**Anglo American PLC in South Africa: What Do You**

**Do When Costs Reach Epidemic Proportions?**

B**y now it should be obvious that, regardless of where it chooses to do business, an MNE is going to face quite a variety of threats and disruptions—ranging from bureaucratic corruption and political instability to terrorism and even war—to its plans and operations. In 2007, Anglo American PLC, the world’s largest gold miner, found itself facing a threat that, although by no means new, defies most traditional categories of things that complicate business overseas—an HIV/AIDS epidemic in South Africa, the world’s largest gold producer.**

**In 2002, Anglo American made a landmark decision to provide free antiretroviral therapy (ART) to HIV-infected employees at its South African operations. Surprisingly, however, this commitment has met with mixed reactions from various constituencies and achieved only controversial results, and the U.K.-based company is now asking itself, “Where do we go from here?”**

**AIDS in South Africa**

Globalization and Society report constituted false advertising, Nike was forced to pay $1.5 million to the Fair Labor Association. Ever since the ruling came down in 2001, the giant shoe and apparel company has been less forthcoming about labor-related activities. Gap, however, has begun providing *more* information about its worldwide monitoring activities, including details about its code of conduct and practices; the Gap report also discusses its challenges—and failures—in getting subcontractors to act in accord with company policies. There’s no reason to believe that in the future, governments won’t continue to compete for larger shares of the wealth and other benefits to be gained from the activities of MNEs.

In the short term, most countries will probably work to create more favorable environments for foreign investors, and there are several good reasons why. On the one hand, investment inflows provide developing countries with ways to deal with debt burdens and capital-accounts problems. Meanwhile, industrial nations struggling with trade-deficit problems, like the United States, are more inclined to welcome FDI. The European Union, for example, will probably continue to welcome foreign investment as a means of fueling the growth that it hopes to attain through unification.

The long term, however, may tell a different story. Historically, attitudes toward FDI have tended to fluctuate, with governments tending to favor restrictions when economies are thriving and incentives when they’re struggling. But according to some observers, if they don’t experience the rate of rapid growth they’re expecting from the substantial FDI that they’ve already attracted, developing countries may make the same about-face that such nations as Russia and Iran have already made—that is, place new restrictions on the flow of foreign investment. Worse still, growing disappointment with the net results of foreign investment may lead some nations to attribute such problems as weakened sovereignty, increasing poverty, and cultural disintegration to overdependence on FDI. If this reaction to foreign investment is paired with growing criticism from NGOs and other external stakeholders, the ability of companies to operate globally will be further compromised.

**How bad does a disease have to be to be accorded the status of an “epidemic”? Here’s some background information. Sub-Saharan Africa, the portion of Africa lying south of the Sahara Desert, is home to just over 10 percent of the world’s population and to 60 percent of all people infected with HIV, the virus that causes AIDS. Located at the southernmost tip of the African continent, the nation of South Africa suffers one of the world’s highest rates of HIV infection—approximately 5.5 million cases in a population of 45 million. Every day 1,000 South Africans contract HIV and another 800 die. Moreover, say the UN and the WHO, the epidemic has a long way to go before it reaches its peak.**

**Needless to say, the spread of the disease has, over the past decade, had a profound impact on both the people of South Africa and their economy. Life expectancy is 42.45 years, compared to, say, 75.19 years in Poland, a country with a similar population size and GDP per capita.**

**AIDS has also had a devastating effect on the country’s economy. Between 1992 and 2002, the South African economy lost $7 billion annually—around 2 percent of GDP—as a result of AIDS-related worker deaths. Experts predict that, as AIDS spreads throughout sub-Saharan Africa, it will continue to reduce per capita growth by 1 percent to 2 percent per year and, in the worst affected countries, cut annual GDP growth by as much as 0.6 percent by 2010. The consequences include both diminishing populations and shrinking economies, with GDPs deflating anywhere from 20 to 40 percent of the sizes they would have reached in the absence of AIDS.**

**Anglo American Operations in South Africa**

**Anglo American PLC is a mining conglomerate operating in 61 countries to produce gold, platinum, and other metals (base, ferrous, and industrial), diamonds, coal, forest products, and financial and technical services. Founded in 1917 as the Anglo American Corporation of South Africa, it was South Africa’s first home-based public limited company. Although it’s now a multinational firm headquartered in London, the company still dominates South Africa’s domestic economy: With interests in about 1,300 South African companies, Anglo American employs 80,000 people in its main operations and another 44,000 at regional subsidiaries. Through majority-share ownership of subsidiaries and associate companies, Anglo American controls over 25 percent of all shares traded on the South African stock market.**

**Anglo American and ART**

**With such a huge investment in South Africa, Anglo American has been hit hard by the HIV/AIDS epidemic that’s descended on the country. Having recognized the threat as far back as the early 1990s, Anglo American was one of the first corporations to develop a comprehensive, proactive strategy to combat the ravages of the disease on its workforce and the repercussions for its operations.**

**Originally, the program consisted of prevention initiatives aimed at education and awareness, the distribution of condoms, financial and skill-related training to alleviate poverty, and a survey system to monitor the prevalence of the infection. Eventually, these policies were expanded to include voluntary counseling, testing, and care-and-wellness programs, and the services of all programs were extended to cover not only the families of employees but also the populations of surrounding communities. Anglo American also became a member of the Global Business Council on HIV/AIDS, an organization of multinational companies that focuses on alleviating the effects of AIDS throughout the world and on protecting the rights of infected workers.**

**By adopting these strategies so early, Anglo American became a de facto leader in the private-sector fight against HIV/AIDS in Africa. Many other MNEs—including Coke, Ford, Colgate-Palmolive, and Chevron Texaco—soon followed Anglo American’s example and initiated prevention, education, and wellness programs of their own. Even then, however, the majority of companies operating in South Africa still hesitated, and that’s why Anglo American’s announcement that it would provide ART to its South African workforce (at company expense) was met with a good deal of excited approval from such interested parties as the WHO, the Global Business Council on HIV/AIDS, and a host of other NGOs.**

**The Costs of Operating in an Epidemic**

**The incentive for Anglo American’s ART program largely came from the failure of its AIDS prevention efforts to make much headway in stemming the spread of the disease. By 2001, according to Brian Brink, senior VP of the firm’s medical division, the prevalence of HIV-positive workers had risen to an average of 21 percent across all operations—a figure that was climbing steadily at a rate of 2 percent annually. Bobby Godsell, CEO and chairman of the subsidiary AngloGold, reported that HIV/AIDS was adding as much as $5 to the cost of producing 1 ounce of gold, thereby tacking on $11 million a year to the company’s production costs in addition to the $7 million it was spending annually to combat such AIDS-related illnesses as tuberculosis (which was five times as prevalent as it had been just a decade earlier).**

**Finally, in addition to losses in productivity, the company had to bear the costs entailed by high levels of absenteeism, the constant retraining of replacement workers, and burgeoning payouts in health, hospitalization, and death benefits. Studies conducted at the time indicated not only that the costs of AIDS could reach as much as 7.2 percent of the company’s total wage bill but also that the costs of leaving employees untreated would be even higher than those of providing ART.**

**Five years after it rolled out its ART program, Anglo American now finds itself struggling to please various constituencies and to determine whether all of its efforts are making a difference in the underlying problem or merely masking its effects. By the end of 2006, for instance, although 4,600 employees—approximately 65 percent of those in need of treatment—were receiving ART, nearly a third of those who’d began treatment had dropped out (for reasons such as death or termination of employment). By 2007, 23 percent of the company’s South African workforce was infected with the deadly virus—a disappointing increase of 2 percent over levels in 2001, before the program was implemented.**

**On top of everything else, Anglo American also faces the problem of spiraling costs for the program itself. Even though the prices of most of the necessary drugs have been decreasing, the cost of distributing them remains high, and the treatment regime costs the company an estimated $4,000 per year per employee—quite expensive, especially when compared with the wages and benefits that Anglo American typically offers mineworkers. (Average monthly wages in the South African mining industry are about 5,100 rand, or $830.) Meanwhile, as Anglo American officials continue to remind investors that treating workers ultimately serves the bottom line, recent estimates project a total cost to the company of $1 billion or more over 10 years.**

**On the upside, cost per patient should decrease as the number of workers participating in the program increases. Unfortunately, one of the biggest challenges facing Anglo American is encouraging participation among a migrant and largely ignorant workforce laboring under harsh conditions in an unstable environment. In South Africa, HIV/AIDS still carries a severe stigma, and many South Africans refuse to be tested or to admit they’ve been infected for fear of discrimination by managers, fellow employees, and even society at large.**

**Moreover, many of those who had agreed to participate were confused by rumors and misinformation into assuming they could stop using condoms once they were on the drugs— a situation, of course, that only exacerbated the prevalence of unsafe behavior. ART is in fact a lifelong regimen that can lead to various side effects and needs to be administered under strict supervision. Anglo American, however, continues to struggle with high levels of nonadherence.**

**At one point, for example, supervisors were reporting that all workers undergoing treatment were taking medications as directed; urine tests, however, revealed that only 85 percent were actually doing so. By 2006, the company was forced to report that 10.5 percent of participants had dropped out because of inability or unwillingness to adhere to the regimen. Now physicians have to worry that extensive patterns of nonadherence pose a risk of fostering new drug-resistant strains of the virus.**

**In addition, harsh working conditions often make it hard for workers to take medications on time or to deal with certain side effects. Finally, migrant workers—about four-fifths of the total workforce—come from isolated villages located hundreds of miles away. They’re 2.5 times more likely to contract the disease, which they take with them back to their villages.**

**Constituencies and Critics**

Globalization and Society

**Then there’s the problem of pressure from various constituencies. Anglo American has come under fire for failing to provide free treatment to dependents of its employees, and the National Union of Mineworkers has been hesitant to voice its support, citing the company’s limitations on health-insurance benefits and lack of cooperation with national agencies. The union has also accused the company of helping to foster working conditions that exacerbate the problem. Even then-CEO Brian Gilbertson of BHP Billiton, another large mining concern operating in South Africa, charged Anglo American with merely trying to contain the problem instead of attacking its underlying causes: “You don’t approach the problem by just throwing drugs at it,” said Gilbertson.**

**Anglo American has countered many of these criticisms by insisting that it’s beyond the resources and capacity of a single company to combat the overall problem and has called for more involvement on the part of the South African government. Instead of cooperation, however, the company has encountered outright opposition from political leaders. Indeed, the South African government has proved to be one of Africa’s least committed to a program of effective intervention. Over the course of two years, the government diverted only 0.6 percent of the national budget to the HIV/AIDS crisis and has even resisted the wide distribution of antiretroviral drugs on the grounds it’s too expensive and too difficult to implement.**

**Matters weren’t helped any when President Thabo Mbeki publicly questioned the link between the HIV virus and the onset of AIDS. Then the country’s health minister decried the Anglo American initiative as a “vigilante” move designed to place unreasonable burdens on the government, which would, after all, have to pick up the tab for treatments once workers had retired or left the company’s employment.**

**In addition, dealing with pharmaceutical companies has proved a tricky proposition. On the one hand, Anglo American has a deal with GlaxoSmithKline allowing it to purchase antiretroviral drugs at a tenth of the market price in the industrialized world (the same that GSK charges not-for-profit organizations). At the same time, however, other drug makers have been hesitant and unreliable at best, promising price cuts and then reneging over fears of violating intellectual property rights. As a matter of fact, several of these companies, complaining that cheap generic drugs made available in Africa will eventually be resold by profiteers on higher-priced Western markets, have put their energies into suing the South African government for what they claim to be generally poor enforcement of their patent rights.**

**Given the many challenges it’s faced, not to mention the opposition from unexpected quarters, some observers have gone so far as to suggest that Anglo American would be better off by simply pulling back on its HIV/AIDS treatment program rather than to pouring more resources into the effort to make it work. In the long run, however, the company must consider the continued pressure it will get from ethically minded shareholders as well as its own sense of moral responsibility.**

**There are also indications that the future may not be as bleak as it often appears. Of the workers who faithfully adhere to the drug regime, 95 percent have responded well to treatment and are working productively. The South African government may also be undergoing a gradual change of heart, having recently launched a National Strategic Plan for combating HIV/AIDS, which includes the aggressive goal of cutting the number of HIV infections in half by 2011.**