

Business ethics and corporate social responsibility

Introduction

Anglo American is one of the world's leading mining companies. It is a UK **public limited company** and operates on a global scale. Anglo American operates mainly in the **primary sector** of the world economy. This, as the name suggests, covers industries involved in the first stage of economic activity, such as mining and agriculture.

Anglo American operates throughout the world. It has extensive operations in Africa, where 76% of its employees live. It is also a major employer in Europe. Its Tarmac aggregates and construction products business employs nearly 7,000 people in the UK. As a primary producer, Anglo American plays an important role in the world economy. Anglo American produces five main types of raw material.

| Anglo American products | | | | |
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| Base metals | Ferrous metals | Platinum | Coal | Industrial materials |
| These include copper, zinc and nickel. Copper is used in wires, cables, tubes and pipes. | Iron ore, used to make steel. | Used in jewellery and products such as auto-catalysts. These reduce the pollution from vehicle emissions. | Used to generate about 40% of the world's electricity. | Tarmac produces aggregates and asphalt used in road building as well as ready-mixed concrete. |

Mining operations can have a big impact on the environment and on the societies where they work. Since most mineral resources belong to nation states, mining companies largely depend upon a licence to operate from governments. This allows them to extract and process minerals in return for investment and the payment of taxes and royalties. Increasingly it is also important to get the consent of local communities to mining development – a 'social licence' to operate. Like all businesses, mining companies are under increasing scrutiny from **pressure groups** as well as the general public. Anglo American seeks to adopt fair and sound business practice. The company believes that it has an important role to play in building the capabilities of the communities where it works. Issues such as combating corruption and promoting revenue transparency are high on the company's business agenda. This case study shows how Anglo American seeks to make ethical choices in its business practice.

What are business ethics?

Business **ethics** are moral principles that guide the way a business behaves. The same principles that determine an individual's actions also apply to business. Acting in an ethical way involves distinguishing between 'right' and 'wrong' and then making the 'right' choice.

It is relatively easy to identify unethical business practices. For example, companies should not use child labour. They should not unlawfully use copyrighted materials and processes. They should not engage in bribery. However, it is not always easy to create similar hard-and-fast definitions of good ethical practice. A company must make a competitive return for its shareholders and treat its employees fairly. However a company also has wider responsibilities. It should minimise any harm to the environment and work in ways that do not damage the communities in which it operates. This is known as **corporate social responsibility**.

CURRICULUM TOPICS

- Business ethics
- Corporate social responsibility
- Effects of ethical behaviour
- Benefits of ethical behaviour



GLOSSARY

Public limited company: a company whose shares are traded on the London Stock Exchange, denoted by the initials plc.

Primary sector: the first stage in producing goods.

Pressure group: an organisation formed by people with a common interest who get together to further that interest, for example, non-governmental organisations.

Ethics: moral principles or rules of conduct and behaviour accepted by members of society.

Corporate social responsibility: the responsibility of an organisation to wider society, to a range of stakeholders including the community and society at large.





GLOSSARY

Code of practice: written guidelines governing business behaviour. This could take the form of a voluntary code or a legally enforced set of regulations.

Universal Declaration of Human Rights: a declaration adopted by the United Nations General Assembly in 1948 outlining human rights that should apply to all people.

Engagement: the process of involving others in the decision making process.

The law is the key starting point for any business. Most leading businesses also have their own statement of Business Principles which set out their core values and standards. In Anglo American's case, this is called 'Good Citizenship'. A business should also follow relevant **codes of practice** that cover its sector. Many companies have created voluntary codes of practice that regulate practices in their industrial sector. These are often drawn up in consultation with governments, employees, local communities and other stakeholders.

Anglo American has played an active part in initiatives such as the Extractive Industries Transparency Initiative, the United Nations Global Compact and the Global Reporting Initiative.

Initiatives supported by Anglo American

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| <p>Extractive Industries Transparency Initiative (EITI)</p> <p>A global standard designed to ensure that companies publish what they pay for raw materials and governments publish the revenues that they receive.</p> | <p>The United Nations Global Compact</p> <p>The Global Compact is the means by which businesses worldwide can complement the objectives of the United Nations through adherence to ten core principles covering human rights, labour rights, environmental good practice and anti-corruption.</p> | <p>The Global Reporting Initiative (GRI)</p> <p>A framework used by companies to produce sustainability reports about their activities.</p> |
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Anglo American has also contributed to the Voluntary Principles on Security and Human Rights. This code sets out principles and practices for ensuring that a company's need to ensure the security of its employees and operations in volatile countries does not adversely impact upon the local population. Thus the Principles provide guidance on how both private and public security forces assigned to protect a mining operation or an oil and gas facility should be vetted, trained in human rights, monitored and controlled. Anglo American also aims to ensure that it plays a role in protecting the human rights of its employees and local people in countries in which it operates. The company supports the principles set forth in the **Universal Declaration of Human Rights**.

All companies need to make a profit. However, Anglo American recognises that this objective must take account of ethics as shown in its statement on corporate responsibility: *'Though providing strong returns for our shareholders remains our prime objective, we do not believe that these can or should be achieved at the expense of social, environmental and moral considerations. Indeed a long-term business such as ours will only thrive if it also takes into account the needs of other stakeholders such as governments, employees, suppliers, communities and customers.'*



An important process used by Anglo American is that of stakeholder **engagement**. This enables it better to understand the perspectives and priorities of external groups that are affected by its activities and to factor them into its decision-making processes. To support this work at a local level, Anglo American has developed a Socio-Economic Assessment Toolbox or SEAT process. This 'toolbox' helps managers to measure the impact of activities on the company and communities. It also helps to improve a mine's contribution to development through, for example, using its supply chain needs to generate new businesses or to improve the water or electricity infrastructure. They use this toolbox to engage with stakeholders including community representatives.





Sometimes communities have to be resettled, with government sanction, in order for important mineral deposits to be accessed. This can cause controversy and divisions in the communities concerned. International best practice sets out a number of key stages in such a process including the need for structured consultation, fair compensation and the importance of restoring and enhancing the livelihoods of people in their new locations. Recently Anglo American has had to undertake two such relocations in South Africa at the villages of Ga Pila and Motlhotlo. These were undertaken with the support of the provincial government and local tribal leadership and after consultation with local people lasting for several years leading to agreement with each householder. New villages have been built with better houses and infrastructure and more land for farming. The relocation programme was voluntary. The relocation programme at Motlhotlo is still under way but at Ga Pila 98% of those living in the old village took up the offer to move to the new village.

Why should a business act ethically?

Businesses have great potential to transform people's lives and to alleviate poverty through generating economic growth. They produce goods and services that customers want and they create jobs. Through paying taxes, they contribute to government revenue that can finance schools, hospitals and other public services. However, a business must keep in tune with the wishes of the societies it serves or it runs the risk of alienating its shareholders, stakeholders and customers. This would be bad for business, reducing growth and potentially affecting profit. Anglo American has to deal with many different levels of interest when setting up a new project. This includes, for example, the owners of the land and the people and services in the area.

The current South African government has a policy of transferring a share of the ownership, management and benefits of the country's mining industry to people previously excluded from the economy. Anglo American is backing the South African government in this process. This includes supporting black economic **empowerment** deals (BEE). Through this process, Anglo American has sold (usually at a small discount) 26% of its assets in South Africa to BEE groups. For example, Anglo American was instrumental in the creation of Exxaro. This is now the largest black-owned and managed mining company listed on the Johannesburg Stock Exchange. It also aims to have at least 40% of its managers drawn from the ranks of previously disadvantaged ethnic groups.

Governments in the developing world face many challenging social and economic problems. They need companies that are ready to be part of the solution. Anglo American believes that it can support governments in reducing poverty and inequality and in improving health and welfare. In South Africa, the company has been a major campaigner for AIDS education. It was the first major company in South Africa to announce that it would provide free anti-retroviral drugs to its HIV-positive employees. It now has the largest workplace HIV/AIDS education, voluntary testing and treatment programme in the world. After running the programme for five years studies have shown that the programme has become self-financing through reducing deaths and the attendant loss of skills and cutting absenteeism rates by boosting the health of infected workers.

What are the effects of acting ethically?

Most business activity incurs financial costs such as equipment and labour. Non-financial costs include noise and impact on the environment.

There is a financial cost to acting ethically. To engage stakeholders takes time and money. Mining in ways that minimise environmental impacts is more expensive than extracting resources regardless of impact. An ethical business also recognises its responsibility for minimising the non-financial costs.

The Pebble Project in Alaska is a good example of the way that Anglo American takes account of non-financial costs. This is a gold and copper mining project in the early stages of assessment. This could provide new jobs and revenues for the Alaskan economy at a time when oil and gas revenues have been falling. However, some people are concerned that the mine could damage fish stocks and wildlife. Therefore, Anglo American has been consulting widely and through a structured process with local people, politicians, businesses and especially **indigenous** people.

GLOSSARY

Empowerment giving responsibility for making decisions to lower levels within the organisation or community.

Indigenous: naturally existing in a place or country rather than arriving from another place.





GLOSSARY

Sustainable development: development which meets present needs without compromising the ability of future generations to achieve their own needs and aspirations.

Competitive advantage: a strategic element that enables an organisation to compete more effectively than its rivals.

Governance: the process of making decisions and governing.

Anglo American has made it clear that it will only seek to proceed with the project if it can be done without damage to the local fisheries. It will also give priority to the recruitment of local people.

The benefits of ethical behaviour

Anglo American establishes goals each year for **sustainable development**. These goals include:

- working without fatal accidents
- eliminating occupational diseases
- increasing diversity in the workplace
- increasing the benefits of mining for local communities
- increasing energy efficiency.

By working towards these goals, Anglo American hopes to gain a **competitive advantage**. By demonstrating a more caring and sustainable approach, the company is able to differentiate itself from rival mining companies. It makes Anglo American more likely to be the partner of choice for many governments and communities in the developing world.

It also helps with its position on the stock market. Most long-term investors, such as pension funds that run investments for millions of ordinary people in the UK, believe that it is important for a company to consider social and ethical issues and not just the financial bottom line if a business is to be sustainable. Anglo American sees shareholder returns and social and environmental responsibilities as complementary activities. This puts the company in a stronger position. All stakeholders benefit – shareholders, employees, governments, local communities and suppliers.

Conclusion

Anglo American is a multinational organisation with a high profile in the primary extractive sector. Because many new mineral deposits are to be found in developing countries, some of which have weak **governance**, Anglo American recognises that it must be rigorous in observing local laws, even if they are not always enforced. It has a significant role in supporting good governance initiatives and boosting the opportunities available to the communities associated with its mines. The company is involved in a range of initiatives to help these communities, such as AIDS testing and provision of new local services like schools and clinics. Its socio-economic assessment toolbox helps it measure its impact and engage with local communities to resolve issues and to underpin initiatives like small business development or partnerships with local farmers.

The financial and non-financial benefits to the company and shareholders are shown in several ways. Anglo American is trusted as a business partner that takes into account social and environmental issues. It has licence to operate in countries like South Africa, Brazil or Chile, where it is playing an important part in encouraging local business development.

Questions

1. What are business ethics? Give two examples of business practices that stakeholders would regard as ethical and two that might be considered unethical.
2. The benefits of ethical business behaviour affect the business itself and the wider community. Taking an example of an Anglo American business project, identify the benefits to the local community and to the company’s shareholders.
3. How is Anglo American’s reputation enhanced by engaging with local communities in decision-making? Why is it important for this engagement to be an ongoing process?
4. Some business decisions involve a careful balance of social, economic and environmental considerations. Evaluate how Anglo American achieves that balance, using examples from the case study.

