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Good governance and social responsibility in the South African wine industry

Abstract. The paper reviews the institutional structure or strategic framework, the Wine Industry Transformation Charter and Scorecard, adopted on 31 July 2007, through which good governance and social responsibility programmes are fostered, implemented and monitored in the South African wine industry. In other words, the paper outlines how the wine industry seeks to foster social change through integrated socioeconomic support structures, as based on the Wine Industry Plan (WIP). The wine charter and scorecard components are a representation of good governance in the industry, whereas the social capital development approach is the focus of social responsibility programmes in the wine industry. The seven components of the wine transformation charter are: (i) ownership, (ii) management/control, (iii) employment equity, (iv) skills development, (v) enterprise development, (vi) preferential procurement, and (vii) rural development, land reform and poverty alleviation. Five areas that constitute the programmes of social responsibility are: (i) the responsible alcohol use, (ii) rural development and poverty alleviation, (iii) security of tenure, (iv) land, and (v) sectoral determination. The implications for the agri-food sector and conclusions are provided.

Key words: good governance, social responsibility, social capital development approach, wine transformation charter.

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Introduction

The history of colonial encounter, slavery and the apartheid system in South Africa created a dichotomy between white masters and black servants. Such process has been acute in the wine industry with challenges in several areas [The wine... 2007]:

- a highly skewed resource base (e.g. skills, ownership, and control): besides few industry and firm empowerment initiatives, effective black involvement in the industry remains small;
- improving labour relations and fostering human dignity: it is crucial for the industry to improve workers' skill levels and productivity, to raise their standard of living and quality of life, to combat alcoholism, and to provide opportunities to enhance participation;
- security of tenure: evictions create hardship, conflict and social instability; the Extension of Security of Tenure Act (ESTA) aims to provide a legal framework for long-term security of tenure to ensure human dignity of residents is protected;
- advancing women in the industry: although research shows an increase in number of women employed by the industry in full- and part-time positions, it represents a very low base; BEE (Black Economic Empowerment) initiatives must address increased skills development among, employment of and ownership by women, along with access to social amenities;
- economically sustainable BEE initiatives: wine industry is undergoing market innovation and its integration into the global market in the 1990s represent a focus on growth and development;
- an integrated value chain: the competitiveness of the wine industry is dependent on the integrated network of value chains, with empowerment programmes unfolding throughout such process; and
- mobilising knowledge, business acumen, capital, and 'social capital': the wine industry is capital, skills, knowledge and management intensive, and today it relies to a great degree on technology; training, education, networking, representation and social uplift should drive and sustain the BEE process.

All of the above challenges on the South African wine industry agenda must be fostered in order to advance the five key success factors for growth and development, namely (i) the promotion of the 'Brand South Africa' brand; (ii) the acceleration of international distribution; (iii) progress on empowerment and transformation; (iv) attracting more funding for research and development; and (v) improving the skills of labourers and managers [Williamson & Wood 2004]. As a result, the context and implementation of good governance and social responsibility in the South African wine industry is based on the wine transformation charter, and a social capital development approach.

The aim of this paper is to review the institutional environment of good governance and social responsibility in the South African wine industry in terms of frameworks, programmes and actions. To achieve this, the paper begins by theorising on good governance and social responsibility in general. This is followed by transformation in the agri-food sector in terms of the relevance of the developments to good governance and social responsibility. The concept of and programmes on good governance and social

responsibility in the South African wine industry in particular are outlined. The subsequent section details the implication of such good governance and social responsibility measures for the agri-food sector.

The context of good governance and social responsibility

Good governance, in this paper, is defined as the dynamic interaction between people, structures, processes and traditions that support the exercise of legitimate authority in provision of sound leadership, direction, oversight, and control of an entity in order to ensure that its purpose is achieved, and that there is proper accounting for the conduct of its affairs, the use of its resources, and the results of its activities [What... 2010]. Good governance has eight major characteristics: participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive, and follows the rule of law.

Social responsibility is defined as the responsibility that individuals, government, NGOs and business have towards ensuring a humane society where everybody's human needs and responsibilities are honoured. In this case, the development of social capital with the following outcomes is envisaged:

- empowering citizens who can access support programmes from role players;
- stable community structures;
- reduced vulnerability of the marginalised;
- youth that are well-adjusted, healthy and participating in and contributing to society in a positive manner; and
- community regeneration that eliminates social exclusivity, a legacy of exclusion, broken families, etc. and fosters social cohesion and health problems.

Transformation in the agricultural sector

The changing face, restructuring, and reinvention of agriculture in developed and developing countries in terms of recent global reforms, such as agricultural biotechnology, privatisation, market deregulation, technical innovation, environmental concerns and ethics have changed the structural landscape of the agri-food sector [Boehlje 1999; Cook & Chaddad 2000]. Issues of governance, trust, integrity, credibility, safety, traceability, fair-trade, ethical trade, sustainability reporting, and connecting value with values or cultural influences in global agri-food systems surfaced at various International Food and Agribusiness Management (IAMA) conferences. Several scholars [Hansen & Morrow 1999; Mazzocco 2000; Goldsmith et al. 2004; Louw et al. 2005] began to debate and analyse the meaning and impact of such issues on the agricultural sector. In South Africa, the debate was initiated by Doyer and van Rooyen [2001], with Kirsten's [2003] follow-up presidential address at the 41st AEASA conference, themed 'Agribusiness, Profits and Ethics'. The conference dealt with the role that agribusiness could play in the development agenda in the agri-food sector.

The abovementioned reforms have implications for the South African wine industry's transformation drive. The early proposals of response to the socio-economic disparities in agriculture were based on entitlement and empowerment [Brand et al. 1992]. However, the main response came through legislative measures, such as the Land Reform Act 3 of 1996 and the BBBEE (broad-based Black Economic Empowerment) Act 53 of 2003 [South Africa's... 2003]. For the wine industry, such response came in the form of the Wine Transformation Charter and Scorecard, and the social responsibility programmes to be put in place [Wine... 2007; The wine... 2007a].

Transformation in the South African wine industry

Structure of South African wine industry

The wine industry contributed an estimated R16.3 (€1.66) billion to South Africa's gross domestic product (GDP) in 2003. An amount of R4.2 billion (or €428 million) per annum (2006) is contributed to government revenue via excise taxes. Producers' income amounts to R2610.7 million or €266 million. The industry sustains about 256 000 job opportunities. Investment capital is in excess of R50 (€5.2) billion. In 2006, South Africa was the world's 9th largest wine producer, with 36% of red wine and 64% of white wine from 700 million litres [South African... 2006].

The entering into the global market place by the industry ensured the opening up of new opportunities for South African wine exports, and thus, the demonstration of the competitive edge in the world market. South Africa produces 3.1% of the world's wines and exports 38% of its wine production (271.6 million litres in 2006) to the value of R3.85 billion or (€392 million) per annum. Per capita consumption in South Africa was 8.6 litres in comparison with 47.6 litres in France, 21.8 litres in Australia, 34.6 litres in Argentina and 9.8 litres in the USA.

The evolving wine production structure: the industry is undergoing three interlinked areas of transition:

- deregulation and restructuring
- integration into international value chains
- legislative changes brought about by the democratic government.

This transition has had complex effects. On the one hand, the industry's product mix has changed radically over the past decade, and this has been accompanied by a sustained rise in exports. On the other hand, many producers have found it difficult to break away from the industry's historic reliance on bulk wine production. The industry has experienced a sustained increase in competitiveness as a result of the opening of global markets, scientific research, and the flow of technical information, high regulatory standards and investment in human resources.

Table 1 shows that nearly half of the country's wine farms produce less than 100 tonnes of grapes, while only 270 farms produce more than 1 000 tonnes. This is due to the fact that most commercial farms are small or medium-sized mixed farming enterprises. The 270 largest producers (5.6% of the total) produce 39.6% of the wine grape crop and 56.3% of the producers deliver 95.2% of the crop. This means that 43.7% of active

producers produce a mere 4.8% of the total. This poses a challenge to transform the industry in a meaningful way with such enterprise size limitations.

For the South African wine industry, the institutional environment that advances good governance and social responsibility has been informed by the WIP (Wine Industry Strategy Plan), which was based on and aligned to the Agricultural Strategic Plan [The strategic... 2001; The South African... 2003]. In order to establish an understanding of the agenda for good governance in South Africa, a review of the role that the Wine-BEE Charter and Industry Scorecard process plays in enforcing BEE compliance in the wine industry is undertaken. In terms of the WIP, the following four strategic goals have been emphasised to be achieved simultaneously:

- competitiveness (Wine Competitiveness Report by Esterhuizen and van Rooyen [2006], and the South African Wine Information Systems (SAWIS));
- sustainable natural resource management (Wine of Origin Scheme and Integrated Production of Wine (IPW) by Biodiversity and Wine Initiative (BWI));
- equity (Wine-BEE Charter and Scorecard by the Wine Charter Steering Committee (WCSC), the South African Wine Industry Trust (SAWIT), the South African Wine Industry Council (SAWIC) and later the Wine Industry Development Association (WIDA); and
- social responsibility (Wine Industry Social Compact by the Advisory Forum).

Table 1: The production structure of South African wine industry

Primary wine producers	
production, tonne/year	number of producers*
<1	1 039
1 – 100	1 648
> 100 – 500	1 421
> 500 - 1 000	432
>1 000 - 5 000	265
> 5 000 - 10 000	5
Total	4 810
Wine cellars that crush grapes	
Co-operatives	66
Private wine cellars	477
Producing wholesalers	18
Total	561

*The 2002 Census of Agriculture shows that half of the commercial farms in South Africa have a turnover of less than R300 000

Source: adapted from work by SAWIS [South... 2006].

This paper focuses on the review of the latter two goals of equity and social responsibility.

Table 2: The simplified generic balanced scorecard, the Agri-BEE scorecard, and the Wine-BEE scorecard

Core component of BEE	Indicators	Government balanced scorecard	Agri-BEE scorecard		Wine-BEE scorecard		
		Raw score	FEs ^a	NFEs ^b	Generic ^c	QSEs ^d	EMEs ^e
Direct empowerment score							
Ownership	% share of economic benefits	20	5	15	20 + 3 ^f	25 + 8	
Management/ ownership control	% black persons in executive management and/or on executive boards and board committees	10	10	10	10 + 1	25 + 2	
Human resource development and employment equity score							
Employment equity	Weighted employment equity analysis	10	5	10	15 + 3	25 + 2	
Skills development	Skills development expenditure as a proportion of total payroll	20	30	15	15	25 + 5	50
Indirect empowerment score							
Preferential procurement	Procurement from black-owned and empowered enterprises, as a proportion of total procurement	20	5	5	20	25	
Enterprise development	Investment in black-owned and empowered enterprises, as a proportion of total assets	10	30	25 + 15	15	25 + 10	
Residual							
Residual ^g	To be determined by industry	10	15	5	5	25	25 50
Total score		100	100	100	100 + 7	175 + 23	100

^a Farming enterprises.

^b Non-farming enterprises.

^c The scorecard applies to all enterprises, though especially to enterprises in the wine industry (>R30 million turnover p.a.) (Notice the *differential* weights on elements).

^d Qualifying micro-enterprises (R5 million – R30 million turnover per annum) (NB: notice the *same* weight on all elements).

^e Exempted micro-enterprises (close to 80% of wine businesses employing a large number of farm workers encouraged and incentivised for voluntary participation score on skills development, and rural development and poverty alleviation (<R5 million turnover p.a.). Most wine enterprises belong to this group.

^f Bonus points gained by undertaking specific activities.

^g The Rural Development and Poverty Alleviation component was added as a residual score for the farming and non-farming community in the wine industry.

Source: [The wine... 2007].

Good governance in the South African wine industry

On the achievement of equity, both the South African Wine and Brandy Company (SAWB),⁵ and the South African Wine Industry Trust (SAWIT) were tasked to plan and implement a board-based BEE policy by virtue of drafting the Wine-BEE Charter and the Industry Scorecard [The wine... 2007]. The purpose of the Wine Industry Transformation Charter and Scorecard is to reinforce the need for change and development throughout the industry, and to provide tangible goals for achievement of broad-based Black Economic Empowerment (BBBEE) [The wine ... 2007].

Such a purpose is aligned with the five key values and characteristics:

- BEE is associated with good governance;
- BEE is broad-based;
- BEE is an inclusive process;
- BEE is Black Economic Empowerment part of South Africa's growth strategy;
- BEE is a voluntary commitment by the participants.

The description and indicators on the seven components upon which the charter and scorecard are based are shown in Table 2.

Implementation and monitoring of the charter and scorecard: the Wine Industry Charter Council will be established in accordance with the Codes of Good Practice. The Charter Council and its activities will be integrated into the structures of the South African Wine Industry Council [The wine... 2007].

Although the above prescribed components apply as adopted by all industry stakeholders, Sefoko et al. [2008] have shown that the perceptions of priority and importance of the respective components by the beneficiaries of BBBEE do not always concur. The ultimate objective was to critically analyse the attitudes towards the Wine-BEE Charter in order to make it more effective in its implementation and monitoring.

Social responsibility in the South African wine industry

Social responsibility in the South African wine industry is based on the report for a workshop entitled 'Making Wine Work for All' held in August 2007, and the recommendations by the social compact as reviewed by the wine industry Advisory Forum [Wine... 2007; Making... 2007]. Together, these documents provide a strategic framework for the implementation of social responsibility in the South African wine industry.

The wine industry is a contentious environment and it is challenged by particular social situations including farm worker conditions, access to services, alcohol related diseases and health problems, a legacy of exclusion, broken families, etc. As such, the South African wine industry has envisaged its focus and scope of activities to emphasise the following.

⁵ The SAWB, formed in 2002, is perceived to be the platform on which both old and new interest groups negotiate for change. The SAWB changed its name to the SA Wine Industry Council in mid-2006.

- Primary focus: the primary focus for social responsibility programmes in the wine industry is based on Social Capital Development.
- Target groups: farm workers, their families and children, women, youth and disabled persons are viewed as the designated target groups for support.
- Responsibility: the SA Wine Council, through the activities of the WIDA will take the responsibility to lead, drive and coordinate agreed upon matters.

Social responsibility programmes and actions

The Advisory Forum recommended that the following programmes and actions should be fostered, if the wine industry is serious about being socially responsible. These included the following.

1. Responsible alcohol use. It was reported that government approved the proposal (not gazetted) by the SA Wine Council regarding a ban on wine sold in low quality foil and plastic containers. This is fostered because many international buyers insist on the complying with ethical regulations. Another issue is the need for support to develop improved early childhood care (e.g., in pre-schools). Training and information regarding responsible social behaviour must be directed towards families in rural areas. The institutional structure to undertake such processes was based on the following: WIDA, Wines of South Africa (WOSA) and the Association for Responsible Alcohol use (ARA) will take a direct interest in this matter with a coordinated plan of action to be prepared for the approval by the Wine Council. Several projects have been initiated in this regard.
 - FASFacts; its objective is to develop the children's skills and knowledge, which will enable them to become independent adults and achievers within their communities.
 - DopStop: the DopStop programme has been put in place in 2001 to deal with the problem of alcohol abuse on farms, and to generally promote the social responsibility of the consumption of wine.
2. Rural development and poverty alleviation. The 'Rural Development and Poverty Alleviation' component of the Wine Charter will direct and support programmes and activities in the winelands and provide the framework for monitoring direct progress. The issues raised by such component are the following.
 - Housing. Provision of housing including access to drinking water and toilet facilities, and support to home ownership.
 - Sport/recreation. Contribution to or provision for sport and recreation/cultural facilities as well as transport to participate in such activities.
 - Health and welfare. Availability and access to health and welfare services, including, awareness, provision and treatment of HIV/AIDS, malnutrition, alcohol and drug abuse, retirement and funeral schemes.
 - Education. Support for ABET and the education of children, including support for farm schools, assistance with school fees, pre-school education, after-school care, encouragement for post-matric education and transport.

- Remuneration. Remuneration above the minimum wage needs to be met as specified in Sectoral Determination 13.
 - Social environment. Implementation of measurements against drowning, occurrence of fatal incidences, exposure to danger, access to means of communication, etc.
 - Natural environment. Implementation of programmes based on Biodiversity and Wine Initiative and the Integrated Production of Wine guidelines.
 - Labour relations environment. Support for freedom of association, access to unions and job security.
3. Land. Land reform is seen as an important element of transformation and social stability in the winelands. The following are addressed.
- Land reform targets. The SA Wine Council supports the government's land reform targets and emphasises cooperation between farmers, cellars, trade, labour, government, civil society and beneficiaries.
 - Land purchases and streamlined administration. The Department of Land Affairs (DLA) will be requested to step up land purchases and transfers, in terms of the response to land reform project proposals put to them, approval and implementation.
 - Mentorship. Wine industry mentorship to assist economically viable farmer settlement on new transferred land and BEE projects in alignment with the current National Department of Agriculture Mentorship Programme in the wine industry, as coordinated by WIDA.
 - Database. A reliable database of all land reform projects within the wine industry to be compiled in cooperation with the provincial governments.
 - Land reform models and support. Operational models for land transfers and ownership should be developed to promote rapid access and equity in land ownership and economic activities, as informed by VinPro. In particular, models to give access to farm land through land rental agreements and economically viable farm sizes.
 - Funding. Funding institutions should be engaged to develop new funding systems in order to facilitate BEE initiatives in land acquisition and development and agribusiness processing in the wine industry.
4. Security of tenure. The Wine Council considers security of tenure and matters related to farm evictions important for securing growth and stability in the winelands. WIDA will initiate the following in consultation with the Wine Council.
- Request that the ESTA legislation be reviewed and amended to better comply with the original requirements, for the legislation was developed to ensure stable worker environments.
 - The DLA be approached to actively inform the public regarding the legal framework of the ESTA legislation. Information sessions are required.
 - Any irregularities such as illegal farm evictions, or the false acquisitions thereof, should be officially submitted with the necessary evidence to the DLA.

Representative farmer bodies such as Agri-Wes Cape also to be informed of any such irregularities.

- Municipalities, provincial and the national government should be requested to provide alternative accommodation for evicted workers.
- Regular joint meetings with the directly affected groups should be conducted by the Wine Council and WIDA to monitor progress.
- 5. Sectoral determination and employment conditions. WIDA, on behalf of the wine industry, take coordinating responsibility to interact with all relevant institutions and in consultation with the Wine Council on the following.
 - As a development indicator, the improvement in the quality of life of farm workers and their families, youth and disabled, as a most vulnerable community in the wine industry.
 - An official structure should be considered to focus on and provide better protection for casual/seasonal workers.
 - Labour brokers to be informed about the legislation regarding labour conditions for farm workers and especially the protection of casual workers.
 - Regular joint meetings with the directly affected groups should be conducted to monitor progress.

Conclusions and implications for the agri-food sector

The common responsibility by all stakeholders needs to be instilled. This is expected to drive better coordination in the implementation, monitoring, and evaluation of the much needed governance and social responsibility efforts in order to achieve such milestones.

- Policy implications. Those activities that are premised on both good governance and social responsibility assist the policy-makers to understand the impact of policies. The agricultural sector could refine and implement its Agri-BEE Charter and Scorecard, as well as provide incentive and funding mechanisms.
- Managerial implications.
 - Participating organisations. Leaders and lobbyists within such organisations can make use of abovementioned programmes and actions to align their positions on good governance and social responsibility, in order to better serve their members.
 - Participating enterprises. A wine entity would make use of strategic frameworks to monitor its progress on enterprise development, corporate social investment, rural development, land reform and poverty alleviation. The beneficiaries of such programmes are made aware of organisational goals, the policies affecting them, and their roles and responsibilities within their employer organisations.

The wine industry charter and scorecard must continue to be critically analysed for the improvement of implementation and monitoring processes.

The efforts indicated in this paper as forming the wine industry perspective on social responsibility need to be evenly spread among the five programme areas. In addition, the possible synergies between the different programmes need to be properly harnessed. The

current status of such initiatives does not suggest that these processes are underway, even though investments have been made into some of them already.

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