Understanding Corporate Social Responsibility from a Sustainability Point of View:
Systemic Change or only Mitigation of Effects?

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I. Introduction

The Local Context

While traveling through South Africa, specifically Cape Town, one is surprised by the amount of informal settlements that have surrounded the city. The view of shacks made of any material, the sense of crowdedness, the understanding that hundredths of thousands of people grow, works, and live under such conditions can create the picture of material and moral misery. However the contrary happens, informal settlements are lively places that run under their own system based on the assumption of scarcity. It is the survival economy, with its cent by cent transactions, the social cooperative structures and the rural practices in the middle of the city, that have been developed to sustain and reproduce life.

Tabo Mbeki, President of South Africa, in his last report on the State of the Nation, recognized the reality of two economies running parallel in the country; the formal, export growth economy and the informal one, where the majority of the population survives. There seems not to be additional strategy to increase the well being of South Africans than to promote the formal economy to be able to generate wealth that will facilitate the social and infrastructure investments needed to formalize what seems to be out of society. However it seems to be that the efforts of government are not happening fast enough, since the capacity of these settlements to reproduce seems to grow exponentially. In an ironical way, they have demonstrated much more resiliency to survive and grow than the formal economy.

From Rio de Janeiro, to Barranquilla, through Cairo into Cape Town, walking through an informal settlement, meeting the people and opening the senses to that reality can be a similar and overwhelming experience. The smell, sounds, visions and feelings fill the soul in a particular way. High density, lack of sanitation, high levels of pollution, half made houses, innovative ways of getting public services, traditional practices such as animal breeding in the house yard, mixed with modern cars or motorbikes, small shops with advertisement of well known brands, alcohol use, sophisticated guns if there is the presence of gangs, video games, mobile phones, large modern equipment such as huge speakers and sound systems to play loud music and inform the world, that yes, in misery and without rights, they are alive and exist.
This brings the understanding that there is not such a separation between one sphere and the other. The informal economy is not only a consequence of the lack of capacity of the formal economy to be wide enough to included, but it has closed links with it. Surprising enough, the most sophisticated corporate structures in the planet are able to reach with their products and services to these settlements, becoming an integral part of the livelihoods of these communities, and offering the prospect of development and a better life in the middle of chaos.

The Global Corporation and its Field of Responsibility

The Global Corporation becomes then an important actor in development. This interaction between a global and local sphere, has been the result of the economic system expansion to a planetary scale. These firms have grown under the logic of increased productivity, efficiency in the use of resources to generate higher returns on investment to shareholders. They have been possible thanks to the Information Technology revolution, which has allowed the whole system to be connected virtually through networks of information. During the 90s the corporations with higher capacity started to expand their markets, suppliers, resources and networks in search for the efficiencies and growth that will allowed them to survive in a high competitive environment. They bought national firms, created production centers whenever the cost of labor was lower, exploited and exchanged natural resources in a global massive scale, and sold their products all around the world, opening new markets. To be able to do that, new type of organizations emerged, with decentralized structures, higher controls, global policies, standard processes, and a multicultural work force articulated by powerful information systems.

The global corporation became one of the centers of power in the new reality of a globalize sphere. It had the capacity to set labor, tax and investment conditions to national government in order to invest and generate growth. It influences through advertisement campaigns and the sales of fast consumer goods and services, cultural identities, lifestyles and choices. It mobilizes resources globally from one country to another to produce those products the market wants. It produces and manages large proportion of the energy, food, water, communication and transport systems we use in our daily life.

The economic mindset transformed the political structures and the sovereignty of nations. The National State in developing countries became focused in providing the right conditions to attract the knowledge, technology and capital of global firms. “The pressure of open markets has forced quite a few Southern and Eastern countries to accelerate the exploitation of their natural treasures. With structural adjustment more or less becoming a permanent affair, fiscal restraint, cuts in social expenditure and export promotion, are measures to guarantee a stable playing field for investors and traders. In an effort to stabilize currencies and make payments on foreign debts, speeding up the extraction of mineral and biological resources for export is an easy short-term solution. By throwing larger quantities of oil, gas, timber, metals and other
resources onto the world market, countries hope to keep their export earnings from deteriorating.”

The globalization of the economy produced: The transformation of labor conditions, the reduction of labor rights, the trade-offs of environmental concerns over the need to set up critical infrastructure for the export growth economy, the lack of capacity of national industry and business to compete with the global structures with the subsequent closures and lost of jobs and the massive import of goods that could be produced locally. “Under the pressure of the world market, governments often sacrifice the protection of public goods for the commercial interests of private actors.”

The reaction of civil society to these effects was not passive, an international social movement against globalization emerged as a response. This one was composed by multiple local, national and international organizations, which came together around key fundamental issues ignored by the economic globalization process, such as human rights, environmental concerns, social justice, alternative economic systems and the defense of local identities, among others.

Protest, consumer boycotts, legal claims and international campaigns using massive media, allow global NGOs and civil society organizations to denounce the environmental and social practices of these firms producing a lost of consumer’s trust and the loss of business in many occasions. The realization that in the ten top economies five were global corporations made evident the power they had and at the same time the responsibility that this power entailed.

Faced with this reality and as a result of the Rio Summit on Sustainable Development, which started to increased public policy, legislation and agendas around sustainability, business started to redefine some of its practices and to include in their decision making and productive processes social and environmental concerns.

In this way the Corporate Social Responsibility movement emerged organized in institutions such as the World Business Council on Sustainable Development, independent NGOs and consultancies as a way for business to understand how to transform their organizations in a way that the social movements as well as shareholders were satisfied with the corporate performance.

On the one hand financial investors and shareholders were advocating for higher short term economic performance and accountability, while on the other civil society and NGOs have been pressuring companies to change the ways of doing business to include economic and social considerations. As a consequence corporations faced contradictory demands from different actors.

2 Op. Cit. Pag.4
The balance to achieve higher competitiveness and at the same time social and environmental performance, needed the linkage between the core business and the social environmental initiatives. Companies, academic researches and other advocates started to promote the business case for corporate social responsibility, which basically wanted to correlate the investment in social–environmental issues with economic and financial performance. Additionally, since for one corporation it is difficult to take steps in this direction if their competitors are not to incur in the cost, different industry initiatives started to emerge, like the implementation of the Equator Principles in the financial sector.

The Corporate Social Responsibility or Corporate Citizenship agenda have been contested by diverse actors. The debate has become how effective are all of these initiatives for the well been of society. The criticism can come from two points of view. In the first one is about measuring and understanding how effective the initiatives are, a second form of criticism is more fundamental, since it questions if the response itself is a real transformation, or more an adaptation of business to current conditions. This second approach takes more a systemic understanding and questions if this is a new way of business to adapt to external pressures, but not to change fundamentally the economic system itself.3

Codes, principles, standards and voluntary initiatives such as SA8000, ISO14,000, etc, have been recognized as facilitating the process of including the social and environmental dimension in business practices, however it is doubtful if alone they are useful to deal with the complexity in which the companies are immersed, when operating in different local environments around the world, through complex communication networks. Moreover part of the social movement believes that voluntary codes are not enough, since companies will keep focusing in the bottom line as the first priority. In order to shift from responsibility to real accountability, advocates of change are pushing for legislation and mandatory reporting as a key condition. A critique however is that the legal system per se is not effective when citizens don’t use it and the complexity of corporation’s structure make that responsibility may be difficult to assign in long judicial cases. On the other hand business prefers to keep independent and foster voluntary initiatives.4

What does Corporate Social Responsibility means from a Sustainable Development Point of View?

Another basic difference that separates stakeholders is the diverse definitions of sustainable development. For business it is an opportunity to achieve economic growth, the concept of development under the industrialization model is not questioned. “Some business leaders were

drawn to the concept as they realized that not only was it not anti-growth but also it called for serious economic growth to meet the needs of the current population”. For NGO’s and the environmental movement, there is a deeper sense of sustainability where nature has intrinsic value in itself and social well being comes first. “Deep ecologists see the problem as primarily deriving from modern Western culture, philosophy, and attitudes. (...) Common to radical critiques is the prediction of environmental disaster if fundamental changes are not adopted. Bookehin (cited in Merchant, 1992) has argued that our world will either undergo revolutionary changes, so far-reaching in character that humanity will totally transform its social relations and its very conception of life or it will suffer an apocalypse that may well end humanity’s tenure on the planet.”

In this essay sustainable development is understood as an integrated concept, meaning that the human systems will be connected back to nature and organized in a way that every human activity creates systematically a higher quality of life for all at the same time that nature is enhanced, not diminished. This perspective of sustainability is taking a strong approach in the sense that sees natural capital as something that should be maintained and growth. It is at the same time an egalitarian approach, since it promotes equality as a core value, and privileges quality over growth.

This definition entails a systemic understanding, which means that change will require the effort and work of every sector, thus business will have a definitive role, but if other stakeholders don’t fulfilled theirs it will be difficult to achieve long ever lasting change. The traditional role of different sectors is changing fast, and in this transition there is confusion about the means and the goals, as well as the responsibilities and accountability of each party. Tensions are produced through sectors, nations and in the individuals. “The economic and political mainstream shows little sign of recognizing biophysical constraints of any kind indeed, official world institutions seem more convinced than ever that the shortest route to sustainability is through unrestrained economic expansion. In short, conflicting interests, opposing world views, incompatible analyses, rising material expectations, and fear of change, have led to a disorienting array of interpretation of sustainability and how to achieve it” However since global business under current conditions have sometimes more power than the limited definition of its role, we will need to think pragmatically what will be the sphere of responsibility assigned and what are the conditions required to foster the power of business towards sustainable development.


This essay will explore the complexity of the system where global companies need to operate and the challenges to implement a Corporate Citizenship agenda that will contribute to foster sustainable development at a local scale, by analyzing a case study. In order to do that the concept of organizational field will be used, defined as: the interrelation between different organizations and institutions around an issue that is important for them. The field becomes a center of debate where actors realigned their positions, try to influence others on the issue interpretation and meaning, in summary they are arenas of power relations.\(^8\)

The social issue explored is the spread use of Paraffin as the main source of energy in informal settlements in South Africa and the health and safety consequences it has. How is it possible that 200,000 fire cases due to paraffin use are allowed in South Africa every year? Whose responsibility is it? In order to answer this question the social, market, production and commercialization conditions under which paraffin is produced and distributed will be understood, as well as the role of different stakeholders in the field including the oil industry, small scale distributors, government, community and non-governmental organizations. Based on this an identification of the tensions, conflicts of interest and challenges to find solutions that will improve the living conditions of the people that use paraffin will be profiled.

Due to the power of global business, the essay will revise how appropriate are the corporate citizenship policies and strategies of Shell (as one of the main actors in the paraffin issue) to deal with the consequences of paraffin use in informal settlement in South Africa. In this way we will be able to get a concrete picture of the real difficulties to bring CSR into practical results, from the social and market field point of view, as well as from the internal structures and policies of the companies. This will help us to ground the corporate citizenship speech and be able to analyze if CSR initiatives are strong enough to deal with this complexity.

Based on this, an analysis will be made to understand how a different paradigm of development can solve some of the contradictions and tensions presented in the case study. As a result, a new type of business and organization emerges, and new conditions are required for business to play a proactive role in the improvement of society. As we are in a stage of exploration and transition to move from unsustainability to sustainability, the capacity to distinguish what initiatives, policies and standards are contributing to a better future and which ones are just reproducing the current system are difficult to identify. Based on the case study the essay pretends to typify the levels of CSR intervention according to their contribution to sustainable development.

The assumption is that to understand what corporate social responsibility really is, one needs to understand what type of society is the corporation promoting with the products and services it delivers, and what is the context where those products and services are used.

The purpose is to go beyond the CSR discourse as the implementation of management and measurement systems, reports and philanthropic initiatives to a broader understanding of the role of business in implementing sustainable development as a new paradigm to organize society.
II. The Paraffin Organizational Field in the Context of Informal Settlements

It is 5 p.m in an informal settlement near by Cape Town in South Africa. A six year old is sent by his mother to the closest Spaza shop (informal commercial establishment in South Africa’s informal settlements) to buy 1 liter of Paraffin. Paraffin is the most widely used energy sourced for this family, due to its low cost and easy access. Only with few Rands every day, they can get the energy needed for cooking and warming the shack (informal settlement house) in winter. The child pays the 2.69 Rand needed and buys the Paraffin. In his way back home he takes the bottle and drinks the liquid in it. For a moment he is confused, since the Paraffin has been bottled in a 1 liter Coke container, where usually his family also stores water. Paraffin is a transparent, low viscosity, highly toxic liquid and small children often can't recognize the difference. Fortunately he was taken fast enough to hospital and the liquid didn’t go into his lungs where it can cause chemical pneumonia.

The Spaza Shop owner gets the paraffin from a local supplier. This local supplier distributes Paraffin produced by Shell’s refinery in Durban and distributed by Easy Gas and Shell Oil Product’s business. He is an emergent entrepreneur in the business of selling energy to the dwellers of Khayelitsha (name of informal settlement). In order to get his business running he won a bid from Shell to distribute paraffin, oil products and gas. Shell provided him with a discount in order to distribute the products, as well as the tanks and other infrastructure. He needs to repay for this and for that purpose, he got a loan from the bank.

Additionally his responsibility in been a distributor for Shell is to apply a set of Health and Safety standards, defined by the Shell Group at a global scale in order to assure the safe management of the products. This has been a critical area in the Corporate Citizenship strategy of the group, since it is vital to reduce the amount of accidents, deaths and environmental effects of the production, distribution and management processes. Every year in the Shell report the company communicates globally the amount of deaths and business related accidents and compares it with targets set the year before. During the last 7 years the performance has always improved and the Shell Safety and Health standards are highly respected by the industry and other companies. It is also one of the strong selling points when the group is getting business in different countries.

However, it is difficult to apply some of the standards in the township conditions. For example tanks need to be at least 3 meters away from any public infrastructure, but in Khayelititsa this is almost impossible to comply with, since this informal settlement is a crowded place, which keeps changing as their inhabitants change their survival strategies every day.

Shell doesn’t only sell Paraffin to the official distributors. Any person can come directly to the refinery and buy the product straight from the production plant. Paraffin is very similar to jet

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9 Technical information has been taken from the Paraffin Safety Association of Southern Africa at: http://www.pasasa.org
10 Interview with Shell’s distributor in the Township
fuel in chemical composition. "It is sold in bulk liquid format usually from fixed storage tanks or small, portable 200, 20 or 5 liter drums." Generally, dealers with trucks buy the paraffin in bulk to re-sell it to wholesalers that due to volume can offer a better price than small distributors and even sale on lost since paraffin is not their main market. The lack of control by public authorities has generated the appearance in townships of informal dealers, who are not legalized to sell paraffin and thus avoid the administrative cost as well as the responsibility of paying taxes. They only appear in high season (winter) and don't comply with any safety standards. It is estimated that they occupied 15% of the market, becoming a tough competition for small legal distributors and a challenge to large companies. Most probably they obtain the paraffin from wholesalers or straight from large or middle dealers.

The Paraffin market is huge in South Africa. "Over 700 million liters of paraffin (kerosene) are produced and sold by oil companies and bought by consumers for cooking, lighting and heating every year. Paraffin is the most commonly used fuel source for low-income communities throughout the country and is used by over half of all South African homes. Paraffin is often used in conjunction with other forms of energy such as electricity, coal and wood."

"Although important as a fuel source, paraffin is a dangerous substance and based on national surveys and hospital records between 1996 and 2001 in South Africa, it has been estimated that:

- 80,000 children ingest paraffin (kerosene) every year.
- 40 000 children develop chemical pneumonia each year as a result of ingesting paraffin.
- More than 200 000 people per year are injured or lose their property from paraffin (kerosene) related fires."  

As a response to this social problem the Paraffin Safety Association of Southern Africa was created. It was form as an independent NGO with the objective to understand the causes of Paraffin related accidents develop knowledge, information, education campaigns and lobby government for implementation. The organization is an initiative of the main oil companies operating in South Africa including "BP, Caltex, Engen, Sasol, Total and Shell – all of which continue to actively support it today. Despite paraffin safety being a global concern, particularly in the developing world, South Africa still remains the only country with an organisation specifically devoted to addressing the issue."  

The majority of paraffin related accidents involves children as they are more likely to drink paraffin thinking it is water, or be trapped in paraffin related fires.

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12 PASASA. Organization Presentation at. URL: http://www.pasasa.org

13 Op.Cit
“Harmful paraffin incidents or injuries include:

1. Paraffin poising usually caused by drinking paraffin (ingestion). If paraffin, which is very viscous, gets into the lungs it often leads to chemical pneumonitis and eventually pneumonia.

2. Paraffin related fires and burns. When a small, controlled appliance flame gets out of control for whatever reason it can result in damage to property or physical burns.

3. Indoor Air Pollution. Although this area is not well researched, it is believed this is a significant health issue for South Africa’s poorer families who rely on paraffin as a fuel. In poorly constructed informal homes and homes without alternative sources of heating, the paraffin appliances (especially stoves) are often used with the doors and windows closed resulting in poor ventilation. Beside the effect of a reduction in oxygen content and increase in carbon dioxide, the combustion of paraffin emits pollutants.” 14

Unfortunately many families in the country need to rely on Paraffin as their energy source. People who live in the informal economy have only limited resources on a daily basis and the way paraffin is distributed allows them flexibility to buy with few Rands the energy they need every day. Additionally paraffin can be found closed to home since it is sold by “retailers such as petrol filling stations, general dealers, corner shops, public wholesalers and “spaza” shops. The price of paraffin is regulated by government but it is not strictly enforced, especially in informal market settings. Some people buy paraffin using, for example, 20 liter containers from which they decant and sell on the paraffin to their neighbors.” 15

The paraffin consumers have low levels of education, live in polluted environments, houses made of flammable materials without enough space between them, which causes that a fire can be spread fast through a township. “Most consumers are unaware of the dangers of Paraffin. The added complications of fatigue, alcoholism and poor ventilation (and possibly carbon monoxide poisoning) result in complacency and low levels of alertness. Children are often left unattended (or attended by other children) for various reasons – mostly out of economic necessity. In this environment, there is a very poor home safety awareness and practice.” 16 In summery these are the final consumers which end up using Shell’s Paraffin product.

Another issue which increases the risk of accidents is the inadequate production and sale of stoves and cooking appliances. In the townships one can buy a stove for R35 (aprox. 3 Euro), which will not comply with any of the government standards. Besides an urgent need to update those standards there are no enforcement mechanisms.

Pasasa has been developing some solutions for the issue of Paraffin and lobbying government to regulate the market in certain aspects. The approach has been to identify the key issues, that

14 TRURAN, GLEN.IBIDp.2
15 Op. Cit.p.2
16 Op.Cit.p2
when tackled could increase safety. One alternative is to pre-packed the paraffin in containers with safety cups in order to avoid accidental drinking by children and contamination of the product through the distribution chain. This will need to become an industry wide initiative since it has an impact in terms of production cost and the supply chain will be changed, since paraffin won’t be sold in bulk.

One of the main issues is how to keep the price constant for consumers. “A deposit system could be used, and the packaging is regarded as an asset belonging to the company (where the deposit is redeemable upon return of the packaging), then the convenience and safety features of the packaging would become an order winner, provided the price per liter of the actual paraffin is the same as that which can be purchased in bulk”

A complementary strategy is education of consumers in safety and the right use of the product. PASASA has developed some initiatives in this regard. A third critical strategy is the production of a safety stove that won’t cause paraffin to reach the point of explosion, and could be managed safely, as well as to update and enforce quality standards for these appliances.

Pasasa’s position has been based on those three strategies: education and consumer awareness, regulation of appliances and improvement of the package. However there are two other strategies that are regarded as long term which require high investment and change of conditions.

The first one is to change Paraffin chemical composition. A cutting edge study was developed in the Medicine Faculty of Durban University to analyze if the composition of Paraffin could be transformed to make it less inflammable, toxic and thus less dangerous. A proposal was passed to Pasasa but the strategy was not taken on board, the possibility is still under study, but is not reflected in any of the organization’s or government document.

The second possibility is to find alternative sources of energy. Since Paraffin is used mainly for cooking and warming the home an alternative product with similar functions need to be found. Pasasa analyzes the following options:

- “Solar based options are either unheard of, considered to have set up costs that are too high or are threatened by theft. In many typical communities, you cannot leave a solar cooker outside your home with a pot and food in it and expect it to be there on your return.

- Liquid Petroleum Gas (LPG) is a preferred option puntay by the Department of Minerals and Energy. This option is expensive (relatively), has high setup costs and requires that specific, relatively large quantities of fuel are purchased at a given point in time. The equipment is also less portable than paraffin appliances. Many people also fear gas more than they do paraffin because they consider it to be dangerous. This is in spite of the fact that many more harmful paraffin related incidents occur than gas related harmful incidents. Agama

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17 TRURAN, Ibid.p.4
18 Interview with former PASASA director. Cape Town, August. 2004
Energy an NGO promoting sustainable energy in poor communities and the World LPG association are working on finding solutions for the development of adequate infrastructure (smaller gas tanks), shorter supply chains to keep the price down and support from government, to be able to transform the industry and replace Paraffin with LPG. The oil industry has kept a conservative position to this proposal.

- The most promising option is ethanol based gel for cooking and heating. This option is highly attractive because it is much safer yet can be used with cheap appliances for cooking. The price of the fuel is still a little high and availability is still questionable but this may change as volumes pick up with demand. This option is much safer because it has high viscosity and it is not toxic. Most significant is the fact that it is a renewable energy source. It is made from plant matter (sugar cane in Zimbabwe’s case).”

As exposed through the case study there is a clear social issue around which different actors have interests and participate in the problem as well as in the possibility of finding solutions. This is an interesting example of an organizational field. However these actors have diverse interests and priorities. The main actors and their interests are:

- **Large oil companies**: including refineries and first distributors which usually belong to the same firms, mainly multinationals, produce paraffin with certain chemical characteristics that makes it very dangerous. Companies with larger market share are Shell and BP. In a highly regulated market they rely on technical efficiency to be able to reduce costs as much as possible in order to increase the profit margin before the product leaves the refinery. Additionally strategies to organize and concentrate the distributors network is fundamental to keep the product flowing. Paraffin is a by-product of the oil refining process and constitutes a small business in comparison with other businesses.

- **Distributors**: Large and small in scale, fight every day to sale the paraffin in the middle of townships and rural areas. They manipulate the price when dealing in the informal market, since there is a lack of control from the authorities. In order to be able to compete illegal practices and the lack of application of safety standards are used. This produces that the paraffin becomes in many cases contaminated with other fuels, making it more dangerous. Additionally is in the long distribution chain where the price increases. Legal distributors face pressure from the large oil companies, the illegal distributors and the wholesalers to keep the business running. Additionally they are the most visible face of this business in the informal settlements and many times become the ones that are first sign as accountable when accidents happen.

- **Retailers**: Distributed all around the township sell the paraffin in the quantities that consumers need. They don’t have any problem in selling this substance to small children.

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19 TRUNAN, IBID. P.4
- **Consumers:** In general low income families which acquire the product for cooking and heating their homes. Under very low socio-economic conditions faced challenges to keep the management of the product safe. There is not an organized voice from the community with the capacity to participate in the organizational field; in general they are passive agents who become the victims.

- **PASASA:** Is the most important NGO in dealing with the Paraffin issue and setting up solutions. It has been able to define the problem and center the debate in three main strategies consumer education, change of appliances and packaging of paraffin. It becomes a Corporate Social Responsibility strategy, since the organization was created and is supported by the main oil companies.

- **The Government:** Its main role will be to regulate the market, set the quality standards of the product and appliances. The last revision of the chemical composition of paraffin was done in 1969\(^{20}\) Different departments are responsible to contribute towards the solution of the paraffin issue. Including education (create awareness through formal institutions), health (prevention, treatment of accidents), mining and energy, (set the regulatory framework), Trade and industry (set standards for manufacture of appliances) and the treasury (manage the tax policy that influences the paraffin market). This means that a whole strategy where these different departments can coordinate efforts is needed. This has proved challenging in the South African context. One of the key issues is that there is no clear national policy and effort in terms of defining an energy strategy for residential use.\(^{21}\)

- **Independent NGO and Consultants:** Agama energy and the World LPG organization are working to promote the implementation of LPG in small income families as the prefer options. This will be a more long term and systemic solution in terms of safety. However there needs to be an effort to create the conditions for this market to be profitable, this will have to do, with reducing the supply chain, creating financial subsidies and plans for families to be able to pay for more expensive appliances, as well as creating containers (pipes) that can come in smaller sizes to allow flexibility for customers, it is also a challenge to achieve the same size of the distribution network. This will mean a high investment by government and oil companies, since there are not enough pipes currently in the market. A security strategy will need to be created in order to regulate how the pipes will be managed and accountability established in terms of theft and accidents.

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\(^{20}\)Interview with former PASASA director. IBID

\(^{21}\)Glynn Morris, Director Agama Energy, Interview, Cape Town August 2004
III. Understanding the Complexity

It is obvious from the case study the complexity presented. There is a clear social issue that needs to be solved. It is costing the life and health of an unacceptable percentage of the population and it affects more than half of the households in the country. There are at least 7 actors visible who share the responsibility at different scales. The range of solutions varied. At least 3 levels can be identified:

1. **Improve conditions of current system**: develop education campaigns to the population, improve packaging of paraffin, and improve dangerous appliances.
2. **Generate an innovative solution to create a more feasible product adapted to costumer needs**: change chemical composition of paraffin, create alternative sources of energy for informal settlements. (LPG, ethanol based gel, solar energy)
3. **Develop sustainable livelihoods**: this is a higher level solution where a complete model of sustainable urban settlement is developed which includes a sustainable energy strategy.

The first level can be classified as react and fix, the second one is to innovate in the core business aspect, and the third one is a whole systemic change. Currently the actors are mainly focused in the first level. This can be explained because PASASA has been the most proactive actor in defining the issue, and the key solutions. It is interesting to note that PASASA is made of the largest oil companies. In this sense the industry is not contributing to produce innovative solutions, but is reproducing the same problem and working on an incremental improvement strategy. PASASA has been a way to institutionalize the issue and thus stop the capacity of the field to create new alternatives, it has defined the problem and its meaning and prescribed solutions, bringing a lens through which observe reality. In this way the product itself and the way the core business is developed, are not questioned but solutions are focused in addressing the consumer behavior, the appliances, and the packaging.

However there must be the recognition that thanks to its existence there is a broader understanding of the subject. The problem is that there are few other actors ready to confront this particular point of view and propose alternatives. In this way, PASASA has been able to create a hegemonic position as defined by Levy (1997) and defend the main interest of the industry. “Power becomes managing the means of simulation, dominating the codes of representation and managing the signs of meaning that constitute what hyper-reality is taken as being at any particular time.”22 The key gaps in the organizational field that allow this hegemonic position to happen is the lack of community voice and pressure from the victims, as well as a lack of strategy from the government. Both of them retrofit into each other, since without the public pressure government won’t act, and without government acting business will sustain the status quo, which currently benefits them.

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22 LEVY. IBID. Pg. 92
This show that in order to advance the matter into another level, different actor will need to have strong positions, otherwise the organizational field can become stagnant and the social problem unresolved. Additionally this exercise shows how is easier to sustain strategies that require low investment and non systemic transformation. It is as if the organizational field has achieved a level of equilibrium, in which the main consequences of the use of paraffin are addressed, but not the root causes, and thus the urgency to act is dissolved.

In order to move to the next level, strong political will and an adequate forum of negotiation is required, since the changes require the redefinition of current legal frameworks, quality standards, responsibility of actors in the distribution chain and new business models. It is to note that there are stated final solutions, but the pain of understanding what is required for implementation and negotiate the alternative, as well as to decide the participation and accountability of every actor, and the distribution of resources is not near to happen. This is the field of politics and the public sector, which has showed a lack of capacity to take leadership and address the issue, facilitated as already mentioned, by the communities’ lack of voice.

In this context, what can global business practically do, in order to leave up to the high principles, standards and commitments it has set globally, when participating in a local social issue? The answer will be framed on the three levels of responsibility established: react and fix, innovate, systemic transformation.

The first level has already been addressed by the industry in South Africa; it has been effective in raising the issue to a visible level and start implementing new alternatives and solutions. However this level is not enough, since at the end of the day paraffin is a dangerous product whose final consumers don’t have the capacity to manage the consequences of its use. There is a field of responsibility in terms of the design of the product and commercialization strategy. One of the obstacles is that the industry doesn’t feel there is a field of responsibility towards the final consumers. In this way Pasasa solutions deal more with the distributors and consumers responsibility, not the producers’ one. Currently the business has been set from the refineries point of view thinking in the distributors’ network but not the final consumer. This is fundamental since a better product design can dramatically improve the safety issue. If oil companies recognize the poor family in informal settlements as their own consumer, become conscience of their conditions and re–think the business from these perspective different alternatives can emerge.

From this point of view is that the second level becomes relevant. The effort that oil companies can make lies in innovating in terms of the product and business strategy taking the poor family in informal settlements as first priority. This will require leadership to involve stakeholders in order to implement solutions and negotiate the investment of resources needed. However, the key contribution from business will be to re–think their product and activity taking into consideration the current and future well being of the final consumers. In an ideal world the
public sector should be the one taking the leadership; however its lack of capacity and the political environment in certain countries don’t allow this to happen. Global business will need to understand that to take a proactive role from their field of activity is to demonstrate commitment towards those nations they are benefiting from.

The third level where a new patter of urban sustainable settlement is created has to do with the overall view of development in a particular society. This is a higher level of complexity that will depend on the public awareness, knowledge, understanding of sustainability and the political debate to make it happen. Business responsibility will be to participate in the development framework, but public authorities and society will have the main responsibility. However if business is proactive in assuming fully its responsibility in local conditions it will be opening new fields and possibilities for knowledge, skills and awareness to be created in the public sphere.

It is important to understand what are the challenges global business faces to take up this role. In order to answer this question an analysis of the internal CSR strategy and structures of Shell will be done and opportunities as well as challenges will be identified. This will hopefully provide a framework to make business responsibility a practical issue.

Since the Rio Summit on Sustainable Development industry started to question its role on fostering this new political agenda. The World Business Council for Sustainable Development was created for large multinationals to start finding alternatives to embedded sustainability in their operations. At the same time during the decade of the 90’s companies faced increased pressures and demands from different stakeholders including financial investors, NGOs, the public sector and communities.

This has created a specific view on how to deal with these contradictory demands. The Corporate Social Responsibility agenda was based on how to control the risks that the unintended consequences of global business operations had on communities and the environment. The main driver was to protect the reputation of companies in order to be able to survive in a high competitive arena. There have been sincere efforts to transform business into an ethical framework of operation. However the basis in which the global economic system has been created, and the rules of the game to compete set a strong pressure to companies to keep financial performance as their first priority and moreover, be as profitable as they can, more than their competitors by reducing risk. This already sets a tension between the social mandate of the firm to serve and the financial imperative to achieve as much growth and profits as possible. This tension will be explored from an ethical point of view. Here, ethics will be understood from the Roberts framework of sensibility, where the main criteria is not to be seen to be good (ethics of Narcissus) where the main preoccupation is to set an identity that can be dear as ethical, but actually allow the corporation to get out of its comfort zone, and translate the ideological reality to a face to face encounter to those who, even if they can’t put pressure to the company and affect its reputation are widely affected by the operations. 23

The pioneer industries in starting to embed social responsibility concerns, were those that faced wider public scrutiny including: mining, energy and chemical companies. The first wave of Corporate Social Responsibility was the redefinition of corporate identity to include social and environmental components. For example in 1997 Shell reviewed its business principles to incorporate sustainable development and profiled itself as an energy company in order to reflect its wider role in society. A health, safety and environment policy was created including the following standards: environmental management, biodiversity, health management, animal testing and security, additionally a Risk and internal control policy as well as a diversity and inclusiveness standard were launched. In summery the strategic framework, the standardization of practices and the main management tools were installed. “The policies and standards were adopted for essential matters that are subject to external stakeholders’ expectations and disclosures, and therefore require common treatment across the Group.” 24

24 ROYAL DUTCH PETROLEUM COMPANY and THE SHELL TRANSPORT AND TRADING COMPANY. Governance in Shell. CD ROM. Visual Media Services.2003
Another important aspect of this phase was the business communication strategy. It was fundamental to repair the damage that corporate scandals have had on corporate reputation, which is one of the most important intangible assets and communicate clearly the Group stands on different social issues; this gave rise to the Shell report, one of the pioneer sustainability reports with already 7 editions. The report created bridges to negotiate and engage in dialogue with other stakeholders, to start measuring performance, to account for the economic, social and environmental results of the corporation, a concept defined as triple bottom line. Additionally a global business principles assurance process was created to identify key challenges and potential risk in different countries that could affect the business reputation and an external certification and verification processes were performed.

However, “if ethical conduct is to be judged by its consequences, then the prime beneficiary of this manufacture of appearances is the corporation itself. Since public knowledge of corporate conduct is always dependent upon its remote representation, the investment in skilful self-presentation is a powerful antidote to the negative perceptions of others. At the same time, the development of “dialogues” with these critics can have the effect of stifling or incorporating such critique, or at least rendering it more predictable.”25 This was truth for Shell in the sense that there was a positioning strategy within the critique to incorporate it into the business framework. The key question is how effective and trans-formative those internal initiatives were in terms of really dealing with the social consequences of Shell business.

The principle of transparency was embedded in the corporation and high expectations were raised externally about the challenges and opportunities of implementing sustainable development in Shell. This strategy worked in terms of bringing the company into the globalization debate proactively, to start shaping a vision and language about the responsibility of business and create opportunities to achieve efficiencies and new paths for growth. However the roll out of the strategic framework into a group with around 100,000 employees, operating in more than 130 countries and with a diversity of businesses and companies was not easy. The challenge includes translating the application of business principles in different cultural contexts, reach all employees, and balance the need to deliver profitable projects and the additional costs (in terms of money and time) that environmental and social impact assessments, as well as stakeholder engagement procedures require.

The global downturn of the economy during the first three years of this century, plus the increased cost of security after September 11th, the critical role that oil has played in global politics and the few new oil wells discovered, has made the industry to face extreme financial pressures and a cut throat competition environment. Additionally the scandal for the overestimation of reserves which caused another reputation damage to Shell and the lost of value for shareholders put the group into increased pressure to perform. Currently a very

25 ROBERTS, J. IBID. p. 257
intense redefinition of portfolio in all businesses is happening and the strategic direction is to increase performance, reduce cost, increase efficiency, divest from under performing business “creating the platform for growth by: Operational excellence, Portfolio restructuring, Standardisation, Global organisation, Enterprise First behaviours.”26

The painful restructuring has seen the consolidation of businesses and the creation of global structures to be able to leverage on resources and expertise. Paraffin commercialisation and production belongs to the Oil Product business, which has been globalised. There is a regional structure which takes strategic decisions in the African region, causing a conflict with Country Chairs, which in the structure are the ones accountable for the implementation of business principles in every territory.

In summery there is a global pull to focus on increasing performance and efficiency and staff is under great pressure as the company is under public scrutiny. “…by saying that profits and principles can be combined, and by implementing the measurement systems that can monitor principles as well as profits, there remains an indeterminate space in which the two collide and turn into a choice, a dilemma. But this dilemma has now been displaced from the boardroom to the shop floor and hence robbed of much of its decisional power. Moreover, the very form of such control at a distance depends upon the restriction of local moral sensibility, displacing it with incentives to conform with distant interests, even if these now claim to be ethical interests”27

This is a key point to understand the effectiveness of the Shell CSR framework in facilitating the fulfilling of the business role in society. There is a moral distance and dilemma for employees. On the one hand they get into a culture of performance where their main loyalty is to the corporate structure and strategy which is managed from distant impersonal territories and systems. The moral reality is taken out of the social context where employees need to perform business every day. The dilemmas faced can be huge, especially when those distant structures, principles, codes and standards take an ethical character. In our concrete case of Paraffin, one can understand how a product manager will be more focused on keeping the business running to fulfill what is expected from him, than to start looking to the ethical consequences of the product he/she is selling in his/her city and neighborhood. There is a tension between the system of rewards and accountability that global business imposes to managers and staff, and the demands of the particular social context where they are embedded.

In the African context, Shell launched in 2004 the African Sustainable Development (SD) strategy. This one counts with global as well as regional support. The strategy comes as a response to the social and developmental challenges in Africa, the need to safeguard the license

27 Op.Cit p.259
to operate, the need to display CSR and the opportunity to use sustainable development as a differentiator in Africa. The main driver is to be able to embed the SD principles in the business “to become a source of competitive advantage that assists in securing and maintaining Shells license to operate and enhances the ability to grow the business”.28

The SD strategy is based on seven principles which include: generate profitability, deliver value to customers, protect the environment, manage resources, respect and safeguard people, work with stakeholders and benefit communities. In order to focus the implementation the following are key components of the strategy:

1. Build Knowledge and Capacity
2. Integrate social performance measures into core businesses
3. Focused social performance
4. Create a Pan African Social Investment expenditure
5. Provide accessible and affordable energy for more Africans
6. Develop African Talent
7. Implement the HIV/AIDS Group Guideline
8. Protect the environment

The strategy is managed and coordinated by External Affairs in the region, the Country Chairman is accountable for implementation and it is supported by human resources and health, safety and environment units. However the main challenge to implement it relies in the capacity to demonstrate value to the businesses and convince them that this will improve their performance. This is fundamental in order to leverage resources and commitment. The response to prove the benefits of SD is to create measurements and indicators as well as to train managers and employees for them to understand what it means to run an oil business under a sustainable development lens.29

This means to justify the business case for sustainable development. The issue is that under the current pressures from the group to achieve financial performance and satisfy shareholders, the market pressures and the strong competition, businesses will only implement SD if it can show its financial returns and benefits. In a sense there is a contradictory message from above. On one side there is the pressure for businesses to perform, on the other SD strategies are launched through external affairs, and sometimes the wishes and the needs seem to be incompatible when both requirements reach businesses on the ground.

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Some important transformations have been achieved. The seven principles of the strategy have been incorporated into Oil Products business employees’ scorecards in Africa. This means their performance will be measured according to the implementation of these principles. However this comes again from a top–down approach: “For some, the development of new forms of accounting – triple bottom line, reporting of not only economic but also social and environmental performance and the balanced scorecard, which measures performance concerns can finally achieve a purchase on the conduct of business (Elkington, 1997; Zadeck et al., 1997). Perhaps the potential of these new disciplinary regimes as an argumentation of financial accountability is the most that we can hope for by way of business ethics. In opening conduct to a broader spectrum of visibility that includes a concern with the ethical, social and environmental; they are arguably an advance on the hegemony of shareholder value, or at least a valuable redefinition of its terms. The paradox here, however, lies in the individualizing effects that such disciplinary mechanisms promote in those subject to them. Are we to install here a new ethical competitiveness?”

The basic questions are: Are all of these Sustainable Development framework and strategies putting Shell managers and employees in touch with the social reality where they do business? Do they know about the social consequences of their operations and do they feel responsible for these effects? If this is the case, is there the space in the organization to transform business from bottom–up to genuinely include local social concerns into operations? What will be the repercussions for the group? Is the balanced scorecard another requirement for employees, coming from above, but without relation to their personal and social context?

In summery Shell has taken a proactive approach to improve its environmental and social performance. Policies, standards and guidelines have been launched, as well as specific management processes, training programs, measurement/assessment processes and a comprehensive branding and communication strategy. However implementation is challenging, especially when businesses are under strong pressure to deliver financial performance on the ground, there has been a initial top–down approach and the extension of the organization in geographical spread, business diversity and number of companies make it very difficult to be able to hold central control. Additionally many units around the world work on the same issue from a headquarters location or into the different business structures; this includes external affairs, social investment unit, HSE units, Shell Global Solutions as consultancy of the group. Under those conditions there is not too much space to act proactively in contributing towards fulfilling a strong role in building concrete, localized, sustainability strategies from the core business.

The main internal tensions identified include:

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30 ROBERTS, J.IBID.p.258
Global/Local needs: On the one hand there is a strong accountability of business to the global organization in terms of performance. On the other, this may come in contradiction with the needs of communities in a localized space where the business interacts.

Fragmentation in terms of policies and implementation initiatives: This is true especially in the social field, not much capacity to pull resources and knowledge opportunities throughout the group. There are so many initiatives happening at the same time in so many places, that sometimes internal actors are not aware of how to create powerful synergies and increase impact. Additionally the complex structure produces tensions between local, regional and global perspectives.

Difficulties to embed SD in core businesses: Besides standardized management processes and guidelines there is a need to embed sustainability in the managers’ mindset. However this is difficult when managers are facing so much pressure from their bottom line responsibilities. Additionally there is mental and physical separation between the context where they perform business, the social impacts they have and the organizational culture, expectations and pressures of the internal organizational environment. Is there real space for innovation and risk at local level?

In general, the challenge for a company like Shell is to be able to bring sustainable development as part of the core business. It is to open new opportunities in transforming their business and products to solve the contradictions it creates in society. In the particular case study these means thinking on the social and environmental effects of paraffin and develop alternatives for the final consumers. This however proves to be very challenging in a company whose main environment of accountability is a highly competitive global market where short term financial performance is the priority. In this way the internal sustainable development framework created, facilitates the reduction of environmental and social risk that can affect business performance, but does not become a tool to make the company a proactive agent of change to facilitate the development of sustainable societies in local environments. Finally, there is a strong trap between an SD framework which responds to the needs of a global set of stakeholders and the need to exercise responsibility in a local/social context without organization and voice, so that CSR can be shifted from “we care what you think of us” to “we care about the economic social and environmental effects that we have upon the communities and countries in which we operate.”

31 ROBERTS, J. IBID.P.256
V. Redefining Corporate Citizenship from a Sustainable Development Point of View

When talking about sustainable development, we are referring to the development of society, and society is established in a particular territory, with specific cultural specifications, environmental characteristics and with people that together create a livelihood. The role of the corporation has to be embedded in this local scene, even if we are talking of a global company that accounts and interacts in a global virtual economic system. Thus, in order to have a strong view of sustainability and be able to evaluate the effective implementation of CSR initiatives from that perspective, one need to take into account local conditions.

In the specific case the Paraffin’s organizational field in informal settlement has been exposed. One of the main actors is the oil industry. In this essay three types of CSR intervention were described react and fix, innovate, systemic change. In order to create coherence between corporate identity, business principles and standards and the core business and its effects on the environment and society, innovation in this case study is the main contribution the oil industry could have.

However, what are the possibilities for Shell to take leadership in finding alternative sources of energy that can benefit society? There is an open window of opportunity for this to happen. Shell has a rural solar business in South Africa, additionally it has a sustainable development strategy for the African region which includes as a priority to provide effective sources of energy for the population as well as to consolidate social investment. The group is one of the leaders in the supply of LPG for residential use and the Shell Foundation has an ambitious program “to test an alcohol stove that burns ethanol and methanol, used in Europe and North America for 30 years, and now redesigned for mass production cheaply in the developing world. The project aim to increase the demand for household energy solutions amongst poor households through social marketing, guaranteeing the supply of improved devices and fuels and providing consumer financing for poor households to purchase improved devices”32 Additionally there is the Empowerment through Energy Fund in South Africa which “defines modern energy services as off-grid electrification schemes, all types of liquid, gaseous and solid fuels and renewable energy. BEE SMEs that want to acquire modern energy services to increase their productivity and/or manufacture distribute or sell modern energy products and services are all eligible.”33

Bring CSR to main business

In general there is not a lack of knowledge, capacity or resources. The Shell Group could make an immense contribution in South Africa by pulling together its resources in a strategy to provide affordable alternative sources of energy in informal settlements and take responsibility

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32 SHELL FOUNDATION. Corporate Presentation at: URL: http://www.shellfoundation.org/breatheeasy/be002.html
for the Paraffin issue. In this case a special project for the development of a new business and supply chain that can include LPG, ethanol based fuels and the manufacture of stoves could be worked out. By using resources from the Shell Foundation Breath Easy program, the Empowerment through Energy Fund and the Oil Products business a new market could be developed to create new business and untapped the potential of informal settlements, with the opportunity to be replicated in other developing countries facing similar issues. Certainly this type of initiative will bring Shell into a leadership position, generate new profits and more importantly develop business that is align with the critical needs of those who are weaker in the economic system and the business principles the company preach.

However the main initiatives and knowledge for this to happen are far away from the core business. From the business point of view paraffin is not a major source of profit for the company; however it has a huge social impact. A profitable business that can provide an alternative could be developed, if the perspective of bringing together the corporate social initiatives and the development of a new market focused on the needs of these consumers are brought together. In a nutshell the key quest is how to convert social initiatives with potential into promising business opportunities. This means start replacing harmful products into safer alternatives.

This will require the acceptance that Shell as a producer has a field of responsibility towards paraffin consumers and thus it should account for the annual number of families affected in their health and livelihoods by this hazard. In the Shell report Health and Safety measurements should include these families as business casualties. Acting responsible will mean that this social issue will be attended, even if it does not have reputation implication at global level, and it is a small market compared to other businesses. The challenges however for this to happen include fragmentation, on the ground managers focused on financial performance without social awareness and the need to justify through the bottom line the business case for sustainable development. Here an interesting dilemma is profiled. Will corporate social responsibility become a base for business decisions? Or it is only a risk mitigation factor?

In summary the type of organization that will contribute to sustainable development will be the one, which can use the power of business to mobilize resources, knowledge and networks to satisfy the needs of society by solving for the future the environmental and social consequences of the current development model. This requires from managers a special sensibility to be "in touch" with the stakeholders from a moral point of view. In order to make it possible business will need to be performed in a local context, where managers can develop loyalty, deep knowledge and a strong identity towards the society where they work. Ideally a strong public sector and civil society with a clear framework to develop the territory in a sustainable way, will guide business on the specific role they can perform. However this is more the exception than the rule. In that case global business can understand the context and address its contradictions through innovation and the generation of new businesses.
Global organizations are in a difficult position to fulfill a more proactive role in fostering sustainability, since they respond to shareholders which not necessarily have this social tie and whose focus is on profitability. A truly responsible company will be able to use high financial performance as a mean and consequence of a higher social call. In the current economic system this seems to be contradictory, even if global players have the will, knowledge, capacity and resources to create long-term social wealth.

A new type of organization will need to emerge, which could take from its design social and environmental concerns as part of the core business. Instead of focusing Corporate Social Responsibility only on mitigating the effects of large players, an interesting edge is to think if we could design a new type of business. Fortunately new entrepreneurs are emerging, which are the ones that can really produce a systemic transformation and revolution of the economic systems. The so call market oriented social entrepreneurs, work on a business model, where their products and services aim to solve a need in an environmental effective way by using innovation as a main tool. They feel primarily accountable to society in large, since profits won't be distributed to shareholders, but reinvested in the organization’s mission. ‘Anybody who is offering his/her time and energy to address any social or economic problem of a group or community is a social entrepreneur (SE). Problem addressed may be a small local problem or a big global problem. It may be organized as a sustainable business, ensuring 100% cost recovery. It can generate very attractive profit although making profit is not the goal of the enterprise. Once he reaches 100% cost recovery and even far beyond cost recovery he become a legitimate player in the market place. He can grow as much as he wishes and has the capacity to manage. They can start accessing money, part of which will find the market Social Entrepreneurs the right kind of investment”

In this specific case there are plenty of opportunities for entrepreneurship to play a proactive role. The creation of ethanol based fuel stoves, the agricultural production for the development of clean fuels, the development of a better paraffin product, the generation of community structures in order to create cooperative ways for consumers to organized themselves in order to access better fuels such as LPG, could be some of the examples.

In conclusion the transformation of business can contribute to sustainable development if new organizations designed to create a sustainable society from their core business are fostered. Global business can facilitate the transformation by using their powerful networks, knowledge and financial capacity, however it seems difficult for them to innovate and transform fast enough since they face a high level of internal complexity and the external market rules currently privilege the interest of shareholders as a first priority to the interest of solving the contradictions of society and develop new alternatives. Governments could play the leading role to create conditions for these entrepreneurs to emerge as well as for global business to take a role in the local reality where they participate. Sustainability then will be localized and become a

34 YUNUS, Muhammad. Halving Poverty by 2015. pag.16
tangible reality in specific territories, rather than a discourse where things seem to be said
different but they are actually the same.