



II Inter-American Conference on
Corporate Social Responsibility

Corporate Social Responsibility Deeds not Words *Proceedings*



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Antonio Vives
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Editors





Corporate Social Responsibility
Deeds not Words

Proceedings



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FOREWORD



These proceedings are a summary of the papers and the discussions arising from the *II Inter-American Conference on Corporate Social Responsibility: Deeds not Words* in Mexico City, September 26-28, 2004. Most of the presentations are available at www.csramericas.org, as well as the proceedings and presentations from previous events.

This is the Third 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 and Mexico in 2004 under the title of Inter-American Conference 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

Deeds not Words

Antonio Vives

Estrella Peinado-Vara

Inter-American Development Bank



The widespread and positive reaction to the *// Conference on CSR: Deeds not Words* reflects the rapid rise of the movement for corporate social responsibility in Latin America and the Caribbean and how the private sector is ever more engaged. Many businesses have begun to take on board all those actors who, in one way or another, are affected by its operations. The private sector in the region is beginning to integrate into its plans and daily operations practices that are friendly to the environment, its workers, its suppliers and the communities. Up and down the region, business associations and civil society organizations, along with firms, are seeking to promote and adopt responsible practice. However, it needs to be said that these are but sporadic efforts by a minority in the private sector which, though increasing, are still something of a rarity.

Deeds not Words

On occasions, firms use the movement for corporate social responsibility as a defense mechanism against the criticisms from society of their irresponsible behavior. This is most regrettable. Such firms hide behind the public relations shield. They have a very short-sighted view of the matter, merely skimming the

surface, and their actions are ephemeral, not backed up by any solid conviction. They do not understand that being socially and environmentally responsible they not only can improve our societies but also gain competitiveness.

This was the main theme of the conference. The actors involved have to be convinced that corporate social responsibility (CSR) must be rooted in a solid belief in the good of society and in that of the business fabric. We have to move from discourse to action and from action to results. We have to turn words into deeds.

We all know that firms have been responsible in varying ways and in varying degrees of commitment. Although sporadic and unsystematic, this sense of responsibility has always been present. It is for this reason that for a number of years now, this movement has been making itself more visible, turning bit by bit into a matter for debate and study. But the moment has arrived when we need to measure and demonstrate results. We need to show that there is a correlation between business discourse and action; that what it is said in annual reports really reflects a greater eco-efficiency, a greater productivity



arising from decent wages and working conditions; and that there is no confrontation with surrounding communities since the firm is a good neighbor and behaves as such.

The advantages of CSR

We define corporate social responsibility as a business strategy that seeks to avoid causing damage to stakeholders through its activities, and wherever possible to bring them benefits, irrespective of whether the damage or benefits are subjects to legislation or regulation. However, there are many who are still skeptical about whether firms have some responsibility beyond the sphere of their own obligations as economic agents. For them, firms should limit themselves to complying with laws and regulations. To go beyond this is to make poor use of shareholders' money. Against the skeptics, we have valid business arguments in favor of responsible activities. The first of these is the ethical motive. In some instances, the firm acts responsibly because the owner or the management considers it a question of ethics. This is particularly the case among small and medium-sized organizations where the personal motive is the main driver of CSR. The second argument is that firms do not work in a vacuum; they do so in the context of a community that buys their

products and an environment that provides them with goods and services. If firms wish to continue interacting with this community and those who surround it, they need to respect its rights, legally as well as morally and ethically. Firms, then, should act responsibly if they want to reach out to a qualified workforce, potential customers with the purchasing power to buy their products, and an environment with the resources that enable them to keep producing and which form part of the context in which their customers and suppliers can live and work.

While such ethical reasons are important, there are also increasingly tangible economic reasons. What drives firms to become socially and environmentally responsible is the need to be competitive in a market place that increasingly demands it, or otherwise they stand to lose market share to companies that do act responsibly. Therefore, it is important to convince firms that CSR is not just another burden; on the contrary, when well applied it can be a means to improved competitiveness that shows up on the bottom line. CSR needs to be seen as an investment that bears fruit in the short, medium and long term.

The importance of promoting CSR

The role of firms is central to economic growth and the creation of social welfare, since these are sources of employment and help reduce poverty. Indeed, the responsible firm is a tool of development. The essential aims of corporate social responsibility should be the same as those of civil society, government and multilateral development institutions. CSR leads to improvements in the quality of life and to development driven by the private sector. For this reason, we all have a duty to ensure that this development is harmonic, equitable and sustainable; and without taking on board the responsibilities of government, every one needs to do what they can in their own sphere of action. It is to encourage economic and

social development in Latin America and the Caribbean that this coalition of institutions is promoting CSR.

These conferences on CSR have become an annual event because of the success of their forerunner: the Conference of the Americas on Corporate Social Responsibility 'Alliances for Development', held in Miami in 2002. The second, under the title Inter-American Conference on Corporate Social Responsibility 'CSR as a Tool for Competitiveness' was held in Panama. The last, using the same name but with the title 'Deeds not Words' was held in Mexico in 2004. The 2005 conference will be held in Chile, under the title 'Who is Responsible for Responsibility?' These conferences follow the mandate established by the presidents of all the countries of the western hemisphere at the 2001 Quebec Summit to work formally to promote corporate social and environmental responsibility.

By way of conclusion, this conference provides an excellent opportunity to continue the task of disseminating CSR as a tool for development. We want to use the occasion to show the private sector that putting CSR into practice is not a question of image, nor even because it is morally correct; it makes good business sense. The moment has arrived for passing from 'words to deeds' in order to measure and demonstrate positive effects across the board. To be socially and environmentally responsible is not an extra burden to carry; rather it provides tools for competitiveness and development. We are convinced that responsible business practice is needed to improve the quality of life in our countries and to help us become competitive in global markets. A responsible private sector is the driver of sustainable economic and social development in Latin America and the Caribbean.





FIRST PLENARY SESSION

The View of the Company: CEOs Panel *Monday, September 27, 2004*

James Austin

Social Enterprise Knowledge Network, Harvard Business School, USA.

The presentations and comments from this session drew on the rich experience in the area of corporate social responsibility on the part of the business leaders, and their companies, who took part in the panel. Participants included: Manuel Arango Arias, president of the Grupo Concord from Mexico; Lorenzo Mendoza Jiménez, executive president of Empresas Polar from Venezuela; Raúl Muñoz Leos, director-general of PEMEX from Mexico and Roberto Murray Meza, president of the Grupo Agrisal from El Salvador. While their companies are diverse, they share a number of key dimensions in their approach to CSR. This brief reflection is based on these common views that capture a wealth of practical knowledge and may act as a guide for other businessmen. The main issues dealt with included social leadership, strategic integration, values, continuous learning, collaboration and corporate social entrepreneurs.

Social leadership

The CEOs view CSR as an integral part of business leadership. According to **Lorenzo Mendoza Jiménez**, the social responsibility of a firm is:

“..a dimension to which we have to commit ourselves, since it is something that is structural and a business necessity: you cannot be a good businessman if you are not previously a good citizen”.

Roberto Murray Meza, for his part, considers CSR as the new management paradigm:

“There is a strategic imperative to develop this policy, to place it as the agent of social change”.

These business leaders share a broad vision of business responsibility. They see their stakeholders as broader than just their shareholders, employees and consumers to encompass the communities in which they operate and the nation as a whole. They recognize that society gives business the permission to operate and that there are growing expectations that firms give back to society something more than just the provision of goods, services, jobs and taxes. Their traditional economic role should go hand-in-hand with ethical, environmental and social improvements.

Strategic integration

The CEOs who took part in this panel understand that leadership exists when the social dimension is incorporated into the enterprise's core strategy and business approach. The social, environmental and ethical dimensions are integral parts of business planning. For a state-owned enterprise like PEMEX, the national welfare is a basic purpose. Whilst it is the largest Treasury contributor, thus enabling the Mexican government to channel funds into social spending, PEMEX recognizes that its responsibilities do not stop there. **Raúl Muñoz Leos** defines this vision as a "comprehensive social responsibility" that deals with environmental, social and ethical community development as basic to their way of operating. In these leading companies, CSR means much more than carrying out some isolated activities just to assume social responsibility; it is a key aspect of formulating strategy and daily decisions making. There is a clear recognition of the positive synergy between economic and social value creation. CSR is not just about something you do, but rather who you are. This brings us to the next dimension.

Values

The panelists stressed the importance of company values as a core driver of their social actions. These organizational values emanate from the personal and family values of company founders, who transmit their own culture and guide the behavior of members of their organizations. At the same time as evaluating technical competence, they also look for values and commitment when they appoint personnel to their companies. The will to improve society is part of the organizational DNA of leading companies. A solid grounding in social values enables CSR to penetrate into every nook and cranny of the firm, providing a valuable source of organizational cohesion.

Continuous learning

The companies represented on this panel have a long tradition of making commitments that have positive results for the communities of those countries where they do business. The ways in which they and their leaders continue to search for ways to improve social action are therefore relevant. They study and learn from their experiences in social investment and analyze good practice on the part of other companies, both at home and abroad. Over the years, this has led to significant changes in the nature and scope of such commitments. Such firms have moved from the welfare approach, enabling them thereby to make more productive investments that empower their beneficiaries and help them deal with the causes of their problems, not just the symptoms. They have also gone beyond dealing with their own needs and those of surrounding communities to tackling issues at a national level. Their scope has also expanded and they have managed to encourage other companies to commit themselves to socially and environmentally responsible behavior. The leaders in CSR are innovators; they are constantly striving to push the frontiers of social value creation outward.

Collaboration

Manuel Arango and the other CEOs stressed the importance of promoting greater collaboration between the private sector and other institutions and sectors. Here they recognize the fact that firms cannot and should not take on responsibilities and activities that fall outside their own sphere of competence. The strategic alliances formed should combine the institutional comparative advantages of firms, NGOs and entities in the public sector. The organizational frontiers between these are increasingly blurred and responsibilities are shared. The challenge now is to find new ways of combining resources so that they bring about innovative solutions to increasingly complex social problems.



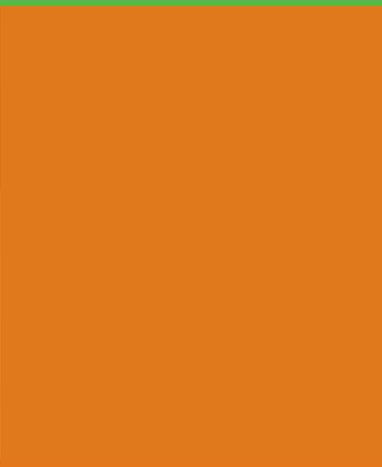
Corporate social entrepreneurs

The activities of the firms represented on this panel, as well as other leading companies, show that to expand the frontiers of CSR and to pass from words to deeds, requires the entrepreneurial push. Significant advances do not stem from doing the same things over and over again but finding new ways to put them into practice. For business leaders and their teams to become social entrepreneurs, seven essential roles have to be acted out:

- **The champion** provides leadership for the CSR cause, creating an environment in which other members of the firm provide backing.
- **The communicator** builds the foundations and designs the strategies to apply CSR in ways that are on-going, coherent and inspiring.
- **The creator** discovers new strategies and devises new policies that help overcome obstacles and create new and effective CSR solutions.
- **The catalyzer** is the precursor and provider of the resources needed to push ahead with the CSR agenda.
- **The collaborator** combines his own efforts with those of others, both within and outside the firm, to make CSR relevant and effective for all.
- **The coordinator** ensures that the synergies are captured from a multiplicity of efforts and actors.

- **The calculator** weighs up the costs and benefits of CSR, and the rhythm at which an organization can absorb significant change.

All the CEOs recognized that turning meaningfully from words to deeds in CSR represents a major and demanding challenge. They were equally clear that accepting that challenge is a leadership imperative vital to sustainable success by businesses and societies.



SECOND PLENARY SESSION

The View of the Stakeholders Monday, September 27, 2004

Estrella Peinado-Vara¹

Inter-American Development Bank

The aim of this panel was to demonstrate the current situation of CSR and the actions needed if the adoption of CSR practices is to be moved from a sporadic to a generalized activity. On the panel were representatives of some stakeholders with an interest in the activities of firms: government departments, consumer associations and NGOs that are standard bearers for the concerns of communities. The following speakers formed the panel: Gustavo Serrano, the secretary-general for social policy at the Secretaría de Desarrollo Social (Social Development Secretary-SEDESOL) (who substituted for Antonio Sánchez Díaz de Rivera, the under-secretary for human and social development); Marilena Lazzarini, the president of Consumers International; Manuel Escudero, the general secretary of the UN Global Compact in Spain; and Alberto Núñez Esteva, president of the Confederación de Patronales de la República Mexicana (Business Association Confederation-COPARMEX).

The government view

Gustavo Serrano, the secretary-general for social policy at SEDESOL, commented that while government has responsibility for providing public

goods and ensuring the welfare of citizens, it should abandon paternalism and adopt a stance that encourages collaboration between different social actors. Mr. Serrano pointed out that three key aspects of CSR needed to be addressed:

- 1. The economic-functional aspect:** This relates to the production of goods and services and the generation of employment.
- 2. The quality of life:** This concerns relations with labor, trade unions, customers, suppliers, the environment and government.
- 3. Social investment:** This refers to the contribution of the firm towards the education, health and the environment of its communities.

Government should involve itself in developing these three aspects, creating laws and institutions to that end. The economic and functional aspect has to be tackled so that firms can fulfill their role as both economic and social agents. So far as the quality of life is concerned, social policies need to be designed that focus on individuals and recognize that they are part of the community and the nation. With respect to social investment, government needs to be able to provide

¹ The session was moderated by Dr. Jorge Villalobos, executive-president of the Centro Mexicano para la Filantropía (CEMEFI).

healthcare, worker training and equal opportunities for all citizens. It also should provide basic social infrastructure that reaches the remotest corners of the nation.

All actors need to be encouraged to take part so that, among them, the private sector, government and civil society organizations can generate opportunities, expand the possibilities for social development and guarantee basic social protection.

Mr. Serrano pointed out that adopting an 'integral' approach, SEDESOL caters for the needs of infants, young people, adults and the elderly, while also seeking to promote equity and inclusion within the community so as to strengthen social cohesion. In these ways CSR turns into a catalyst of integration.

Although sometimes not without difficulty, co-responsibility and transparency play an important role in achieving sustainable economic and social development. They need to be at the heart of all socioeconomic structures and institutions, since they are key element.

The view of civil society organizations and consumer associations

Marilena Lazzarini, the president of Consumers International, began her presentation by reflecting on the idea that the current pattern of consumption is unsustainable. A study carried out by the United Nations Development Program (UNDP) and the Fundación Pro-Humana from Chile shows that 51% of those surveyed believed that they could influence responsible behavior in firms, either by penalizing or rewarding them through their purchasing decisions. Citizens as consumers can thus become organized and contribute to the dialogue with firms. They can also take on initiatives to tackle specific problems, always assuming that they respect the positions adopted by other actors.

What does CSR really mean for consumers? The concept is still somewhat unclear. The indiscriminate and superficial use of the term, along with its close association with public relations, may devalue it. There is still much to be done in clarifying the notion and its application. Mrs. Lazzarini argued that acts of philanthropy – which sometimes are indispensable and have obvious merit – must not be confused with the ethical and responsible behavior that lies at the core of CSR.

For consumer associations, CSR needs to be an integral part of organizational culture, as well as a means of generating wealth and development for all stakeholders. It should also help spread firms' responsible activities down their supply chains and through the markets in which they operate. As well as the impact it may have on workers and the environment, it is important to think about the effects of CSR on consumption (notably through advertising) and the quality of goods and services. Transparency has to be strengthened across the board and among all those involved.

From the consumer angle, passing from words to deeds means that all stakeholders, both inside and outside the firm, are connected. Consumers should be at the forefront of this process. Responsible behavior by firms is central to the ideas of the consumers' movement. In 1995, Consumers International produced a document that summarized consumer demands about business ethics, which also included recommendations on foreign direct investment. In 2001, on the occasion of World Consumers' Day (March 15), a publication was launched called 'Business Citizenship in the Global Market, which includes information and useful tools for advancing this agenda. More recently, Consumers International has been involved in the Global Reporting Initiative (GRI), as well as in a working group set up by the International Standards

Organization (ISO) to work out guidelines for firms towards more responsible activities.

Consumers International is pushing for a proper understanding of CSR worldwide. The global consumers' movement is not limited to any one country in particular, especially when it comes to the activities of transnational corporations. Notwithstanding the complexity of the issue, some experimental programs have been put into practice in certain countries through which consumers are given information to guide their purchasing decisions towards firms that behave responsibly. This has been made possible thanks to data built up over 60 years by member organizations of Consumers International; those make it easier to carry out comparative studies on the characteristics of different goods and services. Such studies have been accomplished in Europe since 2000 when Austria produced a ranking of firms by corporate responsibility. Similar rankings are now under way in The Netherlands and Germany. In Latin America, in countries such as Chile, Argentina, Peru and El Salvador, consumer groups are working with other civil society organizations to promote social responsibility and to educate citizens in responsible consumer behavior. In Brazil, the Brazilian Institute for Consumer Protection (Instituto Brasileiro de Defesa do Consumidor, IDEC) is taking part in the GRI and in Red Puentes with associations in Chile, Brazil, Mexico, Argentina and The Netherlands. Consumers International also is part of the CSR issues group within the Associação Brasileira de Normas Técnicas, and is involved in awarding the 'Balance Social' (Social Report) prize given by Ibase². In 2004, it also published a guide to help educate consumers³ and is currently working on the design of a methodology to evaluate social responsibility in Brazil that has already been applied through a pilot project.

² www.ibase.org.br

³ Available in Portuguese at http://www.idec.org.br/arquivos/guia_RSE.pdf



Mrs. Lazzarini said that there were enormous difficulties in obtaining information on firms in Brazil, even those who are flag carriers for CSR. For this reason, the organization has concentrated its attention on dialogue between stakeholders to improve access to information. Voluntary initiatives to publicize such information through social and environmental audits are key and need to be encouraged. At the same time, information needs to be intelligible, comparable and properly audited. Finally, the government also has a responsibility here, since the market is shaped by the laws needed to protect society.

The role of the Global Compact

Manuel Escudero, general secretary of the UN Global Compact in Spain calls for a new social pact between capital and society, and not just with workers but also consumers.

There is a constant debate on what to do to boost activities of CSR. What is best: self-regulation and voluntary commitments or legal enforcement? With 250 large companies, unions, NGOs and business schools, Spain is an example of self regulation through the UN Global Compact. Its success is based on three pillars: the defense of labor rights, care for the environment and the fight against corruption.



The Compact's watchwords are compromise, dialogue and transparency. It is important to point out that there are no barriers to entry into the Compact, although belonging involves a public commitment to practice its ten principles⁴ and to integrate these into business strategy. The so-called 'square table', which brings together unions, parliamentary groups and NGOs sets out to revise periodically and transparently the progress and development of business commitment to guarantee the smooth operation of the system.

The United Nations (UN) has established guidelines so that companies can use the name of the Global Compact. They are obliged to notify the Compact as to their activities; otherwise they are removed from the list of participants. A complaints procedure has also been established that enables signatory companies to be denounced if they fail to comply with the ten principles. Voluntary membership involves measures that to some extent ensure compliance.

To record progress in adopting the ten principles, a system of triple reporting has been brought in covering financial, social and environmental aspects. However, a problem arises over who should verify and validate these reports. In Spain, the government supports the move to create a quadripartite commission composed of the public administration, the employers' organizations, the companies that have been pioneers of CSR, and the unions and civil society organizations. Amongst other things, the commission is in charge of verifying reports.

Reporting to the commission should be obligatory for all quoted companies, as well as those unquoted firms that wish to report on their activities and progress on CSR. With this in mind, a system of appropriate incentives is going to be established. This will take care of the problem highlighted above, namely the need for auditing firms, organizations or institutions to verify the information submitted. This would not involve a law of minimum standards which tells firms exactly what they can or cannot do, rather a law of transparency. It is important to promote this from civil society upwards, with the state encouraging a rigorous process of social verification.

According to Mr. Escudero, the whole process of incorporating CSR into business practice will be lengthy and complex, and that it will be civil society that takes the lead. Government cannot substitute for the firm in applying CSR; all it can do is to provide encouragement. Nor can the private sector substitute for the functions of the state. The process will not be without tensions, but it is now under way and there is no going back.

Business associations

Alberto Núñez Esteva, president of the Mexican Employers' Confederation (Confederación de Patronales de la República Mexicana, COPARMEX) began his presentation by stressing how poverty and inequality were present throughout the region. The absence of deep structural reforms and an insufficient rate of economic growth to provide for employment needs constitute the great 'social debt' in Latin

⁴ For more information on the Global Compact, please visit www.globalcompact.org



America. This is the region of the world with the greatest inequality in the distribution of wealth, with more than 50% (in gross terms) living beneath the poverty line. Mr. Núñez posed a question: what is the defining role of business and society given the social problems confronting Latin America? The business sector is much discredited and its leaders ask themselves what their role should be in helping resolve social problems, and what role should the rest of society play. They can either think of themselves as victims of the situation and remain passive, or by looking at things differently turn themselves into part of the solution and come up with new proposals.

The Mexican business sector pleads for fiscal reform. The National Taxpayers' Confederation (Confederación Nacional de Contribuyentes, CONACON) highlights a number of criticisms alongside some proposals. The unions, the academic world and business (COPARMEX) have started a dialogue on what needs to be done in order to create socially responsible markets. This stems from a vision of citizen participation with firms and citizens coming together to create a more just society. It is a matter of working to build stronger countries that pursue the common good and reduce poverty.

For COPARMEX, poverty is alleviated by generating wealth and distributing it on an equitable basis. The private sector has to meet its responsibilities to the full in this respect. Firms provide the motor for the economy, generating wealth and distributing it through employment and their links to suppliers, through the state (by paying taxes) and through the communities where they do business. Although

generating profit is totally essential for the survival of firms, these have to do more than this. They need to take their suppliers fully into account, their communities, their workers and all other stakeholders with an interest in what they do. It is important to understand the complexity of businesses.

Alliances among actors are required if CSR is to pass from 'words' into 'deeds'. There has to be collaboration at the national level among firms, so as that the private sector as a whole adopts the philosophy and culture of social responsibility. On that basis, it becomes possible to make a contribution towards sustainable economic development and towards fighting poverty and inequality.

In Mr. Núñez's view, environmental protection is another crucial element in making CSR sustainable. It is important for future generations. Also, he highlighted that there can be no sustainable economic development without integral human development, and this is achieved through the education and training of workers, a company's most precious asset.

Conclusions

Government needs to work alongside society to achieve a pattern of development that is sustainable in every way. The economic and social policies need to be designed and implemented, at both the national and local levels, by talking fully into account the needs of the business sector and the wider society, as represented by civil society organizations.



For consumers, information about the impact of production is basic. Transparency is at the core of CSR, and without it responsible consumption is sheer rhetoric. Greater transparency is required across the board so that companies can identify the risks and opportunities that arise when they practice socially responsible business and consumers can play their part in CSR through responsible consumption.

Goodwill is essential if CSR is to advance, since without personal and collective commitment it will go nowhere. However, regulation that is well conceived and implemented is a necessary complement. Without proper regulation, it is impossible to achieve the level of homogeneity required to guarantee transparency and verification. There is no contradiction between obligation as against voluntarism, between regulation and self-regulation; they complement one another.

The gravity of social needs and the urgency of finding solutions, as well as the recognition by business of the important role it plays in the search for such solutions make CSR more relevant than ever. The private sector is the engine of economic development and can be sustainable only with the help of activities that are socially and environmentally responsible. CSR cannot produce actions that are directed solely to the local community; they have to be aimed at other actors too: employees, customers, the environment and other companies. This is a real challenge to everyone's creativity; it is no easy task. But to achieve success, collaboration is required from all those involved.

Among the comments made by the various participants, one that stands out is the need to strengthen civil society in order to establish the social dialogue in Latin America, pointing out that this is an area where striking advances have been made in other regions, like Europe. On the progress achieved by the Technical Secretariat of the Global Compact, the participants pointed out how important it is to share experience, then it becomes necessary to compile the knowledge, and analyze and develop the tools that are useful to others in adopting and expanding CSR. In view of the voluntary nature of CSR and the lack of social legitimacy enjoyed by business (as shown by opinion polls evaluating the image of private institutions in society) these need not only to be financially profitable but also defend human rights, be environmentally friendly and contribute to stability. The participants believe that the organization of civil society is important, although they do not anticipate it becoming a source of external or internal pressure (still less legal pressure); since it is the workings of the market that oblige firms to act responsibly.

Collaboration between government, business and civil society is crucial if each of them – within the role allotted to them – is to contribute to strengthening the fabric of corporate responsibility. CSR can be a route to business competitiveness, whether individually or at the national level, thereby contributing to social welfare for all.

FIRST ROUND OF BREAKOUT SESSIONS

Session A: CSR Corporate Strategy

Monday, 27 September, 2004

Gustavo de la Torre

Director General of Administración por Valores (Aval), Mexico



The participants in this panel outlined the way in which their respective organizations introduced social and environmental responsibility as part of their business strategy. Those taking part were Eduardo Cervantes, director of public affairs at Coca-Cola de México; Leticia Narváez, director for corporate communications at Merck, Sharp & Dohme; Eduardo Ortiz Tirado, general manager of SC Johnson & Son; and Javier Cox, president of Forum Empresa.

International trends in CSR

Different trends can be identified in the way in which CSR has been implemented in different parts of the world. In Europe, special emphasis is laid on implementing principles of corporate citizenship, human rights and care for the environment, with a view to these being included in the legislation of the European Union. In North America, more specifically in the United States, there is a tendency to support principles of corporate governance, human rights and the fight against corruption. The approach in the Asia Pacific region is basically focused on free trade, respect for the individual and global integration. In Latin America, the accent is on eliminating poverty, good governance and creating a legal framework that encourages responsible business behavior. In this context, four experiences were outlined

with respect to establishing corporate policy on CSR. These may act as a guide for others working to this end in the hemisphere.

Corporate citizenship

Eduardo Cervantes, director of public affairs at Coca-Cola de México, presented the case of *Citizenship @ Coca-Cola*. This corporation is made up of numerous independent companies and divisions, situated in diverse communities that have sought to build a single governance program within the 'Coca-Cola system'. Their aim has been to work out criteria for projecting a single image to consumers worldwide.

This governance model consists of a number of agreed principles shared throughout the system, based on a collective commitment to be implemented at all levels of the organization. The individual companies that belong to the system accept responsibility for compliance with and implementation of these principles at all stages of their local operations. Within a system in which those involved do not have a structural relationship with one another, it is important to homogenize the policies of CSR. The local activities of each division and bottling plant are ruled by these principles within the business as a whole and a corporate image with a global reputation.

These shared principles are referred to as 'system platforms' and are derived from the commitments that the firm enters into with its customers and consumers (market), with its employees (workplace), its neighbors and the overall local, regional and global communities (community), and with the planet (environment). From these 'platforms' a number of principles emerge that should be applied in each of its business units, in line with the model. The various processes are: the launching of the program within the business unit; revision and monitoring of results; and evaluation through the analysis of strengths, opportunities, weaknesses and results. Finally, within each business unit, the processes are implemented on the basis of the principles for each platform within the system. These are:

- **Workplace platform:** Aims to promote an open and inclusive atmosphere where the workforce feels highly motivated, productive and committed to the success of the business. This is made possible by good treatment of personnel and compliance with local labor legislation, safety in the workplace and support for workers' personal and professional development.
- **Market platform:** Ensures that goods and services satisfy the needs of consumers. This helps back up business partners at the local and global levels, whilst building up sustainable and mutually beneficial relationships.
- **Community platform:** Provides opportunities for economic development, improves the quality of life, encourages a spirit of goodwill among communities because these feel that their needs are being catered for and places emphasis on training and education of young people.
- **Environment platform:** Contributes to the business by protecting and preserving the environment and

integrating the principles of sustainable development in the decisions of the firm and in its business processes. It also seeks to minimize environmental impacts and waste, while developing the use of new technologies. It includes environmental performance and practice audits in those instances where there are no specific legal requirements.

The strategy of a pharmaceutical business

Leticia Narváez, director of corporate communications at Merck, Sharp & Dohme (MSD), explained how for this pharmaceutical company CSR is one of the basic tenets that guide the definition of its business worldwide. In putting this into practice, MSD seeks to contribute to community development and to promote the common good. To fulfill this commitment, it creates and upholds an operating license based on acceptance by various different actors. This enables it to improve its relations with neighbors, the authorities and the community as a whole.

Both the directors of the company and its founder, George W. Merck, share the vision of corporate social responsibility. They do not forget that medicines are produced to cure patients, not just to make profits. If this is clear, the economic benefits come as a logical consequence. For MSD, integrating CSR into the business strategy stems from sharing certain values and ethical principles, which need to be disseminated properly among all shareholders. This enables it to have a real effect in benefiting the community through an individual behavior that obeys business principles. The workforce, with assistance from MSD, develops programs for the transfer of resources to help finance institutions with social objectives but with very limited budgets. Such activities help develop unity, efficiency and teamwork, besides helping to boost the confidence of employees. Similarly, they help ensure good working conditions for the benefit of workers and their families, as they engender a sense of belonging that helps attract and retain the best employees.

MSD applies CSR strategically in three other areas: community linkages, ethics and improvement of the quality of life through specific projects. Through an initiative to promote better access to drugs for HIV/AIDS, MSD supplied the market with retroviral treatments at accessible prices for sufferers. Prices of Crixivan and Stocrin were reduced by 80% and 82% respectively for distribution through public health clinics. This helped improve relations with government and contributed to managing this public health problem.

River blindness is a disease that affects many poor communities. To implement the initiative of donating Mectizan (a drug specifically used for the treatment of this illness), MSD organized a cooperative network between governments, private businesses and civil society. This helped improve the delivery of medical services among migrant peoples and contributed to reducing social inequality in health. For the company, the initiative helped create good relations with other social agents.

Preventative campaigns also form part of healthcare. MSD's activities in this sphere are geared towards cause-related marketing and include prevention and treatment of HIV/AIDS; support for universities to update their medical faculties' study programs; awareness building on cardiovascular risks; early detection of osteoporosis; vaccination; and workshops for families on managing asthma. The purpose of these activities is to raise the quality of life for the population, while enhancing brand awareness, the corporate image and the reputation of the firm.

The company's values and standards go beyond its own frontiers through the incorporation of suppliers into a transparent supply chain, participation and sponsorship of forums on business ethics, and recognition granted to personnel. The dissemination of ethical principles always helps promote a strengthened

chain of social responsibility that permeates the MSD business model, involving customers, consumers, employees, suppliers and the community as a whole in a variety of programs. In this way, agreements are reached and fewer conflicts arise at the various stages in the supply and value chains. Also, through the preservation of the environment and support for research, the quality of life is advanced in line with this central business objective.

Adopting ethical values and principles is the proper way of disseminating and integrating social responsibility into the business strategy. By means of a system of dissemination that involves all the various stakeholders, it is possible to carry out a wide range of programs promoting the common good.

The family culture of CSR

Eduardo Ortiz Tirado, general manager of SC Johnson & Son in Mexico, explained how social commitment had been part of the business philosophy and culture since the time this company was first established. The firm believes strongly that it should contribute to the economic and social wellbeing of every country and community where it does business, and that these should become the best places to live because if so the firm itself benefits.

The company implements this vision as the basis of its CSR principles and by maintaining a degree of coherence in the way its various businesses perform. It is important to mention that SC Johnson & Son is a private family firm, but one with a presence in over 100 countries.

To give substance to its commitment to each and every group to which it is responsible and whose trust it needs to win (the stakeholders), the company produced a document called "In This We Believe", in which its core principles are set out. Similarly, there are specific codes of conduct for each group:

workers, consumers, customers and suppliers. The company has two specific programs in the communities in which it works. It contributes the equivalent of 3% of pre-tax profits and also promotes volunteer community work.

To ensure successful marketing, consumer products need to be innovative, reflect high standards of quality and be better than those of competitors. A firm's commercial policies and practices need to be geared towards creating situations in which all parties benefit. In view of the fact that SC Johnson & Son has a commitment towards the main actors it relates to, it proposes to do the same with the rest of society. To this end, the highest standards of honesty and respect need to be maintained, as well as compliance with laws and regulations and in upholding a commitment to care for the environment.

At Johnson & Son, CSR is upheld as a family culture and its business policies harmonize with local needs, leadership and its power to bring people together. These, combined with its institutional mission, constitute an effective tool for incorporating CSR into corporate strategy.

Forum Empresa: A business network for promoting CSR.

Forum Empresa is devoted to promoting and disseminating CSR practice in Latin America and the Caribbean. It is an alliance of business entities working to this end through 16 organizations in 14 countries and involving more than 3,500 people. It was out of the concern to develop experience in and the practice of corporate social responsibility that Forum Empresa was set up, says **Javier Cox**, the president of this business organization that seeks to integrate these organizations along two axes: on the one hand it supports the creation of new national organizations that join the network; on the other it carries out projects and initiatives on a regional level that facilitate the implementation of CSR practices in each of the countries where it is represented.

This quest for regional integration has enabled it to count on collaboration from the Inter-American Development Bank (IDB) and the Organization of American States (OAS) in implementing the first region-wide project to encourage the adoption of CSR practices. The initiative seeks to make CSR a source of sustainable competitive advantage for firms. It does so by working with company directors and shareholders, training businessmen in recognized CSR practices, providing management tools and developing pilot projects to encourage CSR. Currently, there are four organizations involved: Ethos from Brazil, Acción RSE from Chile, Fundemas from El Salvador, and Perú 2021. It benefits executives, small and medium-sized enterprises, the media, and national-level organizations working to promote CSR.

The creation of a network dedicated to disseminating CSR and built around the need to clarify concepts, enables actors in different parts of the region to involve themselves in activities that would otherwise have little impact if undertaken on their own.

Conclusions

A number of common elements arise from the presentations of the various panelists about how they had been successful in implementing CSR in their own organizations. Firstly, all were very much aware of the expectations among the various social actors. Secondly, all stressed the need to find the strategic relationship between CSR and the positive impact that it may have on the beneficiaries as well as the firm itself. This helps ensure sustainability. Thirdly, the panelists all believe that success in implementing socially responsible practices in a firm must be based on the commitment of all stakeholders. Finally, they consider that there is an added value in promoting CSR, as the case of Forum Empresa shows. It makes it easier to establish platforms for comparing experiences and learning. The complexity of CSR and the problems facing the hemisphere make this particularly relevant.

FIRST ROUND OF BREAKOUT SESSIONS

Session B: Measuring and reporting CSR.

Monday, 27 September, 2004

Roberto Gutiérrez, Ph.D.

Universidad de los Andes, Bogota, Colombia



Introduction

The panelists in this session were Luis Perera, partner in PricewaterhouseCoopers in Chile; Dulceamor Navarrete, executive director of Grupo de Monitoreo Independiente (GMIES) from El Salvador; Fernando Labad Sasiain, vice-president of the Fundación Telefónica from Spain; and Edward Millar, president of Gas Transboliviano (GTB) from Bolivia.

Transparent management and corporate accountability are ever increasing demands. Faced with pressures from various interest groups, companies have come up with different answers to the key questions in this regard: What indicators should be reported? How to resolve the dilemma between having more indicators in a few areas, or a few indicators across a range of issues? Why and how to make the information contained in reports relevant and useful? What methods of verification should reporting follow?

Answering such questions can be a headache. Can the firm take responsibility for the level reached for each indicator? Is the indicator selected one over which the company exercises some control? Is it possible to have 'perverse' indicators that encourage undesirable behavior?

Not only does the selection of indicators raise questions, but those who receive the information will add their own questions. A multinational company may need to answer for the national context, whereas its global reporting relates to the company as a whole. On the other hand, in each of the national contexts where the firm operates, the values placed on subsidiaries and their evolutions (and those of stakeholders) are very different. And this is not even to mention the diversity of possible formats in which reporting may be couched.

The complexity of the measurement and reporting of results does not change the fact that these play a fundamental role in the advance of CSR. The conference session brought together a variety of complementary points of view:

- The proposal suggested by a consultancy firm that there should be a uniform social reporting format for companies.
- The presentation of reports as carried out by a business foundation and a multinational company.
- The task of independent monitoring carried out by a non-profit organization.

What follows summarizes the key points of the presentations from the session, suggesting some basic criteria that firms should take into account in defining their indicators and methods of reporting.

A proposal: The fourth set of accounts in the annual report

Luis Perera, partner at PricewaterhouseCoopers in Chile, is one of those who are unhappy with the lack of any uniform format for the different methods employed for measuring and reporting on the results of corporate social responsibility (See Figure 1). Such methods can be grouped under three headings: content, presentation and verification.

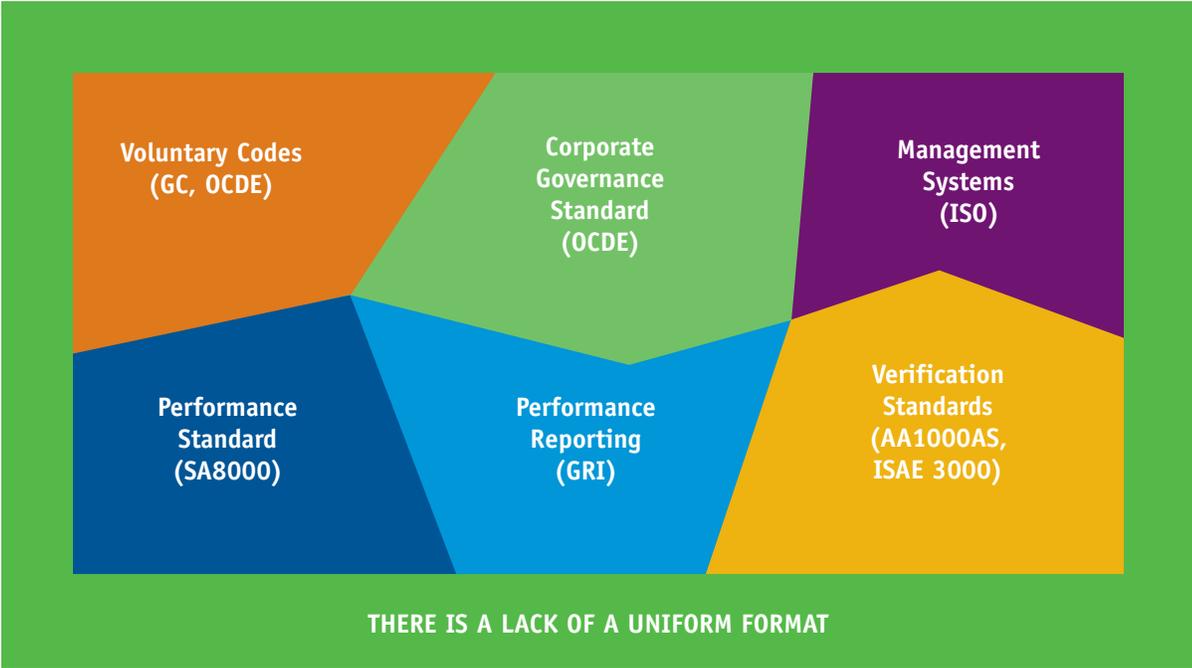
Mr. Perera’s central proposal consists of building a link between the financial data of a company and its social dimensions within a single format, or a ‘fourth set of accounts’ that is practical and easy to analyze. By means of such a format it would be possible to report on the proportion in which the value generated by a firm is distributed between the various groups. This would

complement the information contained in the three other sets of reports: the statement of profit and loss, the balance sheet, and the cash-flow statement. In just the same way as these three financial statements provide a common framework for interpreting the figures presented, a fourth uniform format would enable comparisons to be drawn between one period and another, one company and another and one industry and another.

The first part of this fourth financial statement focuses on the wealth generated by a company: its sales minus direct costs (or, in other words its value-added). The second describes the distribution of the wealth generated (among employees, the state, the community, shareholders and the firm itself through re-investment). It would be accompanied by a variety of notes that would help contextualize and explain the figures on wealth generation and distribution. At a minimum, the notes would include the following annexes to the figures:

- Policies for social responsibility:
 - Policies related to corporate governance

Figure 1: REPORTING FORMATS



- Codes of ethics
- The environment, and health and safety at the workplace
- Social investment and community development
- Donations, voluntary work and philanthropy
- Responsible marketing and consumer protection
- Social dialogue and education
- The main characteristics of key customers:
 - Typology and number
 - Share of sales
 - Origin of active customers
- Sources and types of costs:
 - Origin and volume of costs
 - Size and purchasing share of active suppliers
- Distribution indicators of value-added:
 - To employees (i.e. average annual incomes, ratio of highest to lowest wages, distribution by basic characteristics)
 - To the state (i.e. types of tax paid)
 - To investors (i.e. average finance costs, profitability, periods)
 - To the community (i.e. types of investment, amounts, hours of voluntary work, donations)
 - To shareholders (i.e. amount, source, concentration, book value/market value)
- Indicators of reinvestment in the company

These indicators basically follow the guidelines proposed by the Global Reporting Initiative (GRI).

One of the main advantages of the fourth financial statement described above is that it avoids any divorce between the economic and social dimensions. The information is consistent with traditional accountancy standards, and provides a way of visualizing and verifying the impact of a company's social performance. In Mr. Perera's opinion, it provides a way of enhancing the image of the firm as something more than an entity exclusively focused shareholder benefits. It shows the company as an organism essential to the generation of wealth and its distribution within society.

As well as helping comparison, the fourth financial statement also facilitates, by virtue of its uniform format, professional verification of its content and encourages firms to take on commitments and improve its social management. With time, this sort of social reporting would cease to be an isolated effort and would turn into a strategic exercise in business management. The design of such uniform reporting methods would help the company to focus on and respond to the increasing demands of stakeholders. Current reporting methods, characterized by an excess of data and random figures would give way to more comprehensive and accurate methods of



informing those with a strong potential interest in company performance.

Two business approaches to measurement and reporting

Telefónica is a multinational with a presence in seven countries, with around 150,000 employees, and activities that account for an average of 1.85% of gross domestic product (GDP) in the countries where it has a presence. According to **Fernando Labad**, vice-president at the Fundación Telefónica, the spheres in which the company carries out CSR include: corporate governance, economic responsibility, workers' rights, environmental responsibility, and social and cultural activities. The last of these categories includes all non-profit

voluntary activities for social purposes, and here the focus is mainly on the most disadvantaged groups.

The Telefónica Group has sought to report on the redistribution of its profits in the societies where it is present. To a large degree, this has been along the same lines as the 'fourth financial statement'. It takes into account income from the sale of services, the sale of assets etc. (34.8 billion euros in 2003) and reports on the payments made to each key interest group. These include: 6.09 billion euros to public administrations, equal to 18% of total costs in 2003; taxes 10% of costs; commercial suppliers 37%; employees 11%; creditors 12%; shareholders 4%; and investors 8%. Furthermore for each of these stakeholders, the company reports on the key figures as follows:

- **Customers:** number of calls answered by telephone exchanges and average satisfaction rates among fixed line telephone users
- **Shareholders/investors:** Web sessions dedicated to these and the number of files sent online
- **Employees:** the number of people who work for the firm and hours dedicated to professional training
- **Society:** the number of low-cost lines and percentage of average direct tax payments as a percentage of GDP
- **Suppliers:** the number of suppliers and volume of purchases from local suppliers
- **Media:** number of appearances in the Spanish and international press and other media
- **Environment:** number of projects related to environmental protection and eco-efficiency where the company has taken part

The strategies of the Fundación Telefónica for developing its social action plans – as well as its management control systems used for studying, approving and monitoring them – aim at efficiency and reaching the maximum number of beneficiaries. The report on

spending and social benefits is part of Telefónica's control and management systems. In its Annual Report on Corporate Social Responsibility⁶, the number of indicators has risen over time. In 2002, the report included 143 indicators for different interest groups, rising to 200 the following year. There have also been changes in the distribution of social benefits. In the first year, social reporting had the most indicators, whilst in 2003 it was the employees that came first, followed by clients.

Edward Miller, president of Gas Transboliviano (GTB), warned of the difficulty of finding sensible measures that also indicate the long-term impact of firms' activities in the sphere of corporate social responsibility. In GTB, a company established by six companies in the mining and energy sectors, measurement parameters have arisen from CSR policies. Given the importance of these policies for GTB, the results have been both positive and measurable.

Mr. Miller pointed out that the greatest threat to the environment in the area in which his company works is poverty. 85% of the population is below the extreme poverty threshold, with per capita incomes of US\$800 a year and a rate of public investment per head of US\$40 a year. Land usage is unsustainable and around 100,000 hectares are destroyed each year. Furthermore, there are migratory movements and depopulation, since most young people (18-25 years of age) move to urban areas rather than remain in their often remote places of origin.

Because of the nature of its activities, its area of influence and the problems facing the country, GTB's priority is to establish relations of mutual trust. To illustrate the point, Mr. Miller explained that local communities formed part of the company's security mechanisms, overseeing its installations and using knowledge of the area accumulated over generations. The representatives of indigenous communities have direct access to the company's directors. The firm also involves the

⁶ The report can be found at <http://www.telefonica.es/informeanual/informe2003/esp/html/respcorporativa/index.html>

community through the Ecological Brigades (Brigadas Ecológicas) composed of young people living near the gas pipeline that are also trained up and employed on guard duties. GTB works in conjunction with local municipalities and indigenous communities to build a spirit of shared responsibility and to manage the social and environmental programs implemented through joint management.

In GTB's experience, an organization must ask itself certain questions to make CSR effective, adopting the following guidelines:

- CSR must be a fundamental pillar of the organization's structure, alongside finance, human resource management and legal affairs
- Matters relating to CSR should be discussed regularly at board level, taking into account two dimensions: top-down management and its opposite. Experience needs to be gathered at all the intermediate levels
- CSR must be made explicit in a company's mission and its values
- CSR should be considered part of operational and capital costs, and should be explicit in job descriptions

The firm has reaped benefits from responsible activities. It has managed to reduce levels of conflict with certain stakeholders. On various occasions, it has managed to minimize or avoid altogether the negative impact of its local operations. It has managed to mitigate environmental, social and security risks. It has built up a good corporate reputation. In order to publicize such positive results of its work among communities in its sphere of influence, GTB produces an annual 'social report' which includes opinion surveys conducted with the communities, including what they think about their relations with the firm⁶. This is conducted on the basis of confidentiality.

Criteria for measuring and reporting results

While measurement is a management tool, reporting provides for transparency, accountability and the fulfillment of legal obligations. There are at least three possible criteria for judging the measurement and reporting of results within a business management system:

- **Coherence:** Implies the inclusion of, amongst other things, an examination of the relationship between economic figures and social indicators
- **Comparability:** Should enable changes to be shown between one period and another, as well as between units, firms, regions and industries
- **Verification:** This is but yet another element that contributes to the legitimacy required for sustainable business operations

Each of these criteria brings useful advances. The fourth financial statement, described above, is a way of advancing on the first two. On the issue of verification, there are methods of auditing and monitoring. Though the scope and nature of auditing is well-known, less is known about experiences in independent monitoring, defining this as the efforts by civil society organizations to oversee whether codes of business conduct are fulfilled as well as national and international labor norms.

Civil society organizations that undertake business monitoring must be independent of the actors involved. They should not represent or act on behalf of any of other stakeholders. As part of their work with a number of multinationals, various organizations over the last ten years – among them the Grupo de Monitoreo Independiente de El Salvador (GMIES) – have certified the proper treatment of employees, maternity care, reduction of the working day, improvements in occupational safety and hygiene, non-discrimination and time-off with pay. However, according to the director of GMIES, **Dulceamor Navarrete**, in many cases local businesses have not taken the fulfillment of

⁶ GTB's Social Report can be found in <http://www.gtb.com.bo/es/politica/planSoc.htm>

CSR principles on board. Improvements therefore are achieved only through pressure from their customers. In the absence of demanding customers, labor standards can thus deteriorate. The question therefore arises about whether such efforts are really sustainable and what they achieve.

Among the advances made through CSR, Mrs. Navarrete pointed to the increase in levels of worker satisfaction. Also, since responsible behavior gradually affects other firms with respect to social and environmental conditions, a multiplier effect can be observed. Finally, consumers receive more information that enables them to make purchase choices that take into account decent working conditions and responsible practices on social and environmental issues.

In the last analysis, the state is responsible for generating and promoting the welfare of citizens, but there is still much to be done here. Among activities to promote CSR, monitoring is one way to channel efforts in the future.

Conclusions

It was clear that the social reporting of Telefónica and Gas Transboliviano differ from one another in significant ways. They are but examples of the diversity of approaches. The former comes close to the fourth financial statement, and therefore has the advantages of comparability and verification. The second, by contrast, is made to fit with the particularities of the working situation and the company's specific reporting needs.

CSR is based on the need for good internal communications. This aids effective communication beyond the confines of the firm to satisfy the informational requirements of stakeholders. Furthermore, a good system of information on a firm's social and environmental activities and their respective impact is useful as a management tool.

Companies continue to work in defining and modifying their methods and indicators to measure and disseminate the results of their social and environmental initiatives. Financial reporting has undergone changes over decades, and years will pass before systems of social management leave their mark. Meanwhile, the measurement and reporting of results is no longer a matter exclusively for communications and public relations within the firm; it is becoming a matter for senior management.

FIRST ROUND OF BREAKOUT SESSIONS

Session C: CSR and the Quality of Life of the Internal Community *Monday, September 27, 2004*

José Tolovi, Jr.

Representantative in Mexico and Brazil, Great Place to Work

Estrella Peinado-Vara

Inter-American Development Bank

The main concern of this panel was to demonstrate the relevance of the internal community within CSR and to exchange experiences of companies committed to the welfare of their employees. We all know that CSR should begin within the company itself. It is difficult to imagine a company being responsible towards those around it, the community, and other external actors, yet irresponsible towards its own human resources. We could be so bold as to say the CSR begins at home. Any organization seriously committed to applying the principles of CSR should evaluate the way it manages its own internal community.

Those taking part on this panel were Hans Hofmeijer, program director for multinational corporations at the International Labor Organization (ILO); Lucio Toninelli, head of human resources at IBM Latin America; Francisco Xavier Casanueva of Interprotección in Mexico; and Javier Millán, director of human resources at the Grupo Bimbo in Mexico.

Hans Hofmeijer presented the actions carried out by the ILO in Latin America and commented on those principles and fundamental work rights that lay stress on respect for freedom of association and collective

bargaining, the ending of forced labor and child labor, and the struggle against discrimination.

Mr. Hofmeijer made reference to the tripartite declaration on multinational companies which highlights the principles and fundamental rights alluded to above. The declaration concerns itself with issues relating to employment, in-house education and training, working conditions, as well as matters relating to safety and hygiene. It also sets a framework for labor relations. The declaration is the only formal instrument to include multinationals, governments and unions. Through it, conditions for dialogue and cooperation between parties are laid down. It therefore serves to disseminate such principles and fundamental rights across the world, these being the minimum standards to which every firm should adhere. The declaration defines very clearly the role of each agent in CSR, and it sets out a framework so that companies not only obtain economic benefits but also these favor the countries that accommodate them (where multinationals locate and invest) within the context of national development.



1. The cocoa initiative in West Africa, under which purchasing companies, producers, and local workers reached certain agreements. Some cocoa buyers approached the ILO to provide them with responsible suppliers who do not employ forced labor on their plantations or child labor in appalling working conditions.
2. The tobacco production initiative on plantations in Latin America, notably Brazil, where there are cases of child labor, extreme poverty and forced labor. In this case the ILO works with government, producers and workers to improve wages and working conditions on plantations. Declining production levels, unemployment and bad working conditions are of particular concern because they primarily affect the most vulnerable: migrants, women, children and ethnic minorities. The initiative involves a variety of measures to mitigate the damaging effects of lower production on employment and working conditions. It also looks at the role of social dialogue, as well as the measures that government might take, as well as employers' and workers' organizations at the national level.
3. The ILO took part in the establishment of the Benzene Agreement, in which workers' representatives took an active part in issues related to the control, research, the formulation of regulations and measures to deal with benzene, since the hazards involved made it necessary to set very strict norms for its use in the workplace. Representation from within firms is achieved through specific groups that work with benzene and which are able to come up with proposals for training and information and to impose penalties. In the chemical industry, this has been especially

successful because of the degree of participation achieved and due to the conviction that all parties involved – companies, unions and government, need to do something.

4. Through the framework agreement between Chiquita and Colsiba (Coordinadora Latinoamericana de Sindicatos Bananeros), Chiquita, the largest employer of unionized banana workers in Latin America, reaffirmed its commitment to respect basic ILO labor agreements, including free unionization. The agreement established a new platform to resolve problems, in an industry with a tradition of labor unrest derived from the poor working conditions. The accord guarantees mutual recognition and respect for human rights along lines set out in ILO conventions. An oversight committee meets twice a year to monitor the way the agreement is applied and to look into potential areas for concern.

Finally, Mr Hofmeijer mentioned three instances in which the ILO had collaborated with firms committed to raising labor standards. This was the case with IKEA and the workers it subcontracts in India to make copper artifacts.

Lucio Toninelli showed IBM to be a company that has long been committed to the welfare of its employees. IBM has been a forerunner of many of the initiatives that have since become legal requirements or standard practice in the United States and elsewhere. An example of this that demonstrates its concern for its employees is its policies of non-discrimination in which IBM was a pioneer. The corporation's human resource model involves the following: talent, performance and differentiation, climate and skills. At IBM there is a strong conviction

that its employees are the keys to success. Among a variety of policies, it has implemented open-door channels, the global application of the Sabarnes-Oxley Act, the annual certification of Business Conduct Guidelines, and rigorous standards on health and the environment.

Mr. Toninelli told how IBM encourages community and voluntary work among its employees. Company executives included, these are taking an active part in community relations, helping educational institutions, civil society organizations, and government leaders to bring about positive change through the use of technology. Volunteers contribute with their knowledge, their time and their creativity. The company has a reputation for responsible corporate citizenship through a strategy of corporation-community relations. This is based on strategic philanthropy with technological support rather than traditional donations. The strategy of corporation-community relations is based on support to improve for the former through high-quality education for all, capacity building, and access to new technologies to resolve complex social issues. In return the company gains potential users who become familiar with IBM products and its trademark.

Francisco Xavier Casanueva of Interprotección pointed out that internal CSR can be applied whatever the size of the company concerned. Although a small company, Interprotección has been awarded numerous prizes. Its business culture is based on the belief that the key to growth is care for the workforce. It is a firm that is interested in the welfare of its workers, the communities in which it does business, and the environment. For this reason, its investments are geared towards improving the quality of life for people and creating a solid base for future generations.

Among its best-known business practices are healthcare for workers and their families, a policy of promotions based on on-going motivation, and continuing education for employees and their families.

According to Mr. Casanueva, the results speak for themselves. The volume of business in premiums has grown by 183% over the last five years (from 600 million to 1.7 billion Mexican pesos). He says that one of the main reasons for this growth has been increased labor productivity, thanks to employee satisfaction with the firm's record on CSR.

Javier Millán of the Grupo Bimbo, a Latin American multinational with 72,000 employees, also made clear his company's concern for its workforce, since the individual is seen as key. Each manager is responsible for his subordinates, not just for results but also for their personal and professional development. Mr. Millán referred to the importance of building a company with a 'soul', or in other words an underlying philosophy with a mission, values, and a code of ethics to guide its performance. This philosophy is strengthened and driven forward because of the leadership that managers have over their groups. The managers are responsible for appointing staff and developing their capacities. They are in charge of training and developing members of their team and have to inculcate a culture of work safety and build up participative work relations across the board. The firm takes responsibility for the development of managers with course in personal improvement (balancing and reconciling work and family life and the role of each professional in society) so that all can rise to their full social responsibilities. With respect to the climate of labor relations, a joint exercise is mounted with the unions to provide continual evaluation of working conditions

and to develop plans for each and every of the firm in the group.

In Grupo Bimbo all employees are considered associates, and to this end participative programs have been created to encourage productivity for the benefit of the firm as well as for employees themselves. The results of such initiatives are reflected in the lack of labor conflicts and strikes, thus avoiding wasteful spending and damage to the corporate image brought by bad publicity. Worker loyalty is very high, the average number of years worked being over 13. This means that there is less staff turnover, and thus a saving on labor costs. Moreover responsible practice helps boost the company's credit rating, enabling it to access finance on preferential terms.

Conclusions

This session showed clearly that responsible management of human resources results in a good performance, whether through the sort of intangible assets that enhance reputation, through the positive effects of lower labor costs (less labor turnover and absenteeism and/or avoidance of labor disputes), or through the ability to attract and retain the best professionals who achieve high rates of productivity through good labor practices. We have seen how very disparate sectors, such as the food industry and high-technology, can act equally responsibly towards their human resources. In both cases, employees are considered to be the company's most important assets. We have also been able to show that good labor conditions are possible in any firm, irrespective of its size, or whether it is national or international. At the same time, those organizations that act more responsibly towards their employees are more likely to be responsible in other areas, such as towards both the communities over which they have influence

and the environment. Responsible management of human resources is becoming increasingly commonplace across the world, irrespective of the type of activity or the number of years in operation.

Unlike purely business activities, we have seen the need to build alliances between governments, firms and civil society that guarantee minimum labor conditions,



especially in those that are conflictive because of their complexity or those operating in developing countries. In both cases, the most vulnerable groups suffer the worst conditions. With the help of multilateral organizations like the ILO, it is possible to raise the living standards of the poorest, reduce extreme poverty and contribute to the sustainable social and economic development of Latin America.

SECOND ROUND OF BREAKOUT SESSIONS

Session A: External and Internal Incentives

Monday, September 27, 2004

Estrella Peinado-Vara⁷

Inter-American Development Bank



The focus of this session was on the internal and external factors that make firms socially and environmentally responsible, as well as on the incentives and solutions that CSR provides and which companies may implement to build a better society and to improve on their performance. In some instances, the motivation comes from the personal convictions of managers, whilst in others it stems from the attempts to differentiate a firm's products and services. Globalization, media coverage and demands from civil society are considered as external source of pressure for CSR.

Those who took part in this panel were José María Bustillo, president of the Grupo Unión Fenosa in Colombia; Juan Felipe Cajiga, CSR program manager at Cemefi in Mexico; Hilda Sánchez, advisor on economic affairs at the Organización Regional Interamericana de Trabajadores (ORIT), part of the International Confederation of Free Trade Unions (ICFTU); and Jerónimo Pruijn, director of Fair Trade Mexico.

Social energy

José María Bustillo, president of the Grupo Unión Fenosa in Colombia, shared his experience in the search for how to achieve the legitimate combination of

economic interests with sustained and sustainable growth, ethical management and social action.

The Unión Fenosa Group has changed over time into being a multiple service company. In the 1980s it was a firm in the electricity sector, but moved subsequently into consultancy services and more recently into the telecommunications and gas markets. The group's activities in Colombia are focused on electricity generating and distribution.

A commitment to ideas, people and the environment are the pillars that support the Group's CSR policies. The Group's Corporate University takes charge of the ideas. One of the company's internal incentives is the search for excellence through continual education and training. Know-how is seen as a source of comparative advantage, providing the basis for a transfer of experience that in turn helps companies develop the methodologies, systems and management methods that produce growth. Therefore, the Group's 25,000 employees undergo ongoing education and training with a view to teaching and learning from its own experience. The commitment to people includes a program of scholarships to help the young with

⁷ The session was moderated by Carlos Ludlow from the Confederación Unión Social de Empresarios de México (USEM).

technical training to bring them into the company. The program helps the Group find employees with the know-how and training it requires. In previous years, the program has been carried out in Bolivia; in 2004 in the state of Sonora, Mexico; and in 2005 in Colombia.

The most important experience has had to do with the social context. Since 2000 the Group has been in Colombia, with its acute social conflicts, its high poverty index (more than 40% of the population are thought to live beneath the poverty line) and its severe problems of citizen insecurity – the result of armed conflict – that it has now suffered for decades. The most important incentive for the Group in Colombia is the search for markets to carry out its activities, in spite of being in the middle of a hostile environment economically and socially.

One of its great success stories has been the design and implementation of a segmentation strategy for the Colombian market. The market was divided in three: the part which could be thought of as normal, made up of customers belonging to a social stratum where they can afford to pay for the services they receive (even though this may include fairly low-income groups); the market in conflict areas; and that of extremely poor customers (settlements of people fleeing the conflict zones and concentrated in major cities like Cartagena de Indias and Barranquilla). Without its commitment to the social context and CSR, the company would not have been able to make a return on its investment in the country. This investment amounts to roughly 1.5 billion US dollars, probably one of the Spanish group's largest foreign investments. The involvement of government has been key. So while the company designed its strategic plan for market segmentation, the Colombian government had changed the legal framework to facilitate its implementation. The firm maintains direct contacts with local mayors, governors and the central

government with which it works in close harmony to supply the most disadvantaged parts of the country.

The results of this market segmentation to meet the needs of the poorest have been highly positive. The company had confronted a series of social problems, such as demonstrations, strikes and stoppages within the plant, as well as problems that have more to do with commercial management. Through segmentation, the overall income for its services rose from 50% to 92%, and energy losses fell from 42% to 18%.

To implement this project to supply new markets into practice, a fifth company was established (over and above the four into which the Group divides its presence in Colombia) called Social Energy (Energía Social). Mr. Bustillo explained that this company dedicates itself exclusively to meeting the needs of excluded and marginalized social groups on very low incomes. The results have been remarkable. For example, payment recovery rose from 5% to 30% in one year, thanks to work carried out jointly with communities. This has been achieved through the establishment of small companies within communities which supply the energy. These part-time units take over measurement and the reading of energy consumption, collection of payments and customer service. In this way, the firm promotes the local development of communities by giving their inhabitants technical training so that they can take over meter reading, payment collection and repairs to electricity supply lines within the community. Over a period of six months, some 100 jobs were created directly, and 2,000 indirectly.

Another of the Social Energy strategies has been to develop products and services designed and adapted to the nature and needs of poor people. Here, the objective is to improve access to service for the so-called 'base-of-the-pyramid' markets. Unlike other

market segments with higher purchasing power for which billing is conducted monthly, for these segments billing is done daily. In this way the firm adapts itself to the income patterns of those customers who can make payments more frequently but in smaller amounts.

The case of the so-called 'marañeros' is also part of the initiative. This is the term used in Colombia for those who reconnect illegally to the electricity network when service has been disconnected for non-payment. These tend to be persons living in the same district and their very existence can be seen as the consequence of poor commercial management. Continual disconnection represents an unsustainable cost and something that seems unstoppable: the 'marañeros' act very quickly and charge very little. Social Energy resolved the problem by incorporating the 'marañeros' into the company as just another supplier but with a specific program of training.

The main conclusion of Grupo Fenosa in Colombia is that social and environmental responsibility is part of a strategy and provides value to the company. Fenosa seeks to undertake sustainable projects and improve community welfare, while at the same time solving business problems and improving results.

Awards for the social responsible firm

Juan Felipe Cajiga, director of the CSR program at Cemefi in Mexico, shared some of the experiences of an organization promoting CSR in Mexico. Cemefi forms part of the Alianza por la Responsabilidad Social (AliaRSE) in Mexico and concentrates on the incentives and motives that companies have to act responsibly. The Responsible Company Prize provides recognition, and has been awarded since 2001. It stems from the notion that CSR is something inherent to the firm and takes place both internally and externally. CSR provides an opportunity to respond to the expectations of the groups with which the

company is linked, and to enter into commitments beyond those specified by law both to the benefit of society and the environment. Mr. Cajiga pointed out that there were basically four dimensions to this: ethics, internal social responsibility, responsibility towards the community, and responsibility to the environment.

The prize is a tool for promoting CSR. In 1999, six associated companies achieved it. In 2004, the challenge was to give it to 61 companies. Rather than singling out irresponsible firms, the strategy consists of promoting leadership in CSR by giving the award to those which act responsibly and set a good example. The prize goes to those who honor those principles that enable CSR to be put into practice and followed, whilst enabling comparisons to be made between Mexican companies and so encourage improvement in their performance. According to Mr. Cajiga, the main effect on the firms thus rewarded has been to increase loyalty from and to improve relations with stakeholders, particularly employees. There has also been an improvement in relations with the community and the authorities, more efficiency in and better financial performance leading to lower costs, and a strengthening of the corporate image. Though improved image is one of the results, it is important to stress that it is not the only one, as there are other benefits to be derived from acting responsibly.

With respect to employee satisfaction and loyalty, AliaRSE works closely with the Great Place to Work initiative, through which it produces a ranking of the best firms as measured by labor satisfaction. Mr. Cajiga cited the case of Algodones Zuum as an example of improved market access, a firm that having made a number of moves to enhance its responsible behavior, qualified for an international bid opened by Wal-Mart to supply its California market. In its application, Algodones Zuum referred to the importance of CSR and the reasons why it saw it as

key to its operations. This reference to CSR proved crucial in setting its proposal apart from the rest. Wal-Mart viewed this gesture very positively as it was the only responding company that stressed the importance of CSR in its bid. To satisfy Wal-Mart's market demand in California, Algodones Zuum increased their production by 45%.



Among the motives singled out by businesses to adopt CSR practices is the belief in the need to satisfy the expectations of all stakeholders (employees, governments, investors, the community, customers, suppliers etc.). This encourages them to know their markets thoroughly, thereby converting CSR into a tool for competitiveness. Of all the companies to receive the prize, 70% had developed a voluntary CSR code helping them to manage their activities in a more systematic way as well as introducing and adapting CSR strategically to the rest of their operations.

Summing up, Mr. Cajiga stressed how important it was to be clear that corporate philanthropy forms but part of a much more complex and integral whole. Progress with CSR involves commitment, congruence and creativity. There are no magic formulas, although the international indicators produced by certain initiatives provide some valid measurement tools.

Responsible practice depends on the nature of each firm and its context, and cannot necessarily be copied. For this reason, it is more important to strengthen standards of transparency, reporting and the opening up to stakeholders than to insist on regulating and making responsible behavior mandatory, the effects of this can be the opposite of those desired.

Union activity

Hilda Sánchez is from the Organización Regional Interamericana de Trabajadores (ORIT), that belongs to the International Confederation of Free Trade Unions (ICFTU). She gave a view of CSR from the perspective of her organization which represents more than 45 million workers.

Trades unions are present both in multinational and national companies. They are also seeking to come up with incentives within the framework of national union policies, in particular to the business organizations and international organizations like the Inter-American Development Bank (IDB), the International Labor Organization (ILO), the Organization of American States (OAS), the Organization for Economic Cooperation and Development (OECD) and the United Nations Organization (UN).

ORIT is involved directly with CSR activities through two forums. The first of these is the working group set up by the IDB in 2000 to analyze different aspects of corporate social responsibility. The second is within the Trade Union Technical Advisory Council (COSATE), part of the OAS in which all issues related to labor legislation are discussed. ORIT has been taking part since 1995, looking at the social dimension of globalization and the involvement of workers' representatives in those negotiations relevant to the interests of affiliated unions.

ORIT's mission at the regional level runs along two axes. On the one hand, there are various inter-governmental arrangements in which the unions have been involved. On the other, there are the tripartite multinational agreements where involvement by sectoral union organizations is greater. The tools they have at their disposal are derived from arrangements like the UN Global Compact or the ILO declaration on multinational companies. The most recent project is in conjunction with the United Nations. It consists of an initiative for corporate responsibility in the area of human rights. This began in 2003, and is being monitored and evaluated by ORIT and the ICFTU.

The other main avenue consists of direct agreements with multinational companies. Both companies and unions are actively involved in the negotiation of such global agreements. There also exists voluntary codes of conduct, often designed and put into practice by companies, the forerunners of which were the first voluntary works councils.

With respect to other parts of the world, ORIT watches activities in the European Union closely and follows its directives, particularly one from 1994 which made the establishment of works councils where the unions play a key role obligatory.

On the basis of these arrangements, the ICFTU, along with the international union federations, came up with the Basic Code of Business Practice. This reflects ORIT's view of what a voluntary code for minimum conduct should consist of. There are 25 global sectoral agreements, and even though they are considered small steps, their significance is increasing on the basis of accumulated experience.

For these agreements to be applied in the Americas – along lines set out in OECD directives – ORIT supports their adoption locally through national points of contact in the case of Mexico, Canada and the United States. OECD directives can also be ratified by groups in non-OECD countries, urging governments to follow through on them. These national points of contact provide linkages with government through which workers can become involved in highlighting problems that affect the subsidiaries of multinational corporations, thus creating opportunities for dialogue and convergence. In the Mexican case, a greater push by the unions is required. The contact point in Chile has helped transform labor conflicts in national resolutions. Chile provides a good example of such dynamics.

The case of Chiquita exemplifies the sort of global agreement with a multinational, with help from the ILO, in a sector as conflictive as the banana industry in which unionization is very difficult.

We find the following attributes of CSR in the cases mentioned above:

1. The possibility of guaranteeing minimum labor standards for employees in multinational companies, as well as among their subcontractors, key suppliers and concessionaires.
2. The incorporation of the ILO standard working norms: freedom of association, collective bargaining, non-discrimination, the prohibition of forcible and child labor, as well as norms regarding fair wages, the legal working day, and a safe and healthy working environments without physical abuse, threats or intimidation.

As Mr. Hofmeijer of the ILO pointed out in the panel on CSR and the quality of life in the internal community, all these points, along with aspects such as the environment, competition, technology and transparency all influence the competitiveness of firms. Doubtless, the most important thing is that all these elements should be subsumed into the basic philosophy of the company, and not restricted just to departments of external or public relations. There is an urgent need to establish mechanisms for follow-up and for measuring the results of CSR programs.

Alternative trade

Jerónimo Puijn, from Comercio Justo México, explained how this initiative arose in response to the quest for market access for small-scale producers. These seek to obtain reasonable prices, given their vulnerability to falling prices that cover neither investment nor running costs. Part of the problem lies in an excess of intermediation and the impossibility of producers competing directly in the market. In order to overcome such difficulties, the first seal of fair trade was established in Holland in 1988, a joint initiative by an association of small-scale coffee producers in Oaxaca, Mexico, and a civil society organization in Holland. At that time, products with the fair trade seal had to comply with the following requirements:

1. To be produced by democratic and transparent organizations.
2. To pay a fair price to producers that covered the costs of production, including those of a reasonably paid workforce and environmentally friendly practices. The price guarantee should also be complemented by a social premium for collective or community development and another for the ecological quality for those products certified as organic.

3. To offer producers speedy payment, with pre-financing in the case of exports. This is to avoid them being obliged to sell their produce in the local market at below-cost prices. Furthermore, the commercial relationship between the two parties should be a lasting one, not just one-off.
4. To be good quality, fulfill the requirements of fair trade, and to be certified by an independent external organization.

Fulfillment of these criteria enabled products to be traded through massive distribution channels, first in Holland and afterwards in 14 European countries, the United States, Canada, Japan and more recently Mexico, Australia and New Zealand. The enthusiastic participation of firms of all sizes, including transnational consortia, has been a key factor in the development of fair trade and its rapid penetration in a variety of markets.

National initiatives to promote the market for certified fair trade make up the Fair Trade Labeling Organization International (FLO), a normative and promotional body based in Bonn, Germany. The system of certification as such is operated by an independent agency, FLO Cert, today the world's largest social certification body. Comercio Justo México arose in 1999, and quickly created its own norms and certification. In 2003, it was accepted as a member of FLO, becoming the first national organization in a country of small producers whose objective was to promote the domestic market. CertiMex certifies the products aimed at the local Mexican market, while FLO Cert undertakes certification for export.

According to Mr. Puijn, the results of the fair trade initiative showed that, by the first quarter of 2004, there were 387 organizations with certified products. These represent around 500 first-level producers and

benefit more than 800 families in Africa, Asia, Latin America and the Caribbean. In Mexico alone, there are 60 groups of small-scale producers certified in international fair trade. They represent over 100 primary level producers of coffee, honey and fruit. There are a score of certified products with the fair trade seal, most of them food products but also some manufactured goods.

In some countries, 5% of coffee sales are now carried out under the fair trade label and in Switzerland one of every four bananas sold has this certification. In 2002, the benefits for the producers reached more than 30 million dollars. The global growth of sales has been spectacular. In 2003, sales were up 43% on 2002, some 83,500 tons of products with a value of nearly 1 billion dollars. In Africa, Latin America and the Caribbean, there are large-scale established networks of collective organizations of small-scale producers. In Mexico, these are working with cooperatives in business strengthening, and they are able to use whole cooperative fair trade networks. In Brazil, Peru and Chile there are national networks that operate on a similar basis to Comercio Justo México, concentrating on the domestic market.

In considering the impact of fair trade, the following points stand out:

1. The price paid to the producer in fair trade circuits is more than double the price paid in traditional markets.
2. The need to supply good quality goods and services because of market pressures means that fair trade goods gain pre-eminence.
3. Beyond promoting quality, fair trade has helped in many instances to regulate and shut down abusive intermediaries.
4. The horizontal integration between small-scale producers has enhanced their negotiating

capacity, their business competitiveness and their capacity to come up with policy proposals.

Fair trade has demonstrated commercial viability. The costs associated with the social and environmental dimensions can be added to the traditional one-dimensional concept of quality to turn it into a three-dimensional concept. Fair trade ends up being profitable for all, including private enterprise. This is possible thanks to the capabilities of the producers, the goodwill of business, and the interest shown by consumers. Success has depended on clear rules, communicated well to consumers and backed up by a credible system of certification. Consumers across the world are showing their appreciation for this multi-dimensional definition of quality and are demanding that it expands further by expressing their preference for goods that enjoy social and ecological certification. In Latin America, the average consumer still exerts little pressure over products compared with other parts of the world. Some multinational companies now offer some products with the fair trade label in various US and European markets, but not in less developed countries. Fair trade provides a unique opportunity for some firms to gain competitiveness through leadership in CSR.

In Mexico, companies like Carrefour, Dunkin Donuts, McDonald's and Starbucks now include and support fair trade products, although it is still only a minority taste. So far, fair trade products have yet to be introduced into the largest chain stores, even though there is growing interest and there are market studies that show that the Mexican consumer is prepared to pay a higher price for this sort of product. Small-scale producers are demanding recognition for their work in order to become responsible for their own development.

Conclusions

With the example of Grupo Fenosa in Colombia, we have been able to show how CSR provides tools to improve business performance. To meet the consumption needs of the most disadvantaged using innovative solutions helps provide access to new markets while simultaneously serving people who traditionally have been ignored by government and the private sector. The collaboration of all actors is indispensable in building the right conditions for business activity and in acquiring the necessary knowledge about the community to respond to its needs in an opportune way.

We have also seen how the promotion of responsible business through providing special mentions and awards is a good way, at least initially, of convincing firms that CSR makes business sense. Later on, it becomes essential to be monitoring and oversight to verify that the firms are actually doing what they say. In any event, it is an initial way to capitalize on CSR activities among those companies for which reputation is particularly relevant.

For the unions, inter-governmental relations are of special importance in view of the global nature of economic activity. Through the various institutional arrangements that already exist and recognition that the workers' rights know no frontiers, firms can honor their responsibilities to employees and their families.

While the fall in international market prices for coffee has meant ruin for many producers, the prices paid under fair trade have allowed others in the same regions to achieve decent living standards, greater economic security and at the same time to provide the opportunity to build gradually better prospects for their communities. Furthermore, the workings of fair trade cooperatives have brought about a number of secondary benefits that help sustainable development.

Fair trade also provides a way by which historically and socially disadvantaged communities can rebuild their self respect. It involves a comprehensive application of CSR in businesses and markets. Responding to environmental and social responsibility in a superficial way, as the private sector sometimes does, is a fruitless exercise that is prejudicial to those who adopt CSR practices in a strategic way. CSR, like fair trade, can make the term 'competitive' mean something else than reducing environmental and social production costs and transferring them to the rest of society.

SECOND ROUND OF BREAKOUT SESSIONS

Session B: Communication of the CSR Strategies

Monday, September 27, 2004

Italo Pizzolante

President, Pizzolante Comunicación Estratégica, Venezuela

The aim of the session was to analyze how companies can properly communicate their activities in the area of CSR and create fluid channels of communication in relating to stakeholders. The panelists were Antonio Boadas, director for external relations at Procter & Gamble in Venezuela; Roberto Aguirre, executive director for institutional communications at Grupo Financiero Santander Serfin in Mexico; Alberto Vollmer, executive president of Ron Santa Teresa in Venezuela; and Edgar Rodríguez, director of strategic communications at Cemex, Mexico.

The various presentations dealt with the issue of social responsibility from the point of view of the realities that need to be taken into account by those who seek a strong position in world markets. Among other things, the panelists discussed the importance of understanding the scale of the impact that firms have on society, the issues of concern to stakeholders, and the best ways to communicate and respond to market changes. The group of experts on the panel also analyzed the best ways of publicizing the CSR strategies used by firms, both from the practical and more conceptual points of view.

Times have changed, and in addition to the required norms of good corporate governance within the firm and the need to become more competitive, companies are called upon to be social actors. Having a picture taken with a check is less useful than listening to what a community or union representative has to say spontaneously and this is not hard to do. Donating money is not necessarily an act of social responsibility; what the community values is sustained action. Firms tend to be overly preoccupied by image, less so their identity or personality. Corporate culture is typified by their involvement in the activities of all those stakeholders who seek coherence and consistency between what firms proclaim in their social reporting and what they really do.

Companies need to rediscover the virtues of transparency and ethical behavior in the countries where they operate. No company can be successful, and consequently no country can be competitive, if public opinion distrusts its business community. For this reason, communicating to the community what is being done in the area of social responsibility helps raise levels of public trust in the firm. There is nothing more real than perception, and thus trust depends on how actions are communicated to others.

Antonio Boadas, director of external relations at Procter & Gamble Venezuela, pointed out that every individual perceives reality through its own prism, and for this reason there are many different perceptions of the same thing. When communicating, a firm should be careful of the risks it is taking, what objective it has in mind, and where the message is directed.

Society has problems, and it is for this reason that it wants solutions, not promises, irrespective of where they come from. With this in mind, it is important to be clear that social responsibility is not just a new form of public relations. It requires intelligent management that produces actions before these can be communicated, Mr. Boadas stressed. He argued that the firm needs to be part of the solution and encourage programs that mesh with their organizational structure and business strategy. Also they should listen first and then act, while developing strategic alliances with other organizations. Similarly, the firm needs to define its program priorities in line with the needs of the community, not the needs of communication.

It is also vital that business leaders are committed to activities of CSR. According to Mr Boadas, this provides the guarantee of sustainability. The most important thing is that CSR programs maintain respect for communities, organizations, shareholders and the firm itself. Their needs need to be listened to. They have to work as a team to produce solutions and be aware of the fact that these are processes that yield results over the long term.

It is important to see strategic communication as a sustained effort to generate trust, harmony between different interests, and respect, both within the community and within the firm. While the firm seeks to make its operations more efficient and aggressive to reduce its costs, citizens are determined to claim their rights and defend them. Society demands respect for

the environment. It may denounce exploitation and even organize blockades of those factories and supermarkets that sell goods that do not meet expectations about the role a firm should play in society. The new business reality – whether public or private – is one where firms confront a multiplicity of audiences which use the media, NGOs, the academic world and the authorities (among other pressure groups) to make their opinion known and to influence the way businesses are run. Therefore today's challenge is to achieve sustainable competitiveness, and this can only be done if the CSR vision is included.

CSR as a pillar of business strategy

The purpose of a sustainable firm is to generate welfare, and this means sensitivity to the concerns of the community and the country. **Roberto Aguirre**, executive director for institutional communication at the Grupo Financiero Santander Serfin in Mexico, explained the approach of this financial institution towards the needs and concerns of the community and the country. For the Grupo Santander, social responsibility is one of the pillars of its global strategy and it practices it in every country where it has a presence. It is fundamental to guaranteeing the longer-term success of its business model, and provides an ideal way of bonding with the community in the pursuit of the common good.

Although society and the environment are key areas for the Group, education is even more important. The company maintains various programs to encourage education. Santander sees higher education as one of the main motors of development. For this reason, it created the Universidad portal. This is the world's largest virtual university, grouping 736 universities and serving 8 million students. In addition, it has also created the Miguel de Cervantes virtual library, a free-access portal with more than 12,000 digitalized volumes in Spanish. On top of this, there are different campaigns to encourage workers and the community

in general to contribute to promoting education for children from poor backgrounds. In the case of workers, this is achieved by discounting their wage packets and of customers by donating a peso for every withdrawal from an automated cashpoint.

Mr. Aguirre also mentioned some other Banco Santander campaigns in countries where it does business, such as a support program for victims of fire and the development of forest protection called 'Reconstructing the Future'. In its backing for *Medecins sans Frontiers*, the Banco Santander Central Hispano vaccinates 50 children for every person on its payroll. And its program 'Giving a Book Has No Price' it collects books in order to give them to children, young people and adults who lack access to educational materials. He stressed that the Grupo Santander invested 71 million euros worldwide in projects for education, community and the environment in 2003. As a result, it has improved its methods of communicating with shareholders. Furthermore, Santander and its suppliers offer competitive prices, uphold quality requirements, and provide commitment to society, the environment and human rights, as well as being a member of the UN Global Compact. All this serves to enhance competitiveness.

Banco Santander believes it important to publicize the various activities in which it is involved, not just because in some instances it helps realize the increases in competitiveness derived, but also because the example acts as a stimulus for other firms to begin investing resources in these sorts of programs.

Deeds not words: the Alcatraz project

A model of corporate organization and governance needs to be designed that is symmetrical and consistent with a firm's activities, geared to its business plan and works in harmony with the interests of the society to

which it belongs. The motivation should not be just altruistic; for social action to be sustainable it needs to be linked up with the internal workings of the firm.

We confront a new model of community relations with two aspects. On the one hand, there are firms that are sensitive and committed to the country and its people, who see beyond their own profitability and aim towards social profit. On the other, there are communities that make up social and political sectors which, far from accepting traditional types of paternalism, are keen to participate and are committed to a new model of accountability, balance and mutual respect. Both sides exercise rights in this model, but also duties. The firm and the community thus create a climate in which they can come together and harmonize their interests, both their own internal relations as well as with the outside world. Balanced social programs are required that do not involve the substitution of roles and responsibilities in pursuit of the common good. The state has its



responsibilities, and the role of civil society is to demand that it carries out its obligations. In spite of the well-known shortcomings of the state with respect to many social programs, it should not be the case that these are borne instead by the private sector. This would be inappropriate and risky.

Responsible corporate competitiveness, the theme of this panel, should be based on strategic business communication, taking as its starting point the mandate set by shareholders. At the same time, the firm needs to take on board the social and environmental aspects in order to produce benefits. This new vision involves acting in ways that are responsible and aligned with the interests of all stakeholders, not just shareholders.

In the opinion of **Alberto Vollmer**, executive president of Ron Santa Teresa in Venezuela, strategies of social responsibility need to be publicized in order to motivate other businessmen into supporting such initiatives, encourage greater cooperation between business and government and, last but not least, stimulate those involved in these programs to continue believing in them.

Ron Santa Teresa is involved in six projects that respond to social needs in the municipality where it is based: Camino Real for housing; the Taller del Constructor Popular for generating employment; Fundación Provida to instill social values; Consetours for education; Visión Revenga for planning; and finally Alcatraz, its flagship project.

Adopting the philosophy of 'deeds not words' and in view of the fact that the higher the risk the higher the return, Alberto Vollmer and his team have established Alcatraz, a project geared towards integrating socially maladjusted young people. The project seeks to establish a radical change in the negative way in which such problems are usually viewed, seeing them instead as opportunities. The program would not be possible without committed support from the company's top management.

For Vollmer, the keys to communicating strategies of social responsibility are having the goal and terrain well-defined, demonstrating a positive attitude, and dealing with issues that are of real social concern. The

objective is to achieve radical change, not just to generate publicity for the firm. The idea is to make the crisis work for the firm.

During the first six months of the project, the combined efforts of Ron Santa Teresa in social investment brought a reduction of 40% in the crime rate over the whole of the municipality, and 85% in its administrative center. From the business point of view, the project has won over future leaders, as well as helping to protect its installations and the communities within the municipality. It has received extensive coverage in the national and international press, and has involved a high proportion of employees. Through the six projects, important alliances have been forged with key social actors, and a greater degree of identity and solidarity has been achieved among both customers and consumers.

Communication versus information

Edgar Rodríguez, director of strategic communication at Cemex, Mexico, began with a quotation from Dominique Wolton:

“The end of physical distance reveals the importance of cultural distance”

The phrase highlights the challenges that face business communication management. The first challenge is that 'the other' (customer, community member, government etc.) that was previously a distant ethnological reality is today a sociological reality which has to be lived with. That 'other' ceases to be an incidental point in the business strategy and has become an integral part of it.

The second challenge, according to Mr. Rodríguez, is to understand that transmitting and informing are not the same as communicating, since the former does

not involve building links with the other party. Information is not sufficient to create communication.

The third challenge in the sphere of corporate communications management is that the firm has to understand that the hitherto distant and unknown recipients are neither passive nor static. Their interests and motives are dynamic and evolving. This makes it incumbent to know and understand both the context and the drivers. To design strategies, the factors producing change and where they come from both need to be understood.

The last challenge referred to by Edgar Rodríguez is that corporate communications form a single whole. Management of internal and external communications are not independent of one another. They cannot be separated out, therefore, not least when talking about social responsibility. The balanced inter-dependence of these two spheres provides the basis on which the reputation and credibility of firms' activities are built.

Different interest groups are involved in communication, and this is why it is important to position oneself and know where CSR activities are to be located in an effective communications plan. The plan should inform (collect, analyze and disseminate information), build an image (to have a place in public opinion, enhance trust and strengthen a sense of identity), and finally create collaborative links that at once help improve public opinion and contribute to the building of coalitions and trust.

Edgar Rodríguez highlighted three key principles:

1. Communicate actions of responsible competitiveness to a diversity of actors.
2. Communication is a form of participation that consists of building a model and acting on a joint basis with counterparts.

3. Planning is no substitute for implementation.

Social responsibility is a crucial aspect of a firm's comparative advantages. For this reason, assuming that the firm incorporates the concerns of those who surround it in its plans for business growth, Mr. Rodríguez claimed that it would be well placed to meet the challenges in different markets. To sum up, he pointed out that firms are bound to communicate and do so all the time. If a firm is to be successful in communicating its activities in the field of social responsibility, its communications strategy should be simultaneous, coordinated and consistent.

Conclusions: A starting point with neither formulas nor special recipes

Firms always have formal communicators, and also informal ones, whose actions condition the perceptions that other actors have of the firm. It is for this reason that communicators need to develop skills, so that their message is coherent and consistent with the firm's image.

The challenge is to break with the myth that it is inappropriate to communicate a firm's efforts in favor of the wider community, even though people may understand it to be their duty, thereby (albeit for well-intentioned reasons) forestalling the firm from building up a network of allies. On occasions those communities that benefit may be prepared to defend the firm and make their views public in order to continue receiving the honest social benefits that the firm provides. This is not a question of empty publicity; there are ethical and transparent strategies through which it is possible to strike a balance between actions and words.

Previously it was enough for firms to build a reputation on the basis of productivity or the quality of their products to build market credibility and loyalty; today it is all the more important to create and

maintain trust. The sort of human capital that we need to grow together and build trust is one based on clear and solid ethical values, where you do what you say and you defend what you believe in by setting the example. Transparency is a necessary condition for responsible competitiveness, something which needs to underpin intentions, actions and results.

Firms generate a good reputation by building and maintaining public trust. In turn, trust is maintained by responsible activities. The communication of strategies of social responsibility is the means by which the result of such activities translates into trust.

There are no ethical firms as such, rather firms that have ethically-minded professionals that build socially responsible companies. Firms are not socially responsible for the large investments they might make in community action programs, but for the way that they behave with respect to their human resources and the linkages they develop with customers, suppliers, shareholders and other stakeholders. The task of communicating is the task of harmonizing different interests.

The II Inter-American Conference on Social Responsibility is a starting point, without formulas or recipes but based on experience and deep reflection. The arguments to emerge from this event provide a basic tool for education, where social responsibility connects with the individual, the individual with the firm, and the firm with society. The result is not that the big does away with the small. Rather the one who understands and acts quickly is the one that triumphs.

SECOND ROUND OF BREAKOUT SESSIONS

Session C: Inter-sectoral Alliances

Monday, September 27, 2004

Audra Jones

Representative, The Inter-American Foundation (IAF), USA.



Introduction

The panel consisted of Dan Runde, specialist in outreach and alliance development at the US Agency for International Development (USAID); Daphne de Souza Lima Sorensen, principal program officer at the Citizen Development Corps (CDC) in the United States, who, along with Tim Miller, project leader and legal representative of Montana Exploradora of Guatemala, presented the case of Glamis; Beatriz Febres-Cordero, director of corporate relations at Manufacturas de Papel in Venezuela, and Norma Treviño, public relations official of Supermercados HEB in Mexico.

Whether or not a company should involve itself in association with the communities in its area of influence is something that no longer needs discussion. The question now is how to reconcile the motivation of the company to build alliances with the needs of the community. The aim is to achieve sustainable and participatory collaboration that leads to changes that favor the most disadvantaged on an ongoing basis.

This panel on inter-sectoral alliances presented a number of experiences and the best practice that can

be derived from them. Such alliances can result in social investment in which both companies and communities emerge as winners.

Risk management and stability

Participation by firms in the social sector may be used as a way of minimizing previously identified risks or in preparation to confront their consequences. A company whose operations face possible opposition from the community may often wish to work with it to prevent possibly negative reactions.

In July 2003, Glamis Mining Company signed an agreement with Citizens Development Corporation (CDC), an NGO based in Washington DC, USA with global experience. The association between Glamis and CDC involved establishing and managing a multi-sectoral community development project with and for the benefit of local communities living the consequences of this new gold mine close to San Miguel, Guatemala. The purpose of the project is to raise the quality of life, providing services in areas like health, business development, professional training and in agro-forestry and environmental management. The short-term costs were financed wholly by the mining company.



Glamis' interest in investing in the communities of San Miguel stems from the recognition that the company hopes to exploit the mine for the next 10-15 years. Its collaboration with CDC is part of a long-term project not just to establish good relations with the community but to provide return to the community as quickly as possible. Similarly, it seeks to create sustainable economic opportunities that reduce the likelihood of the communities becoming too dependent on the company and, in the end, rejecting it. In this way, the company is trying to achieve and keep its 'license to operate'.

To be successful, CDC coordinates its projects through a recently created NGO, Sierra Madre, set up to develop capabilities and to promote sustainability in the community. Given the wide range of the program, CDC has also entered into association with other organizations to fulfill more specific objectives. Project Concern International (PCI), for instance, has been brought in to manage activities in health, alongside a Guatemalan counterpart, the Asociación de Promotores de Salud de San Miguel (APROSAMI). Its first activity was to hold a health fair through which 700 people from neighboring communities received treatment for their pediatric needs, pre-natal care and general medical needs.

Other partners include the Fundación de Asesoría Financiera a Instituciones de Desarrollo y Servicio Local (FAFIDESS), a local organization with great experience in microfinance and community banking, and the Instituto Técnico de Capacitación y Productividad (INTECAP), a state entity that supports initiatives for professional training and skills formation for men and women in areas like carpentry, bricklaying, baking and sewing. All these organizations are Guatemalan.

Tim Miller of Montana Exploradora de Guatemala S.A. explained that Glamis approached CDC looking for a strategic partner for its investments in the country, in view of its global experience, its resources and especially because of its experience in similar projects elsewhere in the region. CDC, jointly with its staff of professional volunteers, provides the necessary knowledge in local socio-economic development to implement the project.

Daphne Sorensen of CDC added that her organization takes charge of such aspects of the program as the development of micro, small and medium enterprises, professional training and other community-based activities to promote economic development. CDC goes still further by lending assistance to these firms in areas like business management, human resources, sales, operational

aspects, quality management and sectoral technical assistance.

Working with global NGOs through local actors, Glamis has established an association that ensures good practice within the context of surrounding communities. Also, the creation of the Sierra Madre project and its strategic alliances with other NGOs has helped boost sustainability and the level of community participation in the project, thereby diminishing the chances of conflict with the local people.

Building stable markets

In Latin America, more than 60% of the population survives on less than one dollar a day. The region's governments are not attending to the most basic needs of their communities. Thus it is that companies are investing ever more in these to promote a stable society in which they can produce and sell products. Such investments have a direct and positive impact on the companies' profitability, as well as on the quality of life of the inhabitants. Although corporations in the region do not receive tax benefits as they do in the United States, the private sector has taken an important step in complementing and sometimes replacing the efforts of government, given the difficulties faced in encouraging social stability, creating employment and creating a climate in which businesses can work effectively. In spite of all the social problems, the private sector cannot take responsibility for matters that correspond to the state in providing basic living conditions for its citizens.

Beatriz Febres-Cordero from Manpa S.A. described the case of her own company. This is a firm producing paper in Venezuela which came forward and implemented an innovative initiative, a network of community recycling programs. The Programa

Papyrus began as an outgrowth of the philanthropic activities of the firm's founding family, the Delfinos. Today, the program has grown and has turned into a strategic business ally and a source of direct benefits to those low-income Venezuelans who take part in it.

Between 1998 and 2000, primary and secondary education underwent a sharp decline in Venezuela. What had previously been a country geared to educating its people, had turned into a situation in which more than 44% of young people were excluded from the formal educational system. Of those who went through the system, 69% tended to abandon school before completing secondary education. At the same time, poverty in Venezuela is calculated to affect 67% of all households. And, as is still the case today, 90% of the population lives in poorly-planned urban neighborhoods. It is hardly surprising that the 260 kilos of waste produced by each Venezuelan each year is turning into a major environmental and health problem. In sum, Venezuela was on a trend downwards to poverty, lack of education and concentration of people in urban areas⁸. These demographic figures combine with a historical culture of dependency promoted by an oil-rich state that has left many Venezuelans poorly prepared to take on roles of leadership in society, especially among those communities with the lowest incomes. The Papyrus Program is an excellent strategy to help the most disadvantaged communities which suffer the levels of deprivation given in the statistics above.

With co-funding from the Inter-American Foundation (IAF) and the state oil company, PDVSA, the Fundación Papyrus was given a three-year grant to implement recycling programs in 120 secondary schools in the states of Aragua, Falcón, Zulia and Caracas. This ambitious scheme was designed with care from the outset. This meant the strategic selection

⁸ Figures from the UN Development Program (UNDP, 2000)



of those involved, plus their training, the consolidation of the project, and finally the hand-over of the project to the executing partner at the end of three years. Specifically, the Acción Papyrus model consisted of three phases over three years: (i) the development of an implementation program; (ii) consolidation; and (iii) sustainability. The first phase consisted of the selection and incorporation of schools, and then the building and training of a team. The second phase involved the consolidation of each program according to the conditions in each school. The third phase aimed at the school to be able to implement the program once it was handed over, expanding it and forging new strategic alliances as appropriate.

Hitherto, the success has come from involving communities throughout the process, from design to implementation. It is thus based on the skills demonstrated by communities in establishing and maintaining strategic alliances with all sectors of society in a difficult political context. It also depends on the mix of responses to the specifics of implementation in each community, along with the strength of their commitment to both the mission and the methodology used. This case study suggests that even those firms working in very complex political and economic conditions can develop successful CSR programs at the community level, both to their advantage and that of the beneficiaries. This can happen where attention is focused on both the interests of business and the community.

Jointly with the IAF, Manpa is contemplating a second phase of the program. Specifically, it is evaluating the potential for including low-income populations directly into its supply chain as suppliers of raw material, for instance recycled paper. For Manpa, imports from the United States account for close to 30% of its

consumption of raw material. The costs of purchase and transport are constantly increasing because of the weakening of the currency, and this makes the idea of having local suppliers of recycled materials much more attractive.

Manpa and the IAF have also commissioned a study not just on recycled paper but also other materials, like glass, aluminum and plastic. The study will consider the unique social conditions of those who collect trash and will evaluate their interest and capabilities working collectively in cooperatives or as small entrepreneurs. If the project proves successful, it could enable these low-income communities to prosper, and move from collecting waste products to adding value with the appropriate capital and technology.

Innovation

A second type of utilitarian motive is the search for comparative advantage. It is possible that an improvement in image or an increase in market share is what drives a firm to become socially committed. In this respect, an innovative form of association is that between HEB supermarkets in Texas, USA, and the Banco de Alimentos de Cáritas de Monterrey (BACM) in Mexico.

As a supermarket with more than 20 million customers, HEB is clearly tied into the food industry. The company is committed to using its skills to support the communities where it works. As **Norma Treviño**, head of public relations at the Mexican division of HEB, explained, the company launched in 1983 its Food Bank Assistance Program (Programa de Asistencia Banco de Alimentos), through which it distributed by 2001 more than 150 million pounds of donated food to 6,000 organizations through food banks in the United States and Mexico. Indeed, the Banco de Alimentos was but one of various initiatives

for strategic donations. The firm concentrated its efforts on four key objectives: (i) to eradicate poverty and malnutrition; (ii) to improve education in public schools; (iii) to support charitable institutions that provide assistance direct to those in pressing need; and (iv) to provide support in cases of natural disasters.

The alliance between BACM and HEB was developed at the end of the 1990s when malnutrition was still a problem in Mexico in spite of the various programs established to reduce it. According to the Health Ministry, malnutrition was the fifth most important cause of infant mortality in 1996, when HEB and BAMC got together. According to the 1996 National Food Survey (ENAL), 45% of Mexicans under five suffered one form or another of malnutrition; and 36% of affected children lived in Nuevo León, where BAMC is based. State governments implemented some very limited programs for which they were dependent on the federal budget. Public sector programs were therefore limited both in terms of scope and results. An additional problem for poverty relief programs was that in food retailing, most of the goods unfit for sale were not used for charitable purposes but they were sold at a discount in secondary or tertiary markets.

When HEB established itself in Monterrey, it decided to donate to BACM goods that were unfit for sale but fit for human consumption. The move was a statement of the company's core values. While HEB traditionally maintained a discrete stance towards its network of social contacts in the community, Norma Treviño suggested that the moment had arrived to strengthen its public relations program by publicizing its activities and the achievements of the chain in Mexico given the alarming state of nutrition among low-income communities. Publicity to HEB's community service could help improve its image among various interest groups. At the same time, it might help

speed up the construction of new stores and the start-up of operations where the firm had no presence. Neighboring communities would be better prepared to welcome a new store if they were aware of the benefits it might bring,

HEB and BAMC have institutionalized their collaborative venture which began in 1996. Since then, the supermarket and the food bank have created a series of products and staged events that enabled BACM to raise its capacity to meet unattended nutritional needs by 2005. Without a formal agreement, the two organizations have continued to grow together to the point that their collaboration has become very fluid. At one point, HEB began to use BACM's warehouses to store products in advance of the inauguration of new supermarkets in Monterrey. By paying it rent, BACM was able to generate income from its excess capacity. Today BACM is regarded as one of Mexico's best food banks, not just for the volume of food it manages but because its efficiency has been enhanced by learning from its deals with the private sector. HEB's administrative staff shares their specialized technical know-how with BACM personnel. For instance, when BACM needed training in comparing its performance, HEB organized a meeting with members of its own staff to facilitate the transfer of know-how and its own experience.

HEB and BACM have staged a series of communication events to publicize their work together. As this communication expanded, new associations – both direct and indirect – resulted. BACM forged alliances with philanthropic organizations and with companies that contributed to it in both cash and kind. HEB also developed strategic alliances in the social sector that did not include BACM but which pointed the way to other strategic social investment priorities in education and humanitarian assistance.

What began as a low-profile act of philanthropy has generated positive public relations for a company keen to expand its market share in the Mexican food industry. Given the alarmingly high rate of malnutrition, the collaborative venture between HEB and BACM was based in large measure on the firm's desire to put into practice its good intentions by supporting low-income earners in the Mexican state of Nuevo León.⁹

Government as partner

Multilateral and bilateral agencies are approaching the private sector to promote the development agenda. States have withdrawn from what was previously a key responsibility – resolving diverse social problems – at the same time as privatizing their sources of income. Consequently, all sectors of society are called upon to contribute to economic and social development, especially in less developed countries. Private enterprise is contributing a good deal in its support for local and sustainable economic development. As a result, many bilateral and multilateral agencies are backing up the private sector to exploit the potential for associations between the community and firms and to maximize the positive results achieved.

The IAF, in its capacity as an independent agency of the US government, has been working for nearly 15 years in association with the private sector to support grass-roots movements throughout Latin America and the Caribbean. Taking this experience as a starting point, the IAF continues to co-finance projects in support of participatory and innovative alliances between corporations and low-income communities. The Papyrus program with Manpa was financed by the IAF, first as a strategy of social investment and more recently in an effort to initiate projects that directly integrate communities in the value chain of that company's various business lines.

The US Agency for International Development (USAID) provides most of the foreign assistance given by the US government and takes advantage of the value generated from association with the private sector to push ahead on the development agenda. USAID's mission is to promote economic growth and to support development in health, education, the environment, democracy and governance, as well as to help when natural disasters cause humanitarian crises. In pursuit of this mission and in order to take advantage of the private sector's potential as a partner in implementation, USAID set up the Global Development Alliance (GDA). **Dan Runde**, specialist in outreach and alliance development at USAID, shared some of the lessons learned by GDA from its collaboration with the private sector.

By way of context, Runde emphasized that in 2000 private foreign direct investment accounted for around 40% of total capital flows to the developing world, compared with 14% in the case of the US aid program. The private sector has to establish itself within the communities of these countries, and for that it needs guidelines for social investment in sustainable development in local communities. Bilateral agencies like USAID and the IAF can help satisfy this need for specialized technical know-how.

To date, the GDA has concentrated on its relationship with agroindustrial and extractive companies in Latin America and the Caribbean. Runde highlighted the experience with extractive industries. Companies working in oil, gas and metallurgy have discovered that it is beneficial from the business point of view to undertake effective programs that commit to working with surrounding communities. However, many lack the necessary skills to establish and pursue such strategies.

⁹ HEB International Supermarkets and the Banco de Alimentos de Cáritas de Monterrey, SEKN Case: SKE004, 2003.

The GDA provides effective support for corporations like Minas Buenaventuras, Peru's largest company. In 2002, Buenaventura and the GDA joined forces to create an anti-poverty support center in Huancavelica, with a view to stimulating employment in this province, one with the lowest development levels in the country and one where the economy is basically involved in mining. It is the eleventh such center that USAID has supported in Peru. Indeed, Buenaventura went beyond the model with its community investment program. The center provides a range of support services to promote economic development, namely: identifying companies interested in contributing capital to local companies; facilitating contacts between purchasers and local producers; and providing contacts to access markets, finance and means of transport.

Conclusions

What is it that involves firms in social responsible activities? Altruism and solidarity have been important drivers for the Latin American private sector in creating commitment to the community. Many business leaders, especially family firms, describe this social commitment as a way of 'doing the right thing' from an ethical point of view, given the region's Catholic tradition of charity. However, firms increasingly attribute their social investment in communities to utilitarian motives related to the management of risk and the search for comparative advantage.

Recent economic recessions in Latin America and the Caribbean are obliging corporations to invest in their communities and to promote economic and social stability, one of the prerequisites for business survival. From the comments of the panelists, it became clear that motives such as risk management and the building of stability (including markets), the need to establish alliances with government, and the search for innovation in accessing new markets are all reasons that justify social investment from the business angle.





THIRD PLENARY SESSION

Corporate Social Responsibility: Conviction or Protection?

Tuesday, September 28, 2004

Antonio Vives

Inter-American Development Bank¹⁰



Introduction

The movement for Corporate Social Responsibility has acquired considerable uplift in recent years, especially in Latin America where many companies are seeking to update themselves with respect to more developed countries. Like all rapid changes, some see it as a passing fad, while others (with natural skepticism) see ulterior motives that go well beyond simply being responsive to society. Many firms stand accused of using CSR as a public relations strategy and as a pretext for hiding irresponsible behavior. In particular, many NGOs consider that there is little of substance behind the movement for CSR, and what are needed are deeds not words.

A number of critical issues arise for the future progress of CSR:

- If companies are unable to show society that they are responsible, do they continue being so?
- Is not behavior determined by the capacity to exploit it?

- Is it the case that companies have adopted socially and environmentally responsible practices just to protect themselves from attacks by civil society?
- Is it the case that firms adopted responsible practices as a preventative measure to avoid some of these practices, and some that they have not adopted, being made obligatory by law or decree?
- Should the just pay for the sinners? There are certainly firms that are irresponsible, but should regulation be imposed for everybody in order to avoid the activities of some who act incorrectly?
- Is it the case that some firms dedicate themselves to philanthropy and contribute to the community to allay their conscience?
- Are some NGOs insatiable, and when they see progress they just want more, fearful of becoming irrelevant or even endangering their own existence? Is it for this reason that they accuse firms of using CSR as a mask?
- In sum, is the firm responsible by conviction or self-protection?

After presenting the discussion of the panel, we will try to provide some answers to these questions.

¹⁰ The views expressed in this article are not necessarily those of the Inter-American Development Bank.

Recently, NGO reports have been published making such accusations. The best-known is that of Christian Aid, called *Behind the Mask*¹¹, in which three companies – Shell, British American Tobacco (BAT) and Coca Cola – are accused of the sins mentioned above. In particular, the allegation is made that CSR is just a mask to hide irresponsible conduct. It argues for obligatory regulations in the field of CSR for all companies, including activities outside the country of origin which should be ruled by the legislation of the home country (presumably stricter and with better enforcement procedures). Even though the report is comprehensive, it suffers from some serious methodological errors since the firms criticized were not asked to give their side of the story. The argument given by Christian Aid is that consulting the firms that are criticized might compromise its independence.

Another example are the reports by Friends of the Earth (FOE) from the United Kingdom (2003 and 2004), in which this organization comments very critically on the reports of Shell about its CSR activities in 2002 and 2003. In the most recent, called *Behind the Shine*,¹² the company is accused of putting “more effort into deception than into action”, and arguing in addition that “in reality nothing has changed”. It also asks for laws and regulations that would oblige firms to protect the environment and those affected. This report is based on information provided by the affected parties, who clearly have their own axe to grind. Neither does it provide an overall view of the activities of the company, with both its virtues and defects.

The debate is fairly highly charged because of the increasingly extreme positions adopted as the debate

goes on. For the purposes of improving corporate responsibility towards society, independent institutions or bodies are required where there can be an objective debate over what firms do well or do badly, taking corrective measures in the case of the latter. This panel seeks to contribute its own grain of sand to this discussion.

The panel

The panel was balanced, with both sides expressing opinions. It included two of the companies targeted by Christian Aid: Shell and BAT. (Coca Cola were present in a panel the previous day). They offered their outlook and opinions about the legitimacy of their activities in social and environmental responsibility. Peter Kidd from Shell and Richard Pierre Sucre Danowski from BAT described how CSR was integrated into their business strategy. They rejected the accusations against them and set out arguments in favor of conviction, as opposed to regulations which could have counter-productive effects on behavior. Representing the critics and impartial observers, the panel included Simon Billenness from Oxfam, an internationally renowned NGO in the poverty alleviation field.¹³ Oxfam presented its position, arguing in favor of protection and the need to control business behavior. For his part, Tobias Webb, editor of *Ethical Corporation* (an important UK-based international publication dedicated to informing about CSR and particularly these sorts of controversies) gave his observations on the reasons that firms have for adopting responsible practices. It was a panel well-suited to debating the theme of conviction or protection.

¹¹ *Behind the Mask: The Real Face of Corporate Social Responsibility*. Published in 2004 by the NGO Christian Aid in London, and available on the website www.christian-aid.org.uk/indepth/0401csr/casr_behindthemaske.pdf

¹² *Behind the Shine: The other Shell Report 2003*, published by the NGO Friends of the Earth in London, and available on the website www.foe.co.uk/resource/behind_shine.pdf

¹³ Christian Aid was invited but declined the invitation.

The critics and independent observers

Based on his wide experience in informing on business behavior in developed countries, **Tobias Webb** recognized that firms generally act in response to business pressures. However, he pointed out that there is an increasingly large movement of companies that want to go beyond this and adopt CSR as a matter of conviction. He said that pressures initially came to bear mainly on extractive industries (mining, oil and gas), the tobacco industry and those that are most visible to consumers. The last of these includes clothing and shoes, whose relationships with their workers and communities, as well as their weaknesses in the area of social and environmental responsibility are well known. Other less visible sectors, like finance, technology and tourism, have also come under pressure, as some of the objectives have been achieved in the extractive and tobacco sectors.

Business strategy has been dominated by globalization and intense competition (which affects supply chains in particular), by a short-term view in the behavior of financial markets, and by pressure to obtain ever higher profits. These help explain the rather narrow view that globalization and economic growth will offset the social and environmental problems that they may create.

The belief that firms should only concern themselves with their shareholders, not their contractual relations with the rest of society, has changed. In recent decades, activism at the level of civil society has grown, among consumers, in the media, among regulators and even among investors. This is sending messages to companies. In many instances, the pressures build up until the 'noise' and cost offset short-term demands, and firms begin to respond to reasonable requests from society. Such pressures will continue until the business world catches up with social expectations.

Some firms take the easy course of philanthropy and public relations. The more enlightened have adopted a strategic position, developing methods and procedures to improve relations with the stakeholders involved in their business, initiating a constructive dialogues, and improving the transparency with which they report their socially and environmentally responsible activities.

There are business leaders who do believe that their organizations, as integral parts of society, have a duty to serve it ethically and responsibly. Their companies integrate such thinking into their business strategies and inculcate such ideas among their executives and employees. This is because they are convinced that it is good for business in the long run. Examples include British Telecommunications (BT), Timberland, Novo Nordisk and Novartis, to name but a few. They are examples worth following.

Simon Billenness from Oxfam agreed with this general conclusion and observed that there was an overall trend in the direction of 'conviction' because of the benefits that accrue from social responsibility. Mr. Billenness drew attention to the fact that there are businesses which established themselves with a social mission as well as a commercial one. Equal Exchange in the United States is an example. There are other companies that base their business on profiting responsibly from natural resources, like the cosmetic firm Natura in Brazil, or as traders of such products like The Body Shop (although the latter is changing its business model because of loss of competitiveness). There are also other firms devoted to exploiting the growing market for socially and environmentally responsible products. These trends are responses to two movements that have developed rapidly in recent years: the free circulation of goods, services and capital with globalization, and the accelerated development and expansion of civil



society which increasingly expresses concern about responsible behavior on the part of companies.

The firms

According to **Richard Pierre Sucre**, for a tobacco company like British American Tobacco (BAT) with such a polemical product, there was no alternative to understanding responsibility except through conviction. The possibility of being socially responsible for self-protection would not get the company very far. BAT is aware of the need to take all measures possible to mitigate the effects of tobacco consumption (see the following section: The Audience). According to Sucre, one of the main problems that crops up in the dichotomy between conviction and protection is the confusion about the different conceptions of CSR and philanthropy. Many believe that CSR is limited to philanthropic activities and it is these that create a perception that a segment of society is being bought. *“It is this that makes society doubt the benefits that supposedly such social initiatives bring, and it is believed that they are actions just to improve their image”*. Properly understood, CSR is an integral part of a firm’s strategy, and can only be carried out by conviction.

The firm today comes under a whole range of market pressures; both from shareholders and consumers, and such pressures have a significant impact on its value and reputation.

“Companies today are valued not just by their performance and financial yield but also by their social and environmental performance. This is known as corporate reputation. Reputation has become one of the most important assets of any firm in the global market. Corporate social responsibility is an essential component in building a reputation. For this reason, it should not just be a collateral concern, rather the foundation stone of business success and we all need to be convinced of this... To live and know the value of authentic social programs, in other words programs that go beyond public relations, is what has helped us, as well as encouraging our clients and suppliers to join us in some of our efforts in this field”.

“To answer the question posed at the start of this panel, conviction or protection, I would like to end by saying that ...we are quite clear that the license to operate is given by the government, but the license to prosper is given to us by society.”

For his part, **Peter Kidd**, president of Shell México, stressed that for his company – dedicated to the exploitation of natural resources – sustainable development is an integral part of the business on which it depends. The way in which companies like Shell deal with sustainable development affects their reputation and competitiveness. This goes from the hiring of suitable personnel to the savings on costs through eco-efficiency, by way of materials and energy conservation through clean production processes and steps to reduce present and future costs from gas emissions such as carbon dioxide. This concern for sustainable development also enables Shell to take part in large projects to which it otherwise would be denied access.

“As a result of all this, the firm turns into the first choice for customers, personnel, investors,

suppliers and partners, as well as for the communities in which it does business. In fact, sustainable development is good business.”

“Because it is deeds and not words that are important. We ensure that our policies have a durable effect, and for this reason they should cut across every aspect of our operations. This means that our procedures and systems should be designed so that they ensure that our principles are taken seriously and carried out by top management across the world. For example, as part of our funding requirements, all investment proposals have to include environmental, social and health impact assessments, integration plans for affected parties, estimates of future carbon dioxide emission costs and corresponding mitigation measures. And, of course, they should fulfill Shell’s environmental standards reporting. Indeed, we have designed a sustainable development matrix in our evaluations that guides both management performance and remuneration”.

Mr. Kidd also referred to the criticisms of the Christian Aid report about its activities in Nigeria, stressing that a company cannot be expected to resolve the country’s problems, but that its behavior there was responsible. Here, he emphasized that the company generates financial resources for the country’s overall development, while more specifically it supports community development in those places where Shell operates, exploits oilfields in an environmentally responsible way and procures goods and services produced locally. In this way, it contributes to the strengthening of local industry and transfers technology in the process. It was one of the first firms to support the initiative to report all payments made to government by way of royalties.

Shell has been among the pioneers in reporting on its activities, not for publicity purposes but to provide transparency and inform stakeholders about its commitment to sustainable development. For Shell, it is obvious that corporate social responsibility, or sustainable development, is not just a matter of conviction, but the only way to do business and be competitive in international markets.

The audience

The topic stimulated great interest among the audience, and there were dozens of questions. One of these related to whether it was a good idea to strengthen conviction through legislation. Tobias Webb said that it depended on the case, but that in the United Kingdom the preference had been to encourage responsible practice through principles of behavior, while in the United States the use of legislation and regulation is being studied, at least on matters of corporate governance since the approval of the Sarbanes-Oxley Act. This law requires such levels of effort on the part of companies that instead of generating conviction it is generating a culture of compliance with the minimum standards required by the legislation. However, in other cases, like Japan, where due to the strictness of environmental protection laws there has been a strong movement towards product innovation in order to comply with legal requirements. This has led to a competitive advantage in global markets. The impact of legislation depends on context and its nature. It needs to be well designed, because having laws that do not reflect reality is worse than having no laws at all. The recent example of the United Kingdom with respect to obligatory reporting of non-financial activities by major firms is a good example of legislation that tries to stimulate conviction. CSR has to be reported on, although the law does not lay down mandates for responsible practice. The idea is that the reaction of competitors to the need for reporting will stimulate voluntary action.

Many of the questions were directed at BAT, questioning how a company producing a product dangerous to health could pretend to be socially responsible. Richard Pierre Sucre urged the adoption of a comprehensive view of the problem, which is exactly which BAT is implementing. Recognizing that tobacco addiction begins in youth, BAT has struck up dialogues with government and society from which education campaigns have arisen for parents and young people about the effects of smoking. At the same time, advertising has been moderated and includes general product information. This is just the beginning of a long-term policy driven by the desire to be responsible about such a controversial product.

The solution of asking the firm not to manufacture the product cannot be put on the table, since it would lead to large losses for other sectors. What would be desirable for a responsible company is to have a long-term strategy for mitigating the harmful effects of the product, as well as an exit strategy from this business area that does not cause traumatic financial loss, either to the company or other sectors of the population.

Conclusions

The main conclusion arising from this discussion is that it is not possible to generalize. To talk about the social responsibility of a firm is not to say that firms as a whole are responsible or irresponsible. There are firms of both types. Generally speaking, there are firms that are convinced and others that abuse the concept, and even those who may be convinced continue committing errors. A firm is a complex collection of individuals and the procedures designed by them. As such, it is quite possible that some people, from the president downwards, make mistakes, or those procedures fail due to, for example, the incentives and rules about responsible behavior are inappropriate.

All this does not mean that we should ‘throw out the baby with the bathwater’ and attack the CSR movement in its entirety for the fact that some unscrupulous businessmen hide behind the mask. We need to remove the mask, but without making the just pay for the sinners. The Christian Aid report generalizes “*The problem with CSR, we argue, is that it is incapable of fulfilling its grandiose promises*”. In this way it attacks CSR as a whole because it has found some examples of non-compliance by firms that claim to be responsible.

At the beginning of this section, we raised some questions that we can now attempt to answer:

- If companies are unable to show society that they are responsible, do they continue being so?

It is reasonable to say that the fact that the public is informed of a firm’s responsibility has an important bearing on the continuity of such activities, and that it is probable that if its activities were not known then the firm would be tempted to stop being responsible. Although there are some companies that do not divulge their responsible activities to the wider society and prefer to remain anonymous, most need to publicize it—whether because it yields them comparative advantages,¹⁴ or whether it provides renewed stimulus to keep doing so. The firm should be responsible out of conviction, and if that enhances their competitiveness then so much the better. Although this is the ideal, there are still few companies in this category. In that sense, we should continue giving them the benefit of the doubt and promoting responsible behavior, even though initially adoption will be only partial.

¹⁴ For more detail, see the proceedings of the previous conference held in Panama at the end of 2003.

- Is not behavior determined by the capacity to exploit it?

Unfortunately, for many companies this is still true, and society needs to make an effort so that responsible behavior becomes constant and no longer dependent solely on the profit generated. Dissemination of responsible behavior needs to be at once ethical and objective. So far as possible it should be part of a comprehensive reporting strategy on activities, and not just opportunistic behavior. The traditional techniques of marketing goods and services should be avoided. Though there is nothing wrong in a company profiting from being responsible, what is more ethically dubious is where the aims of responsibility are their promotional effects, and where areas of responsibility are publicized to hide other areas of irresponsibility. Where this is so—and unfortunately there are firms where it is—this gesture of responsibility would be, as Christian Aid says, just an exercise in public relations and of hiding behind a mask.

- Is it the case that firms have adopted socially and environmentally responsible practices just to protect themselves from attack by civil society?

In many instances this is the case, and indeed such pressure is one of the reasons why firms adopt responsible practices. But pressure needs to be reasonable. The firm should not be criticized for obtaining profits that ensure that responsible practice become sustainable. Still less, when the organizations that accuse the companies are benefiting, raising their profile in the society that finances them, through sometimes exaggerated denunciations.

- Is it the case that firms have adopted responsible practices as a preventative measure to avoid some of these practices, and others yet to be adopted, being made obligatory by law or decree?

There are also firms that do this. They take preventative measures to avoid regulations that may have higher costs. Such firms do undertake investment in CSR. It would be desirable were this not the case, but it is a natural reaction of the firm since, among the stakeholders involved are the owners or shareholders, frequently anonymous, who only see it as a source of income. A balance needs to be struck between voluntary and obligatory responsibility. There are some fairly universally-accepted types of responsibility that are non-negotiable and need to be regulated, such as the exploitation of child labor or the spilling of toxic waste. However, there are a large number of types of behavior that are neither black nor white, where regulation may have greater costs than benefits for society. Some regulations can also have the effect of firms complying strictly with the minimum, deterring it from other non-regulated responsible practices that may offset the additional costs that the legislation implies. Additionally, in countries where institutions are weak and where there is little capacity to enforce norms, they can lead to the most irresponsible behavior: corruption.





- Should the just pay for the sinners? There are certainly firms that are irresponsible, but should regulations be imposed for everybody in order to avoid the activities of some who act incorrectly?

The ideal situation would be to have a ‘market’ for CSR (consumers, wholesalers, NGOs, the media, suppliers etc.) which establishes incentives for and penalizes behavior, that rewards those who are responsible and penalizes those who are not. Unfortunately, this market is very backward in developing countries. Meanwhile, it is possible that business associations be required to intervene to put pressure on the irresponsible and thus avoid the full weight falling on the responsible. If that proves unsuccessful too, the government would have to intervene to establish regulations for the amount of time and in the areas it is needed, while the CSR market develops. It is worth pointing out that unfortunately the tendency is to increase rather than reduce regulations when these are shown to be inefficient or unnecessary.

- Is it the case that some firms dedicate themselves to philanthropy and contribute to the community just to allay their conscience?

In developing countries, this is often a generalized tendency. More advanced concepts of CSR are reached from a tradition of philanthropy that may have originated in giving back to society part of what a business takes out of it. Alternatively, it may

originate in a perverted form as the ‘forgiveness of sins’. The way this has evolved means that many companies confuse social responsibility as a whole with contributions of money or in kind to certain groups. When this happens, firms are more open to criticism about their activities being a gimmick to divert attention from their operating practices. However, this should not be read as a criticism of philanthropy. Philanthropy is a type of CSR, but it should not be thought of as the only expression (or even the most important one) of responsible practice. It should also be borne in mind that there is a tendency to use philanthropic activities for purposes of public relations. If firms and civil society understand the difference between philanthropy and CSR it would avoid many of the misunderstandings that link CSR with strategies of protection, diverting attention and self-promotion.

- Are some NGOs insatiable, and when they see progress they just want more, fearful of becoming irrelevant or even endangering their own existence. Is it for this reason that they accuse firms of using CSR as a mask?

There is also some truth in the assertions implicit in this question. Although there are a large number of NGOs that are socially responsible, there are others which are not so transparent. Some finance themselves from contributions that are directly related to their visibility and, to continue functioning, they need to find companies to denounce. While

firms come under scrutiny from civil society, there is no parallel demand that NGOs be accountable to public opinion. This does not mean that their denunciations are not justified, but there is an incentive for some NGOs to exaggerate the criticisms they make about companies.

- In sum, is the firm responsible by conviction or for self-protection?

From what has been said so far, we can conclude that it is impossible to generalize. There are firms who do it through conviction; others because they see comparative advantages in the market, and some have no other way to protect themselves from external pressures, while others make responsibility their business: they produce market products that favor environmental conservation and respect for human rights.

In order to turn from words to deeds, from protection to conviction, we list below some of the measures that can be adopted outside the firm.

- To furnish firms with the business case for CSR, whether in terms of increasing revenue, reducing costs or mitigating risk.
- To develop the market for CSR (educating consumers, the media, civil society, governments, financial organizations, employees etc.) so that it is the market that takes responsibility for unmasking, penalizing or rewarding.
- To take full advantage of and to promote the positive aspects of the CSR movement.
- To develop public policies in support of corporate responsibility.
- To produce regulations and legislation for those aspects that affect society and which are by their nature non-negotiable. These should be regulated, and not left to the free will of companies.

Finally, it is important to challenge the erroneous idea that all responsible behavior is a strategy by firms to protect themselves, and that if it were not for the threats of penalties and regulation that firms would act irresponsibly. This sort of negative reading of corporate responsibility does no favors to anyone. It is therefore key to transmit to the rest of the business world the example of those firms which really are socially and environmentally responsible.





THIRD ROUND OF BREAKOUT SESSIONS

Session A: Strategic Business-Community Links *Tuesday, September 28, 2004*

Estrella Peinado-Vara¹⁵

Inter-American Development Bank



Many firms use their corporate foundations, originally established for purely philanthropic purposes, to manage some of their strategies in CSR, particularly those geared to the benefit of communities. In this session, the strategic linkages were examined between firms (or their foundations) and the community, as well as the transition from more traditional approaches to ones involving greater participation as part of their contribution to social and environmental responsibility. The advantages arising from these new approaches were also commented upon, as well as the results achieved. Taking part in this panel was Claudio Giomi, director of the Arcor Foundation (Fundación Arcor) in Argentina; Margareth Florez, sub-director of projects at the Corona Foundation (Fundación Corona) in Colombia; Leopoldo López, community development manager at Industrias Peñoles, Mexico; and Yazmin Trejos, head of corporate social responsibility at Amanco in Costa Rica.

Graciela Pantin began by reflecting on the need for foundations and firms to be proactive. The challenge lies in how to measure results and evaluate effectiveness. She referred to RedEAmerica¹⁶ which,

with help from the Inter-American Foundation, (IAF) arose as an association of companies implementing projects in their communities. The purpose of this network is to share know-how and experience, to build capacities and develop methods of evaluation. All the companies represented in this panel belong to RedEAmerica. Their different strategies have a common goal: the linkage between a firm that takes seriously its responsibility to the community and the surrounding neighborhood or the institutions within it.

Support for children on the basis of shared responsibility

Claudio Giomi, director of the Fundación Arcor from Argentina focused his presentation on developing three points on which the activities of his organization are centered: the institutional framework, the conceptual framework and (stemming from this) the operational frameworks through which projects are carried out.

Arcor is a group with its origins in Argentina but with a presence throughout Latin America, and it is the region's single largest producer of candy. The group bases its activities on the definition of CSR as a way of conducting business linked to sustainable

¹⁵ This session was moderated by Graciela Pantin, General Manager of the Fundación Polar in Venezuela.

¹⁶ www.redamerica.org

development (with economic, social and environmental aspects), and involving all stakeholders. The firm thus becomes a partner in social and environmental development.

Arcor and the Fundación Arcor locate their activities in CSR within a framework of social investment. According to Mr. Giomo, linkages are built between the firm (or its foundation) and the surrounding community as an act of private social investment with a public purpose. The foundation is proactive in the way it works, but it is not operative. This means that it finances projects aimed at developing other organizations with expertise in implementation. It pursues its work in a programmatic way through a strategic plan.

Its main priority is the overall development of children, adolescents and young adults. According to UNICEF figures, poverty in Latin America affects mainly children. Between 2001 and 2003, 1.15 million children in Argentina fell into poverty, and the income gap nearly doubled between 1995 and 2002. Similarly, inequality also has a geographic aspect: in the north-eastern provinces of Argentina there are 60% more poor people than in the south.

In recent years, the foundation has lent support to 875 organizations, benefiting 176,000 children in 18 provinces in Argentina. The objective of these projects has been to improve educational opportunities at the local level, strengthen community organization, promote spaces for networking and encourage the quest for community autonomy. The fact of having clear beneficiaries makes it easier to decide on which projects to finance, since the scope is delimited and targeted. For the firm, the strategic aspect consists of raising living conditions for those who constitute the most direct market for its central business line, candy.

This localized perspective and community-based approach are the most appropriate for developing foundation activities. The community is able to identify its own needs, which makes it easier to determine the resources required and to guarantee future sustainability. Moreover, it helps build linkages between different actors, even though it means developing the tools to create a space for opportunity on the basis of an underlying strategy. This means working together with stakeholders in a comprehensive way and one which brings them closer together.

CSR seeks to help the community function with greater autonomy. Essential prerequisites in the operating framework include the correct selection of projects and measurement of their impact. As Mr. Giomi explained, a project should generate a level of participation that provides linkages with other actors and the potential to develop a local initiative into something on a larger scale.

The experience of the foundation teaches the following lessons:

1. It is necessary to have a comprehensive vision that encapsulates the various elements – economic, social, political, cultural and environmental – that come together in the real world.
2. This vision must be inclusive. Within the community there are a variety of actors with different views. For this reason, it is important to keep in mind that the foundation is but another actor with its own outlook.
3. It is important to work on three levels: (i) produce commonly-defined working strategies (within the neighborhood of the organization itself), (ii) build connections between all actors, and (iii) create a context that helps projects and practices to

become institutionalized and durable after the foundation withdraws its support.

The challenge lies in ensuring that actions bring people and agencies together. The problems do not just affect those who suffer them most directly. For this reason, all actors – public sector, private sector and civil society – should take part and organize themselves in a cooperative way to come up with plans for joint action. The objective is to strengthen the local space as a place of opportunity and for maximizing the capabilities of organizations in civil society. The way forward is through integration, innovation and mobilization to tackle and resolve social problems.

Institutional strengthening so that civil society can participate in the development agenda.

Margareth Florez, projects sub-director at the Fundación Corona in Colombia, described how Corona is made up of eight lines of business in construction materials and industrial supplies, for which it has 40% of the Colombian market. Corona is a family firm with a long history of business activity and philanthropy. CSR is applied in all its various plants, eight in Colombia plus three in the United States. It carries out its own programs in three spheres: economic, environmental and social. CSR is carried out with the various stakeholders: customers, collaborators, shareholders, communities, and society in general. It is in this latter area that the Fundación Corona concentrates its efforts.

La Fundación Corona has existed for 40 years, and has been evolving over this time. During its first phase (from 1963 to 1985), it kept a low profile and limited its activities to the firm's immediate areas of influence, with no programmatic focus. This meant that it responded to necessities as they arose and did not have an organizational structure of its own. Basically,

it responded to directives from the firms. With the experience it acquired over these first 20 years and due to certain organizational changes within Corona, it was decided to link the foundation more tightly to the company. However, the individual plants were left to take responsibility for specific problems in their areas of influence. In this way, the foundation adopted a more general remit for social needs in Colombia, and its approach became more strategic and programmatic, setting targets and undertaking social management.

Corona's directors then asked what the private sector could do for society. They came to the conclusion that the best way of contributing to civil society organizations was to deploy business management tools and adapt them to the needs of entities in the social sphere. As with the case of the Fundación Arcor, the Fundación Corona does not execute projects but finances them, although it is very active in their promotion and monitoring. Similarly, to maximizing positive impacts, it establishes alliances for the exchange of know-how.

The areas in which the Fundación Corona concentrates its attention are health, education, local and community management, and business development. Its purpose is to try to build solid institutions in Colombia to reduce inequality by attending to the needs of the poorest. There are a number of principles that orient its activities. The foundation works with a well-defined strategy to achieve results through social investment. The axis of this strategy is the institutional development of social organizations. The aim is that its programs produce positive changes by means of innovation and finding new solutions to old problems. In this respect, the foundations have the flexibility to generate change that the state usually lacks. Mrs. Florez explained that the strategies were based on three criteria:

1. **Improving the effectiveness of organizations:**

Here the problem arises of the context conditioning the way that organizations work. Education and health centers can be more effective up to the point where the context limits their progress.

2. **Work in achieving improvements in public policy:**

The improvement in organizations dedicated to meeting social needs depends a great deal on the positive contribution of public policy. The relevant areas of public policy here are health, education, local development and business development.

3. **Active citizenship:**

Over time the Fundación Corona has come to the conclusion that it is not enough to collaborate with government in improving public policy, but that there have to be citizens who are active and insistent in demanding what government does. The foundation is involved in participatory citizenship to help build a civil society that is deliberative and responsible in the demands it makes.

With 40 years of experience behind it, the Fundación has accumulated strategic assets that help it achieve things in the various areas where it is involved. It has credibility, public recognition and considerable pull. It has a network of influential allies which includes various entities with which initiatives are undertaken and results shared. On the basis of this accumulated experience, a stock of specialist know-how has been built up that has made Corona one of the more relevant actors in resolving social problems in Colombia. The company also has an endowment fund which enables it to sustain the foundation's activities, based on the Corona trademark and the commitment of the firm's management. As well as providing finance, the

Fundación Corona also takes an active part in the design and follow-up of projects, seeking to learn from practice and using to the full the skills it possesses (although leaving implementation to specialist agencies). The method it uses is to cooperate with other institutions and provide co-financing to ensure sustainability and to avoid long-term dependency. An important criterion is that projects should be able to be replicated so that they can have the widest possible impact. It is about projecting an image of leadership that acts as an example to others; it is for this reason that so much emphasis is placed on dissemination of results.

In order to spread the impact, the current thinking is to invest in the community and its organizations to make them more efficient, autonomous, and to give them more voice and influence. Effort also goes into encouraging public policy to provide a framework for socio-economic development agendas which privilege participation, information, and government accountability.

An important and fairly recent area of activity in the Fundación Corona's social investment program is urban community development. In 1994, the team asked itself what its most relevant contribution could be in this regard. Urban poverty is not just associated with the lack of income, goods and services, but also the lack of skills and capabilities to take advantage of the opportunities that arise. The aim over the first five years of working in this sphere was to strengthen community organization through the creation of a specialist entity: the Consortium for Community Development. A technical and financial strategy was adopted with the help of this organization to develop methodologies, to document experiences, and to heighten the visibility of the organization's efforts by awarding the Civic Prize for a Better Bogota. Developing and expanding alliances through the National Alliance Program (Programa Nacional de Alianzas) was one aim. Among the lessons

learned here was that the approach needs to be geared towards strengthening civil society organizations so that they have more know-how, can become more effective and work better together, and are well prepared to take part in public affairs. Imparting leadership by strengthening and promoting local organizations is extremely important.

The foundation's activities reflect the commitment to social and environmental responsibility made by Corona's businesses. The aspect described by Mrs. Florez is but a part of the group's strategic philanthropy. Corona's experience shows that public, private and social institutions should all be more effective, more democratic and more responsible. By these collaborative efforts, a decent environment can be created in which citizens enjoy higher standards of living, as well as better opportunities for training, income and social stability. This, in turn, favors the development of the private sector.

Contributing to the social development of a mining company

Industrias Peñoles is a mining company involved in the exploration, extraction, refining and trading of non-ferrous metallic minerals. It is also involved in chemicals and the service sector. To get an idea of its size, it is enough to say that it is the world's largest producer of refined silver, metallic bismuth and sodium sulphate, and it is one of Mexico's largest private sector net exporters. It faces major challenges because of its environmental impact, and for this reason it has adopted environmental and social certification systems, such as Clean Industry (Industria Limpia), ISO 14000 and, in some its companies ISO 9001 and ISO 9002.

Mining companies share a number of specific attributes. Often, though not always, their extraction activities are located in regions where social or

economic planning is scant if not absent, these being remote regions with a sparse density of voters. The government has little political incentive to seek intervention. Furthermore, the communities are aware that they face a dilemma between concern for the survival of their environment on the one hand and the possible tax redistribution benefits, long-term employment opportunities and other indirect effects, such as the development of small and medium-sized firms and local infrastructure, on the other.

According to **Leopoldo López**, community development manager at Industrias Peñoles de México, the company has the duty, the commitment and business capabilities to respect its obligations in a responsible way, both internally and externally. This means meeting economic, judicial, labor, ethical, environmental and social obligations to all stakeholders. The aim is to create value for all of these on a sustainable basis using high-quality procedures.

The firm is involved in the establishment of Community Participation Councils (Consejos de Participación Comunitaria) to help satisfy community needs for education, housing, health and local economic development. The company participates in these, alongside the community and the authorities. This forms part of the Sustainable System for Community Self-development framework (Sistema de Autodesarrollo Comunitario Sustentable), involving locally-induced development through planning, participation, integration, improving living standards and monitoring of the results. The firm's involvement in this has developed over time.

Industrias Peñoles' experiences in linking up with communities began in 1992 with the opening of the Minera Tizapa. The rural community had desperate problems; it was highly dependent and undergoing a political transition and regional conflicts. The community urgently needed to build up its confidence



and identity around an inclusive system of social participation. In 1999, the Zacazonapan Development Committee (Comité Pro-Desarrollo de Zacazonapan, CPZ) was established through a tripartite agreement between the government, the firm and the community. This was an apolitical initiative, open and without legal recognition as an entity, but based on a shared purpose and vision. Its representative structure is flexible, under the leadership of project coordinators but subject to the permanent representation by its constituent parts. This sort of structure enabled any problems with public and private authorities to be addressed and promptly resolved. In 2002, the CPZ was recognized by the World Bank and thus became an auxiliary body in local municipal governance.

The progress achieved jointly between 1999 and 2004 is revealed by figures on welfare and the quality of life in Zacazonapan. The infant mortality rate fell by 100% and that of serious disease by 99%. In housing, the number of occupants per home fell from 8.5 to 5.0, while the number of homes with only one room fell from 7% to 1%. The proportion of homes with wood or coal burning stoves fell from 15% to 3%. Houses without mud floors rose from 80.9% to 95%, while 97% of houses had drainage and 93% piped water supply, thereby improving health conditions. Over the same period, home ownership rose from 80% to 90%. In education, the average number of years of schooling rose 133% on average. With respect to employment, the level of unemployment and sub-employment fell from 56% to 22%.

According to Mr. López, this success was due to:

1. Identifying the common interest and will of the various parties, having clear objectives and having a shared vision about problems and their solutions.
2. Acting on a long-term basis with local authorities so that these adopted an apolitical stance, decoupled from the electoral interests involved. The firm needs to avoid paternalism to make its actions sustainable.
3. Ensuring transparency and accountability at all times, based on a strong public commitment and voluntary participation.
4. Giving priority to collaboration, teamwork, capacity building, learning transfers, and the multiplication of results.
5. Basing legitimacy on public recognition by society.

Over the years, Industrias Peñoles has learned some lessons about social investment as an aspect of its responsibility to the community:

1. Institutional knowledge does not replace collective knowledge. The social needs (perceived and real) need to be taken into account.
2. Relationships with other parties need to be based on impartiality and independence, as well as mutual respect. Trust comes from respecting principles, timescales and agreements.
3. Perceptions of success and improvements are varied and culturally defined. “No man is an island” (Nadie es profeta en su tierra). Even the best local leader requires help and both moral and professional support from others.
4. Sustainability requires the development of new leaders, as well as the inclusion and participation of young people and children.
5. In some instances, a group's formal juridical status strengthens its identity and that of its members,

helping it to draw in resources. However, it can also inhibit and exclude certain stakeholders from participating.

Yazmin Trejos, Head of Corporate Social Responsibility at Amanco Costa Rica, presented the views of this group. For Amanco, the objective is to have a group of firms that create economic value, operating within a framework of ethics, eco-efficiency and social responsibility, and thereby contribute to improving people's living standards. Amanco is a leading Latin American group in the manufacture and marketing of water systems (Tubosistemas) and light construction (Construsistemas). It has plants in 13 countries and accounts for more than 6,000 jobs.

According to Mrs. Trejos, Amanco's thinking has evolved over the years. At the outset, there were a number of philanthropic projects with no strategic linkages for collaborating with communities and/or stakeholders. As a result of a process of change in the firm, CSR eventually became the axis of its business strategy. Symptomatic of this commitment is the fact that those responsible for CSR form part of senior management, and that the firm's defining principles and strategic objectives are clear in this respect.

The overall objective is to achieve a positive social impact. There are a number of different dimensions in corporate strategy for attaining this goal: social and environmental management; processes and technology; customers; financial management; and triple accountancy. All these form an integral part of the strategic direction of the firm. The dimension that relates to strategic linkages with the community is social and environmental management. This involves on the one hand meeting international standards for quality, safety and the environment; and on the other having a system to manage social impact. The former shows up in the environmental aspect of the system

of triple accountancy of results, since value is generated through improved environmental management. The social aspect shows up in the accounts through a social responsibility management system, which includes other areas of the firm like human resources, sales or suppliers.

Amanco's approach to CSR focuses on managing the positive and negative effects of the company's operations on its stakeholders with a view to improving its performance. The most important result is building up public trust to give it the social license to operate.

More specifically, Amanco's aims are to be a leader in processes of consultation and dialogue with key stakeholders; to strengthen bridges with civil society; to consolidate alliances with Habitat for Mankind, Avina and those institutions (like Transparency International) devoted to transparency in public transactions; to maximize the scope in reporting on sustainability; and to generate sustainable business in marginalized communities and thereby expand the group's markets.

Responding to community needs is seen as being important, and this involves a precise understanding of the demands made. In Brazil, consultation is carried out with neighboring communities. From such consultations, a number of priorities emerge, such as employment, the environment, the impact of company transport activity, and security. Corporate benefits arising from such consultations include:

1. Strengthening business culture, since it is Amanco volunteers who carry out the consultations.
2. Interdisciplinary involvement by different sectors of the company in analyzing the effects.
3. Gaining greater information on surrounding markets, since data is to be compiled to carry out technical and communicational projects.

4. Accumulating knowledge on how best to respond to and resolve community needs.

The result is joint impact management with assistance from stakeholders. Co-responsibility with the communities comes about at the point of managing activities, which makes them less dependent. A firm's policies and practices are improved by integrating CSR into its management system.

The challenge lies in continually improving on systems of consultation and the way these are integrated into the strategy. The firm is fully aware of the importance of creating employment by providing livelihoods and other indirect results. Amanco also faces an environmental challenge since consultations have made clear the lack of information on both sides. More needs to be done here.

Regarding the future of CSR in Amanco, there needs to be change in perceptions about the purpose of the firm and its role in social development. The group will continue to search out opportunities for creative alliance building to improve the quality of community life on a basis of mutual benefit. In this way, firms make themselves worthy of a social license, and communities improve their living conditions.

The following words by Roberto Salas, Amanco's CEO, summarize the company's vision and its impact:

"We have shown that in the midst of one of Latin America's most serious crises in recent years, it is possible to do business that generates a reasonable financial return and to do it with social as well as business responsibility".

Conclusions

It is important to highlight the creation of social capital, the building of trust and the establishments of inter-organizational ties that turn into assistance for those that need it. The state has the responsibility to create the necessary conditions as well as the public policy required for sustainable development. Companies, for their part, have the commitment to complement these but not to substitute for them – still less to compete in providing social and environmental welfare.

This bond between firms and communities is expressed through the positive results achieved by providing financial, technical and human resources. Managerial professionalism has to be sought and achieved, as well as making that commitment on-going and stable; this means that the strategic element needs to be identified by the firm. Otherwise, the effort expended will be sub-optimal and its impact ephemeral.

Some important questions arise in this context. There needs to be evaluation in order to prove that resources are being used in ways that are efficient and effective. At the design stage, it is also important that initiatives can be copied and reproduced so that their positive impacts can multiply, bearing in mind the specificity of each community. Social change needs to be clear and sustainable over the long term; if this criterion is not met projects will not generate the economic, social and environmental value for which they were created.

Corporate foundations have a strength that helps them carry out their mission, and that is their ability to create intersectoral alliances between the public sector, private sector and civil society. In this way, the firm can diversify its relations with other social actors

that, in turn, help it to gain a deeper understanding of the situation that surrounds them. This contextual knowledge helps them improve on their contribution to those communities and is itself a very useful tool for better business management.

On the specifics of extractive industries, the division of labor between companies and the government on improving social and economic impact is crucial. The commercial volatility of extractive industries is such that companies should avoid making commitments through long-term, unilateral development plans for fear that these may generate false expectations and create dependency. Substituting for the role that the state should play is something to avoid. Greater sustainability and few responsibilities for the company are achieved when firms learn to work together with local government on community projects, bringing together social investment programs with the strategic economic and social priorities of local or regional governments. In those instances where such elements are missing, firms need to build up local capacities gradually so that the authorities can plan their own social and economic development.

By a proper social management system it is possible to acquire the social license to operate, reducing risk, widening the scope for opportunity, and helping strengthen the corporate image. We need to be no longer fearful about saying that CSR is a strategy for competitiveness and acknowledge that situations arise in which all stakeholders gain, including business performance. It is precisely this argument and the fact that it forms part of a business strategy that make responsible activity sustainable over the long term.

THIRD ROUND OF BREAKOUT SESSIONS

Session B: Stakeholders Education

Tuesday, September 28, 2004

Gerardo Lozano

Escuela de Graduados en Administración y Dirección de Empresas (EGADE),
Monterrey Tec., Mexico



Interest worldwide in corporate social responsibility has grown. This interest stems partly from the way in which the issue has been disseminated in the media and the genuine desire among business leaders to cultivate a spirit of social responsibility among their firms. Even so, it is clear that there is a great deal of ignorance on how to pursue a social strategy within the firm, and how social issues should fit into the general business strategy.

Though much has been achieved, there is still a long way to go. There is still no consensus for instance on what CSR means, or in other words there is no clear difference between CSR and the legal obligations of firms on issues such as employees' quality of life, ethics, transparency and care for and preservation of the environment.

The role that business schools and other training institutions are fulfilling and will fulfill is key. For this reason, greater effort needs to be made to have quality research and to develop the methodologies and tools to guide firms towards greater social responsibility. These institutions not only have a duty to teach today's businessmen, but also students who, as tomorrow's business leaders, need to know how to initiate social strategies throughout their organizations.

Because CSR should impact on all areas of a business, it should not be the responsibility of a single department. Business schools should not fall into the error of making CSR just another specialty, like finance or marketing; the concepts and tools need to be integrated across the whole range of courses. Likewise, research in CSR should not be conducted in isolation as if it operated in a vacuum. As with education, research needs to be conducted in an integral way and go beyond classic questions (such as it pays or not to be socially responsible) to open up the mind and extend the horizons. Topics need to be included such as CSR's possible interactions and synergies across the functional divides within the company.

CSR is something that affects all equally in a company, and the same should be the case in educational institutions. To help explore further the contribution of business schools and other institutions involved in educating the stakeholders, we now pass on to the various contributions of the panelists who took part in this session.

David Barkin, economics professor from Mexico's Universidad Autónoma Metropolitana (UAM) told us how the business sector requires universities to meet

the demand for capacity building at management level, both in designing strategies and putting them into practice. What is urgently needed is the ability to conduct external evaluation. He added that there is a social vision in which it is clear that CSR is not traditional philanthropy but includes aspects that impact on all stakeholders in a strategic way.

Dr. Barkin said that universities have to generate capacities and awareness, as well as technology for administration and production. Similarly, they have the duty to develop new blueprints for relating to society and new approaches for relating to the world of bureaucracy. Among the new generations of business leaders, universities need to be able to create the need continuously to undertake evaluations (socio-cultural, fiscal and economic, and environmental) as a key mechanism of oversight and feedback for companies. It also falls to universities, such as the UAM, to create social entrepreneurs, making it clear the role that these play in bringing social-business considerations (such as life cycles) to bear in business planning.

Social responsibility involves new operating concepts: regarding the employee as a member of a sustainable society, with decent wages to ensure access to housing, health, education and nutrition. A company cannot be thought of as socially responsible that pays wages on which its employees cannot subsist. Dr. Barkin said that this was an issue not discussed in Mexico, but which ought to be a priority.

It is also responsibility of universities to build capacities among small and medium-sized businesses, badly affected by local legislation, as well as the tools to evaluate practices and resolve problems, always bearing in mind the need for sustainable development. The work of universities involves innovation to develop those productive

processes that really respond to the needs of social groups. Universities are doing an excellent job in disseminating best practice, but no-one is responding to the problem of raising the capacity of the public sector. Universities can help make self-regulation be part of deregulation if permanent forums are established for conflict resolution.

Academic debate over sacrificing social standards on the altar of development is an empty debate. We should not allow low-quality; poorly-paid jobs to be created that feed conflict in society and contribute to instability.

In his presentation, **Abraham Nosnik**, professor from the Universidad Anahuac in Mexico, stressed that we have to understand the differences between firms, government and organizations in civil society so as to understand the dynamic of the relations between them. Organizations are creative tools for the use of society and, for this reason we need to discuss what sort of expectations are realistic for each type of organization: business, government or civil society.

The concept of the social mandate provides some clarity for discussing CSR. According to Professor Novak's premise, if we do not understand what the social mandate is it is not possible to understand social responsibility in an integral way.

Governments seek social peace and firms seek to provide material wellbeing. The government fulfills its social mandate by two means: one that is formal and structural, the law; the other functional which is the culture of legality in which we all participate. The social mandate translates into social peace where there is the rule of law, not just in formal terms but manifest in our own will to force ourselves to create a culture of legality.

The social mandate of business organizations is to generate material wellbeing, but not just in economic terms. Material wellbeing is achieved when productive projects get under way that market goods and services. The challenge that confronts the firm is to improve permanently its capacity for innovation and for maintaining competitiveness.

All production has two aspects: one a positive aspect that we call benefits and the other a negative one which also can create opportunities for improvement. It is a question of changing our traditional logic to enable us to learn from those mistakes that can make the productive system more sophisticated and robust and turn it into a true source of sustainable development. If we do not look at it in this way, the negative aspect destroys the social fabric without providing the opportunity to improve and learn.



The social mandate of the third sector, which is linked to the environment, is to make economic development sustainable, to recover the integrity of eco-systems, and deal with all the various issues that are linked to environmental development.

Universities and study centers have the task of researching social responsibility in both theoretical and practical terms in the three sectors (business,

educational and civil society) and the possible synergies between them. One of the practical consequences is the development of university study programs that include CSR. The organizations in each sector should publish codes of ethics and institutional values that can be evaluated, recognized and sanctioned by society. Public pressure needs to be generated for these to be congruent. Here, the media can play an important role in educating public opinion on areas of economic, environmental and social concern.

María Matilde Schwalb is the coordinator of the Latin American Business Environment Learning Leadership (LA-BELL)- Red Andina program at the Universidad del Pacifico in Peru. LA-BELL is the Latin American affiliate of the World Resources Institute (WRI) in Washington D.C. (USA). The program's purpose is to promote sustainable development. Professor Schwalb explained that it is an extension of what is already under way in the United States and in Asia, and today it is run in decentralized form through secretariats that cover the region. The Southern cone program has its headquarters in Buenos Aires and covers Bolivia, Argentina, Uruguay and Paraguay. The Andean secretariat, based in Lima, includes Peru, Ecuador, Colombia and Venezuela. A third secretariat covers the whole of Brazil. The function of the secretariats is to find resources, to administer them and distribute them on the basis of priority activities and bearing in mind the needs of member countries.

The overall purpose of the program is very clear: to train a new generation of Latin American business leaders with the know-how, attitudes and values required to promote and manage sustainable business. The idea is to inject new blood into the business world. To this end it organizes activities, focused primarily on education, to incorporate the ideas and strategies of environmental and social management for sustainable

business in the programs and administration of business schools belonging to the network.

Through the efforts of LA-BELL there have been some important achievements, like the building of a network of academics, professionals, businessmen, NGOs, governments and others. Another significant achievement has been that the Latin American Council of Administration Schools (Consejo Latinoamericano de Escuelas de Administración, CLADEA) have included a number of sessions on environmental management in their call for papers for their annual assembly, from the 2002 meeting in Porto Alegre onwards.

It has also been active in training business executives and those who influence them and making them more sensitive to issues of CSR. It has provided workshops and discussion groups on issues of social responsibility and sustainable development, involving nearly 80 professors and 900 students in seven business schools. Additionally, it has worked in the dissemination of material on consumption, education and consumer protection, having established a magazine *Consumo Respeto* to influence business practice.

The program has also been involved in a range of activities to promote and facilitate new courses on environmental strategy and CSR within the study programs of business schools. The South American Prize for Academic Work on Business Sustainability (Premio Sudamericano a la Labor Académica en Sostenibilidad Empresarial) was awarded for the first time in Buenos Aires in November 2004. In 2003, a collection of successful case studies of best business practice in social responsibility was published, and a second collection in November 2004.

From a non-academic angle, **Jaquelina Jiménez** from the *Los Andes* newspaper in Argentina talked about the role played by the media in educating society on matters related to business social and environmental responsibility. Mrs. Jiménez said that there had been an impressive increase in the number of articles published in recent years around the subject of social responsibility. Between January 2000 and July 2003, more than 5,000 articles had been published in all media (written and audio-visual).

The strategy here had been clear. In 2002, articles were written in such a way as to familiarize readers with the concept; they focused basically on making known those firms that were committed to developing social assistance programs. Particularly in Argentina, this was a time of deep crisis when it was necessary to guarantee business survival. The language used referred to businessmen who practiced solidarity, genuine growth, profitability in the short and longer term, and increases in productivity.

Subsequently, the accent was more on the global vision of CSR. Here the background was international market trends and new requirements such as norms and certifications. The language used to communicate with society referred to the benefits for the firm in moving closer to the community, the need for firms to be committed themselves socially to ensure viability in the long term, and trust building as the key to expanding business activity. Finally, the strategy rested on recounting concrete cases of business activity benefiting society.

Conclusions

Although there has been significant progress in educating stakeholders, much still needs to be done. Dissemination should not limit itself to the formal educational system of universities, but needs to reach out to society as a whole, and most urgently to

businesses. Notwithstanding the fact that firms want to become involved in social responsibility, their lack of knowledge in this area became very obvious when they sought to put this into practice.

In the case of universities, an interdisciplinary approach is key. With regard to business, products need to be designed that are appropriate to the socio-economic context, as is the case of companies moving towards markets at the bottom of the pyramid (the social sector with the lowest incomes) in order to take advantage of their enormous potential. Companies need to employ methods of evaluation in order to detect and correct possible deviations at the moment when they pursue activities along the social and environmental axes.

The main challenge for institutions involved in education and research in Latin America is to register the business case among the small and medium-sized businesses as proof of the viability of CSR. Equally, it is important to develop tools to apply CSR among these firms, given their relative importance in the business world as a whole in our countries.

THIRD ROUND OF BREAKOUT SESSIONS

Session C: Environmental Corporate Responsibility Tuesday, September 28, 2004

Enrique Ogliastri
INCAE, Costa Rica



Introduction

From the business point of view, recent years have seen a heated debate over the benefits (or not) of investing in the environment. What is notable is that this is not just an academic debate, since some firms have spent large sums investing in sustainable development.

Within the sustainable development framework, action has to be taken to sustain the resources that a firm uses over the long term, in order to avoid the exhaustion of productive inputs, and to evaluate the impact on soil, water and air. Different international regulatory systems have been set up, such as the International Standards Organization (ISO), to certify whether firms are being responsible in their management of environmental and even social impacts. Traditionally, environmental protection has been viewed as an obstacle to economic growth, but the numbers are ever increasing of those who sustain that 'being green rewards' and that environmental responsibility constitutes a competitive advantage.¹⁷

The arguments against business investment in sustainable development are various:

1. It is thought to be an illusion, an ideology without solid foundations based on a few success stories which have been over-publicized.
2. Promises that respect for the environment is profitable can have the opposite effect, which for the convinced may retard the 'green' movement.
3. Concern for sustainable development comes from over-use of resources which undermines business competitiveness.
4. It would be better to strike an agreement with all the businesses of a sector or with a business organization than to leave it to one-off and unilateral positions adopted by a few firms.
5. This is a problem that should be resolved by the authorities through regulations and taxes, and not the purely voluntary action by some companies.
6. The argument that 'being green rewards' backs up a perverse logic according to which if something is to the advantage of the firm it must necessarily be good for everyone.

Some firms have put their money on sustainable development because of the beliefs of their owners, of their shareholders and/or directors, or because they are

¹⁷ Porter, M and Van der Linde, C. (1995). 'Green and Competitive: Ending the Stalemate'. *Harvard Business Review*, September-October, pp121-34.

under pressure from civil society which has rallied domestic support to this end. This has led them to agree on environmental improvements with their competitors, to seek international environmental certification of their products, and to work with all the stakeholders who are affected by the firm or who have an effect on it.

It is clear that organic products sell at higher prices, and that environmental norms are slowly becoming standard rules of the game in all sectors. What has still to be shown is whether this commitment really constitutes a comparative advantage, given the way in which markets are currently structured. There is still no system of incentives that determines an about-turn in the direction of responsible behavior. In its place, there is a very weak mechanism by which even if CSR produces returns for some, it leads others in the opposite direction for their own benefit, albeit short-term. For this reason, governments, firms and civil society need to work together to develop mechanisms that maximize the impact of CSR on the environment and the returns for those firms that act responsibly.

We had the opportunity to hear the experiences of three companies that shared their experiences with us: TenarisTamsa, Hewlett Packard (HP) México and XCaret México, as well as hearing the views of Mexico's National Ecology Institute (Instituto Nacional de Ecología, INE).

Corporate environmental responsibility: voluntary environmental audits

Carlos Muñoz, general manager of Mexico's Instituto Nacional de Ecología (INE), along with his colleagues **Marisol Rivera** and **Vicente Ruiz**, presented a program for firms to come to the Instituto Nacional de Ecología (INE) and submit themselves to an evaluation that identifies the challenges and opportunities, which can then form the basis of a program. INE studies each case

and classifies the firm according to one of three categories:

- Certificate of Clean Industry
- Certificate of Environmental Compliance
- Certificate of Environmental Excellence

This provides an objective benchmark for the community, customers, partners, administrators, the authorities and NGOs as to the degree of a firm's compliance on environmental management. Use of this categorization has increased rapidly: between 1992 and 2004, some 3,250 firms have obtained one of these three certifications.

The program shows that firms are keen to take part because of the comparative advantages they obtain. With respect to clients, it is quite possible to differentiate those who have a preference for good environmental management. It also makes a difference in accessing foreign markets, and it is interesting how it affects the chain of suppliers. According to the Mexican Business Information System (Sistema de Información Empresarial Mexicano, SIEM), around 6% of the country's businesses export products. The figures also show that of those that submit themselves to a voluntary audit, 66% are exporting. Firms that export have stronger motives to take part in a voluntary audit.

For the regulatory agencies, this has also become quite important since, according to Mr. Muñoz, environmental regulation in Mexico has become increasingly important as a result of the interest and awareness expressed by citizens. Consequently, emphasis is placed on the need for the preventative as opposed to the reactive approach. Good environmental management means that the firm can avoid inspections or can respond more easily to any problems arising during the course of one.

In the case of investors, the evidence suggests that care for the environment and the eco-system has tangible effects in corporate financial results. It may mean a significant saving in energy or water consumption, as well as the minimization of residues or waste of raw materials. It helps reduce the number of accidents and their gravity, and thus reduces litigation costs.

In terms of the sectoral breakdown of the firms taking part in the INE program, the most numerous are manufacturing and mining companies, accounting for 24% and 26% respectively. Moreover, it is these that tend to consume most energy and water. It is also worth pointing out that in those instances where water is more expensive as an input, participation in voluntary audits is higher. The threshold is US\$12 and when prices are higher than this, the percentage of firms submitting themselves to voluntary audit rises from 0.5% (for levels up to US\$12) to 4% for higher levels. These are companies that are looking for ways to make themselves more efficient in their use of water in order to lower consumption costs. Voluntary audits are more common in large and medium-sized manufacturing companies where the proportion involved in the program is 34% and 44% respectively.

Summing up, preliminary results would suggest that the reasons for taking part in this type of voluntary audit are: savings in consumption of energy, water and other resources; anticipation of regulation; and the interests of customers. At the same time, these are the main advantages of adopting CSR programs. In view of this, governments should concentrate their efforts on those sectors that are most propitious and promote activities in those where it is most important to lead by example. For their part, firms can learn by comparing themselves with others in the same sector with a view to integrating themselves better into their community.

Towards sustainable industrial development

Roberto Vilate, engineering director at TenarisTamsa in Mexico, began his presentation by telling the story of CSR in this industrial firm which geared itself towards the Certification of Clean Industry in Mexico. It began in the economic and financial crisis that TAMSA suffered in 1993, which it overcame thanks to its purchase by and subsequent investment from the Argentina firm, Siderca. In 1995, the program of environmental improvement was resumed. In 2003, the firm qualified for the Certificate of Clean Industry, and in 2005 it will put in place a system of environmental management aligned to ISO 14001.

A system of environmental management is currently being applied, using Tenaris' environmental, security and occupational health policies and guidelines. This has a number of different elements, including performance indicators, programs for training and internal dissemination, responses to emergencies, and performance audits. These elements all give rise to the sort of feedback that allows improvements to be made.

The company carries out a range of activities designed to promote eco-efficiency in the use of resources. These have involved a US\$13 million investment to adopt clean technologies and to create an infrastructure that helps the environmental factor being applied all down the production chain. These focus primarily on the use of water, emissions controls, soil treatment and the design of performance indicators.

- In the area of water consumption, the most important elements are the closure of water cooling circuits, the installation of water treatment and recycling plants, the installation of a plant for the treatment of both water used in the process and waste water. Through these, water consumption was reduced by 60%.

- With respect to emissions controls, the system for capturing particles was expanded and improved, and a system introduced for periodic monitoring. On the disposal of dangerous waste matter, the company worked with third parties authorized by the Environment Ministry (Secretaría de Medio Ambiente y Recursos Naturales, SERMANAT), and a program was introduced to separate out and re-use waste and sub-products.
- On the question of soil and subsoil, the company pursues land recovery for productive purposes. A number of studies have been carried out in areas of high potential impact to determine levels of environmental risk on land adjacent to installations. These culminated in an action plan which is now under way.

Good relations with government agencies are essential in achieving positive results. Since 1991, TenarisTamsa has been collaborating on a work plan with the National Water Commission (Comisión Nacional del Agua, CNA). This was agreed at the end of 1994. It began with a voluntary audit and culminated with the Certificate of Clean Industry in 2003. Total environmental investments by the firm over this period were US\$19 million, of which 52% was spent on emissions, 26% on water, 9% on waste and 13% on other things. Of this, US\$13 million were committed by the CAN and Mexico's Federal Bureau for Environmental Protection (Procuraduría Federal de Protección al Ambiente, PROFEPA).

CSR in the technology sector

Jacobo Esquenazi, director of government relations at HP, Mexico, set out first of all the directives on CSR that were issued by the presidency of HP in the United States. These are summarized in the words of the then president of HP, Carly Fiona, as quoted in NYSE Magazine in February 2003:

"We believe that the winning firms this century will be those that not only increase their social and environmental value (...) developing products and solutions that respect the environment, that incorporate the benefits of information technology in developing countries, that maintain the very highest standards of business conduct, and involve the communities in which they operate. With this, HP makes a contribution towards [guaranteeing] a more sustainable future whilst building a more solid business and becoming the leading supplier of IT solutions."

Three factors have driven HP's change towards CSR: the increase in the level of public scrutiny in recent years; the consequence of globalization and economic uncertainty; anticipation of possible regulatory activities, and the resurgence in the need for environmental awareness and new business models. As mentioned above, the belief that social and environmental responsibility is positive for sustainable development is clearly held at the highest echelons of the corporation.

HP is a corporation that has received important accolades in different parts of the world for its environmental leadership. These include its recognition as a responsible company by the Mexican Center for Philanthropy (Centro Mexicano para la Filantropía, CEMEFI) and the Confederation of Chambers of Industry (Confederación de Cámaras Industriales, CONCAMIN), both in Mexico. It has been recognized as being among the 100 best corporate citizens by *Business Ethics* magazine. HP Puerto Rico has been recognized for its environmental performance by the US Environmental Protection Agency (EPA). HP has been recognized for its energy efficiency in the United Kingdom, and by the US National Association of Environmental Professionals (NAEP), amongst others, for its environmental technology.

The basic philosophy is to design technologies, products and services that minimize the company's environmental footprint, as well as that of its customers. To this end, it seeks to develop innovative products and materials, use energy in efficient ways, and offer the ultimate solutions in terms of products and the operations associated with them. HP's policy towards environmental sustainability has five elements: design and development of products that minimize environmental footprints; efficient environmental management; solutions to climate change; energy conservation; and the recycling of products once these have finished their useful life.

In Mexico, some experiences stand out with respect to environmental management through water treatment plants, the efficient use of energy and the separation out of waste products. In addition, there is a plan for the recycling of cartridges (Planet Partners) which HP offers to corporate customers. Beyond the scope of its own operations, HP contributes to programs of species protection, such as the marine turtle, as well as supporting institutions devoted to conservation projects in Mexico.

The tourist sector

Francisco Córdoba Lira, executive director of the Grupo Xcaret, commented that the parks that his company manages receive more than 2 million tourists a year. The group has 2,500 collaborators and is rated one of the best companies to work for in Mexico and Latin America. Its mission is to be a unique provider of sustainable tourism and recreation through the generation of its own resources, participation in resolving social problems in its sphere of activity, and the preservation of its ecological base in providing such services. For the Grupo Xcaret, sustainable development is that which satisfies the needs of the present generation without putting at risk future generations' ability to satisfy their own needs.

Because of its importance in this sector, the company has followed a strategy of on-going diagnosis, species regeneration, biological pest control, sustainable use of water, the integral management of solid waste and the use of biodegradable materials in the production of goods and services. The achievement figures for the ten years since the project began have been excellent. Typical are the cases of Xel-Há and Garrafón. These are zones that were rescued after suffering serious environmental degradation because of badly-managed mass-tourism. Ten years into the recovery and improvement process, the daily visitor capacity has doubled, with the resultant increase in earnings. The 2004 Biocenosis report on the tourism capacity of the Xel-Há Natural Park in Quintana Roo mentions the conservationist stance adopted by Grupo Xcaret's administration since it took over the concession. In order to regenerate the area, exploitation levels were kept well below previous visitor numbers, and only then was a gradual increase allowed, alongside a growth in the investment and specific efforts to conserve natural resources.

The results of environmental management show up in a significant and progressive reduction in water consumption from an average 250 liters per visitor in 2001 to 47.15 liters in 2003. Similarly, investment in sewage treatment has borne fruit, lowering the amounts produced per visitor. All waste water generated in the park is treated and re-used for irrigation, thereby avoiding discharges into the municipal sewerage system.

As well as the separation and proper storage of non-dangerous waste (recycling of glass, plastic and cardboard), the firm contracted the services of another company for the collection, transport and final disposal of non-dangerous solid waste generated within the park.

In addition to the group's direct actions on the environment, it is also involved in programs of awareness-raising and environmental education aimed at its collaborators, as well as in certifying gender equity. XCaret supports scientific research, as well as preservation, environmental education and dissemination. It has built alliances with universities and is linked up with community development through programs for the responsible management of mass tourism and its consequences. The group attributes its success to being a firm that runs itself in accordance with values of conservation and nature.

Conclusions

We were privileged in this session by being able to listen to different points of view. First, that of an environmental authority in a country as large and complex as Mexico, followed by the experiences of a major iron and steel company, that of a high-tech firm, and finally a business group in the tourist services sector. This helped us contrast efforts in different sectors and from a picture of diversity to reach some general conclusions.

It is clear that there are sectors for which working responsibly with respect to the environment has much higher costs and is more difficult to achieve than in others. In sectors with the highest risks of environmental contamination, it is worthwhile evaluating on the one hand their contribution to society through providing products necessary for human use, and on the other to consider the progress they make year-on-year towards the goal of environmental sustainability. We should not condemn indiscriminately all firms in problem areas, rather encourage continual improvement. Finally, in each and every case presented there are indicators that measure improvements in environmental impact as well as a lowering of costs attributable to better environmental management.



FOURTH PLENARY SESSION

Quo Vadis? The Future for Emerging Markets

Tuesday September 27, 2004

David Valenzuela

President of the Inter-American Foundation (IAF), United States

Estrella Peinado-Vara

Inter-American Development Bank

The closing panel undertook an analysis of CSR from the point of view of the problems affecting developing countries. It discussed the main areas that need to be deepened in this area, the major trends in corporate social responsibility and the ways of achieving greater competitiveness in emerging markets. On the panel was Ricardo Young Silva, president of the council at Ethos from Brazil; Adrian Hodges, director of the Prince of Wales International Business Leaders Forum (IBLF) from the United Kingdom; Donald Terry, manager of the Multilateral Investment Fund; Héctor Larios Santillán, president of the Commission for Ethics and Values at the Confederación de Cámaras Industriales de México (CONCAMIN); and Gonzalo García from the Confederación de la Producción y el Comercio (CPC) and vice-president of the Sociedad de Fomento Fabril (SOFOFA) in Chile.

The challenges arising from the under-development in Latin America and the Caribbean and the existence of 150 million poor people impose a sense of urgency for business action. **Ricardo Young Silva**, president of the council at Ethos, Brazil, talked of the progress made in CSR in his country over recent years. The Instituto Ethos has managed to ensure that over 300 companies make

use of the Instituto Ethos' indicators for CSR.¹⁸ There are positive changes in the indicators for those sectors that are socially and environmentally problematic, such as mining, paper and cellulose. Special indicators are being developed for micro- and small-scale enterprises, electricity companies, bread-making and confectionery, and for the hotel industry. Ethos has 590 cases of successful business practices and around 200 firms that publish a social balance using the Global Reporting Initiative (GRI) guidelines as a reference. It is worth noting that according to data from Brazil's Institute for Applied Economic Research (Instituto de Pesquisa Econômica e Aplicada, IPEA), 60% of businesses have undertaken some sort of social investment. Responsible business practices are increasingly common and are becoming an important aspect of relations between firms. Such is the case of Petrobras, CPFL Energy and ABN Amro, who all use CSR to evaluate suppliers. In financial markets, there is strong penetration by CSR. The make-up of some investment portfolios include responsible firms: socio-environmental clauses have been introduced into contracts for credit allocation and institutional investors are adopting directives and criteria that privilege firms that are oriented by socially responsible management.

¹⁸ For more information, see www.ethos.org.br

Mr. Young also referred to the challenges facing Brazil in CSR. One of the main aims of corporate management is to expand and deepen understanding about sustainability and its relationship with the triple bottom line. CSR can be taken into account in promoting international trade, although extreme caution needs to be exercised to prevent it turning into a non-tariff barrier. Efforts should be kept up in bringing strategic considerations to bear in acts of private sector philanthropy, so as to allow it to reach its full potential. He pointed out in this context that the private sector needs to commit itself to the Millennium Development Goals (MDG), for which it is essential to forge collaborative bonds and to interchange experiences between government and the private sector. The UN Global Compact and the efforts to attain the MDGs are strategic steps in the advance of global CSR and sustainable development. The Ethos indicators on CSR provide a tool to induce and monitor CSR activities in both the global and local contexts. These are consistent both with the principles of the Global Compact and those of the MDG.

Adrian Hodges, director of the Prince of Wales International Business Leaders Forum (IBLF) from the United Kingdom shared a number of reflections on the progress of CSR in the so-called developed markets, before going on to describe some of the trends that he sees in emerging markets and developing countries. He pointed out that there was no way in which the answer was just to translate what works in the developed world to the developing countries.

A few years ago, some US and European multinationals were the object of boycotts by civil society for not having social and environmental management systems. For this reason, these companies have invested in developing CSR policies and activities. It was one of the key driving forces behind the local Latin American subsidiaries of these multinationals establishing

programs of corporate citizenship. Despite having invested hundreds of thousands of dollars, these companies find themselves once again facing attack, albeit now from different directions. On the one hand, NGOs like Oxfam, Christian Aid and Friends of the Earth claim that in spite of the intensive and extensive efforts of firms with respect to CSR, nothing has changed in fact among communities in developing countries. Such NGOs denounce the fact that companies often exploit their workers and contaminate their communities, and that the social programs that the companies proclaim are nothing more than cosmetic, and that the result is nothing but a deepening dependency among such communities.

But there has also arisen a new type of criticism from a different angle, from those who defend the free market, those who supposedly stand for the interests of shareholders. They argue that the introduction of complex CSR systems, reporting and management is but a dangerous distraction from business, whose fundamental aim should be to create value for the shareholders. Just as Manuel Arango pointed out in the first plenary, unfortunately many business leaders still believe CSR is a distraction from business.

So firms are criticized if they try to implement CSR and if they do not. It is for this reason that business leaders are beginning to see CSR – once introduced as an option from which all win – as a proposal from which no benefits are to be had. It should therefore come as no surprise that instead of investing financial resources and time in activities of CSR, companies are limiting themselves to resolving problems as they arise and responding to immediate complaints. According to Mr. Hodges, this is a negative reaction, both for firms and communities, and should be severely scrutinized. A good part of the evidence as to why this sort of reaction has negative consequences comes from developed countries.

There the welcome for CSR has had encouraging results and shows that, when properly managed, CSR can contribute to the success of a core business. It can generate opportunities and be a source of innovation for products and services. It can help managers find new markets that are not being properly attended to but which have major potential, and can contribute to the formulation of new business models that generate comparative advantages.

CSR can help such achievements to be met, opening doors beyond those of philanthropy, liberating resources and skills which have so far been removed from communities, generating entrepreneurship and creativity (the true essence of business), and helping to find sustainable solutions to community needs. In developing countries, there are numerous examples of how CSR can contribute to the core competences of firms, due basically to the fact that in these markets companies confront challenges (lack of infrastructure, macroeconomic and political instability, inefficiency and corruption in the public sector) that force them to be continually creative and innovative to guarantee sustainability over time. It is these adverse conditions that are driving the spectacular development of CSR in Latin America.

Mr. Hodges gave the example of Tetrapak, a global packaging firm which, through a nutrition program in Mexican schools, contributes to the development of skills in government agencies. It brings knowledge about nutrition and leadership, and contributes to transparency in a particularly opaque system of government. Food suppliers may choose – if they so wish – to use Tetrapak packaging. The company is open in admitting that this is a commercial proposition, beneficial in the sense that it increases the size of its potential market. Tetrapak is thus combining the two aspects, the growth and development of its business alongside a mode of behavior that is socially responsible and ethical.

In Brazil, ABN Amro, a bank of Dutch origin, responds to pressures from NGOs by creating a program that heightens the level of its employees' participation and provides a great market opportunity. The NGO Friends of the Earth has trained 1,600 managers at the bank in better understanding environmental risk. In this way, these managers have gained sufficient information to turn down some loan applications that would have left the bank unprotected from losses arising from environmental risk. Still, it maintains its disposition to



help clients raise the finance they need once they have improved on their record in environmental management.

These two cases exemplify significant business opportunities, led by the very entities involved in changing things. These changes encourage companies to introduce risk minimization based on CSR. They represent a perfect combination of benefit to the business and to the community, since they are not just about the company's social responsibility but also benefiting from the social opportunities that arise. The driving forces of firms are creativity, a competitive instinct, and the desire to get things done. It is not about achieving minimum standards in terms of business management and compliance with the law; they should rise to the challenge and help firms see CSR as a business

tool at the same time as offering a hope for a better society.

Finally, Mr. Hodges alluded to a series of characteristics implicit in the notion of 'corporate social opportunities': collaborative alliances between firms; networks and sources of non-traditional innovation; and specialist technical know-how as provided by civil society, NGOs and development institutions. For this reason, it is important to encourage the development of skills within firms to build alliances and elicit effective and efficient forms of collaboration.

To shift responsibility from being a burden to something that creates opportunities, a change of mentality is required that will not happen overnight. Business values and strategies have to mesh with social and economic needs, the customers and the consumers. Firms that work in communities in developing countries have a competitive advantage vis-a-vis those that do not. They have a better knowledge of the needs of those that live around them and are therefore better able to respond to the expectations of stakeholders, and have the ability to anticipate business opportunities. The aim of creating value for shareholders through successful business ventures at the same time as contributing to economically, environmentally and socially sustainable development is a goal that is well worth striving for, bringing together the firm, the NGO and those who defend the free market.

Donald Terry, general manager of the Multilateral Investment Fund (MIF), used his own experience to locate CSR in the context of globalization and competition. The growing integration of the world economy means that though local conditions continue to be important but they are not the only factors affecting business and social development in specific places. Competition is the order of the day: mergers

and acquisitions, global-scale corporations and competitiveness are the elements that are constantly mentioned in the media. The danger resides in the fact that this may lead (mistakenly) to a race to the bottom in the quest for lower costs. On the other hand, there are basic values, such as commitment to the community, employees and their families. The question that therefore arises is whether globalization and global competitiveness are consistent with those fundamental values. The answer lies in corporate social and environmental responsibility: the combination of the two aspects is the very essence of this movement. There are some aspects of CSR – specifically philanthropy – which need to be made strategic if this balance is to be achieved. When we refer to the double or triple bottom line, we are talking about business benefits, profits generated, and concrete improvements, when the three dimensions (economic, environmental and social) are taken into account, as shown in several examples.

Mr. Terry stressed the notion that it is not possible to achieve business development without having achieved social development. Firms cannot sell their products to people living in extreme poverty. First, they should offer their workers decent working conditions and wages that allow them to cover their needs. At the same time, firms should contribute to the education of their communities so as to have a trained workforce and provide for safety in the places they do business. The MIF works with grass-roots development organizations, the private sector and civil society. Years ago it began to design aid projects for micro-finance institutions which support micro-enterprises, contributing thereby to improving living standards. Today, the large financial institutions have realized that as well as contributing to the economic and social development of disadvantaged peoples, microfinance can also be a very lucrative line of business. The same is true of remittances from those who have emigrated, and of

CSR. Awareness of the social benefits of CSR is becoming increasingly widespread, while at the same time impacting favorably on company accounts through better environmental and social management. The MIF works in many of the areas that are integral parts of CSR or with clusters of projects linked to CSR. Among these clusters is a project to include small and medium-sized businesses within the supply chains of large businesses, on the basis of social and environmental responsibility on both sides. The large firm avails itself of a responsible supplier, while the small business takes advantage of durable links to the client, as well as using chance to obtain technology transfers and technical know-how. In the same way it receives the assistance needed to become a responsible enterprise.

Finally, Mr. Terry pointed out that CSR is a means which firms in Latin America should use to improve their competitiveness and to face up to the challenge of globalization. Governments, companies, civil society and the multilateral institutions should work together in the joint endeavor of ensuring that responsible practice really is achieved. In this way, not only is it possible to have a well-prepared business sector but a contribution is made to a better society and environment.

Héctor Larios Santillán, president of the Commission for Ethics and Values at Mexico's Confederation of Chambers of Industry (CONCAMIN), commented on the program he is involved in for firms to come up with their own codes of ethics, thus helping them to act responsibly. This brings them prestige and social acceptability. The Ethics and Values prize awarded by the Commission has been useful, not only in recognizing companies that have long been involved in developing responsible practice, but it has helped other firms understand the strategic value of ethics and

transparency as aspects of CSR. Mr. Larios pointed out that this is one of the challenges facing small and medium-sized companies which, concerned for their survival, lack sufficient resources to use them in developing such codes. Part of the work consists of promoting the use of such codes to improve management by inculcating knowledge about communities, helping develop business reputation, and by generating greater competitiveness.

CSR is not an easy option to follow, and it implies leadership in corporate decision making to overcome such problems as the lack of a civic culture, corruption, the weakness of legal frameworks and other impediments to the development of the company as a responsible corporate citizen. With this in mind, ten key rules have been mapped out covering the following aspects: 1) the quest for economic, social and environmental benefit; 2) respect for stakeholders when companies make decision and choose strategies; 3) dissemination and measurement of social commitments; 4) adoption of approaches based on participation, solidarity and respect; 5) the encouraging of human and labor development for employees and their families; 6) support for social causes related to the enterprise as part of a business strategy; 7) respect, preservation and regeneration of the environment in the firm's activities; 8) social community investment; 9) participation in intersectoral coalitions that, jointly with civil society and government, contribute to economic and social development; and 10) provide motivation for workers, shareholders and suppliers to take part in programs for social investment and development. To implement these ten rules, government help is needed in establishing a legal framework of incentives that promotes corporate responsibility.

Gonzalo García from the CPC and vice-president of SOFOFA from Chile said how in his country, as most

others, the notion of corporate social responsibility began to take root just over four years ago, and curiously arose from companies themselves, not external pressures. For Chilean enterprises, it is a question of obtaining good profitability in a responsible way. In this respect, Chile faces a number of challenges which need to be tackled.

First, the conviction that CSR is not just a cosmetic arrangement has to be made general. Work has to be undertaken to clarify concepts, to develop a shared framework and to make the implications of this properly understood. Similarly, it is necessary to move from ideas to action, defining the specific indicators to show good practice in various areas of CSR. It is important to share not only positive experiences, but also difficulties and failures; in the long run, these help progress to be achieved.

Secondly, the largest enterprises and those with the closest ties to the most competitive international markets have moved ahead rapidly in the incorporation of social responsibility as an integral facet of management. However, the challenge to be met is integrating the 140,000 small and medium-sized enterprises that provide employment to 80% of Chilean workers.

Thirdly, one of the keys resides in generating a culture of transparency that inevitably promotes responsibility. Reporting, the verification of on-going improvements in responsible business management constitutes another major challenge. Social accounting is an extremely useful tool for firms because it provides the chance for dialogue with shareholders, customers, employees, suppliers, neighbors and other stakeholders, helping likewise to provide a solid basis for business reputation.

Fourthly, it is necessary to explain the role of companies from the point of view of good corporate citizenship, improving on corporate governance.

Fifthly, the incentives need to be improved on the part of government, so that enterprises make the effort to contribute to the development of the country and to overcoming poverty. There is plenty of scope for stimulating involvement of the private sector in areas thus far the domain of the state.

Finally, CSR has to be promoted among all social actors. Social responsibility is not the exclusive duty of firms or of the state. Even though many consumers profess to favor socially responsible firms, the relationship between what they say and what they actually buy is far from clear. For this reason it is very important that consumers, as well as surrounding communities, civil organizations, the authorities, the shareholders, workers, government and all others affected by corporate activity, value and prize responsible practice.

Conclusions

The main conceptual advances in CSR relate to the ethical and moral values of good corporate governance, both within and beyond the firm. Defining a normative framework and patterns of behavior that give practical expression to these values tends to be complicated. However, an area in which there is insufficient agreement is the way in which socially responsible business activity can contribute to reducing poverty. Currently, the contribution of business in this direction is more symbolic than real or effective. For this reason, turning 'words into deeds' will be a theme for future conferences. We have to continue looking for new forms and ways so that large national and multinational corporations, as well as medium-sized and small ones operating in every sector of activity, identify with greater precision the ways in which they may contribute more effectively to reaching the MDGs and reducing the intolerable levels of poverty that persist in Latin America and the Caribbean.

The panelists stressed the importance of deepening business interaction with other areas of society, national and local governments, and organizations in civil society. In this context, the increasing scale of activity among business foundations is helping to build bridges towards launching coalitions and agreed initiatives. However, the argument arises that a philanthropic, charitable vision of CSR still persists. There are still fairly few enterprises that understand or are prepared to invest in and ally with other partners around programs conducive to sustainable development and the institutional strengthening that makes this happen.

In many countries, leadership in CSR comes primarily from transnational corporations, and the local business sector is less open to assimilating the idea and putting it into practice. It has been pointed out that the main frontier to CSR continues to be that of small and medium-sized enterprises. There are still no good examples of CSR activities among small firms. It is definitely true that this is the business universe where the biggest impact could be made on reducing poverty and achieving sustainable development. However, methodologically speaking, this means a different sort of relationship with other social sectors. Some institutions that promote CSR are working with small firms, and it is here that new paths to the future are being opened up.

Notwithstanding, the ample dissemination of ideas about CSR in recent years, there is still a big conceptual diversity over what it means and how it expresses itself. To this end, it is important to strengthen research capacities in the region on CSR, the building up of case studies and models, and in professional training. The increase in interchange between countries and support for important forums helps to advance knowledge and professionalism in this sphere. However, it is an issue that still lends itself to multiple interpretations.

The conclusions reached at the Inter-American Conference on Corporate Social Responsibility in Panama City in 2003 remain valid: capacity building, building coalitions between sectors, and bringing small- and medium-sized enterprises into the body of CSR. This conference has involved a better definition of the goals for CSR, the need for a greater conceptual understanding of what CSR means, and the search for a connection between CSR and attainment of the Millennium Development Goals.

ANNEX: AGENDA

September, 26-28th, 2004
Sheraton Centro Histórico
Mexico, DF

Sunday, September 26th, 2004

3:30–6:00 pm—Registration

6:00–9:00 pm—Welcome reception (Presidency
Office for Public Policy)

WELCOME SPEECH

- *Eduardo Sojo Garza Aldape, Head of the Presidency Office for Public Policy*

Monday, September 27th, 2004

7:00 a.m. -3:00 p.m.—Registration

9:00-10:00 a.m.—Opening Ceremony

- Alianza para la Responsabilidad Social (AliaRSE)
 - *Juan Manuel Arriaga, President*
- Centro Mexicano para la Filantropía
 - *Samuel Kalisch, President*
- Government of the Federal District of Mexico
 - *Raquel Sosa Elizaga, Secretary, Social Development*
- Inter-American Development Bank
 - *Enrique V. Iglesias, President*
- Gobierno de Mexico
 - *Vicente Fox, President of the Mexican United States*

10:00-11:30 a.m.—First Plenary Session

THE VIEW OF THE COMPANY: CEOS PANEL

Moderator

- *James Austin, Social Enterprise Knowledge Network (SEKN), Harvard Business School, USA*

Panelists

- *Manuel Arango Arias, President, Grupo Concord, Mexico*
- *Lorenzo Mendoza Giménez, CEO, Empresas Polar, Venezuela*
- *Raúl Muñoz Leos, General Manager, PEMEX, Mexico*
- *Roberto Murray Meza, President, Grupo Agrisal, El Salvador*

Latin American business leaders (Presidents and CEOs) will present their own views on environmental and social corporate responsibility. They will share with the audience the motivation to introduce CSR in their companies' strategy and what is the impact.

12:00 – 1:30 p.m.—Second Plenary Session

THE VIEW OF THE STAKEHOLDERS

Moderator

- *Jorge Villalobos, Executive Director, Centro Mexicano para la Filantropía*

Panelists

- *Development Subsecretary, Social Development Secretary (SEDESOL), Mexico*
- *Marilena Lazzarini, President, Consumers Internacional*
- *Manuel Escudero, Secretary General, UN Global Compact in Spain*
- *Alberto Núñez Esteva, President, Confederación de Patronales de la República Mexicana (Coparmex), Mexico*

Consumer groups, non-governmental organizations that represent the community interests and also the public policy side of CSR will take part in this panel.

Stakeholders will share with the audience the situation of CSR from each of their own perspective and what actions they think should be implemented to make CSR mainstream and not the exception.

1:30-3:00 p.m.—Lunch (CEMEX)

Keynote speaker:

Juan Romero, President,
CEMEX, Mexico

Breakout Sessions (three concurrent sessions)

Series A: CSR Strategies

Series B: Communication and education of CSR

Series C: Areas of implementation

3:00-4:30 p.m.—First Round of Breakout Sessions

Series A: CSR Corporate Strategy

Moderator

- *Gustavo de la Torre, General Manager, Administración por Valores, Mexico*

Panelists

- *Javier Cox, President, Empresa, Chile*
- *Leticia Narváez, Corporate Communications Director, Merck, Sharp & Dohme, Mexico*
- *J. Eduardo Cervantes, Director, Public Affairs, Coca-Cola de México*
- *Eduardo Ortiz Tirado, General Manager, SC Johnson & Son, Mexico*

The companies in this panel will present their experiences related to the process they followed to introduce CSR in the business strategy, how to design the CSR agenda and which are the mechanism to include it successfully in the business culture.

Session B: Measuring and Reporting CSR

Moderator

- *Roberto Gutiérrez, Universidad de Los Andes, Colombia*

Panelists

- *Luis Perera, Partner, PricewaterhouseCoopers, Chile*
- *Dulceamor Navarrete, Executive Director, Grupo de Monitoreo Independiente (GMIES), El Salvador*
- *Fernando Labad Saisain, Vicepresident, Fundación Telefónica, Spain*
- *Edward Miller, President, Gas TransBoliviano (GTB), Bolivia*

Companies are implementing some reporting methods to inform stakeholders about their bottom line so that it reflects not only the financial side of but also the environmental and social part. Additionally voluntary codes of conduct try to harmonize CSR practices as it happened with quality standardization a decade ago. This panel will discuss cases of application both in reporting and voluntary codes; and reporting and standardization initiatives.

Session C: CSR and the quality of life of the internal community

Moderator

- *José Tolovi Jr., Representative in Mexico and Brazil, Great Place to Work Institute*

Panelist

- *Hans Hofmeijer, Director, Multinational Enterprises Programme, International Labour Organization (ILO)*
- *Lucio Toninelli, Head of Human Resources in Latin America, IBM*
- *Francisco Xavier Casanueva, Interprotección, Mexico*
- *Javier Millán, Director, Human Resources, Grupo Bimbo, Mexico*

This session will describe those practices that contribute to a stimulating, safe and creative workplace. One without discrimination and participatory where all individuals interact based on fairness, integrity and respect. This will contribute towards an environment in the workplace that is conducive to professional and human development and towards better quality of life and improved productivity.

5:00-6:30 p.m.—Second Round of Breakout Sessions

Session A: Internal and external incentives

Moderator

- *Carlos Ludlow, Confederación Unión Social de Empresarios de Mexico (USEM)*

Panelists

- *José María Bustillo, Presidente, Grupo FENOSA, Colombia*
- *Juan Felipe Cajiga, Program Manager, Corporate Social Responsibility, Cemefi, Mexico*
- *Hilda Sánchez, Advisor in Economic Affairs, Inter-American Regional Trade Union Organization, International Confederation of Free Trade Unions (IFCTU)*
- *Jerónimo Pruijn, Director, Fair Trade, Mexico*

In some cases the motivation comes from the personal conviction of managers, in others comes from the search of differentiation from competitors. Globalization, real time media coverage, civil society pressures claiming a more equitable society...All of this are considered to be external pressures that companies are able to relieve through CSR. This session will analyze the internal and external aspects that drive companies to be environmental and socially responsible; which are the incentives and solutions the CSR provides and that companies implement for a better society and good management.

Session B: Communication of the CSR Strategies

Moderator

- *Sr. Italo Pizzolante, President, PIZZOLANTE Comunicación Estratégica, Venezuela*

Panelists

- *Alberto Vollmer, President, Ron Santa Teresa, Venezuela*
- *Edgar Rodríguez, Director, Strategic Communication, CEMEX, Mexico*
- *Roberto Aguirre, Corporate Director, Santander Serfin, Mexico*
- *Antonio Boadas, Director, External Relations, Procter&Gamble, Venezuela*

Companies should communicate their CSR actions to create effective communication channels to establish fruitful relations with stakeholders. This is not a trend but a reality that should be taken much into account by those companies that aspire to a relevant position in today's global markets. Among other, the following aspects will be discussed: the need to know the impact of business in society, the interests of stakeholders and what are the most appropriate means of communication to manage the changing nature of global markets.

Session C: Inter-sectoral alliances

Moderator

- *Audra Jones, Inter-American Foundation (IAF), USA.*

Panelists

- *Dan Runde, Outreach and Alliance Development Specialist, USAID, USA*
- *Daphne de Souza Lima Sorensen, Senior Program Officer, Citizen Development Corps (CDC), USA / Tim Miller, Projects Manager and Legal Representative, Montana Exploradora de Guatemala, S.A.*
- *Beatriz Febres-Cordero, Director, Corporate Affairs, Manufacturas de Papel, C.A., MANPA, Venezuela.*
- *Norma Treviño, Public Relations, HEB, México*

In some business-community partnerships cases companies integrate low-income population within their regular business operations. The aim is to bridge the gap that is common in less developed countries. This panel will discuss business-community partnership cases that contributed to the local socio-economic development and the company improved its knowledge about the needs of the community and also its relationship with other stakeholders. The panel will specifically highlight the key issues to succeed in this type of partnerships.

8:00-10:00 p.m.—Gala Dinner- *Keynote Speaker:*
Josefina Vázquez Mota, Secretaria de Desarrollo Social (SEDESOL)

Tuesday, September 28th, 2004

8:00-9:30 a.m.—Breakfast (Grupo Kalisch)
Speech by Guillermo Caro, Director ejecutivo, Fundación Ad-Honorem

9:30-11:00 a.m.—Third Plenary Session

CSR: CONVICTION OR PROTECTION

Moderator

- *Antonio Vives, Subgerente, Empresa Privada y Mercados Financieros, Banco Interamericano de Desarrollo*

Panelists

- *Tobias Webb, Editor, Ethical Corporation Magazine, UK*
- *Simon Billenness, Asesor Senior, Corporate Engagement, Oxfam America*
- *Richard Rierre Sucre Danowski, General Manager, British American Tobacco (BAT), Mexico*
- *Peter Kidd, President, Shell, Mexico*

Whether CSR practices are a technique to protect companies from compulsory codes or, on the contrary, they are the result of a true conviction that CSR is the right way to do business (to gain competitive advantages or to give back what is taken from society). This session will look at opposing views with the participation of companies and civil society.

11:30-1:00 p.m.—Third Round of Breakout Sessions

Session A: Strategic business-community links

Moderator:

- *Graciela Pantín, General Manager, Polar Foundation, Venezuela*

Panelists:

- *Claudio Giomi, Managing Director, Arcor Foundation, Argentina*
- *Margareth Florez, Deputy Director of Programs, Corona Foundation, Colombia*
- *Leopoldo López, Manager, Community Development, Industrias Peñoles, Mexico*
- *Yazmin Trejos, Head of Corporate Social Responsibility, Amanco, Costa Rica*

Many corporations are using their foundations, originally created with philanthropic purposes, to manage their CSR strategies. This session will examine the transition

from traditional philanthropy to a more participatory approach in the process of supporting social causes, more closely related to CSR, and what the advantages result from this evolution.

Session B: Stakeholders education

Moderator

- *Gerardo Lozano, Escuela de Graduado en Administración y Dirección de Empresas (EGADE), Instituto Tecnológico de Monterrey, Mexico*

Panelists

- *David Barkin, Professor of Economics, Universidad Autónoma Metropolitana (UAM), Mexico*
- *Abraham Nosnik, Professor, Universidad Anáhuac, Mexico*
- *Jacqueline Jimena, Journalist, Diario Los Andes, Argentina*
- *María Matilde Schwalb, Coordinator, Latin America Business Environment Learning Leadership (LABELL) Program-Andean Network, Universidad del Pacífico, Peru*

In spite of the dissemination and the momentum that CSR is gaining it is necessary to educate on the different aspects that CSR touches upon. This panel will highlight the need for stakeholders' education on CSR. Consumers have to know what is CSR all about to be able to recognize it in the products they buy, business schools have to include CSR in their curricula as a compulsory topic to educate the business leaders of the future; and companies have to train their employees to mainstream CSR within the company.

Session C: Environmental corporate responsibility

Moderator

- *Enrique Ogliastrì, INCAE, Costa Rica*

Panelists

- *Carlos Muñoz Piña, General Manager, Instituto Nacional de Ecología (INE), Mexico*

- *Roberto Vilate, Director de Ingeniería, TenarisTamsa, Mexico*
- *Jacobo Esquenazi Franco, Director, Government Relations, Hewlett Packard (HP), Mexico*
- *Francisco Córdova Lira, Executive Director, XCaret, Mexico*

One of the main challenges of business is sustainable wealth generation through the optimization of the available resources, minimization of waste and implementation of recycling. This session will show cases of responsible companies that take the environment into consideration in their decision-making process.

1:00-2:30 p.m.—Fourth Plenary Session

QUO VADIS? THE FUTURE FOR EMERGING MARKETS

Moderator

- *David Valenzuela, President, Inter-American Foundation (IAF), USA*

Panelists

- *Ricardo Young Silva, Chairman of the Board, Instituto Ethos, Brasil*
- *Adrian Hodges, Managing Director, Prince of Wales International Business Leaders Forum, UK*
- *Donald Terry, Manager, Multilateral Investment Fund (MIF)*
- *Héctor Laríos Santillán, president of the Commission for Ethics and Values, Confederación de Cámaras Industriales de México (CONCAMIN), Mexico*
- *Gonzalo García, Confederación de la Producción y el Comercio (CPC) and Vice President, Sociedad de Fomento Fabril (SOFOFA), Chile*

Lastly, the event will be closed with an analysis of the specific problems affecting developing countries. The panel will discuss the best path to deepen in this field and achieve higher business and national competitiveness of emerging markets.

2:30-4:00 pm—Closing lunch



Deeds Not Words

II Inter-American Conference on
Corporate Social Responsibility

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