



**III Inter-American
CONFERENCE**
on Corporate Social
Responsibility
Santiago de Chile

WHO IS RESPONSIBLE FOR RESPONSIBILITY? Proceedings

Santiago de Chile
September, 25th-27th, 2005

**Antonio Vives
Estrella Peinado-Vara**
Editors





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FOREWORD

These proceedings are a summary of the papers and the discussions arising from the *III Inter-American Conference on Corporate Social Responsibility: Who is responsible for responsibility?* in Santiago de Chile, September 25-27, 2005. Most of the presentations are available at www.csramericas.org, as well as the proceedings and presentations from previous events.

This is the Fourth Conference organized by the Inter-American Development Bank on Corporate Social Responsibility, with the help of different partners from across the region. The first took place in Miami under the title *Conference of the Americas on Corporate Social Responsibility: Alliances for Development*, in response to the Summit of the Americas held in Quebec in 2001. Its sequels took place in Panama in 2003, Mexico in 2004 and Chile in 2005 under the title of *Inter-American Conferences on Corporate Social Responsibility*.

We hope that the publication of these proceedings will help disseminate the benefits of corporate social and environmental responsibility among all those actors involved.





INTRODUCTION

Who is responsible for responsibility?

Antonio Vives
Estrella Peinado-Vara
Inter-American Development Bank¹

The theme for the third edition of Inter-American Conference on Corporate Social Responsibility was **Who is responsible for responsibility?**. At the beginning of the planning process of the event, it was greeted with skepticism, like if it were a rhetorical question, non-sensical, with some even arguing that it was improper grammar. To us, it had a very potent meaning that was conveyed to the participants and then recognized not only as a legitimate question, but one that encapsulated a strategy for CSR advancement.

Who is responsible for responsibility? Who is responsible that corporations be responsible? The central message was that the responsibility of firms is not their sole responsibility but the responsibility of all of us, of all stakeholders, including shareholders, managers, consumers, financial markets, the media, civil society, multilateral organizations, etc. All of these parties have a stake and all must send the right signals and provide the incentives for good corporate behavior.

By this we do not mean to skirt the responsibility of the firm, needless to say that the foremost responsible party is the corporation itself. However, the firm, by its very nature, it will act and react in response to the signals of the “CSR Market”, i.e. those that participate in the firms’ activities such consumers, suppliers, employees, etc. The process of **globalization** has transformed the economic landscape of almost every country. It has conferred new rights and opportunities on companies, but also created new competitive pressures and risks, and **led to increased demands for greater corporate social and environmental**

responsibility, including transparency and accountability. It has increased the reach and influence of the private sector; at the same time companies face the challenge of managing new risks and meeting growing expectations from society. Within this process, the speed of transmission of information and its wider access is leading stakeholders to be more aware of the activities of the corporations with some of them choosing to exercise their influence on the firm.

Nevertheless, there is a long, long way to go in the process of creating awareness of this influence and much more to go in recognizing responsibilities. The “CSR Market” is rather underdeveloped even in developed countries, to say the least in emerging markets. The objective of the conference was, and of these Proceedings is, to contribute to raise awareness, to contribute, even in a minute way, to develop the “CSR Market”, by highlighting, not the rights, but the responsibilities of all stakeholders. It is easy to claim rights, but attached to those rights come responsibilities that must be exercised. It is easy to criticize but on this issue we must all be constructive.

If we, as consumers, continue to buy products produced by irresponsible firms, say, using child labor or polluting the waters, then we become part of the problem. Granted, most consumers will defend themselves by pleading ignorance to the extent of responsible practices of the producer. This may be true in many cases and what we may have is that part of media or non-government organization (NGOs) does not provide information, or does not act on these issues or the firms themselves fail to disclose relevant information.

1. Opinions expressed in this article do not necessarily reflect the position of the Inter-American Development Bank.

Governments are also co-responsible. They should create incentives for responsible behavior as well as collaborate through information dissemination. The governments should provide the right regulation even though it is a hard task to get the right balance between and regulation and company self-regulation. Government actions might include activities with positive social and environmental externalities that may not be necessarily in the best interest of firms, including tax incentives, perhaps co-investment funds and other innovative public-private funding mechanism and other tools for public recognition of responsible behavior.

Financial institutions should exercise responsibility not only through their activities in support of the community of their own employees, but going beyond these easy tasks and providing access to financial services to excluded segments of the population and most of all, using their lending and investment power to demand responsible practices to their clients. They can go as far as insuring that the investment of their liquidity (besides their portfolio) is invested in responsible institutions.

Academic institutions have the responsibility to use their unique position of influence to develop the sense of responsibility in their students, particularly those preparing to exercise positions of leadership in the corporate world. This also involves a responsibility to be inclusive, to offer and adapt the training to all, particularly to future small and medium enterprises managers. Furthermore, they can use their comparative advantage in developing and disseminating best practices in corporate responsible behavior.

Even multilateral institutions like the Inter-American Development Bank have responsibilities, both as organizations and development institutions. In the later

role multilateral institutions have the responsibility to promote best practices, both by example and by persuasion, including financing the implementation of CSR. As financial organizations they have to demand their clients, both governments and the private sector, to pursue those practices. They also have a unique responsibility of promoting the market for CSR by strengthening civil society organizations that can act as responsible stakeholders. As part of their regular operations, they should promote projects that are socially and environmentally responsible, that enhance the well being of the population, in particular those of the less fortunate.

Needless to say, the firm is the foremost responsible party, but if the private sector does not correct its behavior, it is the responsibility of the stakeholders to elicit responsible behavior. Each individual stakeholder may not have enough power, but we cannot, and should not, shield ourselves behind that easy excuse to avoid acting. At least we must all try.

Who is responsible for responsibility? The question had a simple answer in the message printed on the T-shirt that was distributed during the conference: **I am responsible.** In consequence, we propose to change the name of *stakeholders*, with the connotation of a *right*, to that of **responsible parties**, with the connotation of a *duty*.

These Proceedings include a summary of the presentations and discussions during the Conference, with sessions organized by stakeholder and their responsibilities, including a closing session on the future of CSR. It also includes two sessions on the special case of the mining and hydrocarbon industries, as can be seen in the Agenda, included as an annex. We hope you enjoy reading them.



FIRST PLENARY SESSION

Management's Responsibility

Monday, September 26, 2005

Antonio Vives
Inter-American Development Bank

INTRODUCTION

By its nature, a company has to ensure its survival, and to this end it requires resources to produce goods and services, as well as social acceptance in order to obtain these. It also responds to market incentives, both with respect to inputs as well as selling its final product. The markets for resources, products and services are responsible for sending the necessary signals to stimulate responsible behavior.

There is no shortage of those who adopt an extreme position, arguing that social and environmental responsibility is the exclusive responsibility of firms in justifying their 'license to operate'. Nor is there any shortage of those who adopt the other extreme, a view expressed by *The Economist* in 2005. In its special supplement on CSR, it argues that the company should concern itself only with profits and complying with the laws, and that going beyond this is irresponsible except in that by doing so it increases its profits. Probably the policy most likely to lead to improving the quality of life in society is a midway point between these two extremes. This is the point at which every member of society exercises his or her responsibility for the common good.

The panel in the first plenary session presents the position of businessmen, made up of two prominent members of the business community and an expert in business reputation. The panel included Julio Moura, President of the GrupoNueva based in Chile; Raimundo Monge, General Manager of Santander Chile Holding

and director of the Banco Santander Santiago in Chile; and Charles Fombrun, Executive Director of the Reputation Institute from the United States.

BUSINESS RESPONSIBILITY AS AN INTEGRAL PART OF BUSINESS

Discussion of these matters began with the presentation of **Julio Moura**, President of the GrupoNueva, a leading business group in the area of corporate social responsibility in Latin America, including 40 businesses in the forestry and pipeline sectors that belong to the *World Business for Sustainable Development*².

One of the maxims adopted by GrupoNueva is that there is no successful business in a failed society. The firm is jointly responsible and for that reason corporate social responsibility (CSR) should be an everyday activity and not just a department that commissions environmental studies or manages a budget for community relations and philanthropy. It is an attitude of mind and an essential part of business strategy, just like other business functions.

Mr. Moura recognizes that being a responsible company is not easy, and that to put theory into practice three things are required:

- **Commitment** at the level of the board and senior management. Shareholders also have to understand the aims of the business are not just those of short-term profit maximization.

2. The WBCSD groups together 170 firms that account for 10 percent of global GDP, and devotes itself to promoting responsible practice and sustainable development.

- **Procedures and tools** have to be given the same weight as the other business functions: production, marketing, finance and information systems. Such procedures begin with basic questions about the interaction between the business and the outside world, the impact it has, and its stakeholders. Each company will have different answers as to the ways in which procedures and tools are adopted in each case.
- **Evaluation and accountability.** If what one does is not measured and does not have to be publicly reported, then that activity may not prove sustainable over time. Public scrutiny reinforces corporate responsibility. GrupoNueva publishes its sustainability report in accordance with Global Reporting Initiative (GRI)³ principles.

GrupoNueva uses the Balanced Scorecard as part of its internal management process, adapting it to a balance of sustainability. It has five dimensions: finance, clients, human resources, technology and corporate social responsibility. It produces strategic 'maps' that bring these dimensions together. The latest book on the Balanced Scorecard includes the case of Amanco, a subsidiary that belongs to the group.⁴

According to Mr. Moura's presentation, GrupoNueva perceives corporate responsibility not as a cost but an opportunity, as an investment that pays good dividends. It is good business, and it is increasingly demanded by society. For GrupoNueva, responsibility produces profit and reduces costs and risk. For example:

- It reduces costs by looking for eco-efficiency. Through responsible use of such resources as water and energy, the group has saved itself US\$6 million.
- It has increased sales through customer preference and loyalty, especially in the case of large-scale purchasers.
- It has reduced risk, especially risk from environmental impacts and labor issues.
- It has generated enthusiasm among those working for the firm, thereby helping to attract better employees and raise productivity.

To achieve this sort of impact, businesses need to be pro-active. The enterprise needs to identify trends and opportunities, and to be ready to act. Responsibility, expressed through the commitment of the board, has to be measured and the results reported. It needs to be well-defined and be part of that good governance that is increasingly valued by the financial and capital markets, providing access to them at lower cost.

Responsibility is not just necessary but offers great opportunities. But its positive contribution will be realized only when and if it forms an integral part of corporate strategy, not a one-off venture. With responsible businesses, our world will be better, richer and more secure.

RESPONSIBILITY AS BUSINESS

Raimundo Monge Zegers presented the viewpoint of financial institutions. He is the General Manager of Santander Chile Holding, the company that manages the Grupo Santander's investments in Chile.

It is well recognized today that generating profits is not enough, and that business has other responsibilities – with respect to social and environmental responsibilities – that go beyond just the economic and financial. This does not substitute the primary responsibility of managing businesses for excellence and being efficient in the management of resources. Moreover, the primary responsibilities are to obtain proper returns for the risks taken on, and ensure that these are sustainable over time, generate quality employment, and pay the taxes that contribute to the development of the country. These are compatible with and help back up the social and environmental dimensions.

For Grupo Santander, the social dimension involves the relationship with its employees and the community. So far as community relations are concerned, a commitment has been made in the area of education, culture and social solidarity. These work through local NGOs and voluntary work among employees, and include support for higher education through the company's own programs at Santander Universities and Universia. Some might say that such activities come closer to philanthropy than corporate responsibility as a strategy. As regards internal social responsibility, it is being implemented through the personal and professional development of its employees. There are a number of programs to this end, such as the Work and Family Programs and the Human Resources Plan, both integral parts of the business.

Mr. Monge explained that a program had been developed known as *bancarización*. This forms part of the product line, but requires special attention in giving the least attended groups (including micro-businesses) access to financial services. This is of mutual benefit. Not only is it good business for the bank, but has a positive impact on employment and poverty. This is particularly important in Latin America and the Caribbean, since micro, small and medium-sized businesses constitute 99 percent of all companies, and generate between 40 percent and 60 percent of employment. Less than 5 percent of micro-enterprises are thought to have access to credit in Latin

3. Of the six companies in Latin America that produced a sustainability report to the GRI in 2005, four were from GrupoNueva.

4. Kaplan, R.S. 'Alignment: Using the Balanced Scorecard to Create Corporate Synergies', Harvard Business School Press, Boston, 2006.

America, and therefore extending the business of financial intermediation may be a positive contribution to development. Nevertheless, this market or business merits special attention, since these are not traditional bank clients. They normally lack credit references, formal documentation and a business track-record. They are difficult to locate and evaluate, and usually demand a special attention that is more costly and requires a differentiated approach. The impact of this sort of involvement is all the more notable when we consider that the majority of those in micro-enterprises are women who use their businesses to support their families.

Corporate responsibility can be profitable both for the company as well as for society. Not only is it a part of business practice, but also it contributes to employment, economic activity, poverty reduction and social cohesion.

During the discussion, certain aspects of corporate responsibility were dealt with in greater depth. In particular, it was stressed that an important area of responsibility lies in insisting on responsible practice by corporate clients as a condition for loans or investments, to the extent of willingness to lose a client where there one fails to adhere explicitly to the minimum level of responsibility.

It was also emphasized that expansion of corporate responsibility at the base of the social pyramid – in other words in those strata with the lowest incomes – should not be regarded just as a market to be exploited. Rather, it should be seen as a market segment which needs to be given the opportunity to participate in economic activity. This may mean going well beyond just providing a loan but they should also offer other types of additional technical support.

REPUTATION AS TRANSMITTER OF RESPONSIBILITY

A more global view was offered by **Charles Fombrum**, Executive Director of the Reputation Institute. This is an organization that publishes analyses and rankings on the value and impact of business reputation in such publications as the Wall Street Journal.

A multiplicity of studies shows that the great majority of people believe that companies should show responsibility towards their employees, clients and society in general. Yet it also believes that firms fail to follow through on that responsibility. The discrepancy is more marked in Europe than in the United States.

Large corporations in the United States frequently frame their social responsibility in terms of the impact that their activities have on their reputation. They manage their public image in a variety of ways, with corporate

responsibility as an integral part of the company's business. One example is General Electric, with its Ecoimagination strategy, focused on equipment and services with a high environmental significance. Others go about this through indirect means, such as donations, community service volunteering, strategies that may leave some doubts as to the's convictions. There are some intermediate examples, such as IBM which allows its employees to use its technologies for the service of the community. Some companies, like Wal-Mart, resort to giving donations and engaging in charitable activities at the same time as they stand accused of discriminatory practice in human resource management, of offering minimal social benefits to their employees, and destroying small-scale businesses in the geographical ambit of their mega-stores. In some cases, reputation management is a defensive tactic, whereas in others it involves legitimate social responsibility.

A communications strategy is key for managing reputation, and it is an important aspect of responsibility that needs to be treated with caution. In order to realize the full benefits of responsibility and enter into a virtuous circle, the company needs to communicate what it does to stakeholders.

Unfortunately, there have been many instances of such communication being abused, with information ending up being propaganda. It appears that firms are being responsible solely to be able to boast about it⁵. Major paradoxes arise. For instance, there is the case of Coca Cola, seemingly one of the corporations viewed most positively from the point of view of social responsibility. However, it faces a boycott in major universities in the United States and other countries on account of its irresponsible conduct in Colombia on labor matters, and in India on account of the environment.

Communications strategy is now even more important since a large part of a company's reputation is derived from stakeholders' perceptions about social and environmental responsibility. These are almost as important as the trademark. Responsibility therefore has greater impact on reputation where it is seen as being authentic and credible, part of corporate strategy and a commitment for the long term. The two companies that preceded this intervention are exemplars of the durable commitment that enhances their reputation and thus their economic value.

CLOSING REMARKS

It is the company itself that is responsible for its responsibility. As in many other aspects of life, putting it into practice means being convinced that acting responsibly is part of living together in society. For businesses, this may be

5. This was an issue discussed at the II Inter-American Conference held in Mexico in 2004. See the proceedings of that conference at www.csramericas.org

something natural, a consequence of a culture imbibed from shareholders, directors, managers or employees; or it can be influenced by the 'market' itself, through incentives, rules or pressures from stakeholders, or responsible parties as we would like to call them, or actions from both sides. In the case of the former, it is indispensable for such responsibility to be an integral part of everyday corporate strategy if it is to be something natural. Whatever the case, the society that insists on corporate responsibility cannot remain simply with its arms crossed in the hope that the businesses act responsibly, specially in developing countries. Members of society should act responsibly in sending the correct message to the company and together achieve a higher degree of social and environmental responsibility to the benefit of all.



SECOND PLENARY SESSION

Public Sector's Responsibility Monday, September 26, 2005

Soledad Teixidó
President of the Fundación PROhumana

The purpose of this panel was to understand the viewpoint of the public sector on the factors that have encouraged corporate social responsibility (CSR) and what can be done to help encourage responsible business behavior. To this end, the following panelists were invited to take part: Luis Eduardo Escobar, an Advisor to the Chilean Treasury Minister, Nicolás Eyzaguirre; José Luis Machinea, the Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC); Daniel Shepherd, a Project Specialist at the Multilateral Investment Fund (MIF); and Larry Palmer, President of the Inter-American Foundation, an autonomous agency of the US government.

THE GOVERNMENT VIEW

Luis Eduardo Escobar, Advisor to the Chilean Treasury Minister, began his presentation by recording a previous presentation made by Minister Eyzaguirre in which he had provided a point of departure for discussing CSR. His analysis was framed around the need for economic growth and the importance of competitiveness for this to take place. It emphasized the need for systemic competitiveness involving the whole country. This implies that the state, the private sector and the workforce all have a role in sustaining competitiveness over time.

In Mr. Escobar's opinion, this is precisely the starting point for discussion about CSR and its drivers. He then summarized and discussed the proposals that had been made. Firstly, he looked at the 'Declaration on Corporate Responsibility' of the Pacific Basin Economic Council enunciated the previous year, which pointed to a break in traditional ways of thinking about CSR, centered on solidarity,

social coverage and environmental protection. The declaration emphasizes the tangible economic benefits and comparative advantages that CSR affords companies.

Secondly, he referred to the contribution of the Organization for Economic Cooperation and Development (OECD) guidelines on CSR. These recommend certain norms of behavior for corporate responsibility and observance of the law. Of these proposals, he highlighted the following:

- Contributing to economic, social and environmental progress in order to achieve sustainable development.
- Respecting the rights of those persons affected by the activities of a company in line with national norms and international commitments by governments.
- Developing human capital, particularly through the creation of employment opportunities and the enhancement of employee training.
- Not looking for or accepting exemptions that are not contemplated in law with respect to health, safety, oversight, financial incentives etc.

Finally, he mentioned the World Summit on Sustainable Development held in 2002 in Johannesburg, whose main proposal considered two poles of action. One of these privileged a more active role for the state in terms of oversight and the setting of norms, whilst the other envisaged a private sector more committed to sustainable development and the adoption of CSR.

What exactly, then, is the role that the state should play from the government standpoint? For Mr. Escobar, CSR should not become an over-regulatory system, with supervisors constantly revising and overseeing companies. Rather, companies need to be aware that corporate sustainability may be at risk from stakeholders pressure, and that consequently responsible behavior is fundamental in generating corporate trust, an asset just as necessary as public credibility.

This would arise from the proper use of state resources for training, investment and other activities, but especially from self-regulation, which in the long run generates tangible economic benefits. The work being done in this respect on the creation of voluntary codes of conduct, which effectively reduce the extent of state intervention and control, deserves special mention.

From the government viewpoint, economic growth involves increased competitiveness, and for this advantage to be sustained over time it has to be responsible. Companies should commit themselves to sustainable development. They have the potential for self-regulation and maintenance of high standards of behavior. Finally, he concluded that, from the government angle, the state should limit its role to acting as a catalyst of CSR.

THE VIEW OF THE IDB

Daniel Shepherd, a Project Expert at the Multilateral Investment Fund (MIF) analyzed the responsibility of the state, as well as local government, and especially multilateral development institutions, in promoting CSR.

He posed the following question: in what spheres should the private sector and government work to strengthen CSR? He began his presentation, recording that governments have a responsibility towards their citizens in providing them with a number of basic goods and services, and towards the private sector in guaranteeing it the minimal conditions in which to operate.

With specific reference to CSR, Mr. Shepherd argued that government is also responsible for a number of different aspects:

- 1) Improving the business climate, generating an environment in which the private sector can grow, where there are open and efficient markets and incentives for the private sector to adopt CSR.
- 2) Promoting transparency and reducing the scope for corruption; guaranteeing the best possible use of financial services and making public bidding procedures more transparent.

3) Pursuing public policy that sets the regulatory framework for business.

4) Building an agreement with the private sector through which to help develop CSR practices that help reduce poverty, identifying initiatives where public and private interests are aligned, using resources and skills efficiently, and taking care not to transfer public sector responsibilities to the private sector.

In Mr. Shepherd's opinion, because of the nature of its responsibilities, government is constantly subject to a growing number of social demands, at the same time as pressures from the market to become more competitive. This is a propitious context both for the private sector and society as a whole, and one taken advantage of by the multilateral development institutions.

He also pointed to the role of institutions like the IDB, which work for the development of the private sector and the adoption of practices of CSR. He argued that the IDB, like the public sector, seeks to improve the business climate, has helped define appropriate public policy, and fosters commitment among the private sector. The Multilateral Investment Fund has backed the development of the private sector, focusing on the growth of small and medium-scale business enterprise (SMEs), given the disadvantages they face and their lack of access to capital, the development of an increasingly competitive environment, and their inability to resist change given their lack of resources.

He recounted to his audience the various activities of the IDB in promoting CSR, including the holding of conferences and events; the development of research into the adoption of environmentally and socially responsible practices within the Bank and outside, along with developing a strong CSR strategy; by the use of agreements and contracts; and through financial support for projects. On this last point, the IDB, through the MIF, has supported projects to expand the use of CSR among small and medium-sized enterprises, convinced that it is a way to raise their competitiveness and generate new development models for this sector.

Mr. Shepherd argued that we have to change ways of thinking and move from a notion of responsibility to the quest for new opportunities, emphasizing the advantages that this brings both for the private sector and the public sector, as well as for organizations in civil society and for society as a whole.

THE ROLE OF THE ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN (ECLAC)

José Luis Machinea underlined the benefits of CSR, pointing to its positive impact on the performance and competitiveness of companies, on their relationship with those around them, on the democratization of corporate governance, and in fostering a notion of sustainable development in which responsibilities are shared.

Among the factors driving firms to improve their social and environmental behavior and to adopt responsible practices, he identified the following: the growing perception among citizens and governments as to the nature of social and environmental problems; pressures from financial organizations insisting on more responsible behavior from companies; the increasingly dynamic role of consumers who are beginning to consider factors of choice; social and environmental performance; and finally the development of such initiatives as the UN Global Pact, the Global Reporting Initiative (GRI) and the OECD guidelines for multinationals.

He argued that improved social and environmental practice on the part of companies is not something that is immediate; it is rather the result of a learning process by the business sector passing through five stages:

Prior to the 1970: the stage of ignorance

The 1970s: the reactive stage

The 1980s: the anticipatory stage

The 1990s: the pro-active stage

The 2000s: the embedded stage.

There has thus been progress from a stage in which there was no prior knowledge to one where social and environmental targets are institutionalized within the company.

In this context, Mr. Machinea pointed to a number of challenges in formulating public policy on CSR. He stressed that this should include such aspects as compliance with the existing legislation and standards on CSR. Also it is important to share examples and incentives that lead to improvements in social and environmental performance. These help build up civic awareness that encourages prevention and a pro-active stance. Monitoring, evaluation and verification of environmentally and socially responsible practices are necessary to evaluate progress. Dialogue needs to be promoted, as well as the creation of public-private partnerships to attain more ambitious goals.

Regulation, economic incentives and voluntary agreements need to be balanced with one another to encourage responsible behavior. All this is necessary to build a culture of CSR in business and in society.

Larry Palmer began his presentation by commenting on the role of the Inter-American Foundation (IAF) as one of the most active agencies of the US government in promoting CSR in Latin America and the Caribbean. The Foundation promotes development in the region based on self-help by means of direct donations to grass-roots organizations and communities. Since 1969, the IAF has provided funding to more than 4,500 development projects, improving the living standards of thousands of families. One of the keys to project success is the stress placed on inter-sectoral alliances. The IAF maintains more than 60 such alliances with the private sector (national companies and multinationals) with the main objective of creating a framework for developing alliances with local communities.

Mr. Palmer commented that the examples of this collaboration with the private sector since 1990 included relations with Arcor y Minetti, the Asociación Colombiana de Petróleo, the Venezuelan state oil company (PDVSA) and O Boticário in Brazil. The impact of these programs had gone well beyond simple financial support for projects. The IAF helps business partners to shift from traditional programs of charity to enabling communities see themselves as business partners. In the 1996-2000 period, the IAF and the Fundación Arcor each contributed US\$240,000 to creating the Fund for Training, Education, Prevention and Community Integration (FEPIC). This gives small grants to NGOs working in areas of nutrition, youth at risk, and informal education. According to Mr. Palmer, as a result Arcor underwent a dramatic shift in its philosophy and its modus operandi with respect to communities. Alongside the IAF, it developed a strategic plan to focus on community development rather than pursuing isolated philanthropic activities that lack any clear future orientation. Arcor no longer worked with its own resources but began to work with other public and private entities, generating funding for the program.

Mr. Palmer also commented that there are many ways in which the public sector can promote responsibility in the private sector. The US Government supports CSR in four ways: firstly through prizes and acts of public recognition such as the Annual Award for Business Excellence given by the State Department; secondly providing grants to promote issues related to CSR; thirdly in building alliances with the private sector to encourage CSR programs (the IAF is the touchstone for this); and lastly in ordering and regulating CSR for companies, such as the rigorous controls

to which overseas investments are subject with respect to the environment. Indeed, there are more than 50 programs, policies and awards in at least twelve federal agencies to promote CSR.

CLOSING REMARKS

Government and multilateral development institutions base their discourse on competitiveness, economic growth and development. From that discourse, one can appreciate the interest that each has in supporting this new way of viewing business. Financial results are no longer enough; it is fundamental that all corporations have good social and environmental results for them to become sustainable over time and less susceptible to pressures from different stakeholders.

From the presentations given by the panelists, a number of points arise in the strategy for the public sector to follow in encouraging companies to adopt practices of CSR. In the view of both government and the IDB, CSR produces comparative advantages for responsible companies. Within a framework of market globalization, it enables a difference to be made that turns into an increasingly prized asset. As a first step, it is therefore basic to raise awareness among businesses about the benefits that responsible behavior brings any corporation.

We therefore need to push ahead with the task of promoting CSR among citizens and in the business world for them to share the vision of sustainable development. At the same time, it is important to take initiatives that enable CSR to be put into practice. In this respect, multilateral development institutions like the IDB play a key role because of the support they give to projects whose main objective is the adoption of CSR, including in this endeavor not just major corporations but enterprising small and medium-sized companies concerned to improve their social and environmental performance.

Finally, the address given by ECLAC underlined the importance of defining comprehensive and appropriate public policies that enable the issue to be seen not just from the angle of regulation and compliance with minimum standards. Furthermore, public policy has to contemplate the promotion and dissemination of CSR, the development of dialogue between the various actors involved, as well as a culture that is pro-active and preventative, rather than just one that responds to incidents in ways that may, over the long run, place the existence of a company in jeopardy.

FIRST ROUND OF BREAKOUT SESSIONS

Session A: Consumers' Responsibility Monday, September 26, 2005

María Matilde Schwalb
Universidad del Pacífico, Perú

The aim of this session was to highlight the importance of informing consumers about CSR issues so that citizens can demand their rights as consumers. At the same time, it dealt with the influence that they, through their purchasing power, can bring to bear to make companies more responsible.

Taking part in this panel were Helio Mattar, President Director of the Akatu Institute for Consumer Awareness from São Paulo, Brazil; Ricardo Iturra, Board Member of the Organización de Consumidores y Usuarios de Chile (ODECU); and Juan Trímboli, Coordinator of *Consumers International*.

CONSUME WITHOUT CONSUMING THE WORLD IN WHICH YOU LIVE.

Helio Mattar's presentation began presenting the results of a research undertaken by Akatu/Ethos (2004) on CSR. The results show the influence that information can have in forming consumer opinion on CSR (see Table 1).

He then stressed the need for consumers to change their way of looking at companies, from being negative and specific towards being broader and more balanced.

TABLE 1 Brazil: reaction to business social reports

Did the fact that you have read or heard about one of these reports make you take one of the following attitudes?

% Yes	Total %	Non-participants %	Listeners %	Debaters %	Leaders %
Improve your opinion about the company	73	68	62	84	85
Speak well of the company to other people	72	74	58	76	85
Buy the company's goods or services	65	66	62	65	68
Invest in the company	29	36	23	34	25

Base: read or heard about reports in the social or environmental area of some company (171 cases)
Source: C6-Stimulated response
Source: Corporate Social Responsibility - Perception of the Brazilian Consumer (2004 poll)

The key point in Mr. Mattar’s presentation was the Akatu Scale whose main aim is to help the consumer know about and value CSR. The scale involves a categorization of companies in terms of their CSR performance, taking the following into account:

- 1) The score generated by the degree to which a firm adopts CSR policies and practices, as defined by 17 Akatu-Ethos reference points.
- 2) The weighting of the reference points and the issues (there are 60 issues grouped together in the 17 reference points) based on the research into consumers that shows the importance attributed to the reference points and issues.
- 3) The possibility for adjusting this weighting, given the sector and size of the company.
- 4) The possibility for adjusting the weighting, in view of the intensity with which CSR practices are carried out in the case of quantifiable reference points.

The 17 criteria that make up the Akatu Scale and that group together the 60 items are as follows:

AKATU SCALE’S 17 THEMES
1. Principles and Standards of Conduct
2. Transparency towards Society
3. Employee Participation and Free Discussion
4. Promotion of Social Inclusion as Employer
5. Mindfulness of Employees
6. Fair Work Practices
7. Care for the Environment
8. Environmental Impact Management
9. Partnership Work with Suppliers
10. Supplier Selection and Evaluation
11. Responsible Consumer Relations
12. Advertising and Communication with Consumers
13. Relations with the Immediate Community
14. Contribution to Society in general
15. Political transparency
16. Anticorruption Practices
17. Social Leadership

The Akatu Scale consists of icons in the form of the letter ‘a’, with four categories in accordance with the company’s effective CSR practices. The four categories are represented by symbols as follows:

TABLE 2 AKATU SCALE OF Corporate Social Responsibility

AKATU CSR CATEGORIES FOR COMPANIES		
Company categories scale		% of companies
Level 4	a a a a	5%
Level 3	a a a	15%
Level 2	a a	10%
Level 1	a	70%

Source: Simulation based on Akatu Research, 2004 (630 Companies).

The score in the previous Table is obtained from the responses of each company analyzed according to the 60 questions, called the Akatu/Ethos Reference Points, each grouped into the 17 issues mentioned above. Responses to the 60 questions are ordered on a scale according to the following six options:

- a) Implemented
- b) In the process of being implemented
- c) Under analysis
- d) Never discussed
- e) Will not be implemented
- f) Does not apply

The results show that only 5 percent show a high degree of implementation and that the majority of companies questioned (70 percent) are at a very initial stage of CSR. Mr. Mattar commented on the availability of the Centro de Referencia Akatu para el Consumo Conciente (Akatu Reference Center for Consumer Awareness) whose main aim is to provide the consumer with information and tools that aid the practice and dissemination of responsible consumption. The Center has a Bookshop for the Aware Consumer, the Company and Product Guide and Indicators for the Aware Consumer. Through its website, it also provides the opportunity for different types of information to be accessed, such as company products, media information, comments from organized social groups and those of consumers themselves.

Finally, Mr. Mattar reported on the results from a research project on a sample of 600 Brazilian consumers, described as 'committed'. The main results were as follows:

- For the Brazilian consumer, all the reference points are very important.
- Ten of the eleven priorities set by consumers relate to the company as an employer.
- Four of the eleven practices most valued by consumers are those least adopted by business.
- Rational use of water and energy are also among the consumers' priorities.
- The consumer rejects the idea of a combination between the company and policy.
- A low value is attributed to and little work done on the distribution chain.
- The consumer prefers action and information to expressions of intent.
- There are big opportunities for firms to align themselves with consumer opinions.

CONSUMERS ORGANIZATION

Ricardo Iturra's presentation focused mainly on describing the functions of Organización de los Consumidores y Usuarios de Chile, ODECU (Acronym in Spanish for Chile's Consumers and Users Organization), an organization with various subsidiaries throughout the country. It is a member of Consumers International.

This organization's key function is to defend the rights of consumers and to promote the exercise of such rights, even though it also involves itself in workers' rights and environmental protection. One of the aims of ODECU is to encourage dialogue between businesses, consumers and the state, and to this end it gives priority to the search for understanding and mutual agreements, as opposed to litigation.

The organization bases its activities on the principle of good faith, meaning that the problem in question does not arise from any deliberate intention to violate consumer rights. To demonstrate this, it presents three cases that at the same time show how difficult it is for companies to see the opposite party as legitimate in a dialogue in search of mutual benefit. These cases show up different positions and attitudes of companies towards the consumer: a company that makes powdered drinks; one whose products sell

throughout Latin America; and a study into the content labeling of packaging of a breakfast cereal advertised as being indispensable for healthy growth in children.

Each case showed up the violation of some consumer right, causing ODECU to raise the issue with the company responsible. The results were different in each case. In the first, the company did not fulfill its commitment to respond to the accusation of dishonest advertising, and the consumers lost out. In the second, the company improved its information and the consumers received proper advice. In the third, although up to now the results have been mixed (some favorable, others not) there is some hope that a satisfactory agreement can be reached of benefit to all parties.

On the basis of these three cases, it became clear that – given the resource limitations of consumer organizations – their function should limit itself to promoting responsible behavior among consumers and for them to opt for those companies that behave responsibly. The cases analyzed raise some important lessons learned:

- Companies of a certain size respond more favorable to demands from consumers than smaller businesses. This may be due to the fact that the latter feel very vulnerable in a world not well-disposed towards them.
- Dialogue with consumers can be highly productive, but for this to be so consumer organizations need to adopt a firm attitude in defense of consumers and this depends a lot on improving their professional capabilities. At the same time, consumers' organizations need to improve their capacity to forge links with the media, with representatives of the private sector, and with other civil society organizations. At the same time, it is important that state institutions take steps to foster a climate of dialogue.
- It is important that businesses put their activities on an ethical basis that takes into account the rights and interests of consumers and all others affected by their activities.

CITIZEN LEADERSHIP IN PURSUIT OF CONSUMER RESPONSIBILITY AND CSR

Consumers International (CI) is a federation of consumer organizations with 250 members in 115 countries worldwide. In its 45 years of existence, it has worked to help build a just and equitable society for the 6 billion consumers around the world.

Juan Trímboli stressed the importance of the quest for dialogue and understanding in the relationship between consumers and businessmen, adding that cooperation and ethics were vital elements if Latin American markets are to

respond successfully to the sort of challenges and demands set by governments and consumers in more developed countries.

Mr. Trimboli made clear that there is a global class of consumer that is supplied the same goods and services across different countries and targeted by a huge volume of advertising and marketing. At the same time, there is an economic model that supports patterns of consumption that are unsustainable because of the damage caused to the environment. For this reason and so that consumers may contribute through their purchasing decisions to the conservation of the planet, it is necessary for them to include in those decisions criteria that pick up on corporate behavior, not just the product's price and quality.

In CI's view, there are three fundamental elements of CSR and responsible consumption that require emphasis:

- 1) Economic policies need to be consistent with ethical values;
- 2) Economic policies have to serve mankind, and particularly the more vulnerable sectors of the population; and
- 3) Markets need to be transparent, with each of the key actors in the economy – businessmen, the state and consumers – assuming fully their social responsibilities.

In what followed, Mr. Trimboli described the activities of his organization, from the perspective of the consumer movement, with respect to CSR. Firstly, the building up of citizen leadership for responsible consumption and the promotion of social responsibility among businesses represents a strategic axis that cuts across all the activities of the institution. This axis stems from the conviction that CSR and responsible consumption can only achieve their full significance when they are linked to the quest to create a society that is fairer, more transparent and guided more by ideas of solidarity. This society will only come about if we have the will to change the ways we produce, distribute, consume and dispose goods and services. In other words, this fairer society will only become possible if we change the ways in which we manage and share the social and natural resources we have available to us.

This vision of the present and future leads us to the conclusion that CSR has to go beyond compensatory strategies and deal with underlying issues, that responsible consumption needs to go further than just striking the

right balance between quality and price. It has to include three dimensions or types of consumption: consumption that is ethical, sustainable and grounded on principles of solidarity.

This leads us to acceptance of the view that we cannot talk of responsible consumption if, on the one hand, we do not include that large sector of society excluded from consuming those goods and services needed for its own subsistence, and, on the other, if we fail to reduce the conspicuous and uncontrolled consumption of a small sector of the social pyramid but one highly significant in terms of its impact.

Since building citizen leadership to promote CSR and to disseminate individual and collective practices of responsible consumption is central to the activities of CI, the organization has identified the following areas of work:

- 1) Promoting consumer participation in the design of public policy to develop CSR and responsible consumption; the development of civil rights, protection of human rights, policies of equity and gender and recognition that our main problems are poverty, inequality and a lack of ethics
- 2) Carrying out citizenship campaigns and other activities that aim to build awareness and bring about changes in thinking on social and environmental issues, as well as developing sustainable life-styles. This brings together major issues such as the right to water and its proper management, reduction in waste, saving energy etc.
- 3) Training and education on matters of citizenship, continuing education for children, young people and adults, and training on how best to dialogue and debate with representatives of the state, business etc.

The speaker underlined the need for the consumer community to count on independent information on the behavior of companies, so as to become more aware of their citizenship role, to acknowledge responsible firms and thereby stimulate others to adopt an ethical stance especially towards different social agents and with society as a whole.

The need to have information requires having a methodology that enables business behavior to be evaluated. Consumer organizations still lack a methodology that enables them comprehensively to evaluate all the

aspects that make up CSR. Work needs to be done to this end in joint research with other consumer organizations in Latin America and the Caribbean.

Lastly, Mr. Trímboli emphasized the need to keep up an open dialogue between stakeholders, suggesting this as the first step towards constructing a fairer and more ethical society for all. To this end, it is imperative for companies, governments and consumers to share responsibility.

CLOSING REMARKS

Although it is clear that consumers have an important responsibility in building a fairer society, it is also clear that this is a responsibility that must be shared by other social actors: businessmen and executives, employees, government and other social groups.

At the same time, if we are to resolve amicably the conflicts that the market creates, it is vital that there are the necessary mechanisms to build an environment of trust and mutual respect in which to encourage a frank and open dialogue between stakeholders.

The responsibility of the consumers lies in the power they have at their disposal, a power that emanates from their purchasing decisions in the market. But for consumers to exercise this power in building a fairer society – rewarding those businesses that behave responsibly and punishing those that do not – they need to be properly informed. For this reason, a target for consumer organizations and institutions dedicated to promoting responsible consumption is to have appropriate methods for measuring CSR as well as information on the responsible behavior of firms. This means a research effort is required and it is here where academic institutions, in alliance with consumer organizations, have a major opportunity to help build a more equitable society.

Lastly, companies need to understand that their good reputation is their principle asset, and that this is established each day on the basis of the individual decisions they make. This means that, as consumers reward good companies through their purchasing decisions and punish irresponsible ones, businesses will understand that their clients and consumers are interested in deeds, not just expressions of good intent.





FIRST ROUND OF BREAKOUT SESSIONS

Session B: Employees' Responsibility Monday, September 26, 2005

Roberto Gutiérrez
Universidad de los Andes
Social Enterprise Knowledge Network (SEKN),
Colombia

Employees can act as a powerful force in corporate social responsibility; indeed, they are responsible for developing it. Both within the company and in its relations with those around it, it is employees who carry out socially responsible activities; they are those who participate in such activities and in the benefits to which these give rise. Organizations also reap certain benefits by providing the space and conditions required. This summary provides a typology of the different possible ways in which employees can exercise responsibility. The experiences of employees in three Chilean organizations are described below.

Those who took part in this panel were Claudio Urrutia, Sindicato Unilever, Chile; Bruno Philippi, President of the Sociedad de Fomento Fabril SOFOFA, Chile; and Angel Mansilla, from the Asociación Chilena de Seguridad.

DIFFERENT POSSIBILITIES

There are various ways in which employees take part in developing social responsibility in their companies. The scope and depth of their involvement varies depending on the ambit – internal or external – in which they are concentrated. Where internal responsibility is consistent, it reinforces the activities with organizations outside the firm.

By involving themselves in activities beyond the confines of the company, employees are responsive to social expectations; but they are also being innovative and extend the radius of their companies' activities into new spheres.

Some of these respond to social needs unrelated to the core business and others are strategically related to the business and influence its daily operations. Roger Martin (2002)⁶ describes how such activities can expand the frontiers of innovation and distinguishes the intrinsic motivation that accompanies them from the instrumental behavior usually attached to responding to social expectations.

Some of the internal activities of employees are subject to legislation, but there are other areas where there is no such formality. Beyond the labor legislation of each country and the internal rules in each organization, employees can come to agreements that transform their working world. It is possible to act responsibly in the area of occupational health, work training, and wage policy. For example, the legal minimum wage is a norm, but an organization can go beyond this and agree that the differentials between directors' salaries and those of other workers should not exceed a certain multiple. In the Basque Country, in northern Spain, the Mondragón business group worked for decades with directors' salaries limited to a maximum of 5.5 times the wages of other workers. Differences in skills are recognized, but there is a limit imposed on the extent to which these are rewarded. Such agreements are a step towards building equity in society.

THREE APPROACHES

There are different ways of looking at the actions and omissions of workers and other stakeholders. Three positions

6. Martin, Roger. "The Virtue Matrix: Calculating the Return on Corporate Responsibility". Harvard Business Review, March 2002.

were represented on the panel on employee responsibility: the viewpoint of a local union in a multinational corporation, that of an employers' association, and that of a non-profit organization (NGO). The representatives of each type of organization put forth and analyzed the characteristics of the context in which they operate. In outlining their experiences, the representative of each of the three organizations provides clues as to the conditions required for human and professional development leading to greater productivity and the transformation of society.

THE HARD REALITY

For the Sindicato Nacional N°1 of Unilever Chile, established on July 16, 1929, where **Claudio Urrutia** is a union leader, understanding the various different notions of CSR represents a challenge. With knowledge and capabilities, trade unions can influence companies in developing an ethical approach to policies on labor, the environment, financial matters and social/community relations. Their relationship to businesses and the state involve, amongst other things, collaboration, citizen control and an ability to demand respect for rights.

To reach the point where CSR can be defined as "the capacity of all business organizations, trade unions and civil society to agree on issues of law in a framework of fair growth, sustainable development and social justice" has not been easy. In Claudio Urrutia's own words:

"Thinking on CSR in Unilever took place in a situation of conflict arising from restructuring production and work organization at the global level. In Chile, this meant the closure of three factories and the dismissal of 190 workers, with the knock-on effects on union organization (affiliations, funding, strategy) as well the irrecoverable loss of jobs. There was therefore a climate of uncertainty and distrust between the union and the company. This was especially the case between December 2004 and May 2005 (the period when restructuring was carried out).

Each party in this context performs a different role: the union focused on labor relations in a period of corporate restructuring; the Central Unitaria de Trabajadores (CUT) provided advice, gave support and insisted on compliance with labor norms and agreements signed by the Chilean state; the state monitored compliance with national and international norms; and the company involved itself in dialogue and the rebuilding of union trust. In this way, agreements were reached for the medium and long term for both the workers and executives at Unilever. The medium-term accords included indemnification, social security,

training and minimizing of the social impact. In the process, the union adopted new perspectives, capabilities and strategies. It entered into strategic alliances and changed the culture of both the union and the firm.

In spite of the agreements, the challenges are multiple: incorporating the concept of social responsibility fully into labor relations; looking for ways to bring the company and labor organizations closer together to build trust on environmental policy, decent working conditions, sustainable growth and fair trade; and, finally, to raise labor standards so as to help boost the growth of our countries.

FROM A BUSINESS ASSOCIATION

Bruno Philippi, speaking from the standpoint of the President of the Sociedad de Fomento Fabril (SOFOFA), stated that:

"Well-meaning charity and corporate social responsibility are not the same thing. Charity is carried out by people who use their own resources. Corporate social responsibility is carried out with shareholders' money, and must therefore be geared to the long-term interests of the corporation."

The proximity or distance between the strategies of the company and its business operations is exactly the same distinction that Martin (2002) draws with respect to the frontier of business innovation.

Although voluntary work by employees may lead to activities that have little to do with the core business, Bruno Philippi emphasized the benefits it can bring. Before itemizing the benefits, it is important to list some of the forms in which so-called corporate volunteering takes place. It may take the form of isolated activities such as visits to an old people's home or collecting gifts for a children's home. Another facet is taking part in solidarity campaigns to provide help in responding to such calamities as natural disasters. There are also simple joint activities between the company and its employees, in which the latter offer their time and some resources while the firm tops up the funding required in campaigns unrelated to the daily work of the volunteers (such as Un Techo para Chile). Or there is the case of more complex joint activities in selected programs in which both employees and the company give not only time and resources but also provide experience (such as Educación Dual).

The building of new channels for participation and communication is one of the main benefits of this sort of volunteer work. According to Bruno Philippi, this sort of solidarity between workers goes hand-in-hand with human

resource management. It becomes possible to get to know the employee in a new light, both at the personal and family levels. Back in the workplace, it helps daily interaction, producing a qualitative leap in teamwork and the strengthening of ties to the community. Finally, it is important to stress the way in which such opportunities give workers greater meaning to their lives. It enhances their understanding of the society to which they belong and the potential contribution they can make. Indeed, as Mr. Philippi put it “those who receive such generous contributions win, the people involved win, the company wins, and the country wins.”

OFFERINGS FROM A NON-PROFIT ORGANIZATION

The Asociación Chilena de Seguridad (ACHS) was established in 1958 in response to the dramatic situation facing the third of all Chilean workers who were the victims of industrial accidents each year. To promote health and safety at work, ACHS contributes to the socially responsible behavior of businesses. Workers and businessmen jointly carry out the operation of this universal solidarity-based insurance scheme. For **Angel Mansilla**, its Manager of Corporate Affairs, the social responsibility of ACHS employees resides both in the direct work they do as well as in the more indirect ways in which voluntarily they can add value to the society they live in.

In the daily activities of ACHS, it is the personnel who determine its aims and priorities, and these then provide the input in formulating the Social Plan for the following year. This means that the way in which resources are assigned is both consensual and more rational. Beyond more active involvement, it leads to policies of training and good labor practice, as well as less conflict both in the labor and family spheres.

By contributing to the quality of life of its own personnel, ACHS is able to take on other challenges. Alongside its clients and community, ACHS promotes a precautionary culture through responsible marketing. It develops projects that range from ergonomic design and guides to hard manual labor to support for cultural activities. Some projects, not just with large companies, give rise to extraordinarily positive externalities. For example, the design of plans to deal with waste and to encourage cleaner production helps promote care for the environment.

Finally, the coherence of ACHS’s proposals encourages the observance of business ethics by means of an Ethical Guide drawn up by its employees. In the words of Ángel Mansilla, “corporate social responsibility is more than just a matter of money; it is a call for creativity, innovation and the desire to do things well...”

A DIALOGUE UNDER CONSTRUCTION

Few are the trade unions that, among their strategies, study the question of social responsibility in shifting their approach to transforming business. There are still only a few companies that go much beyond encouraging voluntary work in designing policies and conducting socially responsible activities with their employees. Although there have been decades of experience in this field, it is worthwhile asking oneself why the sort of examples described above and the effort for ongoing improvement are not more common.



Is there a need for higher labor standards? What are the best ways of achieving standards – state regulation, trading agreements, negotiated codes of conduct or voluntary codes (Luce, 2005)? For years, the standard approach was state regulation, but the voluntary ethos of recent years has not brought the benefits that its proponents advocated. The debate between imposition and innovation continues. Different options exist, and perhaps the discussion could be averted if we look at the track record of many innovations that, with the passage of time, turn into legislation because of the social impact they have. Not only is there the Chilean example of ACHS which anticipated the Law of Occupational Hazards, but in Colombia the Family Compensation Funds (Cajas de Compensación Familiar) came about in a similar way.

Employees are the beneficiaries of socially responsible labor policies. But they are also subjects and actors that can make a reality of business policies to benefit other social groups. Though we consider these different areas separately, there is a connection between the internal working life of a company and its participation in the wider society. In any case, efforts to deal with workers’ vulnerability are one way to generate social value (SEKN, 2006)⁸.

7. Luce, Stephanie. “The case for international labor standards: a “Northern” perspective.” Sussex, UK: Institute of Development Studies (IDS), Working Paper 250, 2005.

8. SEKN (Social Enterprise Knowledge Network), *Effective Management in Social Enterprise: Lessons from Social and Business Organizations in Iberoamerica*. Boston: David Rockefeller Center for Latin American Studies, 2006 (chapter 10).





SECOND ROUND OF BREAKOUT SESSIONS

Session A: Financial Markets' Responsibility Monday, September 26, 2005

Estrella Peinado-Vara⁹
Inter-American Development Bank

Given the importance for companies' competitiveness, financial markets can have a major influence over corporate behavior, whether in the form of verification or through other more indirect means. In many countries, the new principles that financial institutions are adopting, the criteria of institutional investors and the boom in socially responsible investment are all focusing attention and working to the benefit of responsible firms. This session dealt with financial market trends and how these influence responsible behavior and the sort of benefits that can accrue as a result.

The panel was composed by Vicente Caruz, President of the Banco del Desarrollo from Chile; Augusto Iglesias, a Partner in Primamérica from Chile and by Djordjija Petkoski, Director of the Private Sector Development and Corporate Governance team at the World Bank. The session was chaired by Fernando Lefort from the School of Administration at the Universidad Católica de Chile.

Vicente Caruz, focused on the financial area, especially banking. Some years back, banking was considered as being poorly developed in the area of social responsibility. However, the situation has improved. Today, the banking sector is one of the most pro-active in so far as CSR programs are concerned. Financial markets have taken four main directions. The first of these has been in communicating with different stakeholders. Secondly there has been the impact of CSR on national development through financing individuals, micro and small-scale businesses, low-income neighborhoods, etc. Examples here are such institutions as the Banco Nacional de Desenvolvimento Econômico e Social (BNDES) in Brazil and the Nacional Financiera (Nafinsa)

in Mexico, both of which have been extraordinarily active. A third line of action has been financing projects subject to prior analysis of clients' environmental and social management capabilities. Lastly, there has been investment through ethical funds.

As regards measurement and dissemination of such activities, there are an ever-growing number of institutions that produce social audit balances, using a variety of approaches. One such approach, on which there is a special section for the financial sector, is the Global Reporting Initiative (GRI).

There have been consistent efforts in Chile over the years, but even though these have not been very systematic, they have gradually turned into a strategy for many banks and other institutions. The Banco de Desarrollo is a private institution whose primary objective is the integral development of people, companies and, in the last analysis, the country. The mission of the bank's founder was equitable development and to attend to the needs of the poorest. This means enabling all to have at their disposal the facilities required for them to operate in an open economy, a market economy in the process of modernization. The bank has foreign partners, amongst them European financial institutions and the Inter-American Investment Corporation (IIC) from the IDB, but it is controlled by Chilean stockholders. It has assets worth US\$3.3 billion, a portfolio of almost 320,000 clients, and more than a hundred branches. Its average return on capital over 23 years has been over 18 percent. It is therefore possible to have a social mission, behave responsibly and achieve reasonable levels of profitability.

9. Fernando Lefort from the School of Administration at the Universidad Católica de Chile moderated this session.

Values of public and social responsibility go well beyond maximizing profit. The bank pursues such objectives as growth, diversification, development's impact and profitability, an equation at once harmonious and balanced. Its main clients are micro and small-scale businesses that generate most employment. The main sectors it serves are construction of social housing and the provision of educational services.

Its main instruments are mortgage loans, each averaging US\$6,000. Since this was a market segment previously unattended to, the bank managed to bring an important part of the population within the compass of the banking sector. It was therefore the Banco de Desarrollo that opened up this segment, which today is well attended to by other institutions. Another element that was innovative in its time was the financing of educational centers, especially those that are subsidized and serve low-income population groups. In this sector, the bank has conducted operations to a value of US\$250 million. To date, it has lent US\$1.16 billion to the small business sector. There are also 42 specialist centers devoted to serving micro-businesses with 225,000 loans for US\$223 million. These have a lower profitability, but they have a large impact on Chilean development. As regards social impact and profit, according to Mr. Caruz and the experience of the Banco de Desarrollo, for every 14 credits a new job is created. This presupposes a state contribution of US\$640, so that with a contribution of US\$64 million (which helps in the high transaction costs) in micro-credits, it is possible to create 100,000 jobs.

Augusto Iglesias, began defining the concept of Social Responsibility in Investment (SRI) as the integration of social and personal values into investment decisions. Therefore, if practices of SRI are adopted in decision-making, the investor needs to consider not just his own objectives but also the impact of that investment on society. He made clear that his presentation referred to SRI in mandated pension funds, administered by institutions working within a special regulatory framework.

The importance of this issue reflects that of mandated pension funds, actors of a certain standing in Latin American capital markets. His presentation responded to three questions: Do Pension Fund Administrators (PFAs) follow SRI policies in managing pension funds? Are PFAs able to adopt a different SRI policy (one that is more far reaching) for pension funds? Should PFAs be obliged to adopt a different SRI policy (more far reaching) for pension funds?

On the first question on whether PFAs follow SRI guidelines for pension funds, Mr. Iglesias added that including social values and objectives in the investment decisions of PFAs

is guaranteed, since such decisions are made in compliance with legal requirements that establish explicitly such investment objectives as obtaining proper profits and security. This objective of the pension funds is not at the expense of other social objectives. The law demands that pension funds be invested preferentially in financial assets issued by institutions that comply with laws and regulations and practice good corporate governance. Therefore, in as much as the law and detailed regulations stipulate social objectives, pension fund investments must be considered as socially responsible.

Although Latin American pension funds are not explicitly committed to SRI, there are concrete examples of social responsibility in pension fund investment with the promotion of best practice in corporate governance. This includes demanding that companies provide the markets with better quality information. It also means putting more emphasis on the long-term results and sustainability of those businesses they invest in.

On the second question about whether PFAs may pursue an SRI policy that goes further, Mr. Iglesias pointed out that the investments of pension funds may not have social objectives different to those established in law. This is because pension funds stem from a legal mandate and it is the law that establishes those objectives. It is therefore not up to the pension fund manager to promote the values or aims that affiliates may express. The social objective of the pensions system may not necessarily be that expressed by individual affiliates. Were this so, it would run the risk of allowing stakeholders to exert pressure for pension funds to be used to promote their own agendas, if not that of the community.

In the case of mandated pension plans, there is no scope either for the individual values of managers to express themselves in investment decisions, since PFAs do not administer their own funds. No PFA can, individually, set SRI objectives very different from those of the industry as a whole, since there is a tendency (sometimes encouraged by regulators) to build similar portfolios. It is thus difficult to set other investment aims inconsistent with those established in law.

Consequently, a policy of promoting the scope of SRI (incorporating the values of the managers or affiliate groups) would very probably be against the law. The larger the number of objectives that need to be met, the narrower the range of possible investments. If the range of investment options is limited, the risk will increase and the expected return on the portfolio would fall.

Should PFAs be required to adopt a different SRI policy, one with a wider scope, for pension funds? This was the third question that Mr. Iglesias answered. If the returns on pension funds depend on the way in which laws and regulations incumbent on those funds are complied with, then there is no justification in setting additional social objectives on that investment. If the legal framework governing economic activity is adequate, and the system of rewards and penalties in the market is working efficiently, then the objective of maximum profitability of pension funds over the long run will be consistent with a wide array of social objectives. A company that fails to comply with environmental norms, that does not employ good practices in corporate governance, and fails to maintain a good climate of labor relations will lose value and will not therefore be an attractive investment proposition. At the same time, were it to be the case that the objective of profitability is replaced by social aims, then changing the investment purpose of pension funds would not be appropriate since it would increase the cost of pensions and the cost of those state guarantees that are involved in pension funds' results.

The way in which pension fund investments may promote CSR in the companies in which they are invested depends mainly on the significance of their shareholding within the portfolio. In mandated pension funds, there is no scope for bringing the manager's personal values to bear, nor those of the affiliates, on investment decisions. The nature of the system determines what the investment aims should be. The only social objective of investments in pension funds, consistent with the pension system, is to attain a good rate of return.

Djordjija Petkoski showed a data series that made clear the imbalance that exists in the world: 20 percent of the world's population in developed countries consume 86 percent of the world's goods; the poorest 20 percent consume a mere 1.3 percent; and similarly, the 48 poorest countries account for under 0.4 percent of world exports. Each day, more than 16,000 children die from causes related to lack of food, one child every five seconds.

It is even more striking if we compare the size of some markets with the cost of resolving problems that affect millions of poor people. To provide a basic education to the population of the world would cost some US\$6 billion. This is not much when we think that the US cosmetics market is worth US\$8 billion. Similarly, to provide drinking water and sewerage to all those who do not have access to it would cost US\$9 billion and basic sanitary assistance and nutrition would involve a cost of US\$13 billion. By contrast, the perfume industry in Europe is worth US\$12 billion.

In this vein, Mr. Petkoski continued by pointing out that the form of development aid had changed since the beginning of the 1990s when the bulk of the capital reaching developing countries came from international donors. Today, the situation is very different, and private sources of capital have a more preponderant role. These have multiplied by a factor of five, while development aid has diminished considerably.

What is the role of financial institutions for development in all this? Firstly, they have a range of investment instruments from grant donations to loans and shareholdings. These institutions are but another actor in capital markets, alongside traditional institutions like banks, institutional investors etc. The less developed market mechanisms are, the greater the need for multipartite associations in searching for common objectives like raising competitiveness.

The Equator Principles are an example of the actions which such institutions can undertake. They involve voluntary guidelines for managing environmental and social aspects in the provision of loans for large-scale project finance. They were developed by more than 40 leading institutions in this market, which, together, accounts for 80 percent of all project finance. The criteria used are based on the investment criteria of the International Finance Corporation (IFC), part of the World Bank Group, and are taken into account for all projects, no matter what the industrial sector, where the cost is over US\$50 million. These principles have all the potential, de facto, to become the standard for all banks and investors in pursuing agreements with potential social and environmental impacts and in helping improve risk management.

The Equator Principles are insufficient. Although the project finance market is large, we need to be aware that there are other markets for commercial investments and loans that are not covered by the principles. The importance of Socially Responsible Investment (SRI) needs to be emphasized. This is an investment process that takes into consideration social and environmental matters and their impact, whether positive or negative, on investment decisions. As a result, they may have a significant effect on the behavior of pension funds and shareholder resolutions.

Investors in this market range from individuals to institutional investors. They invest in SRI a total US\$2.16 billion in assets chosen in accordance with one of three criteria for pre-selection, shareholder pressure, and investment in the community. The growth rate between 1995 and 2003 was 240 percent. Both SRI and CSR are mutually supportive since SRI strengthens the impact that CSR has on competitiveness and is helpful in projecting CSR to

a wider audience. SRI implies innovation and taking into account all the expectations of shareholders, more complex than simple returns.

CLOSING REMARKS

Financial institutions have the potential to exert a profound influence over social and environmental responsibility in the area of development project finance. The Equator Principles are a powerful tool in encouraging responsible finance, and together with responsible investment they have a very relevant role to play in promoting responsible financial markets.

In another area of the financial market - specifically the role of banks in persuading their clients to use funds responsibly (even assuming that the minimal conditions established in law are fulfilled) - it is difficult at the present time to apply very demanding standards with respect to micro- small- and medium-sized companies in Latin America. These need to consolidate themselves first, and thereafter be given assistance through other mechanisms that enable them to become responsible.

In conclusion, all agents are responsible for CSR. A good way to exercise social and environmental responsibility is by steering resources to those who have least and who are excluded from the rest of the economy. Unemployment is the source of most needs and conflict. Economic development is not enough if it is not equitable. For it to be so, there is a need for institutional solidity to help generate and sustain it. The creation of equality of opportunity is fundamental here.



As was made clear in this panel, there is no inconsistency between the aim of maximizing yields on pension funds and other social objectives. So long as they fulfill their purpose, pension funds are in themselves socially responsible. There are alternative instruments, other than pension funds, that provide more effective ways of promoting social and environmental objectives. Profound changes would be required in the workings of the financial market for mandated pension funds to include CSR as we understand it today.

SECOND ROUND OF BREAKOUT SESSIONS

Session B: The Media's Responsibility Monday, September 26, 2005

Italo Pizzolante
President, PIZZOLANTE Comunicación
Estratégica, Venezuela

This session on the social responsibility of the media sought to show that there has been an advance in the dissemination of corporate social responsibility thanks to the interest in coverage both in the written press as well as on radio and television. In addition, there was discussion of how the media might help stimulate the development of responsible business practice and how CSR practices are related to the benefits of competition and business sustainability.

A group of recognized experts gave their views and recounted their experiences. The panel included Raúl Ferro, Editor of the magazine *América Economía*; Tobias Webb, the Editor of Ethical Corporation from the United Kingdom; Carlos Schaerer, the General Secretary of the *El Mercurio* Newspaper and Vice-President of Chile's *Asociación Nacional de Prensa*; and Eliana Rozas, the Executive Director of the *Corporación de Televisión de la Pontificia Universidad Católica de Chile*.

The presentations focused on how the media cover issues of corporate social responsibility, stressing the importance of giving such matters greater diffusion. It was also pointed out that companies need to come up with CSR stories that attract readers.

HARMONIZING INTERESTS

Numerous publications from prestigious business schools speak of adapting to new realities. However, while any business that wishes to survive needs to be sufficiently flexible to adapt, those that are really successful are those that are bold enough to try to mould the context in which they seek to operate, establish the conditions for others who may wish to compete and create new reference points in the markets they serve. Molding through one own business activity transcends the business mission and outlook and reveals the social value of business values. It is a question of building reference points that are responsible, transparent and sustainable.

What objectives should business organizations gear themselves towards? What is it that enables businesses to be sustainable and competitive in the long run? In practice, the majority of firms conduct themselves in ways that cannot be understood as corporate social responsibility in the sense we know it today. In many instances, their initiatives in the areas of labor relations, health and education are just voluntary, though they frequently end up as legislation. Currently, such sustainability arises precisely out of the need the company has to be responsible, and for this reason a clear distinction needs to be drawn between

traditional social programs and what it is for a firm to be socially responsible. The media pick up on such differences by contrasting what companies say, through their programs, and what they do as a consequence of business decisions. When we speak of a company being socially responsible, we are referring to the process whereby an organization becomes self-sustaining over time. Implicit in this are the practices that a business undertakes as part of its strategy, which need to be of benefit to its various stakeholders: its clients, its workers, its shareholders, the community, authorities and those around it, to name some.

How do you behave in circumstances when what is apparent is a perception? The perception is a reality. Competitiveness is not of interest to journalists, but it is to the businessman. The media have the role of harmonizing the interests of different stakeholders involved in CSR.



Being socially responsible means having labor relations grounded in trust and equity, having a relationship towards the environment of respect and tolerance, and working in such a way as to be transparent and accessible to a press interested in the company and its stakeholders. A socially responsible business speaks of ethical principles, and brings in philanthropy, norms of good corporate governance and (of course) programs of CSR. These are not uniform for all parts of the world, but should respond to the sort of society in which the organization operates. However, in Latin America we suffer a lack of strong institutions, and there is the risk

that CSR occupies spaces that are the responsibility of the State. Alliances can be created, but there should never be a substitution of roles; this also includes the media.

Raúl Ferro began his presentation saying that for the press the issue of CSR is something relatively new and ongoing. The purpose of the media is to identify those different actors who influence the way opinion is formed and who shape the sort of relationships that society would like to have with businesses operating in its midst. Similarly, he stated that the media do the important job of uncovering points of conflict and agreement within these companies, so as fully to explain these to the actors involved in CSR, demolishing any prejudices that have come about.

Another important point emphasized by Mr. Ferro is how the media should encourage debate over what we mean when we speak of corporate social responsibility. From the editor's perspective, people tend to confuse CSR with philanthropy, and though the issues complement one another to a certain extent, they have different meanings. For this reason, then, far from assuming a pedagogic role, the media should provide their audience with examples and investigation that invite reflection and help elucidate the topic.

The editor of *América Economía* commented that CSR should be investigated from the business angle, evaluating its costs and benefits and of strategies related to CSR, so as to stimulate business innovation in this area. The dissemination of new CSR proposals and programs and the stimulation of debate about them are other areas where the media should assume responsibility.

Mr. Ferro was critical about the way in which the press had dealt with social responsibility. He said that editors give it little importance in the daily coverage of their various publications, giving more space to issues than to the actions adopted by political, social and business leaders. Secondly, he pointed out that on numerous occasions commercial directors see CSR as an opportunity for public relations, something that he considered that editors should reject. In his opinion, nothing detracted more from the credibility of the debate than turning it into just a matter of image.

CSR, BUSINESS AND MEDIA: A BITTERSWEET RELATIONSHIP

Carlos Schaerer began his presentation describing the relationship between businesses, CSR and the media as bittersweet.

He explained how El Mercurio had been linked to social issues for more than 100 years, promoting the development of both culture and education. It currently has an introductory program to the newspaper as an input into class work in schools. It delivers copies to more than 350 schools in Chile, providing guidance to teaching staff as to how best to use the paper. Mr. Schaerer pointed out that looking at El Mercurio solely as a media outlet and not as a business complicates the issue of CSR since the paper covers such initiatives only when they are seen as attractive in journalistic terms. In Schaerer's view, readers are interested in issues of opinion in general, national and international, and such news items have to make dramatic reading. From this angle, journalists face the challenge of hitting on issues which, while having journalistic value, enable other aspects of social life to be covered. These make the paper more enjoyable to read, whilst keeping faith with the journalistic purpose.

Schaerer thought there are differences between businesses and the media since the latter give priority to their readers. Another point of conflict can arise when a company that is carrying out CSR programs finds itself involved in questions that do not highlight social and environmental responsibility. A company that has built up a reputation sparks a good deal of journalistic interest when it slips up. In this respect, the media needs to encourage real competition by helping to draw a distinction between those who really are responsible and those who are not. Furthermore, companies that are really committed to CSR consider that the media devote little space to their activities. They should remember that priority in the media is always given to their readers, not to companies that produce the information.

Schaerer's presentation ended with an exhortation that the press should be more conscious of CSR. This, to his mind, would mean improving the quality of its journalistic work. The impact of errors has important consequences. To this end he recommended the media should raise their levels of professional vigilance for the quality of the information they publish.

THE EUROPEAN EXPERIENCE

There is certainly no single or established specialist source on CSR in the media beyond those supplements on social responsibility that come within the area of marketing or the information available on the Internet. Fortunately these fill a space in a market demanding more and better information on CSR. Nevertheless, some specialized magazines have emerged, such as Ethical Corporation.

Tobias Webb said that the shift that had taken place in European companies towards adopting practices of CSR responded to two important factors. The first has been the publicity campaigns of non-governmental organizations, and the second, the dissemination provided by the media. He pointed out that traditionally the media have concentrated more on publicizing companies' lack of responsibility and transparency. However, for some time now, journalism has played an important role in promoting good business practice. He mentioned the cases of British Petroleum (BP) and Shell which, in Mr. Webb's view, had managed to achieve an outstanding position, thanks to their good use of the media which have helped promote their social role.



Mr. Webb considers that coverage of issues related to CSR in Europe has taken important steps for the better. The media should recognize that those companies that take risks and make significant efforts for the good of society deserve to be rewarded, whilst those that make mistakes should be penalized. He stressed that the CSR-related issues that are most important for stakeholders in the United

Kingdom are transparency and the having responsible editorial policies; good practices of corporate governance; informational honesty; impartiality and investment in human resources.

Businesses need to make what they do, how they behave and what policies they adopt newsworthy. This depends on creativity in the presentation of information and how stories are built. The company needs to realize that media headlines are not only good news, but also bad.

CSR turns firms into reference points that help shape society. In the words of Juan Romero, president of the South American and Caribbean region of CEMEX, you need to take part in shaping the form in which you want the future to come. Socially responsible companies are those that through their activities are influencing the behavior of others and making their competitiveness sustainable, and it is worth pointing out that competitiveness is not sustainable unless it is responsible. This responsible competitiveness is the key to making growth and business consolidation the basis for collective wellbeing by means of the human capital that makes up these organizations. The responsible company is, quite clearly, a tool for development, since its role is crucial to economic growth and the generation of welfare in society in that it is a source of employment and poverty reduction.

THE IMPORTANT ROLE PLACED BY THE MEDIA

Eliana Rozas put the role the media should play in developing CSR at the center of her presentation. Public opinion is vitally important for companies, as no institution is indifferent to how it is viewed by the society in which it operates.

Similarly, she stressed that since the private sector has acquired essential functions key to economic development previously provided only by the state, it now has a greater impact, positive or negative. This has turned it into an object of public scrutiny, since people are now more conscious of their rights as citizens and consumers and in making sure these are respected.

With this in mind, Mrs. Rozas pointed to some of the functions of the media. Firstly, as businesses, the media need to be socially responsible, demonstrating a deep commitment to the welfare of stakeholders. Secondly, the media play an important part in publicizing issues to do with CSR by providing the means to shape public opinion and in having global reach. Thirdly, the media need to be regarded as an institution that intercedes between the

community and the audience and as a linkage between the audience and the community.

Finally, Mrs. Rozas pointed out that the choice of content and the way it is presented, as well as the freedom to transmit what is considered to be news and of relevance to its audience, are both ways in which the media has an impact on the development of CSR. In addition, she urged the media to publicize the ways in which companies practice CSR, as well as stakeholders' complaints and criticisms. The media should not be satisfied by simply informing and providing an arena for public debate; rather they should be committed to resolving social problems and promoting values such as solidarity and social justice, giving coverage to such matters beyond the bounds of journalistic output.



THE NEW CHALLENGE FOR BUSINESS: CORPORATIVE SOCIAL CO-RESPONSIBILITY

Picking up on what Eliana Rozas said about the new functions of companies that previously belonged to the state, it is important for businesses to be sensitive to the problems of the society in which they operate. Consequently, they need to carry out philanthropic activities that reflect their social commitment, including those that link philanthropy strategically to their trademark. However, she warned that the sustainability of their operations depends on the clarity with which they carry out their social function, with the focus on its business vision and mission. If they take over the roles that properly belong to others, they could give rise to a new type of populism, in this instance corporate, with perverse consequences for social development.

The challenge for socially responsible firms is to stop talking of social responsibility and to talk about Corporative Social Co-responsibility. This is a model with two parts - companies that are sensitive and communities that value them – in which both parties have rights to exercise, but also duties to perform.

CLOSING REMARKS

The challenge for CSR with regard to the media is to explode the myth that it is improper for companies to communicate what they do for the community, since they genuinely believe it to be their duty. This sort of attitude, albeit well-intentioned, prevents business from constructing a network of allies that can be very useful. It also prevents them publicizing forms of support that can help build sustainability. It is not a matter of proclaiming to the four winds how good the company is; for that there are ethical and transparent strategies that can find an equilibrium position. Today, as yesterday, it is not enough for companies building market credibility and loyalty to gear themselves to building a reputation based solely on the apparent quality of their products. What is more important is to build up and maintain trust. Transparency is a condition for responsible competitiveness and a trait that needs always to be uppermost in the intentions of the firm and the way it acts. CSR is also a social mandate that requires understanding of the dynamics behind the media and how the media link up with their different publics.





THIRD PLENARY SESSION

How to ensure responsibility? Regulation and Legislation. Tuesday, September 27, 2005

Estrella Peinado-Vara¹⁰
Inter-American Development Bank

Given the deterioration in labor standards in some sectors – caused in part by the convergence of globalization and the restructuring of production and distribution networks, trade liberalization and governmental policies of deregulation – the debate about companies' self-regulation through voluntary codes of conduct has emerged forcefully. Reasons exist for being skeptical about the usefulness of these codes of conduct, especially in the absence of independent verification and transparency. The members of this panel looked at some of the advantages and limitations for both government legislation and regulation as opposed to voluntary codes of conduct, and how these might interact to reinforce the regulatory functions of the state and achieve the flexibility required by the private sector as well as the protection needed by the rest of society.

The panel was made up by Oscar Landerretche, Executive Vice-President of the Chilean Development Corporation (Corporación de Fomento, CORFO); José Antonio Guzmán, President of the Cámara Chilena de la Construcción; Michael Hardy, the General Manager of Chile Tabacos; and José Ángel Moreno, Director of Corporate Social Responsibility at the BBVA in Spain. The chairman was Germán Quintana, Chile's Alternate Executive Director at the Inter-American Development Bank.

Germán Quintana opened the session by commenting on an interesting example of CSR to which the IDB is giving a good deal of attention — carbon credits. This is an instrument that hails from a study by the United Nations on environmental degradation, based on a mechanism that establishes

criteria for reducing and setting quotas for trading emissions between developed and developing countries. This scheme would enable developing economies to improve the environmental standards of some of its productive sectors whilst allowing developed economies to grow at a set rate but with the overall effect of reducing emissions. The result would be the creation of a market in which emerging economies have the incentive to improve environmental standards because for their companies it might be a way of accessing significant external financing to develop activities and thereby reduce risk profiles in the local market. The government, meanwhile, should establish environmental systems that facilitate certification or verification of the reduction in emissions in accordance with norms established by the United Nations. This market began to operate in February 2005 with the incorporation of Russia. However, it is working without the United States, the single most important actor in the global economy. As Mr. Quintana pointed out, this is a unique instance, in that the most important actor does not participate actively but is a mere spectator of what happens. But in spite of the position taken by this country, there are companies in the United States interested in voluntarily taking part for reasons of public image, finance or the simple conviction of the need to slow down the phenomenon of global warming. It is a market that needs to be institutionalized in order to become credible in the global market.

In his presentation, **Oscar Landerretche**, quoted an article in the *Stanford Social Innovation Review* that said that CSR is a myth because ethical consumption is something that is not going to take off and because the race towards improving standards will not take place, rather lead to a

10. Germán Quintana, Chile's Alternate Executive Director at the Inter-American Development Bank was this session's moderator.

convergence around minimum standards for the environment, human rights etc. There is an element of truth in this, but one that needs to be nuanced. A situation arises whereby quality goods and services are mixed with those of lesser quality but, because of informational asymmetries, consumers are unable to make the distinction. Here we need to think of CSR as a mixture of activities with a combined, systematic and preventative focus rather than as a mechanism for offsetting externalities. This sort of approach may well challenge the traditional market economy. Starting from a critical stance towards CSR based on this article, Mr. Landerretche focused his presentation on the need for CSR to be voluntary. This is only possible when business activity is seen as legitimate. In a society where, irrespective of their conduct, businesses and the businessmen come under attack, it is not profitable to be responsible. CSR also needs a context of overall legitimacy, or in other words it needs to be widely recognized as a movement, and complementary to state regulation or legislation.

According to Mr. Landerretche, the basic issue in this debate was how to make CSR profitable. It is generally the case that innovation comes about when it is shown to be profitable, and once this is generally accepted, it becomes the norm. This means that a business that does not adopt CSR is destined to fail once it has become the norm for survival. CSR not only requires a suitable environment, but it needs as well to be valued by the whole of society. Certifications and voluntary accreditations are, in his opinion, an effective route to achieving recognition of a responsible private sector by all. It is a matter of establishing a mechanism to convey information about who is responsible, to recognize and give value to those that deserve it, and to enable the problems that arise from traditional market dynamics to be corrected. CSR should work its way from basic regulations upwards. It is an additional element that assumes a route towards deregulation, but cannot be carried out as an obligation. First of all, it is necessary to find a way to make it profitable so that – just like any other innovation – it becomes obligatory in a natural way, the key to its survival.

CORFO supports technical assistance to achieve internationally recognized certification with respect to quality, the environment and other aspects of CSR. It also supports a Chilean norm, PyME 2909, which integrates various different elements of CSR. This involves Chilean companies being certified in ways that the market recognizes. However, it is clearly not enough. Effort has to be made to educate the consumer and improve the information that circulates in the market. Finally, the balance between the voluntary approach and obligation lies at the point at which it enables the market to work, but in a way that is socially acceptable.

In his presentation, **José Antonio Guzmán** argued that CSR is not just a business obligation but one that includes all agents in society, and the way in which one party carries it out influences all the rest. It is also necessary to bear in mind that, to be responsible, a company first needs to be able to carry out its primary function, that is to generate wealth, employment and to contribute to development. If there are no successful companies, social and environmental responsibility cannot exist. In his presentation, Mr. Guzmán discussed the role of a sectoral business association, the relationship between voluntary practice and state regulation and how this relationship works. He used the Cámara de Construcción as an illustrative example.

Obligatory regulation provides the minimum level for compliance and the common denominator that governs companies' economic behavior. There are also practices that go further in contributing to the welfare of a society, and these give rise to CSR. The question therefore is where this obligatory minimum should be set for the benefit of society. In Mr. Guzmán's view, the higher the level of regulation, the fewer the incentives there will be for responsible practice, when what these aim to achieve is differentiation. Here what we are talking about is a set of uniform standards for all. At the same time, when CSR is perceived as raising competitiveness by means of internationally recognized voluntary certification, it helps promote responsible behavior. Its voluntary nature does not mean arbitrariness, rather behavior based on shared criteria that constitute a commitment towards society. Common criteria need to be established in order for these voluntary actions to be observed, measured and evaluated.

Government may be able to contribute as well, creating incentives for pro-active regulation, based on tax incentives and flexibility of minimum norms on the basis of demonstrable proof of CSR. This would involve a combination of regulation and voluntary action, an approach much more flexible and adaptable than minimum regulation to the needs of each particular company.

Sectoral business associations, like the Cámara de la Construcción de Chile, play an important role in promoting and facilitating social responsibility among their affiliates. They provide an institutional nexus between companies in a single industry and the public sector. Normally, CSR is associated with large companies. However, small and medium-sized enterprises (SMEs) have an accumulative impact on sustainable development, and it is important that they take into account responsible business practices. In this sphere, sectoral associations have an especially relevant role to play, as SMEs on their own are unable to establish channels for communicating with government

and other agents. The associations take charge of promoting ethical conduct, encouraging closer cooperation and of the technological transfer from large companies, improving living standards for workers, and facilitating certification and joint programs with the community.

The Cámara de la Construcción maintains a constant dialogue with the government in developing and perfecting legal norms, thereby encouraging stability and growth in the sector. It is also an effective institution in implementing public policy in the area of promotion, with the use of tax incentives for education, training, sport and culture. It was a pioneer in the field of social security, in ways that anticipated state regulation and acted as a model for such instances as the Caja de Compensación Los Andes and the Mutual de Seguridad de Accidentes del Trabajo.

The social network of the Cámara de la Construcción has a major social impact, administering resources equivalent to 16 percent of GDP, attending directly or indirectly 7 million people through its various institutions (50 percent of the population of Chile) and covers at least 3 million workers, equivalent to more than 54 percent of the national workforce. SMEs account for 60 percent of affiliated companies. For businesses to raise levels of confidence in their activities and to achieve a reduction in the regulatory burden, they need to give signs of social responsibility that show transparency and commitment. If the state wishes to encourage responsible behavior it needs to develop pro-active regulation, a system based on tax incentives and flexibilization of the rules that come into effect as companies progress. The associations fulfill a fundamental role in promoting and facilitating CSR. Committed and enthusiastic, they bring the SMEs into this endeavor.

Michael Hardy agreed with the previous panelists in the sense that regulation provides the foundations on which CSR is built. He highlighted two levels of social and environmental responsibility. One is general in nature and concerns operations subject to the law and involving all entities, whether companies or cultural and sporting associations. The second has to do with the specific characteristics of each sector. This is the case of the mining industry or the media, for instance, and of course Chile Tabacos by virtue of the type of product it markets. Mr. Hardy asked whether a tobacco company can be responsible, or whether this is a contradiction in terms. In his opinion, it can be responsible, or at least British American Tobacco (BAT) tries to be so, complying with the rules applied to the sector and also bringing to bear self-regulation in its general responsibility towards areas such as employment principles, business principles, the demands of corporate

behavior, environmental requirements and international marketing standards. These are observed by all BAT subsidiaries, and in many cases more strictly than the national law stipulates.

So there is legislation imposed by the competent authorities and on top of this there is an internal dimension, the company's own conviction of the need to operate responsibly. The strategic pillars on which Chile Tabacos bases its business are four: growth, productivity, responsibility and human capital. Its premise here is that it is not possible to privilege one pillar at the expense of another. Mr. Hardy sought to lay due emphasis on the need to act responsibly, and to this end the company had conducted a consultation exercise within society about expectations of a tobacco company. The consultation began in 2003 among 93 stakeholders, and the results were analyzed and responded to by the company in a second phase. The exercise was compiled in a report, with key issues such as product information and health matters.

Mr. Hardy agreed on the need to regulate general aspect and where there are market failures. In the case of a product like tobacco, its very nature necessitates strict but sensible legislation and regulation that takes full account that it is a legal product. Over-regulation through taxation or in ways that infringe individual freedoms will basically affect the formal sector but not necessarily consumption, helping to favor illegal activity such as contraband.

José Angel Moreno posed three questions that he answered during the course of his presentation. Firstly, he asked why companies were concerned about CSR. The answer was fundamentally because of the strength of social demand which, though not yet at full strength, is beginning to be listened to. Also, there is the strength of the argument that CSR, well managed, is not only necessary but can bring substantial benefit to business. It can turn into a motor that generates value because it helps the company to devote itself to understanding its stakeholders and the rest of society. Furthermore, CSR contributes to improved corporate management overall, to better quality, and to the ability to generate value in a more sustainable fashion.

Mr. Moreno then asked the question whether CSR lends added-value. In his view, the answer was yes. If CSR contributes to building better and more competitive companies with greater potential for growth that is more economically, socially and environmentally sustainable, then, intuitively, its generalization should help strengthen the business fabric and contribute to improved growth in the national economy.

The third question was whether self-regulation, along the lines suggested by previous speakers, was sufficient. Mr. Moreno agreed that CSR is something that is eminently voluntary and begins where the law ends. However, in some instances self-regulation may not be enough. He added that it should be an issue in countries' economic policies. Institutions of public administration should play a central role given the general interest in CSR, its role as a tool in encouraging economic sustainability, and its importance for future generations. The debate therefore is not whether the state should intervene or not, but rather what is the best way for it to do so, what public policies should be implemented to support CSR in ways that generate the least possible collateral damage that always occurs with state intervention. To this end, he referred to Josep Maria Lozano, who says that in order to advance properly three clear visions are required: the vision of the firm, the vision of the country and a future vision of the sort of society that together we want to build.

CLOSING REMARKS

Successful leadership requires consensus, trust, information between stakeholders, and above all the co-responsibility of all those involved. Spaces for dialogue are required in which to develop common objectives and lines of work shared by all. We are in a debate that is fundamental in its political dimensions.

What type of regulation or legislation is needed to promote CSR? On the one hand, specific legislation on CSR may not be the answer, given the depth, variety and complexity of the issue. It is neither a wholly linear nor uniform concept such that it would lend itself to comprehensive CSR legislation. This is something that was debated in Spain throughout 2005. A law of this type would demand regulation of all aspects affecting the company, and this

scarcely seems to be a viable option. The basic aspects of CSR, generally speaking and with some exceptions, are already sufficiently regulated, for example labor conditions, environmental contamination or provision of accurate financial information. In those cases where rights and duties are not clearly defined, it would be a first step properly to regulate these basic aspects, but not to rely on the creation of a comprehensive law on CSR which will not resolve the real problem. The problem is rather different, more basic; less complicated and can be resolved by the correct sort of regulation. On a different point, if these market failures are resolved, we need to ask ourselves how it is possible to regulate such aspects as training, innovation and volunteer work. Leaving aside tax relief, other forms of obligatory intervention would end up being hugely complex. However, it is possible to undertake voluntary measures focused on rewarding positive behavior rather than penalizing irresponsible behavior. Care needs to be taken with economic incentives for these not to become distortions of the market or of competition.

What are needed are policies that encourage transparency, technical support to SMEs and greater collaboration between business and civil society. It is also important to encourage an appropriate social context and proper channels for dialogue so as to attain common goals based on responsible business behavior.

An area where there is scope for state intervention is in support for systems and methods of oversight and verification of information, acceptable to the majority, so that even adhering to the voluntary principle; false or incorrect information can be avoided. It is possible to combine regulation with the voluntary principle, and in some instances intervention is necessary to achieve the full potential of CSR.



THIRD ROUND OF BREAKOUT SESSIONS

Session A: International Markets' Responsibility Tuesday, September 27, 2005

Nicolás Majluf
Pontificia Universidad Católica de Chile

INTRODUCTION

The session explores various facets of CSR in international markets. In the age we live in, with commercial interchange on the increase and large companies operating in the markets¹¹, we cannot evade the impact that our actions and decisions may have on other people, companies and entire countries. For this reason, there is a growing movement of opinion that seeks to ensure that this enormous current of international trade is conducted ethically and with a sense of social responsibility, such the protests of large groupings of people in different countries opposed to globalization and the expansion of trade because of the deterioration it causes in living standards.

The panel consisted of Fernando Raga, Vice-President of the Corporación Chilena de la Madera and General Manager of Desarrollo Forestal de Mininco in Chile; Gilles Ross, Senior Vice-President of Legal Services and Secretary of Export Development Canada (EDC) in Canada; and Daniel Arancibia, Regional Representative for Latin America and the Caribbean of the Forest Stewardship Council (FSC).

The three presentations on this panel refer to the way the interaction between different actors in the productive process leads to new practices, institutions and ways of regulating behavior that may contribute to more socially responsible conduct.

CSR AND INTERNATIONAL MARKETS

Fernando Raga outlined the CSR perspective of a large Chilean company in the forestry sector whose main markets are abroad. There are many actors that take it upon themselves to make it known to each company that it should not ignore CSR. In his presentation, he began by mentioning the company's clients, because of the awareness that these have acquired about their power to influence suppliers. He referred also to the communications media, civil society and its organizations, which make a point of magnifying negative instances and join in every effort to limit globalization and control the growth of large corporations. At the same time, business sectors that seek to protect themselves from unfair, low-cost competition promote the setting of certification standards to establish platforms with common conditions, so that companies operate on a level playing field.

His main conclusions are as follows; the markets make more stringent environmental, social and ethical demands. The demands made by society in general and their clients in particular oblige large forestry companies that participate in world markets to take on board a number of issues, chiefly:

- **Environmental:** The world's forests are important for their biodiversity and there are areas that have suffered deforestation.

11. Nearly 50 percent of the world's largest economies are multinational companies, and the world's 200 largest companies make up a quarter of the world economy.

- **Legal:** Illegal harvesting is a practice to be avoided, and the large forestry companies with good practice in this respect are the main promoters of its limitation.
- **Social:** Especially related to the demands of indigenous peoples.
- **Labor:** The diversity of practice and a lack of respect for labor norms in the world is a source of unfair competition.
- **Protection** of the living standards of civilian groups, an issue promoted by environmental NGOs.

The way in which the Chilean forestry industry operates allows it to distinguish itself positively. According to Mr. Raga, CSR is a new name for concerns that have a long history. The Chilean forestry sector has made strenuous efforts to respond better to environmental and social demands, anticipating the requirements of its clients. Programs for educational support, peasant forestation and collaboration with neighbors are of longstanding. The Corporación Chilena de la Madera (CORMA) has promoted the mass certification of its associates, encouraging them to comply with certain internationally recognized standards. Nearly 70 percent of plantations are certified, one of the highest proportions in the world. Additionally, the Chilean forestry sector exploits plantations (not native forest), has good labor standards, and illegal cutting is an insignificant phenomenon.

Socially responsible behavior turns the threat of market rejection into an opportunity to stand above the rest, both at the level of the firm and of the country. The markets have gradually become more demanding over the last decade, since 1995. Initially, clients limited themselves to consultations over companies' environmental practices. Then they began to make inspection visits and undertake formal audits in different spheres, especially labor conditions. In 2003, there was an attempted boycott in the United States, demanding certification of forests. But this is a practice that is widespread in Chile, and agreement was rapidly reached. The result, which was highly positive, shows the value of anticipating such demands. Instead of being relegated to inferior segments and markets, it is possible to attend to the premium segments that are more demanding but also more profitable.

THE VIEW FROM AN EXPORT DEVELOPMENT AGENCY
Gilles Ross presented the view of CSR from an export promotion institution, Export Development Canada (EDC)¹².

According to Mr. Ross, CSR is increasing the capacity of those countries that receive investments and those that finance projects to tackle social problems. It is a matter of maintaining environmental harmony, trust and mutual respect.

CSR is understood as a set of best practices that brings with it values of justice and accountability in areas such as business ethics, corruption, human rights and environment. In a formal sense, it is a relatively new area for export credit agencies. It became explicit in the 1990s, although one way or another for a long time the evaluation of new projects has taken into account business ethics, community investment and the proper training of employees.

Gilles Ross's observations focused on institutional aspects, as well as environmental issues and corruption. Sustainable trade needs to work with rules that are predictable, practical and fair. As trading agencies, export credit institutions can help in influencing those rules. There are abundant benefits to be derived from globalization and the fall of trade barriers. However, we need to give the impact on the environment and indigenous communities the attention it deserves, taking the necessary steps to prevent such undesirable practices as bribery. If we promote responsible trade, all will share the benefits of development. We have much to gain from working responsibly. This means taking into account the potential impact of our decisions, upholding ethics and accountability in order to maintain trading practices that are mutually beneficial.

Sustainable growth and economic success depend on how consistent the commitment is to upholding practices that are fair, responsible and predictable. The export credit agencies today apply guidelines, sharing information with the public and engaging civil society in regular dialogue, so as to understand issues that may in the future become challenges.

The export credit agencies are getting closer to having a systematic approach to assessing the environmental impact of projects. Between 1998 and 2004, they have recognized the problem by setting voluntary guidelines and finally implementing an environmental review that is legally binding. The result of this has been the emergence of a large market in the development of new technologies, such as clean production systems, to solve major environmental problems. Reputation is important both for current and future partners. To attract capital, companies need to demonstrate good behavior towards the environment, ethics and governance.

12. EDC is an agency of the Canadian government. Its objective is to assist Canadian exporters and investors by means of finance and risk management through insurance programs and guarantees.

WHO IS RESPONSIBILITY FOR THE MARKET?

Daniel Arancibia presented the Forest Stewardship Council's (FSC) view of CSR. This is an organization devoted to the certification of companies in the forestry sector which voluntarily agree to undergo this process.

The forestry sector is a highly significant example worldwide because trade in wood and its derivatives is extremely valuable (US\$350 billion in 2000) and forests cannot be treated exclusively in an economic sense; there are social and environmental impacts that cannot be ignored.

This enormous area of commercial activity moves essentially on price. It is a commodity market, and quality is not rewarded. But it leads to exploitation that is unsustainable. To do things well and to be socially responsible, it is not enough simply to mitigate negative impacts or be a 'good neighbor'. David Arancibia's main conclusion is that the key to productive and commercial activity is to contribute to local development, taking full advantage of the contribution of each and every participant in the value chain.

Certification seeks to distinguish a good product from the standpoint of quality and the way it is made. To be effective, all actors must demand it. Very important is the role played by governments through their procurement policies (both domestically and when they resort to purchasing imports). The financial sector also plays a key part. Banks have completely redesigned their policies towards the forestry sector, imposing safeguards that previously did not exist. The message is that economic evaluation is insufficient, and that the social impact of projects is important too.

According to Daniel Arancibia, all market participants have a role to play:

- 1) **Purchasers.** The most effective inducement for producers to certify their products is that consumers exercise their responsibility and opt to buy only certified goods, refusing to buy illegal ones. Today, only a small fraction of wood traded is certified, but it is increasing rapidly (e.g. in the United Kingdom and the Netherlands)
- 2) **Traders.** Their purchasing power and relationship with suppliers should provide an incentive for good commercial practice. The quality of the goods they supply should relate not just to tangible but also to non-tangible values. (IKEA offers "low prices but not at any price" and B&Q offers "to guarantee that all our wood and paper comes from properly managed forests or recycled materials").
- 3) **Processors.** Responsibility does not stop at the forest. Working conditions and workers safety are also relevant concerns. The relationship between the producer and the trading chain should guarantee equitable conditions for both parties.
- 4) **Producers.** They respond to the demands that are made of them. The decision to make a large effort (which may take 5-10 years) to certify their forests is something that producers will willingly do when it is a requirement of international demand. There is a niche for certified wood, and people are prepared to pay for the value that this presupposes.

CLOSING REMARKS

It is clear that the importance of the efforts undertaken up to now is acknowledged. However, there are sectors of society which are considered not to be doing enough to resolve the problems arising from the exploitation of forests and meeting the demands of indigenous and other peoples related to this activity.

With this concern in mind, the panelists replied that the effort expended had been worthwhile because it had enabled very serious problems to be anticipated. For instance, the cellulose industry can operate in a sustainable manner and does so in many countries around the world by incorporating technology and abiding by the applicable norms.

The question arose whether it was possible to be socially responsible in a poor country, or whether this was utopia. The panelists responded that there is much that can be done and that much is being done. Dealing with issues of integral forestry development also means dealing with issues of economic development, as well as continuing to build stronger institutions. Environmental issues are important, but they are not the only ones. Also relevant are matters of labor safety, conflict with indigenous communities, work in areas with enormous rural poverty and illegal logging. It is vital to offer an economic alternative for those who live in the forest. Businesses make a great contribution to social development on all these matters, but it is insufficient. Government also has responsibility here, and CSR does not mean substituting the role of the State.





THIRD ROUND OF BREAKOUT SESSIONS

Session B: Civil Society's Responsibility Tuesday, September 27, 2005

Estrella Peinado-Vara¹³
Inter-American Development Bank

This session probed into the role of civil society organizations in representing the voices of the least favored population. We know of experiences in which civil society has managed to influence companies' responsible practices. Also discussed were the ways in which companies can work together with civil society so as to increase the positive impact of responsible behavior.

The panel was made up by Carolina Peyrín, the Coordinator of Red Puentes Internacional from Chile; Juan Pedro Pinochet, General Manager of Un Techo para Chile; Don Clarke, Director for Education and Special Projects at Black River First Nation from Canada; and Armando Espinosa Reyes, President of AlumiFénix from Venezuela. Audra Jones of the Inter-American Foundation from the US Government chaired the session.

Carolina Peyrín began describing the Red Puentes Internacional. This is made up of an international alliance of 31 organizations from Argentina, Brazil, Chile, the Netherlands, Mexico and Uruguay. It seeks to balance and harmonize such different concepts as economic profitability, human rights, social welfare and environmental protection. It considers the companies as neuralgic centers from which decisions are made that set the course for political and economic actions. The private sector has in its hands the ability to create opportunities and tools when confrontation arises. There is a need to establish dialogue and negotiation over the interests and responsibilities of all stakeholders.

The organization's achievements have been varied. The Chilean experience has seen the successful passage of a Consumer Law (the first step towards applying the OECD Guidelines), the establishment of a fund for CSR initiatives from citizens' organizations, and the launch of an initiative for forest certification. Experience in Argentina has been focused more on promotional aspects, such as setting up a prize for journalism on CSR and creating the Plataforma de Organizaciones de la Sociedad Civil por la RSE (Civil Society Platform for CSR). In Brazil, the focus has been more on researching multinational companies and publicizing the social audits of firms. This is the case of Ibase. In Mexico, the emphasis is more on building relationships with other countries, for example the dialogue established with the embassies of European Union countries.

CSR's potential for improving society is great, but in order to be successful it needs to be a CSR that stems from multipartite initiatives, involving the creation of spaces for developing a new deal or reviewing the traditional relationships between those parties that make up society (government, business, trade unions, NGOs, etc). Although the company is at the center of CSR, civil society plays an indispensable role in linking up different citizen organizations in joint activities. These have the duty to oversee and denounce, but to do so they need to have national and international support in helping create a new sort of person who is responsible in all spheres of his or her life: as a responsible consumer, as a worker and as an active citizen.

13. Audra Jones of the Inter-American Foundation from the US Government was the moderator for this session.

In addition, the role of civil society is to provide mechanisms to monitor and verify, as well as represent citizens in overseeing activities to uncover business practices that in some aspects may be responsible but in others are deeply irresponsible. In this oversight role, civil society should demand accountability, not just of companies but also of government and other civil society organizations. In this way it helps evaluate the overall impact of CSR.

Juan Pedro Pinochet focused his presentation on the role of foundations. Foundations need to be credible with a clear and concrete mission. They need to have a realistic view of the relative roles that each play in society. Civil society organizations need to be responsible, emphasizing the importance of social conditions, inviting others to participate in improving society, encouraging innovation and listening to what other stakeholders may want to say or contribute. In their relationship with companies, they should adopt efficient and professional methods of management and working practice. They should adopt a timely communications strategy and link up with the aims of companies in promoting volunteering. Participation in the running of the company is key to success in bringing foundations and the company closer together and for them to work in partnerships.

Foundations need to encourage the build-up of opportunities, leaving traditional philanthropy to one side. It is easier in this way to guarantee that the initiatives that are taken enjoy continuity over time, since they will take on a longer-term and more permanent nature.

They need to establish social priorities with companies, ask themselves what is most relevant for the welfare of the community, and to be convinced that investment provides returns in more or less tangible ways both to society and the company.

Don Clarke, began by defining what it is that we understand by indigenous peoples, descendants of the original inhabitants of a given region or country. Indigenous peoples frequently maintain their cultural, legal and political characteristics in ways that distinguish them from those adopted by new inhabitants. More importantly, they maintain claims with respect to land rights and natural resources that reflect their own values.

Businesses operating in development and infrastructure projects, in the textile and food industries, in extractive industries, tourism, pharmaceuticals, scientific research, in the arts and across many other sectors encounter complaints from indigenous peoples. Some organizations have begun to pay attention to CSR issues, developing policies

and guidelines that stem from collaboration with indigenous peoples in ways productive and of significance to both. The case of Tembec is remarkable. It is a leader in forest products, mainly wood and wood pulp. It has sales of over US\$4 billion and operates 55 plants across Europe, North America and South America with some 10,000 employees. Black River is an indigenous community of some 800 inhabitants that originally occupied territory at the center of Tembec's operations in Manitoba, Canada.

Tembec's philosophy has concentrated on conducting its operations openly and winning respect, understanding and integrity. Its aim is to introduce the traditional knowledge of the Black River people into forest planning and management. It also seeks to identify and take on board the interests, concerns and values of the community in relation to the treaty rights of aborigines, following Forest Stewardship Council principles.

The company is involved in economic development through its management of a number of mills. It also runs educational assistance programs training up young people and the development of forestry exploitation subcontracts. In addition, it works towards the integration of traditional values through joint planning councils. In this way, it ensures that the vision and values of indigenous peoples are preserved.

Its practices have shown that a durable relationship with indigenous peoples is possible. Moreover, it makes business management sense, helping it be ranked among the 50 companies considered 'best citizens' in Canada.

Armando Espinosa based his presentation on the role played by productive civil society in changing the rules of the game. Mr. Espinosa argued that through participation, a consolidation of civil society as a productive force ought to take place. People's values and attitudes undergo a radical transformation when they move from being the subject of their circumstances to being protagonists. He mentioned the case of the cooperative AlumiFénix whose vision is to become a leader in integrating human resources into the production and commercialization of aluminum. The aim is to produce at solidarity prices in a way that is both efficient and profitable. Small-scale producers are integrated into production units and through the formation of a network of distributors.

The production units are small workshops that manufacture kitchen utensils across Venezuela, and include a research center. The success of the model relies on the commitment of cooperative members as protagonists and in following the guidelines for harmonious integral development.

CLOSING REMARKS

The different parties involved have different interests and only limited spaces for debate. Conflict is used more as a pretext for destroying other parties rather than as a prior step to collaboration. Initial distrust and questioning is evident, but coming together should not mean loss of direction, rather getting closer so as to improve society. We should not speak of depending on companies, rather creating alliances for the benefit of all.

Civil society, however, should also actively forge links with business in those spheres of interest to society. Its role is not just one of denunciation, and it needs to strike out against skepticism and suspicion and build bridges that help people come together to find solutions to the benefit of all. One of its functions, as well as collaborating with responsible private organizations, should be to propose to members of the legislature ways to design and monitor policies of CSR.







FOURTH PLENARY SESSION

What are, and what are not the mining and hydrocarbons industry's responsibilities? Tuesday, September 27, 2005

Jim Rader
Canadian Business for Social Responsibility

The fourth plenary dealt with the limits to CSR in mining and hydrocarbons operations. Because of the scale of these operations and the great environmental, social and economic impact they have on the countries where they take place and especially in the communities affected nearby, it is common to attribute responsibilities to this industry that go beyond the specific activity or project in question. Some of the questions that arise because of this are: How far do these responsibilities extend? Is it possible to reduce them? Is it desirable to do so? What happens with the syndrome of dependency that affects communities, and how to avoid it?

The representatives of three sectors took part in this panel. On behalf of the government there was Paulina Saball Astaburuaga, Executive Director of Chile's Comisión Nacional del Medio Ambiente (CONAMA); from the private sector there was Alfredo Ovalle Rodríguez, President of the Sociedad Nacional de Minería de Chile (Sonami); and from civil society there was Fernando Guerrero Figueroa, Executive Director of the Asociación para el Desarrollo Local (ASODEL) from Cajamarca, Peru.

Paulina Saball initiated her presentation pointing out that CSR is a multi-faceted concept with a number of legal and ethical duties and commitments, both national and international, that arise from the impact that companies have in the social, labor, environmental and human rights spheres.

As regards the environment – the area for which Mrs. Saball was responsible – CSR stems from the Chilean institutional matrix. This includes the Constitution, which guarantees the right of citizens to live in an environment free of contamination; the general judicial framework (the General Environment Framework Law); tools of compliance (environmental norms, prevention plans, evaluation system, etc.) and the institutions that implement the laws (CONAMI, the Ministry of Mining, the Health Ministry etc.).

Mining is one of the fundamental pillars of economic development in Chile, and it has grown by 265 percent since 1990. At the same time, mining places strong pressure on natural resources and on the community of human beings living in surrounding areas. This includes the impact on the use of water resources, especially in the north of Chile which is either an extremely arid region or a desert. The relationship with the cosmic view of indigenous peoples, yet to be incorporated into mining practice, and the morphological alteration of the terrain are important aspects. The extraction of non-renewable resources and the generation of residues and solid, gaseous and/or liquid waste, alongside the tight nexus and/or dependency between the local community and mining activity are matters that are of great relevance. In her view, mining needs to reach an equilibrium point between the development of the sector and the economic, social, cultural and environmental development of the country.

Specifically, mining in Chile confronts three major challenges. With respect to the environment, the sector needs to continue reducing its negative impact, including CO₂ emissions, arsenic and material particles. It needs to make efficient use of water and energy, reclaim abandoned sites, close down operations, increase safety in the transport of dangerous substances, and ensure active participation in conserving biological diversity. As regards biological diversity, it is true that mining is being developed more and more in areas of fragility, and this increases the need to undertake proper scientific study prior to the start of any mining activity.

With respect to local communities, it is important to increase the sector's contribution to social and human development. This is because mining activity is finite and what will remain when it comes to an end is the knowledge and capacities of the local population. Also, as regards the communities, the mining sector has to provide timely, truthful and relevant information about the environmental, tax, and social behavior of the company and make it more transparent.

Finally, the mining industry needs to move ahead in public-private cooperation (information, oversight, regional development) so as to ensure that its presence is as effective as possible. If it attends to the points itemized above, large-scale mining (*gran minería*) will be able to embark on its second century with a competitive profile, inserted into world markets, sustainable and as the leading force in the economic and social development both of the country and its regions.

Alfredo Ovalle first of all pointed out the important role that mining can have in those developing countries endowed with these resources. In the Chilean case, mining generates 8 percent of gross domestic product and accounts for 53 percent of total exports. At the same time, it is the recipient of 33 percent of foreign investment and in the 1990s generated 20 percent of the country's growth.

The economic linkages of mining are also significant. The sector consumes a third of all the electricity generated in the country and accounts for more than 30 percent of output in the construction sector. However, mining operations are very risky, mature only over the long run and require very heavy investment. For this reason, companies have to anticipate world trends in a responsible way and thereby protect their investments.

All this has enabled the mining industry to conform to current requirements, incorporating in a timely way systems of management that ensure a fluid and mutually beneficial relationship with the different stakeholders with which it interacts. Currently, the responsibility of the Chilean

mining industry consists of contributing to the sustainable development of the country, improving the living standards of its people by means of efficient, ethical and participatory systems of management, and providing communities access to the socio-economic benefits that mining brings.

In the Antofagasta region, a region overwhelmingly dominated by mining, the poverty index in 1990 was 43 percent of the population; currently it is 11 percent, the lowest of anywhere in the country. The social responsibility demonstrated by the Chilean mining industry has been expressed, for example, in reducing accidents. As regards the training of highly qualified personnel, both for its own operations and for those industries that provide support services, the contribution of major mines is more than 30 times the average for other companies at the national level. It invests over US\$650 per worker while the average training investment of other companies is between US\$18 and US\$20.

With respect to governance policies, mining companies have incorporated ethical codes and those to resolve conflicts of interest, preventing legal lacunae and confusions that might put the integrity of firms at risk. The mining industry stands out as one which is highly unionized and where the level of worker wages and benefits exceeds, by a long way, those of other industries. As regards care for the environment, the industry was the first to develop environmental impact assessments voluntarily, a decade before there was national legislation on this point.

At the same time, the main mining companies that operate in Chile are affiliated to the International Council of Mining and Metals (ICMM), and consequently have to comply with the principles of corporate responsibility agreed upon by the institution, provide annual information on how these are being applied, and to measure them in accordance with the specifications specially produced by the Global Reporting Initiative (GRI) for the management of mining companies. Similarly, as well as providing leadership in encouraging business participation in formulating the norm ISO 26000 on social responsibility, Sonami has just signed an agreement on integral sustainability for small-scale mining (*pequeña minería*) with the ministries of mining and economy. This aims to develop honest, safe and high-productivity management for small-scale mining.

He pointed out that the question "what is not the responsibility of mining" is not easy to answer and that, possibly, it needs to be examined case by case. In general terms, the mining sector is not responsible for economic and social development. These are functions of the state, as are the internal and external security of the country or

the administration of justice. But in Chile, where most of the mining industry has developed in unpopulated areas far from the centers of urban population, it has become necessary for companies to carry out for themselves certain public works which the community would otherwise have demanded of the state, principally in road, electricity, sanitary and port infrastructure.

According to Mr. Ovalle, the most effective way of delimiting responsibilities is by means of communicating properly and on a timely basis with those communities with an interest in the benefits of a project and with the respective regional and local authorities. It is important to be real transparency about the activities, risks and benefits of the project in question. Only where there is the trust among such actors is it possible for a mining project to make its maximum contribution with the minimum of harmful interference.

Finally, Mr. Ovalle stressed the fact that the application of CSR is not just an expression of doing things well, but a factor in Chile's competitiveness at the global level. Advancing swiftly towards the assimilation of the principles and practices of social responsibility can be a key factor in successful insertion into the world economy, both for Chile as well as the mining industry.

Fernando Guerrero explained that the institution he represents, ASODEL, is an NGO in the Cajamarca region in northern Peru. This is close to the Yanacocha mine, which encourages management and planning by the local population in its own sustainable development.

He believes that the main responsibilities of the mining company are three:

- 1) *Social responsibility.* The company has to know how to live harmoniously with the local population, respecting its culture and customs. In other words, it needs to have a 'social license' to undertake exploration and exploitation. The organization has to contribute to the socio-economic development of surrounding communities and their installations, involving their stakeholders in decision making based on consent.
- 2) *Environmental responsibility.* The mining company needs to foresee likely environmental damage, among them the improper transport of contaminating materials and the contamination of water. It also needs to pay 100 percent of the costs incurred in correcting the damage it causes.

- 3) *Legal responsibility.* The company should comply with all its legal obligations in line with the mining law, paying all the taxes it owes the state.

Mr. Guerrero sought to delimit clearly what is not the responsibility of the mining company. For example, the firm pays its taxes to the state while the state fulfils its role of promoting development. The company should not undertake the development of productive activities in the region in spheres like agriculture and livestock farming. Nor should it generate additional employment or take over full responsibility for basic needs in areas like health, education and communications. It should not design development projects using the money contributed in local taxes (*cánon*). All these are responsibilities of the state, and governments should fulfill their role in investing the income from mining activity to resolve local and regional problems.



Responding to the question about whether it is possible to delimit mining responsibility and whether it is desirable to do so, he replied that it is both possible and desirable in the sense that the company should encourage the State to assume its responsibilities in managing the resources of the sector, giving information to civil society on the respective roles to be played by the company and the State. It also should encourage the local population to ask its representatives to invest the income of the mining sector in a responsible way. Information plays a fundamental role in this regard. Civil society should assume its role in participating, communicating and overseeing compliance by the other actors. Peruvian law does not explicitly refer to the 'social license', but because of the conflicts that arose between Minera Yanacocha and the community, the company had to take it into account in making decisions. For its part, the community feels itself part of development.

Answering the question about how far the responsibility of the company should extend, Mr. Guerrero explained that the mining company has a duty to pay all taxes as required by law, but it should not extend itself to compete with the roles of local or regional governments in promoting community development. The mining company must participate as just another actor in community development, leaving to regional and local government, institutions and NGOs the task of promoting the development of the area. Channeling its support to this end through already existing institutions is the only option if the mining company wants to avoid the sort of dependence of communities on the company's social and economic programs.



CLOSING REMARKS

A dilemma arises in distinguishing between private and public interest where, for instance, two firms reach a private agreement about public resources, like water. As Mrs. Saball pointed out, the environmental authorities have to evaluate the environmental impacts of a project within the legal framework. Taking this into account, an agreement between two private parties cannot be evaluated.

As Mr. Guerrero pointed out, it is necessary to convey the concerns of communities to the relevant government institutions in order to avoid pressures building up on companies which are in fact misplaced and which, in the

long run, only further underline their dependency on large companies. Problems must be resolved through institutional structures that are permanent, and this is only possible through government structures. Companies are an actor in equitable economic development, definitely an important one, but the role of the state and civil society should not be forgotten.

CSR is a concept that encompasses tremendous opportunities. Bearing in mind that mining is a productive activity subject to legal regulations, we should think in terms of democratic strengthening, greater social equity and participation, and this demands the conciliation of different interests.



FIFTH PLENARY SESSION

Some relevant experiences in Latin America

Tuesday, September 27, 2005

Estrella Peinado-Vara
Inter-American Development Bank

Based on the previous session, this session discussed concrete examples of extended responsibility in the mining and hydrocarbons industry, with emphasis on the lessons learned about the social and political consequences of the steps taken.

The panel was composed of Mr. Thomas Keller, Vice-President of Chile's Consejo Minero; Francisco Ajenjo, Director of Government Relations at Methanex-Chile; Fernando Crisosto, External Relations Manager of Minero Pelambres in Chile; and Ramiro Santa, Stakeholder Team Leader at Hocol Knighbridge in Colombia.

The panel started from the presumption that the chief responsibility of the sector is to produce goods and services in ways that are sustainable, ethical, and which respect the environment and others in society. The sector should complement the responsibilities of the state in as much as it requires a social license to operate. It is not just a question of meeting legal requirements in order to function, but to be accepted by the communities in the areas where the company works.

Thomas Keller began with the overall experience of a large part of the mining sector. The Consejo Minero (Mining Council) groups together large mining companies working in Chile, both private and public. All in all, these represent 10 percent of the country's gross domestic product and 50 percent of its exports. Chile is an economy in which mining is a key sector, especially copper mining. It has 40 percent of the world's copper reserves and accounts for 33 percent of the world's extractive production of copper.

The factors that explain why mining investment comes about – bearing in mind that it is a sector that needs large resources and where investments are long-term – depend on the existence of economic, political and social stability to guarantee the viability of long-term projects. For this reason, the way in which businesses meet their social and environmental responsibilities is very important. The judicial framework with respect to taxation, labor and the environment is also a very important factor. The state of existing infrastructure is also relevant in a sector that involves intensive investment of this kind in order to carry out activities. Human resources are also critical in attracting investment to the mining sector. In Chile, the mining companies associated with the Consejo Minero have moved from a very vertical self-sufficient model to one where there are multiple productive linkages with a range of companies up and down the country and across a range of sectors. The mining industry employs some 80,000 people directly, but when we consider the industry of goods and services along the chain, the number rises to 400,000 additional jobs. In total, we could say that 2 million people in Chile depend on mining companies. This shows its impact on the economy.

Some time ago, the mining industry came to the recognition that it should not just establish a relationship with shareholders but with other stakeholders (workers, clients, the authorities, contactors and the community). Critical matters for Chilean mining with respect to CSR are the quality of life and relations with the labor force, the relationship with the environment and responsible trading activity, and a commitment to the communities where it operates.

As regards labor relations, Mr. Keller pointed out that the sector has the highest rate of unionization in the country. Around 90 percent of workers are affiliated to trade unions, and it has a relatively low level of labor conflict. Labor safety is an important item because of the high risks in the industry. These have been reduced to the point where the risk of labor accidents is no higher, indeed possibly lower, than in any other sector. The average wage in the mining industry is up to seven times the national average wage.

There is a clear commitment to the environment. In 2004, more than US\$100 million was invested in this area. All the companies that belong to the Consejo Minero have ISO14001 certification. It is worth mentioning the case of the Mina El Indio as an illustrative indication of the resources devoted to recuperating the social and environmental balance following its closure. This firm devoted US\$50 million dollars exclusively to closure activities. All the companies in the group as a whole have set aside provisions of US\$300 million for closure, and this amount is increasing annually.

Relations with the community are key. The companies that belong to the Consejo Minero have invested around US\$24 million in 2005 in education, health, towards of indigenous peoples' development and in activities relevant to the communities that welcome the mining sector in surrounding areas. There is a commitment to sustainable development in the industry and there have been great advances in management for the long term.

In the view of **Francisco Ajenjo**, CSR is an extension of the ethics of responsible behavior practiced by business. At the beginning, CSR activities were carried out but were not called as such. It is a concept that the chemical industry developed and which began in Canada more than 20 years ago as a response to the poor image that the industry had worldwide, one that was probably justified. These beginnings heralded constant improvements in industrial safety, occupational health, towards the environment and the community.

CSR is basic to business strategy and makes itself felt through the company's capacity to respond to concerns and demands of stakeholders. There are a variety of aspects which can be summed up as follows:

- **Social work impact.** Excellence in work is recognized and rewarded with schemes for participation in the business and through personal and professional development plans. The labor climate and the degree of employee commitment is measured on a periodic basis. The company also is concerned for there to be plans in place for workers who leave the firm.
- **Social investment.** Methanex conducts its management with an emphasis on education and responsible behavior. There are annual study scholarship schemes and courses in responsible conduct for engineering students, as well as exchange programs with Canadian universities.
- **Impact of socio-environmental programs.** Methanex has a committee of ten representatives from the community and the company to channel and answer concerns about those of the firm's activities that may impact or be of interest. The relevant consequences of company management and performance with respect to responsible conduct are discussed and analyzed.
- **The citizenship of the organization.** Methanex has sought to create the right conditions to help promote full integration into the community. Public perceptions are analyzed, as are suggestions for continual improvement in this respect with the appointment of teams of external auditors.

The benefits to the company from responsible behavior are basically a better positioning and integration into the local community; the attraction of large new corporate investment to the region; and greater sustainability, grounded on the creation of value and good performance that has turned Methanex into a world leader in the methanol industry.

The challenges are to create closer ties to the community, establishing alliances with other parties to build up synergies. Such alliances need to be grounded on corporate values, transparency and efficiency. The company hopes to carry out investment projects in sustainable development based on targets that are achievable and quantifiable in the communities.

Francisco Crisosto presented the case of Minera Los Pelambres. This is a mining company, whose capital is mainly Chilean. It has a number of environmental projects, among them a system of environmental management certified under international standards as ISO 14001. According to Mr. Crisosto, one of the specifics of this

company is its interaction with three communes and more than 40 communities, given its location in the Choapa valley. This relationship involves not only a variety of different social organizations, technical services and authorities, but also the media: ten radio stations, four local television channels and at least five newspapers.

In a process lasting three years, the company decided – in a highly professional manner and with a deep sense of social responsibility and transparency – to submit itself to an Environmental Assessment Study. This meant presenting itself to the relevant environmental and political authorities and to the communities in the region. Companies need to communicate with the community in order to ensure the viability and sustainability of the initiatives they undertake. Traumatic experiences in establishing certain operations led the company to revise the way it acts, recognizing that the population needs more information on what it is doing. At the same time, the firm needs to listen to the population and to share information about the project so as to incorporate those suggestions that will benefit it.

It became clear that the purpose of the organization should not be just to comply with legal procedures but that the people affected need to understand what is going to be done and what the positive and negative impacts will be. With this in mind, Mr. Crisosto identified three stages in achieving effective communication about a project: before, during and after the formal process of citizen participation. Even though this process involved approaching different publics (technical and political authorities, area specialists, universities and the media, among others), he emphasized the importance of work with surrounding communities, as well as local public opinion. In the phase prior to citizen participation, there was an attempt to inform people about the function of the company, its vision of the future, and the repercussions on the communities. Through 70 meetings and almost 11,000 direct contacts, a better idea was gained of the worries and hopes of the company's neighbors. Subsequently, the project was presented to the communities and consideration given to their prior observations. Some of their demands were included in the project and adjustments made on points concerned with the mitigation and compensation of its impacts. In the stage of formal citizen participation, these earlier efforts helped generate a climate of greater trust, rationality and credibility. As a consequence of this process of information and participation, it was possible for the projects to win social legitimacy, in a climate of transparency and tranquility necessary for the authority to make a decision.

Communicating the project and achieving rational debate is an aspect of management. Businesses should not cause itself self-inflicted harm; rather they should assume that its interests are legitimate and that these can be communicated, taking the lead in public debate over its projects. This is what Mr. Crisosto called "active transparency". But all the actors need to be involved in citizen participation and assume their responsibilities.

Ramiro Santa initiated his presentation by providing some data about Hocol. He continued with the ways in which social and environmental aspects were dealt with. These had changed over time in response to the trust that had been built up. From an traditional philanthropic stance towards society over the previous 30 years, in the 1990s the company shifted direction towards corporate citizenship.

The firm is aware that it needs to be a good neighbor and avoid negative impacts. The community knows that it can identify its needs and how to solve them. It begins to use legal and legitimate intermediaries who really represent the interests of those affected. Both the company and the communities, as well as the government, recognize a series of duties and roles in seeking joint solutions to the sort of problems that a company such as Hocol can bring to the communities, over and above those they already have.

From the mid-1990s to date, the company has identified what are its zones of influence so as to respond to the challenges its business creates. Through tripartite discussions, collaboration takes place between the firm, local government and the communities to seek out the common good in a democratic manner and without diverting the company from its core activity. Centers of decision-making need to be as close as possible to the problems. For Hocol, CSR is not a dilemma between voluntary or obligatory action; rather it is something that, regardless, has to be put into practice.

Hocol has a leadership role in the community. This is particularly important in a country that is in a fairly stable position politically and economically but which has suffered conflict for many years and where situations of conflict and post-conflict arise in many aspects of society. The company collaborates with the Escuelas por la Democracia and a variety of grass-roots organizations.

The company works alongside the government and strives to help it legitimate itself. It seeks to strengthen institutionally the various government programs and institutions and improve the services that it can offer citizens

in areas like health and education. To this end, the company helps the State exercise its own role in CSR. In the environmental sphere, education is important, both within and outside the company, as well as the development of productive projects that bring assured income to the surrounding communities. Hocol's achievements in this respect are mirrored in improved social conditions and better management of the environment, as well as increased levels of income.



CLOSING REMARKS

To sum up, communities should become involved, taking part in relevant forums – or creating them where they do not exist – so as to be able to voice their expectations. For this to develop in a constructive way, the state has the responsibility to strengthen communities so that they can participate effectively and responsibly, using the educational system for training on the environment and civics. All this helps to order debate and develop social cohesion, as well as respect for the law as it stands. The state needs to take responsibility for setting the basic and technical reference points for the community and the firm. In the same way, civil society organizations that take part should contribute to it being really a process that favors dialogue and understanding over and above polemics and social agitation. The media can contribute by providing objective and rigorous information on the positive impacts (when these happen) and leaving aside sensationalism.



SIXTH PLENARY SESSION

Intensifying the positive impact Tuesday, September 27, 2005

James Austin
Harvard Business School

Having discussed those that promote responsibility and the role of these actors, the sixth plenary session looked at how to intensify the impact; what modifications, alliances or agreements are required for corporate responsibility to be of benefit to all stakeholders. To this end the following panelists took part: Gonzalo García, President of the CSR Commission of Chile's Confederación de la Producción y el Comercio (CPC); Adrian Hodges, Managing Director of the Prince of Wales International Business Leaders' Forum from the United Kingdom; and Ricardo Young, the President of the Instituto Ethos's Steering Committee from Brazil.

As this was the final panel of the conference, the speakers reflected on both the lessons learned as well as the challenges ahead in intensifying the impact of CSR. All of them have a great deal of experience as successful business leaders and as representatives of business associations. All also have a strong background in interaction with NGOs and official government bodies.

Adrian Hodges began his comments by pointing out the significant progress achieved by the CSR movement in the Americas, and that this represents a force for building better business, better communities and better lives. However, he also drew attention to three matters that demand our attention if we wish to advance further in this field.

- Firstly, *CSR for CSR's sake*. Companies may commit themselves because others do so too, it makes for pleasant sounding annual reports and superficial action. The key

in avoiding this trap is to integrate CSR into a strategy and objectives, and then to adapt it to the form and practices of the company to achieve these.

- A second issue is *concealing the impact of their contribution*, when businesses are too timid in declaring the benefits of their social actions. Denying these benefits helps to undermine credibility. Transparency about business and social motivation is desirable.
- The third concern is whether *we are asking firms to do the right things*. The private sector, social organizations and government need to be disciplined in not asking companies to undertake activities for which they are not competent.

Being able to face up to these difficult issues is a sign of the movement's maturity.

Ricardo Young responded to the central question posed by the Conference: *Who is responsible for responsibility?* The answer is that we are all responsible, as became clear from the discussion. However, he also suggested something a little more ambitious: Who is responsible for social change and creating new development models? Basing his remarks on the rich and varied experience of the Instituto Ethos, he pointed to the importance of first raising concern about critical problems, this presupposes a disposition to acknowledge and confront the worst aspects of human conduct in our societies. The next task for the new development model is to mobilize resources to generate the capacity for change. This mobilization has to transcend sectoral divisions and build up local, national and

international alliances. At the core are new technologies for social transformation. Underlying all this is the fundamental responsibility of becoming genuine agents of change.

Gonzalo García Balmaceda commented that CSR is not just a temporary fashion, but it reflects a deep cultural change with the acceptance of a broader range of relevant stakeholders in the business world. The key lessons learned about CSR are:

- a) that it is not just a marketing strategy about reputation, but should be everyday practice;
- b) that taking into account the interests of all is not incompatible with the maximization of profit;
- c) that it is not traditional philanthropy, but a way of conducting business;
- d) that it is not a response to external pressures but a natural consequence of changing markets;
- e) that it does not mean assuming roles that are inappropriate, but reorganizing them in terms of social relevance.

For progress to continue, there are five areas where we must work:

- 1) business leaders need to be pro-active when they confront issues, proposing solutions and adopting a long-term view that accepts short-term costs as an investment in building a healthier environment;
- 2) CSR needs to be incorporated in business strategy in such a way that responsible practice with all stakeholders becomes standard operational procedure;
- 3) companies should highlight social and environmental progress through transparent reporting of social impact indicators;
- 4) governments need to create impartial and professional systems for legal regulation that encourage responsible business participation. Consumers also need to stimulate this sort of behavior by buying from those companies that make a positive social contribution.

CLOSING REMARKS

To give a final perspective on what needs to be done to push CSR to the next stage, we need to take note of the capacities required in the business world, NGOs and governmental entities. The Social Enterprise Knowledge Network (SEKN), a research association of leading academic institutions in Ibero-America, points to the following groups of key capacities. These have emerged from current research¹⁴ on good business practice and civil society organizations that are regarded as leading social enterprises:

Entrepreneurial innovation. What is needed is not more of the same, but new approaches that mobilize different combinations of resources in creative ways to generate higher social value.

Capacity building. Each institution will need to develop additional capacities, and this comes by means of an organization of learning geared towards ongoing improvement.

Organizational adaptability. The situation in Latin America is full of uncertainties and unexpected events. Strategies, structures and systems need to be flexible, accepting that change is a constant challenge.

Management of stakeholders. Leading organizations need to have a broader view of those who are stakeholders, their interests and capabilities in contributing to new solutions.

Alliance building. The complexity and magnitude of social problems transcend the capacity of individual institutions and demand the building of strategic alliances between different sectors.

And finally, **strategic alignment.** CSR, a powerful instrument, needs to be aligned with the core strategy of the organization, its institutional values and organizational capabilities.

14. Forthcoming as seeking Success in Social Enterprise, Harvard University Press, 2006.

ANNEX 1: FINAL AGENDA

WHO IS RESPONSIBLE FOR RESPONSIBILITY?

September, 25th-27th, 2005

Sheraton Santiago Hotel

Sunday, September, 25th, 2005

- 3:30-6:00 p.m. Registration
- 8:30-10:45 p.m. Welcome Reception and concert – Colonial Museum San Francisco
Buses will depart from the Sheraton Santiago Hotel at 7:30 p.m.
Sponsored by GrupoNueva



Monday, September, 26th, 2005

- 7:00 a.m.-3:00 p.m. Registration
- 8:00-9:00 a.m. Breakfast
- 9:00-9:45 a.m. **Opening Ceremony**
Confederación de la Producción y del Comercio
Hernán Somerville Senn,
President, Executive Committee
Inter-American Development Bank
Dennis Flannery,
Vice-President
Government of Chile
Francisco Vidal Salinas,
Minister of the Interior
- 9:45-11:00 a.m. **First Plenary Session**

Management's responsibility

This first plenary session will establish the framework reference of the conference where panelists will share their views on corporate social and environmental responsibility. These business leaders will specifically explain the main drivers that make a company introduce CSR as part of its core activities and decision-making process.

Moderator:

Antonio Vives,

Deputy Manager, Private Enterprise and Financial Markets,
Inter-American Development Bank

Speakers:

Julio Moura,

President, Grupo Nueva, Chile

Raimundo Monge,

General Manager,
Santander Chile Holding and Director,
Banco Santander Santiago, Chile

Charles Fombrum,

Executive Director,
Reputation Institute, USA

11:00-11:30 a.m. Coffee break

11:30 a.m.-1:00 p.m. **Second Plenary Session**

Public sector's responsibility

Speakers from the public sector will present their views on the factors that trigger corporate social and environmental responsibility and the strategies to provide the incentives for all the actors (companies, civil society, financial markets, etc.) to be responsible and play their roles in promoting CSR and maximizing its impact. All citizens, as employees or consumers, are part of the company's stakeholders and should know their own roles to be able to express effectively their needs and expectations.

Moderator:

Soledad Teixidó,

President,
ProHumana, Chile

Speakers:

Luis Eduardo Escobar,

International Organizations Coordinator,
Finance Minister, Chile

José Luis Machinea,

Executive Secretary, Economic Commission
for Latin America and the Caribbean (ECLAC)

Daniel Shepherd,

Operations Specialist,
Multilateral Investment Fund (MIF), IDB Group

Larry Palmer,

President,
Inter-American Foundation, USA

1:00-2:30 p.m. Lunch – Sponsored by Banco
Santander Chile (Pedro de Valdivia)

Breakout Sessions (two concurrent sessions)

Serie A: Economic drivers

Serie B: Social drivers

2:30-4:00 p.m. **First Round of Breakout Sessions**
Session A: Consumers' responsibility

We are all aware of the relevance of a well-informed citizenship on CSR issues so that it can demand its basic rights as consumers. The session will also deal with the influence that the consumer can exert on companies to be more responsible through their purchasing patterns.

Moderator:

Prof. Gerardo Lozano,

Instituto Tecnológico de Monterrey,
México Speakers

Speakers:

Helio Mattar,

President,
Instituto Akatu pelo Consumo Consciente,
São Paulo, Brasil

Ricardo Iturra,

Board Member
Organización de Consumidores y Usuarios de Chile,
ODECU

Juan Trímboli,

Coordinador,
Consumers Internacional

Session A: **Employees' responsibility**

Employees can be powerful CSR drivers and are also the ones who eventually implement it. A local trade union, a promotion agency and a business association will show how to create favorable conditions to contribute to human development as well as create a skilled labor force while achieving improved productivity through corporate responsibility.

Moderator:

Roberto Gutiérrez,
Universidad de los Andes y Social Enterprise
Knowledge Network (SEKN), Colombia

Speakers:

Claudio Urrutia,
Unilever Trade Union, Chile

Bruno Philippi,
President,
Sociedad de Fomento Fabril SOFOFA, Chile

Ángel Mansilla,
Asociación Chilena de Seguridad (ACHS), Chile

4:00-4:30 p.m. Coffee Break

4:30-6:00 p.m. **Second Round of Breakout Sessions**
Session A: Financial markets'
responsibility

Financial markets, due to their importance for business competitiveness, can influence strongly on corporate behavior by exercising a monitoring role or through more direct actions. In many countries the new principles that financial institutions are adopting, investment criteria and the increasing interest on socially responsible investment are rewarding those companies that are responsible. This session will illustrate these trends in the financial markets, how they influence corporate behavior and their positive impacts.

Moderator:

Fernando Lefort,
Universidad Católica Business School
and Executive Director,
Centro para el Gobierno de la Empresa (CGE), Chile

Speakers:

Vicente Caruz,
President,
Banco del Desarrollo, Chile

Augusto Iglesias,
Partner,
Primamérica, Chile

Djordjija Petkoski,

Head of Private Sector Development and Corporate
Governance Team, World Bank Institute (WBI)

Session B: The media's responsibility

The influence and power of the media are immense both in portraying reality as well as in shaping public opinion. Its role is crucial to communicate and spread the CSR agenda. This session will illustrate some of the media trends that have contributed to a better informed society and to advance towards a more responsible private sector. Panelists will also discuss how to stimulate responsible practices and their effective communication to improve both business competitiveness and society at large.

Moderator:

Italo Pizzolante,
President,
PIZZOLANTE Comunicación Estratégica, Venezuela

Speakers:

Raúl Ferro,
Editor, América Economía

Tobias Webb,
Editor,
Ethical Corporation, UK

Carlos Schaerer,
General Secretary, El Mercurio; and Vicepresident,
National Press Association, Chile,

Eliana Rozas,

Executive Director, Corporación de Televisión
de la Pontificia Universidad Católica, Chile

8:00-9:30 p.m. Gala dinner - Camino Real
Restaurant
Buses will depart from the Sheraton
Santiago Hotel at 7:30 p.m.
Sponsored by the Government
of Chile

Tuesday, September, 27th, 2004

8:00-9:00 a.m. Buffet breakfast
(Pedro de Valdivia)

9:00-10:30 a.m. **Third Plenary Session**

How to ensure responsibility?

Regulation and Legislation

Given the deterioration of labor standards in certain sectors (due to the convergence process of globalization and the restructuring of production and distribution networks; trade liberalization and deregulation policies) a vivid debate around voluntary codes of conduct has emerged. There exists many reasons to be skeptical about the usefulness of some codes of conduct, particularly in the absence of independent verification and transparency. Speakers will examine the advantages and limitations of both government regulation and voluntary codes of conduct and how they can interact to improve the results of the State as a regulatory body while achieving the flexibility required by the private sector and the basic protection to our society.

Moderator:

Germán Quintana,

Alternate Executive Director Chile,
Inter-American Development Bank

Speakers:

Oscar Landerretche,

Executive Vice President,
CORFO, Chile

José Antonio Guzmán,

Cámara Chilena de la Construcción, Chile

Michael Hardy,

General Manager, Chile Tabacos

José Angel Moreno,

Director,
Corporate Social Responsibility Department,
BBVA, Spain.



10:30-11:00 a.m.

Coffee Break

11:00 a.m.-12:30 p.m.

Third Round of Breakout Sessions

Session A: **International markets' responsibility**

The international markets increasingly demand social and environmental responsibility in all stages of the value chain. Panelists will present their experiences in maintaining export markets and their efforts to access new ones. This session will also discuss the need of a responsible business network to contribute to the stability and favorable business climate to attract foreign investments and facilitate free trade agreements.

Moderator:

Nicolás Majluf,

Professor, Industrial and System Engineering,
Universidad Católica, Chile

Speakers:

Fernando Raga,

Vice President,
Corporación Chilena de la Madera and General Manager
of Forest Development, Mininco, Chile

Gilles Ross,

Senior Vice President, Legal Services and Secretary,
Export Development Canada

Daniel Arancibia,

Regional Representative for Latin America and the
Caribbean, Forest Stewardship Council

Session B: **Civil society's responsibility**

This session will deepen the role of civil society organization's role to represent the voice of the least favored. We will learn from new experiences through which civil society has influenced the private sector. Speakers will discuss how companies can work jointly with civil society to strengthen the positive impact of CSR.

Moderator:

Audra Jones,

Inter-American Foundation (IAF)

Speakers:

Carolina Peyrín,
Coordinator,
Red Puentes Internacional, Chile

Juan Pedro Pinochet,
General Manager,
Un Techo para Chile, Chile

Don Clarke,
Director of Education and Special Projects,
Black River First Nation, Canada

Armando Espinosa Reyes,
President,
AlumiFénix, Venezuela

12:30-1:45 p.m. Lunch - Sponsored by Banco del
Desarrollo
(Pedro de Valdivia)

1:45-3:00 p.m. **Fourth Plenary Session**

What are, and what are not the mining and hydrocarbons industry's responsibilities?

Given the size of the hydrocarbon and mining operations and their environmental, their social and economic impact in the host countries, and more specifically in the communities where these companies are located, companies are very often attributed responsibilities beyond their projects and businesses. How far should these responsibilities go? Is it possible to limit them? Is it desirable to do so? What happens with the dependency syndrome of the communities and how to avoid it?

Moderator:

Jim Rader,
Director, Extractives and Energy Program,
Business for Social Responsibility, USA

Speakers:

Paulina Saball,
National Environment Comisión (Comisión Nacional del Medioambiente, CONAMA), Chile

Alfredo Ovalle Rodríguez,
President,
Sociedad Nacional de Minería (SONAMI), Chile

Fernando Guerrero Figueroa,
Executive Director,
Asociación para el Desarrollo Local (ASODEL), Perú

3:00-3:30 p.m. Coffee Break

3:30-5:00 p.m. **Fifth Plenary Session**

Some relevant experiences in Latin America and the Caribbean

Based on the previous session, this panel will discuss cases where the hydrocarbon and mining industry has gone beyond its responsibilities, emphasizing lessons learned about social consequences and policies implemented.

Moderator:

Estrella Peinado-Vara,
Private Sector Specialist,
Inter-American Development Bank

Speakers:

Thomas Keller,
Mining Council Vice-president, Chile

Francisco Ajenjo,
Director of Government Relations, Methanex, Chile

Fernando Crisosto,
External Affairs Manager, Minera Los Pelambres, Chile

Ramiro Santa,
Stakeholder Value Team Leader,
Hocol Knightbridge, Colombia

5:00-6:30 p.m. **Sixth Plenary Session**

Intensifying the positive impact

After having discussed the drivers of CSR and the role of its main actors this closing plenary will touch upon maximizing the positive impact, what needs to be changed, what alliances and collaborations would be required to achieve CSR that truly benefits all stakeholders involved.

Moderator:

James Austin,
Professor,
Harvard Business School

Speakers:

Gonzalo García,
President of the CSR Commission,
Confederación de la Producción y el Comercio (CPC),
Chile

Adrian Hodges,
Managing Director,
Prince of Wales International Business
Leaders Forum (IBLF), Reino Unido

Ricardo Young,
President of the Board,
Instituto Ethos, Brazil

6:30-8:00 p.m. Closing reception
(Pedro de Valdivia)







Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577