously been helped along by a decade of serious corporate scandals.

Industries that produce potentially harmful products, such as tobacco – and increasingly alcohol – have seen the social spotlight becoming uncomfortably bright. Even the most noble efforts and good intentions on the good corporate citizenship agenda in the tobacco industry have been eroded by increasingly restrictive legislation.

Noting the difficulties experienced by the tobacco industry, there have been several leading initiatives from within the global liquor industry to be proactive, and to establish reputations as good corporate citizens to discourage similar interventions.

International examples of good corporate citizenship in the liquor industry show the following characteristics:

- Recognition of the potential negative impact of alcohol
- Good corporate citizenship strategy closely aligned to corporate values and vision
- Commitment to good corporate citizenship from board level to individual employees
- Recognition for good corporate citizenship initiatives on all levels of the company
- Alignment and integration of initiatives – centralized guidance but individual accountability.
- Initiatives taking the full value chain into account
- Measurement and full reporting

Although there is widespread awareness about the negative impact of alcohol abuse in the South African wine industry, there are very few industry initiatives that recognize the responsibility that the industry has. ARA and the SAWB are the only organisations that have been taking visible actions regarding alcohol abuse on behalf of their members.

Ideally, the industry should start showing more stakeholder engagement in its decision making processes, for example holding public forums to discuss alcohol harm reduction strategies, or to discuss district development agendas in terms of biodiversity. The corporate leaders of the industry, such as Distell, Winecorp, Westcorp and KWV, need to take a strong leading role in these conversations, and show a combined commitment to corporate citizenship. This is an effort that needs to be driven from the highest level to establish credibility and win long term involvement from all stakeholders.

The development of the wine industry charter as part of government's BEE agenda is a positive example of stakeholder participation in an industry issue.

A good international example where corporate conversation and stakeholder involvement is encouraged, is BP, which has a leading UK environmentalist as a member of its board of directors, with BP's chief executive, in turn, serves of the board of Conservation International, a global conservation group. This kind of "cross-pollination" not only gives companies insights into the concerns of activist in their industry, but gives activists accurate information about the companies they deal with. The free exchange of information makes the two sides better able to reach acceptable compromises. (Cogman et al, 2002: 5) A progressive approach for a wine company who is serious about corporate citizenship would be to include a director from an anti-alcohol lobby on its board of directors.

One of the key principles for the South African industry would be to align its corporate initiatives with current formal and informal structures that exist in community organizations, charities and non-governmental organizations. It would only further fragment the industry support networks for organisations to establish their own infrastructure in terms of social projects, environmental initiatives or empowerment projects. Strengthening existing organisations would bring the best and quickest return on citizenship investments.

SABMiller's codes and policies are particularly good examples of systems and processes that have been embedded in corporate culture, and that support the principles of good corporate citizenship in the long term.

The wine industry needs to develop a creative approach to good corporate citizenship that addresses the particular issues of our South African context. As has become obvious from the research and benchmarks in this report, good corporate citizenship is no longer about making philanthropic donations, but should consider the following options:

- Employee volunteer time
- Goods and services to local communities
- Fundraising events
- Making facilities available (from production to conference, meetings or sports events)
- Transfer of skills and resources
- Cash donations
- Responsible marketing code

Furthermore, good corporate citizenship in the South African wine industry need to address issues particularly relevant to our society by supporting initiatives which are aligned with government policy and include:

- Alleviate poverty and reduce the gap between rich and poor
- Education
- Health
- Creating employment

Much of the future success of the South African wine industry will depend on its ability to plan and execute initiatives that will show the five faces of good corporate citizenship to the world, and in particular to its nine main stakeholders. This will require leadership and vision, and an inclusive commitment towards a sustainable future.

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*And it is written in the book that we shall not fear.  
And it is written that we too shall change,  
Like the words,  
In future and in past,  
In plural and in loneliness.*

- Yehuda Amichai (From Summer or its End, 1996)

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