The South African Firm-NPO-Recipient Economic Development Model

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Abstract: This paper provides a review of the firm-NPO- recipient model that helps develop the economy of South Africa highlighting the regulatory environment of South Africa which encourages many firms to use their corporate social responsibility (CSR) efforts to develop national skills and infrastructure. In South Africa, an often chosen vehicle for delivery of CSR, is a nonprofit intermediary organisation (an NPO). NPOs play an important transitional management role in mutual value creation linking firms to CSR recipient communities. NPOs are each a specialist in a specific skill or community infrastructure delivery requirement, additionally acting to highlight community needs for a CSR intervention, to firms. Notwithstanding the contribution of NPOs to many developing African countries economies, studies as to what criteria in their working environment facilitate the NPOs to do their work as intermediaries, is limited especially for South Africa. This paper reviews the legislative contextual environment of NPOs in relationships for CSR delivery with business firms in South Africa highlighting how this enables both the nonprofit NPO and profit driven firm, to participate in the economic development of South Africa.

Keywords: South Africa; NPO; CSR

JEL Classification: G00

1. Introduction

In South Africa a large portion of the corporate social responsibility (CSR) activities are implemented by a firm giving their CSR funding to a nonprofit organisation (NPO) who then delivers the CSR project to the recipient individual/community. The firm and NPO work together as CSR project managers

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during the CSR implementation. At that same time the NPO and community/ individual work together. So NPOs play multiple roles dependent on the CSR project type often acting as community catalysts, community partners and, project implementation agents for disbursement of the firm's resources (Lichtenstein, Drumwright & Braig, 2004). Firms realize that the challenges of succeeding in profit driven activities differentiating themselves from similar others can be attained with a CSR business strategy that improves, protects and enhances the communities within which they operate (Feiock & Andrew, 2006; Penn & Thomas, 2017). This is because the social capital this type of strategy generates becomes an intangible resource from communication and trust networks built between the communities and firm (Kendall & Knapp, 2000; Chenhall, Hall & Smith, 2010) obviating the firm's need to be driven singularly by the act of gaining only immediate financial reparation (Orlitzky, Schmidt & Rynes, 2003; Alhouti, Johnson & Holloway, 2016). Instead the firm establishes long-term benefits from the firm-recipient relationship from the CSR interventions such as loyalty in buying behavior. The firm magnifies its success in social impact outcomes by working in collaboration with a complementary NPO for CSR delivery (Austin, Stevenson & Wei-Skillern, 2006).This firm-NPO-recipient model has worked well for South African firms in all industries. Outsourcing to an NPO has also facilitated the development of many new specialized jobs and skills sets within the NPOs while providing an easy solution for the firms for CSR delivery. NPOs have direct contact with, and understanding of, the needs of recipients in a way that is superior to that of the donor (Shumate & Connor, 2010). Importantly, the South African government purposefully uses the relationship of firm and NPO to deliver CSR to citizens that they, the government, do not have capacity to do themselves. The South African legislative environment has been adapted to encourage firm-CSR generated economic development. The research question answered in this review is: how does the South African legislative context facilitate the model of firm-NPO-recipient in CSR to improve its emerging economy?

2. South African Business Environment

Over the past twenty years since the advent of democratic rule in South Africa in 1994, the South African business sector has undergone a confident transformation of its service offerings to South African citizens with regards to delivering a multitude of varied CSR activities to previously disadvantaged communities. Despite ongoing volatility in global and local South African financial markets caused by the long term implications the global financial crisis of 2007, the resulting recessionary challenges of South Africa's own economy since that date, and recent re-grading (down) of the South African sovereign credit rating, the business sector is encouraged by government to play a key role as a strategic gateway for communities and citizens to access economic development. These challenges have instead led to a shrinkage in direct employment opportunities and the level of opportunity for social economic inclusion in the South African economy in terms of GDP growth employment opportunities on the Inclusive Development Index of the Global Competitiveness Report 2017-2018, when compared to other developing countries such as Cambodia and Viet Nam (WEF, 2017-2018) South Africa has declined. Exasperating the social inclusion challenge, is the fact that the country was ranked 47th out of 138 countries measured in 2016-2017 as regards its global competitiveness index but this dropped to 61st out of 137 countries in 2017-2018 (WEF, 2017-2018). The Global Competitiveness Report (WEF, 2017-2018, p. 11) defines competitiveness as, "the set of institutions, policies, and factors that determine the level of productivity of an economy, which in turn sets the level of prosperity that the economy can achieve". This means that products and services from South Africa are currently less attractive to buyers than those from 76 other countries. In turn, this means less money is available from government through taxes to develop opportunities for social inclusion. Despite these challenges the South African government continues to incentivize firms to incorporate CSR activities. The firm-NPO-recipient model is argued in this review as taking a long term view of CSR by preparing communities and individuals to co-create future prospects that can arise as a result of firm CSR intervention and so advance economic social inclusion. South Africa does have a unique competitive advantage in that it is considered the 39th most innovative country of 137 countries surveyed (WEF, 2017-2018), which is a endowment that is harnessed for improving social inclusivity through the firm-NPO promoting distinctive opportunities for developing citizen inclusivity. The CSR activities broaden the scope of what a community/ individual might attempt through innovative CSR projects devised as fit-for-purpose with no one plan-fits-all, from education to those in need to infrastructure provision where it is needed. Addressing these various social challenges provides opportunities for constantly developing new firm-NPO-community business models that in turn advance the creation of shared value for firms and society by addressing both social and market needs (Porter & Kramer, 2011). While South African firms often use NPOs to create innovative designs for delivery of CSR to recipients, these relationships are also highly mediated and encouraged by the legislative business environment established in South Africa which is important to understand in the creation of this success. The background of CSR and NPOs in South Africa is discussed followed by the legislation that encourages them.

3. CSR Approach

South African CSR has evolved drastically in both concept and scope from philanthropy to strategic CSR integrated into a firm's core business activities through innovative activities that help promote social inclusivity (Gugler & Shi, 2009; Kirat, 2015). Many terms have been used in CSR academic research to describe CSR projects outside of the normal business activities of a firm and not directly linked to creating profit. These terms include but are not limited to: corporate social performance, corporate social responsiveness, corporate social investment, corporate citizenship, corporate governance, sustainability and, the triple bottom-line – but all have a common goal to adopt a developmental approach utilising a firm's resources to uplift recipients (Wood & Logsdon, 2001; Austin, Leonard, Reficco & Wei-Skillern, 2004; Busch, Hamprecht & Waddock, 2018). Corporate philanthropy in South Africa prior to democratic rule in 1994, was widely referred to by the term CSI (corporate social investment). CSI is generally considered in South Africa to be an apartheid historical manifestation of CSR with firms serving the socio-economic needs of South African communities in a discretionary manner giving money, goods and services as a benevolent act, not linking such actions to specific objectives agreed by recipients and donors, just a feel-good answer to pressing social problems. Included in this type of CSI behaviour during apartheid were most successful South African and international firms based in the country at the time (Hinson & Ndhlovu, 2011). CSI in South Africa during apartheid rule became synonymous with a view that businesses do not have economic and ethical obligations to the society in which they operate which in turn supported the de facto government of apartheid at the time (Madden, Scaife & Crissman, 2006; Slavova, 2013; Safwat, 2015). However, South African democracy in 1994, brought with it the advent of information flowing freely about what South African firms were really doing with CSI and a realization by the government that philanthropic CSI actions did not always encourage recipient upliftment. CSI activities had to change to become sustainable CSR projects driven by real recipient need. Government took a stance whereby it became difficult for firms post 1994 to turn a blind eye to less fortunate racial groups sidelined in economic opportunity by the historic actions of apartheid (Harris & Freeman, 2008; Freeman, Harrison, Wicks, Parmar & De Colle, 2010). For a South African firm to now be successful, government sought to make it a requirement to create value for their stakeholders in a way that is meaningful to each and every stakeholder type (Rivoli & Waddock, 2011). One of the jobs of South African management today in CSR value creation is to figure out how the interests of different stakeholder groups are to be managed (Post, Preston & Sachs, 2002; Harris & Freeman, 2008; Argandoňa, 2011; Harrison, Bosse & Phillips, 2012; Sharma & Kiran, 2013; Nwagbara & Reid 2013; Wadonga, 2014).

Recipients of corporate CSR efforts can be broadly defined by two categories – internal and external CSR efforts (Werther & Chandler, 2010). Internal CSR activities involve improving the lives of their employees (the firm's internal community) and is widely practiced within South African firms (Brammer, Millington & Rayton, 2007; Turker, 2009; Penn & Thomas, 2017). This paper discusses the external. External CSR refers to efforts that serve communities, the natural environment or improve the firm's consumer environment in some manner acting outside the firm in their delivery. This is explained by Farooq, Payaud, Merunka, and Valette-Florence (2014) and, El Akremi, Gond, Swaen, DeRoeck and Igalens (2015), as delivered by partnerships with intercessors in the form of NPOs. NPOs have expanded in South Africa since 1994 both in number and competencies to become professional businesses themselves adept at meeting the very varied demands of both donors and recipients (Roux &Wright, 2010). NPOs become skilled at acting as a link between donor firms and recipient communities maximizing the duteousness with which the firm's CSR contribution (which is the invested money of many stakeholders) is delivered to recipients (Margolis, Elfenbein & Walsh, 2009). Hence firm-NPO-recipient delivery in South Africa has been encouraged by government's business legislation to become one of the main implementers of CSR funding (Shumate & Connor, 2010). Lecy, Schmitz and Swedlund (2011) and, Pérez and del Bosque (2013) identified that NPOs have developed unique characteristics to give them the attributes to act successfully on behalf of donors by being effective in the management of CSR and these attributes include: effectiveness in CSR intervention design and implementation; responsiveness to the recipient and corporate environment using both NPO and firm partnerships and networks to achieve pre-conceived outcomes; developing the capacity to fully mobilise all available resources maximizing donor resource impact for the recipient and minimizing resource waste for the donor; and finally simultaneously developing the reputational value to be gained by the donor, the NPO and the recipient from the project.

4. The South African Legislative Context for the firm-NPO-Recipient Model

South African firms have since 1994 extensively used NPOs for external CSR execution. South African NPOs undertake CSR upliftment projects such as child care, adult education, job training, mental health counselling, substance abuse treatment and rehabilitation, school infrastructure, community water pumps, community solar energy projects and housing to name a few (Fink, Klerman, Markovitz & Minzner, 2014; Department of Social Development. 2016). The macro environment in South Africa as regards legislation to support CSR has been very focused since 1994 in promulgating national regulations that promote all activities that bring about social cohesion and empowerment of the historically disadvantaged black population which had been excluded by apartheid from the mainstream economy (Arya & Bassi, 2011). South African CSR related legislation specifically seeks to promote firm-NPO-recipient linkages. This legislation drives South African firms to invent various CSR focused plans, applied by their partner NPOs, to address South Africa's social challenges (Hamann, 2006). A major government instigated milestone in ensuring social economic development through firm external CSR was the introduction of South African legislation known as the BBBEE (Broad-Based Black Economic Empowerment) Act no. 53 of 2003 (Arya & Bassi, 2011; Kloppers, 2014). Section 1 of the Act defines black as all previously disadvantaged races (prior to 1994) African, Coloured and Indian peoples. Section 2 of the BBBEE Act indicates that economic transformation must enable meaningful participation of black people in the South African economy and advocates that this can be achieved by corporate promotion of investment programmes that realise sustainable community development. CSR is specifically mentioned as a way to attain this goal through an amendment to this Act in 2013 (Republic of South Africa Government Gazette, 2004; Republic of South Africa Government Gazette, 2013). The South African Nonprofit Organisations Act 71 of 1997 (2018) defines an NPO as a trust company or other association of persons established for a public purpose. The NPO income and property according to the Act are not to be distributed to its members or office bearers except as reasonable compensation for service rendered (Inyathelo, 2009). This specifically seeks to protect assets that stakeholders invest in firms, of being recklessly spent by an NPO. In addition, the South African Companies and Intellectual Property Commission (CIPC, 2018) makes special provision for the registration of a nonprofit company (NPC). The NPC is a step every NPO can voluntarily take as it lends to establishing trust from all stakeholder types as the NPC has to maintain the same reporting standards as every registered for-profit firm in terms of external auditing and financial controls. This leads to greater transparency in what the NPC does with donor funds. Wyngaard, (2013) draws attention to how this legislation helps eliminate those NPOs not fit for purpose as if an NPO fails to convince firms with available CSR funding that they are not a suitable partner, they will finally have to close. This is a self- regulating process and very valuable in ensuring only those NPOs fit-for-purpose, survive and thrive. These Acts serve to assure donors and their stakeholders that their CSR funds are equitably dispersed to recipients, not spent on unjustifiable NPO/NPC employee benefits. The BBBEE Act since inception has driven the need for NPOs as CSR-firm-recipient intermediaries and Table 1 demonstrates the year-on-year increase in registered NPOs and the diversity of development themes they embark upon. The broad categories of NPOs registered in South Africa from 2011-2016 is informed by the aggregation by year of NPO founding documents collated by the South African Department of Social Development (Department of Social Development, 2016). Year on year the NPOs disburse firm resources that amend historical economic disadvantages. Additionally, in November 2006, the Revenue Laws Amendment Bill (33 of 2006) was passed in South Africa that significantly improved the opportunities for applications for tax relief for NPOs (Brevis & Wyngaard, 2006).

Table 1. NPO registration in South Africa

Sector	**2011/ 2012**	**2012/ 2013**	**2013/ 2014**	**2014/2015**	**2015/ 2016**
Business and Professional Associations, Unions	510	662	937	1137	1411
Culture and Recreation	4551	5570	6206	8059	9508
Development and housing	17078	20964	24063	28534	32975
Education and Research	6249	8039	9016	9607	9987
Environment	1031	1228	1424	1577	1743
Health	9240	10582	10421	11966	12466
International	61	65	73	85	99
Law Advocacy and politics	1775	2229	2927	3090	3577
Philanthropic intermediaries and volunteerism promotion	963	1089	1288	1303	1391
Religion	10009	11791	14285	16703	19585
Social Services	33781	40078	46452	54392	60925
Totals	**85248**	**102297**	**117093**	**136453**	**153667**

Source: Adopted from the South African Department of Social Development (2016)

A good number of CSR efforts in South Africa are also a product of firm compliance with the BBBEE Act strengthened in South Africa by the Johannesburg Stock exchange (JSE) listing regulations. South African firms that are JSE listed must fulfill stated JSE reporting requirements that include CSR reporting for initial exchange listing and continued listing. This plays a major role in driving the application of an integrated social, profit and planet approach to the way firms do business in South Africa. Managers for JSE listed firms have to report on social, environmental and economic issues annually, transparently indicating their considerations undertaken in making business decisions related to these CSR decisions. Managers must report on the possible impacts of their decisions in terms of helping future generations be economically viable (Idemudia, 2011; de Villiers, Rinaldi & Unernam, 2014). This liability to protect the economic capabilities of South Africa for future generations arises from the South African Constitution which notes that individual citizens and juristic persons need to take responsibility for ensuring South African citizens fundamental rights in terms of their needs to be able to survive (Constitutional Court of South Africa, 2018). The Constitution requires that every registered company should be themselves a responsible citizen in this regard, and the JSE further requires that all firms on the JSE operate in compliance with the JSE governance principles and guidelines. This ensures that the South African manager’s agenda includes fulfilling BBBEE requirements and guarantees a place at the table for CSR activities (Nkomani, 2013; Mersham & Skinner, 2016). A large carrot to comply with the CSR legislative environment is that proof of fulfilling BBBEE requirements as set down by South Africa's legal environment is a requirement for firms who want to tender for government and state owned enterprise contracts (Bolton, 2006; Juggernath, Rampersad & Reddy, 2011). Further to these legislative conditions, the South African King IV Report (Institute of Directors Southern Africa, 2016) adds to existing legislation actively encouraging firms to undertake CSR activities specifically relating management's role to viewing this as examples of their firm's ethical and effective leadership in business reporting (PWC, 2016).

To-date the JSE listing requirements with regards to CSR have worked both for and against transparency in reporting firm activities. Arya and Zhang (2008) and Chetty, Naidoo and Seetharam (2015) highlight how investors respond positively to South African JSE listed firm CSR announcements and there is evidence that listed firms now use CSR as a strategy to woo investors and to improve stock prices. Eccles, Pillay and De Jongh, (2009) warn however that corporates may be selectively disclosing CSR information to deliberately place them in an encouraging light to investors. South African CSR reporting processes have tried to manage this. Ackers (2009) highlights how South African corporate CSR assurance for JSE public listed companies was historically integrated into overarching financial reports delivered by South African auditing firms. In this way transparency in where CSR funds came from and how they were spent, was clear. Ackers noted such auditing practice compared favourably with developed countries in terms of transparent reporting. However, in a more recent report Ackers and Eccles (2016) now note a trend in South African JSE listed firms to separate financial reporting by financial auditors from the CSR reporting audits. South African firms currently use specialised CSR assurors for assessment of their CSR activities. While the professionalism of the CSR auditors may be exemplary there is concern from Ackers and Eccles (2016) that the varied methodologies these CSR specialists apply from firm to firm means there is no standard measurements for stakeholders to evaluate CSR efforts. This is a concern in terms of assuring transparency in CSR for all the firm's stakeholder types. The authors recommend the CSR assurance process is now mandated and standardized in South Africa. In a collaborative relationship every stakeholder (i.e. the firm, the public, investors) should be able to easily perceive the benefits of supporting the firm because this sets a good foundation for long-term sustainable relationships (Porter & Kramer, 2011; Jonikas, 2013).

5. Conclusion

This paper has sought to answer the question: how does the South African legislative context facilitate the model of firm-NPO-recipient in CSR to improve its emerging economy? It is clear that empowering the firm-NPO-recipient relationship has been done in many ways by the South African government from giving NPOs opportunity for a company status, to rewarding firms for using them. The NPO creates an alliance with the firm that brings together a unique blend of their joint capabilities and this ensures the recipients receive the best the firm-NPO have to offer (Austin, 2010; den Hond, de Bakker & Doh, 2015). In doing so the government has set out to alter the benevolent but unfocused philanthropy historically practiced by many South African firms and to encourage use of CSR resources for really meaningful economic change in society. The all-important, on-the-ground facilitator for one of the government's strategies for economic development is indeed the NPO. First, the NPO in itself has created opportunity for economic development with many types of NPOs opening each with unique skill sets employing, training and holding repositories of specialized project knowledge that can deliver a firm's unique requirement for their CSR resources, to needy communities and individuals. This paper argues that this proliferation of specialized NPOs employing specialized staff has contributed hugely to creating economic change in this developing country. It has also given opportunity during a recession period for people to be employed at an NPO if they have the specialist skills to help on CSR projects. Second, the NPO sector has provided the extra, crucial capacity to implement the upliftment of previously disadvantaged communities assisting the South African government to fulfil its constitutional mandate. Third, the NPOs themselves are often set up and run by historically disadvantaged people or employ such people as this helps the donor firm attain, through this relationship, BBBEE status to win government tenders. Fourth, NPOs composed of employees from previously disadvantaged backgrounds, have a unique insight to the needs of the many previously disadvantaged communities and individuals they serve. Finally in conclusion, successful NPOs have the most sought-after commodity of any business and that is financial funding with no borrowing costs. It is argued here that NPOs actually become business incubators in times of recession because their employees, while not perhaps gaining much in financial salary reimbursement, gain tremendous opportunity for on-the-job skills development leaving each in an improved position to open their own business. These factors all have a positive effect on South African economic development.

This paper highlights how the South African government has done much since 1994 to develop the country economically using the firm-NPO-recipient model to upskill citizens and build skills capacity and physical infrastructure. Legislation has forced many financially successful private firms and JSE listed public firms to use the NPO delivery model to allow them to stick to their core business pursuits while strategically attaining CSR goals which in turn give them opportunity to tender for large government contracts or enter into relationships with other BBBEE conscious trading partners. Ackers and Eccles (2016) have drawn attention to the requirement to measure consistently South African CSR activities and this is perhaps the next crucial development stage of the South African firm-NPO-recipient economic empowerment model. CSR activity for small firms not seeking BBBEE opportunities including non-JSE listed firms is still not quantifiable as CSR implementation at this level is voluntary not legislated. Additionally, smaller firms often have limited expendable resources for external CSR projects. That said internal CSR using employees to deliver CSR rather than NPOs, is widely practiced by South African firms from micro sized firms to large but unmeasured by government as to its impact on the South Africa economy (Aletter, von der Burg & Zanella, 2010).

The researchers posit that the South African firm-NPO-recipient model given the same legislative government support can be applied in any developing country with an emerging economy and can be focused by government to economically help develop specific industry/ community sectors while passing the burden of such development from government to profit-driven firm.

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