Corporate Social Responsibility in Latin America:

Responsible Solutions to Business and Social Problems

Estrella Peinado-Vara

Inter-American Development Bank

Washington, D.C.

Sustainable Development Department
Technical Papers Series

Cataloging-in-Publication provided by the
Inter-American Development Bank
Felipe Herrera Library

Peinado-Vara, Estrella.

Corporate social responsibility in Latin America : responsible solutions to business and social problems / Estrella Peinado-Vara.

p.cm.
(Sustainable Development Department Technical papers series ; PEF-106)
Includes bibliographical references.

1. Social responsibility of business—Latin America. 2. Social responsibility of business—Latin America—Case studies. 3. Environmental responsibility—Latin America. 4. Corporations—Latin America. I. Inter-American Development Bank. Sustainable Development Dept. Private Enterprise and Financial Markets Sub-Dept. II. Title. III. Series.

658.408 P325—dc22

Estrella Peinado-Vara is a private sector specialist in the Sustainable Development Department of the Inter-American Development Bank. Her work focuses on corporate social and environmental responsibility (CSR).

December 2005

Additional copies of this report (Ref. No. PEF- 106) can be obtained from:

Private Enterprise and Financial Markets Subdepartment
Sustainable Development Department
Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577

E-mail: estrellap@iadb.org
Fax: 202 623 1708
Website: http://www.iadb.org/sds/privsec_e.htm

Foreword

The private sector plays a key role in economic growth and wealth creation and is considered a pillar of development. Yet, we know that in order to contribute to sustainable economic development the private sector must be competitive, and it is becoming increasingly clear that long-run competitiveness requires that companies become socially and environmentally responsible. Companies are behaving more responsibly and contributing to efforts to alleviate poverty because doing so is good for business. If well implemented, corporate social and environmental responsibility (CSR) efforts can contribute to the creation of quality jobs, a responsible supply chain, transparency, the efficient use of natural resources and other positive outcomes that can also help reduce poverty. In Latin America, a quarter of the population lives on less than two dollars a day and about 50 million people live on less than one dollar a day and are considered extremely poor. Thus, the business sector in the region must take these facts into account and integrate social issues into corporate strategies to avoid finding itself at a disadvantage.

The most important contribution that the private sector can make to development is through the way it conducts business. However, engaging with stakeholders inside and outside the company can help to leverage business resources, skills, competencies, technology and networks, and increase the sector's contributions to development. As long as CSR is considered a part of the business strategy, the sector will be able to have a long-term, sustainable, positive impact on growth, development and poverty.

Socially and environmentally responsible business practices contribute to poverty relief and business success. This report presents some examples and lessons from private initiatives to solve business and social problems. The Inter-American Development Bank hopes this analysis will inspire other companies and agencies to create prosperity, alleviate poverty and build responsible and fair societies.

Antonio Vives
Senior Deputy Manager
Private Enterprise and Financial Markets Subdepartment
Sustainable Development Department

Contents

CSR in Latin America 1

Responsible Solutions to Business and Social Problems 2

Procter & Gamble in Venezuela 4

Energía Social in Colombia 5

Lessons Learned From These Experiences 7

Conclusions 7

References 8

CSR IN LATIN AMERICA

While there are many definitions of corporate social and environmental responsibility (CSR), for the purpose of this paper it is understood as the corporate practices that complement and support main business activities and explicitly seek to avoid damage and promote the well-being of stakeholders[1] by complying with the law and voluntarily going beyond it. CSR is a growing movement that remains in its infancy. To make further progress in mainstreaming corporate social and environmental responsibility in the region, we need to improve the investment climate and the institutional capacity of governments and civil society as well as adapt the CSR agenda to the specific characteristics of each country.

The impediments that the public sector faces in its efforts to meet social and environmental needs heighten the importance of encouraging the private sector to assume its social and environmental responsibility. Clearly, the private sector should not replace the State in the provision of basic public goods, but it can contribute to improving social well-being. This is especially applicable to Latin America, where a quarter of the population (about 128 million people) lives on less than two dollars a day.[2] The United Nations Millennium Development Goals, which establish ambitious targets for improving standards of living and reducing poverty, recognize that the private sector has an important role to play (WBCSD, 2004).

Some companies are already doing business with the poor in a sustainable manner and within a win-win framework of corporate citizenship. Businesses can play a key role in reducing poverty and improving standards of living in disadvantage communities. This article presents an overview of two cases—Procter & Gamble (P&G) in Venezuela and Unión Fenosa (through Energía Social) in Colombia—to illustrate creative solutions that the private sector is implementing to improve the living conditions of disadvantaged communities while expanding markets and increasing profitability.

How Widespread is CSR in Latin America?

The evidence on the extent of corporate social responsibility in Latin America is mixed. Data from some sources suggest the existence of a fairly active private sector with significant potential for the development of vibrant socially and environmentally responsible activities. However, there is limited evidence of actual cases of CSR activity in the region.[3] Some studies find that the same issues that slow overall social and economic development and the creation of strong private and public sectors are hindering the development of CSR. These factors include the lack of institutional capacity of many governments (Pratt and Fintel, 2002), weak corporate govern-

1 It includes clients, suppliers, employees, financial resource providers, community, government and the environment

2 In addition, about 50 million people live on less than one dollar a day and are considered extremely poor. See 2005 World Development Indicators. Data for 2001. World Bank. Accessed on June, 15th
http://www.worldbank.org/data/wdi2004/

3 To see a summary list of the CSR activities of top Latin American companies see
http://www.focal.ca/images/pdf/csr_04.pdf

ance (Chong et al., 2003), a relatively less favorable business climate and a smaller business scale than in other regions.

Progress needs to be made on all these fronts in order for Latin American companies to be able to adopt practices that are socially and environmentally responsible. In addition, the corporate social responsibility agenda must be adapted to the specific needs of the region and of each specific country in order to contribute to improving sustainable economic development.[4] This will require the adoption of a more democratic and participatory view of the roles of government, the private sector and civil society. However, until now, CSR in Latin America seems to be heavily influenced by international nongovernment organizations (NGOs), guidelines from multinational headquarters, and multilateral institutions (Haslam, 2004), suggesting a lack of local ownership of CSR initiatives.

RESPONSIBLE SOLUTIONS TO BUSINESS AND SOCIAL PROBLEMS

There is a long tradition of corporate philanthropy in Latin America, with the private sector holding a rather paternalistic view of its role in society. Private philanthropy has emerged in response to economic crises in Argentina and Peru and social crisis in Colombia and Brazil (Gutiérrez and Jones, 2004). Unfortunately, the private sector has not been involved in a permanent manner. Donating financial resources or employees' time might be affordable one fiscal year but not the next. As a result, these efforts have not had long-term impact on improving people's livelihoods. The greatest contribution that the private sector can make to sustainable economic development is to produce cost effective products and services, provide jobs and support the transfer of knowledge and technology, while at the same time minimizing the negative effects of its activities (WEF, 2002). In order to achieve this, responsible actions must be linked to corporate strategies. There are encouraging signs of a more socially responsible private sector in Latin America. Some companies have undertaken socially responsible approaches to resolve business problems that have included previously excluded customers as stakeholders, improving their standard of living, providing access to products and services and contributing to the sustainable development of communities.

While the private sector is not going to solve all social and economic ills, it can contribute to prosperity and at the same time increase its profitability in the process (Prahalad and Hammond, 2002). Good corporate citizenship and corporate social responsibility involve doing business in an ethical manner, going beyond simply complying with the law, and taking into account the expectations of the society in which a company operates. Thus, bringing the poor into the market becomes one of the private sector's responsibilities. However, this is not merely an altruistic option but also helps expand markets by involving previously untapped customers. This business model resembles a pyramid whose base focuses on meeting the needs of the most disadvantaged segments of the

[4] According to Fergus and Rowney (2005), sustainable development suggests inclusion and integration where society, environment, government and business focus on the present but respect the needs of future generations and the memories of past ones.

market. Reaching customers who have been traditionally excluded and whose needs have not been met because they are not in so-called “profitable income brackets” requires innovative business models that contribute to alleviating poverty and improving living standards. The two cases detailed in this report focus on actions that target the poor and that not only results in opening of new markets but can also have a positive impact on the livelihoods of the poor.

While company donations play a role in Latin American societies, as is the case for Venezuela and Colombia, an evolution toward increased private sector involvement is needed. Foundations and nongovernment organizations are encouraging corporations to move beyond philanthropy toward corporate citizenship (Barrett, 2002) tailored to specific local characteristics. Business contributions to social development, to be effective in the long run, must combine profits with improving poor people’s lives for companies to be financially able to sustain any program.

Companies are recognizing that in order to engage in these market segments they will need to understand the differences in societal structures and address the deficiencies in infrastructure, skills or financial capacity. The number of companies dealing with low-income populations, be it as customers or suppliers, is increasing.

The Center for Corporate Citizenship at Boston College (USA) has developed an integrated corporate responsibility framework based on the experience of companies in the Global Leadership Network (Rochlin, 2005).[5] According to this integrated model, the main attributes of an effective strategic alignment in social and environmentally responsible practices include:

- *Engaged learning* with main stakeholders, which promotes learning and innovation that has a positive impact on the company and its targets;
- *A business strategy* that aligns social, environmental, and financial performance with responsible practices embedded in the company’s business strategy;
- A *leadership* role in responsible actions to actively deal with some of the social and environmental issues; and
- *Operational excellence* based on the required infrastructure that needs to be in place to allow the business strategy to be embedded into the operations.

The Global Learning Network results suggest that the total integration of these four elements is the key for responsible corporate behavior.[6] This framework is applicable to the cases of P&G in Venezuela and Energía Social in Colombia, two successful examples of corporate social responsibility at the bottom of the pyramid that illustrate one aspect of the tendency toward CSR in the Latin American private sector.

---

[5] The Center for Corporate Citizenship at Boston College and AccountAbility in partnership with a group of 10 global companies that included IBM, GE, 3M, FedEx, Diageo, Cargill, Manpower, Omron, GM, and Cemex.

[6] For more information on this framework see http://www.accountability21.net/uploadedFiles/Event_Forums/Economics_of_Accountability/accountabilityreprint.pdf.

PROCTER & GAMBLE IN VENEZUELA[7]

Procter & Gamble (P&G) realized that it was missing a potential market in the poorest communities in Venezuela. Following the model briefly described above, P&G initiated a process of engaged learning. In the first steps of their market research P&G found that some of the myths that normally apply to poor sectors of society were not necessarily true. These include the idea that manufacturers of consumer products are unable to find business opportunities in depressed markets; that their products are not adaptable to low-income consumers; or that price is a formidable barrier to access for low-income consumers (Prahalad and Hammond, 2002). P&G then identified a market niche whose needs remained unmet and listened to these communities in order to learn more about them. The company found that its knowledge of consumption habits and distribution channels in these markets was weak. It also discovered that social networks and structures are highly complex in overpopulated communities where trust in formal structures is absent. As a result, P&G found that low-income consumers in Venezuela do not want to be treated differently from other consumers.

The results of this learning process suggested that traditional business models (not necessarily products) needed to be changed in order to successfully target this new market. P&G approached low-income communities in Venezuela with the same creativity that the consumers themselves show in their efforts to meet their needs. The company focused on making its products more affordable and accessible to the poor, approaching informal settlements (which have extremely complicated social structures) with integrated solutions to address their needs in a holistic way, rather than with individual products.

The operational excellency is reflected in the measures implemented. One of the things P&G did was to sell products like shampoo, detergent and diapers in bulk to buyer's clubs, which, in turn, were able to reduce the unit price paid by individuals.

The social impact of these business practices was quite significant. Shampoo that was more affordable and sold in large containers led to the establishment of beauty salons in several communities. Similarly, the availability of affordable diapers led to the establishment of daycare centers and the availability of detergent in bulk lowered the costs of itinerant laundry services (which go to the customers). The impact did not stop there since hairdressing and childcare centers created jobs in communities beset by social problems. Moreover, P&G's involvement did not stop with making its products more affordable. The company also became involved in training hair stylists, which improved the employability of people in the communities and, of course, also boosted sales of its products (Vives and Peinado-Vara, 2004). P&G has provided the community with ways to access products and services that were previously unreachable, while teaching members of the community job skills and providing new opportunities in these communities.

In addition, P&G has also developed ways to market innovative fortified

[7] Vives and Peinado-Vara (2004) and company information.

products for the poor in its food line of business, becoming a leader in the Global Alliance for Food Fortification along with other companies such as Unilever and Tetrapak.[8]

ENERGÍA SOCIAL IN COLOMBIA[9]

Unión Fenosa entered the Colombian energy market in 2000 when formal access to electricity was scarce in many areas. In addition, socioeconomic conditions contributed to fraud, waste and the lack of a reliable billing and payment system (Medina, 2005). Union Fenosa invested approximately US$1.5 billion in Colombia, one of its largest investments in any foreign market. Yet, the company was facing lower revenues and higher energy losses than expected. To ensure its profitability, in 2004 the company created Energía Social to address so-called subnormal markets and improve management.[10] Managing energy services in the most disadvantaged communities is a problem in many Latin American countries. Changes in the corporate mindset toward doing business with the poor can take place for many different reasons, in this case, however, the guiding force was the survival of the company.

During the investigation of the reasons behind high energy losses and lower than expected revenues Unión Fenosa learned that 269,000 families (or about two million people) had illegal access to electricity, which in addition to the problems this caused for the company it also raised safety concerns. The company's *engaged learning* process also revealed that the living conditions and income patterns of these users were not the same as that of regular electricity customers. Through the creation of Energía Social, Unión Fenosa is addressing a basic need and providing safe and legal access to electricity for people who had been traditionally excluded (utilities had also believed that sustainable, cost-effective service could not be profitably provided for this market segment).

In conflict-sensitive societies, such as Colombia, unexpected problems are likely to arise when companies fund development projects without giving appropriate consideration to the needs, means and goals of residents (Gaigals and Leonhardt, 2001), underscoring the need for a clear CSR strategy. More generally, to avoid unforeseen mishaps and to enhance effectiveness, companies should develop strategies that contribute to the economic and social development of the community in partnership with local, regional and national actors (Rienstra, 2001). In order to increase revenue collections, Energía Social developed an innovative collection method by helping establish small enterprises in the communities to measure usage, collect payments and provide customer and repair services. Energía Social has outsourced these functions to local contractors who can rely on their knowledge of the community to establish a collective billing system. This allows the community to make a common investment and decide how to split the costs among them-

[8] For more information on the Global Alliance for Food Fortification see GAIN (Global Alliance for Improved Nutrition) at www.gainhealth.org

[9] Vives and Peinado-Vara (2005) and company info

[10] Subnormal markets refers to customers living in extremely poor areas, in particular, in urban and coastal areas such as Barranquilla and Cartagena.

selves.[11] The company worked closely with central and local authorities to develop an appropriate tariff and billing structure and raise awareness of the need for reforming the energy market's legal framework in Colombia. The newly implemented regulation allowed for more flexible payment periods in order to take into account the income patterns of residents. According to the company's annual report 2004 ended with a 60 percent increase in revenues from billings (a US$2.9 billion increase).

These poor communities are a fountain of local knowledge and human capital that can be mainstreamed into the business if the company is able to identify those resources and figure out how to best make use of them to add value or reduce operating costs. For example, in Colombia, *marañeros* charge a little more than one dollar to connect households to the electric grid. Their activities are illegal and mean lost business for the electric company, and it is also a safety hazard. To address the problem, Energía Social designed and implemented a program to train *marañeros* to become utility contractors. This provided them with jobs and a more stable source of income.

The national and local governments and Energía Social are investing US$7.5 million to regularize 18 communities and provide legal and safe electricity. The Colombian government is investing around US$6 million (80 percent) while local governments and Energía Social are contributing approximately US$1.5 million (20 percent of the total investment). Energía Social has already regularized the status of 12,000 coastal families, providing them with regular, reliable and safe access to electricity, improving basic infrastructure for local small businesses and schools. The potential incremental environmental impact of increasing the number of people using electricity is minimal because most of the communities were already connected illegally. These kinds of public-private partnerships enhance corporate reputation and increase in productivity and quality, while contributing to the success of social, environmental and health programs (Diara et al., 2004).

Unión Fenosa took a leadership role in approaching the national and local governments and contributed to this project both financially and by creating the necessary legal infrastructure to implement it. Based on this experience, the company is considering expanding it to other communities.

By seeking to include marginalized low-income people in the market, activities like those of Unión Fenosa help create new local small businesses and jobs and help alleviate poverty.

The experience of Energía Social provides valuable insights into the need to work together with central and local governments to succeed. It also highlights the importance of innovation and adaptation to the needs of local communities to ensure success in disadvantaged markets. By bringing small local entrepreneurs into their value chains, businesses can help create employment, promote the transfer of skills, as well as help create new local businesses. All these efforts will have an important positive impact on poverty. Energía Social tapped into the entrepreneurial capacity of nearby communities and helped local

[11] It must be mentioned that these initiatives are not exempt of conflict among individuals in the communities.

people benefit from the company's know-how and strengthen their ability to improve their standard of living.

LESSONS LEARNED FROM THESE EXPERIENCES

The two cases presented in this report prove that profitability can go hand-in-hand with efforts to achieve the common good and improve living standards for communities mired in poverty. The success of these two companies refutes the notion that corporate involvement in improving local living standards invariably has a negative impact on the bottom line. It also highlights the connection between the business mission of generating profits and corporate social and environmental responsibility. In both of these cases the companies involved were able to improve communications with their customers and help the communities by creating jobs and helping generate more stable income streams and improved living conditions.

As shown with these two examples, companies need to develop sustainable relationships with low-income consumers, social organizations and local governments to fulfill their commitment to social responsibility. It is fundamental to understand the complexity of these networks, as well as the real concerns and needs of this population group. Once this confidence is established, patterns of communication arise in both directions making it easier to identify and meet new needs while generating benefits to the company at the same time.

CONCLUSIONS

Initiatives to increase awareness of the social and economic benefits of CSR practices in Latin America are starting to bear fruit, but greater efforts are needed to promote the implementation of these practices. Responsible companies can make a significant, if not critical, difference in the social and economic development of the region.

As the examples of P&G in Venezuela and Energía Social in Colombia demonstrate, there already are companies in the region that are having a positive social and economic impact on local communities while improving their bottom line. Companies that are able to successfully operate in low-income markets can improve their reputation and gain a competitive advantage as countries become richer, and more business opportunities emerge. These activities can also help improve corporate relations with governments and communities, making it easier to acquire the necessary business licenses to remain in operation.

The private sector cannot ignore the challenges posed by poor infrastructure, and lack of institutional capacity in the government and a sound enabling business environment. By becoming part of the solution to these problems businesses can prosper in Latin America, while at the same time contributing to prosperity in the region. These actions also yield benefits that are central to the concerns of many Latin American NGOs, such as preserving the environment, creating jobs and establishing the foundations for improved saving and solidarity. Often, the private sector is better able to achieve these aims with less effort and increased sustainability than nonprofit social organizations. It is a "win-win" equation that businesses should not leave unexplored.

References

Barrett, D. 2002. Social Responsibility in Latin America: An Evolving View. Giving and Volunteering in the Americas: From Charity to Solidarity. *ReVista Harvard Review of Latin America*. Spring 2002 Vo.1, issue 3: 25-26.

Chong, A., A. Izquierdo, A. Micco and U. Panizza. 2003. Corporate Governance and Private Capital Flows to Latin America. Research Department Working Paper. Inter-American Development Bank. Washington, D. C.

Diara et al. 2004. Corporate Social Responsibility and Public–private Partnership: The Case of the Academy for Educational Development and ExxonMobil. *Development*, Volume 47, Number 3, September 2004, pp. 69-77

Fergus, A.H.T and J.I.A. Rowney. 2005. Sustainable Development: the Lost Meaning and Opportunity. *The Journal of Business Ethics*. September 2005, Vol. 6 pp17-27

Gaigals C. and M. Leonhardt. 2001. Conflict-sensitive Approaches to Development: A Review of Practice. Saferworld, International Alert, International Development Research Centre. London.

Gutiérrez, R. and A. Jones. 2004. Corporate Social Responsibility in Latin America: An Overview of its Characteristics and Effects on Local Communities. Workshop on Corporate Social Responsibility in the Promotion of Social Development: Experiences from Latin America and Asia. Tokyo and Okinawa, Japan, July 12-16.

Haslam, P.A. 2004. The Corporate Social Responsibility System in Latin America and the Caribbean. Policy Paper. Canadian Foundation for the Americas. www.focal.ca accessed March 24, 2004.

Medina, A. 2005. Fenosa desenreda el cable en Colombia. Published in *Expansion* (May, 15, 2005) www.expansion.com. Accessed on May, 17, 2005.

Prahalad, C.K. and A. Hammond. 2002. Serving the World's Poor, Profitability. *Harvard Business Review.* September, pp 48-57.

Pratt, L. and E.D. Fintel. 2002. Environmental Management as an Indicator of Business Responsibility in Central America, ed. P. Utting *The Greening of Business in Developing Countries: Rhetoric, Reality and Prospects.* London: Zed Books (in association with UNRISD).

Rienstra, D. 2001 The approach of the corporate world: How conflict sensitive is the private sector? Conference Report on Mainstreaming Conflict Prevention. The Hague, Netherlands, 8-9 June 2001.

Rochlin, S. 2005. Llevar la responsabilidad corporativa al ADN de su empresa. *Harvard Business Review*. Latin American edition. August, pp 31-38.

Rochlin, S, K. Witter, P. Monaghan and V. Murray. 2005. Putting the Corporate into Corporate Responsibility (CR). The Center for Corporate Citizenship at Boston College and AccountAbility. AccountAbility Forum. April 2005. http://www.accountability21.net/uploadedFiles/Event_Forums/Economics_of_Accountability/accountabilityreprint.pdf. Accessed on September, 23, 2005.

Utting, P. 2003. Promoting Development Through Corporate Social Responsibility: Does It Work? *World Vision Journal of Human Development*. Third Quarter: 11-13 accessed on-line on March 28th, 2004, http://www.worldvision.com.au/

Vives, A. and E. Peinado-Vara (editors). 2004 *Corporate Social Responsibility as a Tool for Competitiveness*. Inter-American Conference on CSR Proceedings held in Panama City, Panama, 26-28 October 2003, Washington D.C.: Inter-American Development Bank. www.csramericas.org

Vives, A. and E. Peinado-Vara (editors). 2005. Corporate Social Responsibility: Deeds not Words. Inter-American Conference on CSR Proceedings held in Mexico City, Mexico, 26-28 September 2004. Washington D.C.: Inter-American Development Bank. www.csramericas.org

WBCSD (World Business Council for Sustainable Development). 2004. Doing Business with the Poor: A Field Guide.

World Economic Forum (WEF). 2002. Global Corporate Citizenship: the Leadership Challenge for CEOs and Boards. January 2002.