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Lourdes CASANOVA
Anne DUMAS
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Corporate Social Responsibility and Latin American Multinationals: Is poverty a business issue? *

by

Lourdes Casanova*

and

Anne Dumas**

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* Lecturer, Strategy Department, at INSEAD, Boulevard de Constance, 77305 Fontainebleau Cedex, France, Ph : +33 (0)1 60 98 30 11 ; Email : lourdes.casanova@insead.edu

** Research Associate,Strategy Department,, at INSEAD Boulevard de Constance, 77305 Fontainebleau, France ; Email : adumas3@hotmail.com

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Abstract

This paper looks at corporate social responsibility (CSR) practices of multinationals from Latin America. In spite of the economic growth in recent years, social problems in the region persist. Poverty is endemic and Latin America is still today one of the most unequal regions in the world. Multinationals from Latin America have thrived in the last years and are embracing CSR practices. The paper asks if these CSR practices are effective or whether they should become more proactive in poverty alleviation.

Key words: Emerging Multinationals, Corporate Social Responsibility, Latin America, Poverty, Inequality, Multilatinas.

Resumen

Este artículo considera las políticas de Responsabilidad Social Empresarial (RSE) de las multinacionales latinoamericanas. A pesar del crecimiento económico de los últimos años, los problemas sociales continúan. La pobreza es endémica y es la región con la mayor desigualdad del mundo. Las multinacionales latinoamericanas han sido muy exitosas durante la bonanza económica y están adoptando políticas de RSE. Este artículo se pregunta si estas políticas de RSE son efectivas o las empresas deberían adoptar un papel más activo en la reducción de la pobreza.

Palabras clave: multinacionales emergentes, responsabilidad social empresarial, Latinoamérica, pobreza, desigualdad, multilatinas

JEL codes: F23; M14

Corporate Social Responsibility

Corporate Social Responsibility (CSR) emerged in the late 1980s as a label for a philosophy of economic growth in business that values only those gains that can endure into future generations. Different organizations understand CSR in different ways. It used to be the sole preserve of socially progressive companies. Now, most multinationals have adopted some CSR principles. The World Business council for Sustainable Development defines CSR as "the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large." Traditionally, in the United States, CSR has been linked to philanthropy. Companies make profits, unhindered except by fulfilling their duty to pay taxes, then they donate a certain share of the profits to charitable causes. It is seen as tainting the act for the company to receive any benefit from the giving. The European model is much more focused on operating the core business in a socially responsible way, complemented by investment in communities for solid business case reasons. As outlined in this article, CSR in Latin America is being influenced in addition by current social issues such as poverty and inequality, which challenge the continent.

CSR is closely linked with the imperative of ensuring that the companies' operations are "sustainable" i.e. it is recognized that it is necessary to take account not only of the financial/economic dimension in decision making but also of the ethical, social and environmental consequences. Environmental damage, improper treatment of workers, and faulty production leading to customers inconvenience or danger, are frequently highlighted in the media. In this current economic crisis, this media scrutiny is only increasing. In some countries, government regulation regarding environmental and social issues have increased, and standards and laws are also often set at a supranational level (e.g. by the European Union). A number of stakeholders and investment fund managers have begun to take account of a corporation's CSR policy while making investment decisions. Likewise, some consumers have become increasingly sensitive to the CSR performance of the companies from which they buy their goods and services. These trends have contributed to the pressure on companies to operate in an economically, socially and environmentally sustainable way. This holistic approach to business regards organizations as being full partners in their communities, rather than seeing them more narrowly as being primarily in business to make profits and serve the needs of their shareholders.

The goal of this paper is to study the CSR practices of emerging multinationals from Latin America. Emerging multinationals from all over the world have grown exponentially in the last 10 years. In the 2009 Global 500 ranking of the magazine Fortune, a total of 87 companies, i.e, 17 % of the total come from emerging countries. This paper focuses on Latin America, a region known for economic volatility and recurrent economic crises. The region has had an impressive economic growth in the last 7 years. The crisis, with the exception of Mexico and some Central American countries, has been mild for the region. In spite of the growth in recent years, social problems persist. Poverty is endemic and Latin America is still today one of the most unequal regions in the world. In spite of this volatile context, emerging multinationals from Latin America have thrived and are engaging in CSR practices. The paper analyses if these CSR practices are effective or whether they should become more proactive in improving the lot of their most deprived citizens.

CSR in Latin America: History and Growth

Social contributions to society have been part of the vision for many Latin American companies, often due to the religious beliefs of the founders. According to Contreras (2004), Latin American leaders, many from family businesses, describe their compromise with society as a way to do the 'right thing'. The founding fathers of these companies, many of them more than 100 years old had the vision to contribute to the development of society as much as to create value for employees and the communities.

Many of the recent CSR initiatives in Latin America started around 1997. Some important organizations such as Peru 2021, Ethos Institute in Brazil, RSE in Chile, Costa Rica's Asociación de Empresarios para el Desarrollo and Red Puentes, a network of Latin American non governmental organizations (NGOs), are all looking for a contribution to the development of their own society and closer work with stakeholders. The Inter American Development Bank has played an important role supporting these initiatives.

At the same time, Brazil has become a hotspot for social entrepreneurs and more than half of all Brazilian companies have embraced social policies according to the Ethos Institute. Entrepreneurs and executives alike are leaving traditional businesses and embarking in entrepreneurial projects with a social development priority. In 1995 Rodrigo Baggio created the Committee for Democracy in Information Technology (CDI) with the mission of utilizing information technology as a tool for social inclusion in low-income communities. CDI creates Information technology and Citizens Rights schools around Brazil and has started expanding the model to other emerging countries such as India.

Another interesting project is Renascer, founded by Vera Cordeiro, a Brazilian physician and social entrepreneur. Renascer supplements hospital care for children from low-income communities in order to reduce the effects of poverty, which contribute to repeat illness. To do so, its network of volunteers provides post-hospitalization assistance to the families of poor children recently discharged from hospital. Renascer's model enables low-income mothers and families to prevent recurring illness in their children.

Brazil has also a tough environmental law. The 1995 Environmental Crime Law states that Brazilian executives can be sued in court if they fail to meet a number of health, environmental and safety standards.

Mexico has had a more philanthropic view of CSR. In 1988 Manuel Arango, an important business leader, created The Mexican Centre of Philanthropy (in Spanish, Centro Mexicano para la Filantropía or Cemefi) with 59 companies, 92 foundations and 45 business leaders. The idea at that time was to focus not only on philanthropy but on environmental and sustainable issues as well. Ten years later Cemefi’s activities include helping companies to implement CSR policies.

Latin American companies (and companies from emerging markets in general) operate in a harsh economic and social context. In the last 20 years, economic crises in developing countries have been quite hard with currency devaluations of more than 300 % overnight as in Argentina in January 2002. Despite these harsh conditions, many Latin American firms have succeeded globally with strong leadership and important homegrown capabilities such as agility in decision making and flexibility in action. While most of these emerging market multinationals have a social dimension as part of their DNA and engage with employees and local communities to improve their social life (by providing housing, education and special health benefits), an important question has arisen in recent years: should poverty alleviation be part of the social commitment of successful Latin American multinationals?

Poverty Alleviation and CSR

The strong economic growth in Latin American since 2002 has been very beneficial from the poor and the size of middle classes in the region has increased in every single country. Between 1990 and 2007, the poverty rate[1] reduced by 12 per cent and extreme poverty decreased by 9.1 per cent. Nevertheless, in 2008, the region was still home to 180 million poor people, 34 per cent of the total population, including over 69 million, about 12.7 per cent of the total population, living in extreme poverty. The different economic crises have had a devastating social effect and, according to Economic Commission for Latin America and the Caribbean (ECLAC, 2008), the total numbers of poor are higher than in 1980. Many of the poor work in the informal economy. Different studies show than in emerging markets about 60% of the employment, the majority of them are women and 40% of the economy. Employees in the informal sector have no rights and their work is part of their survival.

In this context, it is important to identify channels by which private and public sector leaders can have an impact on reducing poverty. In general, one can identify three channels for raising people out of poverty: enterprise, distribution and government revenue. These channels are inter-dependent and as shown below, each present important challenges in ensuring that they yield the desired benefits in terms of poverty reduction.

Enterprise channel: Companies as part of their activity create employment. Both foreign and local multinationals equally contribute to poverty alleviation and reduction of the informal sector. A job in the formal sector is often the passport to improve the social life of their employees and their families who have access, among other benefits, to health services and training linked to their new

[1] The World Bank considers those living with less than US$1.25 per as poor and extreme poverty refers to those living with less than US$1.00 per day.

jobs. At the same time foreign (and local) direct investment increases demand for products and services from local suppliers. However, many of the foreign multinationals arrived in Latin America during the privatization program of the 90s in the service sector. State owned telecom, electricity, airline, and water companies changed ownership. As soon as the private, foreign or local, company took over and as part of the rationalization process had to fire redundant employees. Since the 1990s many of the foreign companies, in fact, destroyed more jobs than created new employment.

Distribution channel: C.K. Prahalad (2004) with his concept of the fortune at the bottom of the pyramid highlighted for the first time the enormous potential of the poor as consumers. One of the unique characteristics of emerging market multinationals is their ability to offer successful products and services to those four billion people who live on less than US$2 per day. Microcredit is one of those innovative products, which through successful examples such as Grameen Bank in Bangladesh has revolutionized social development and entrepreneurship in many countries in Latin America. Another excellent example of innovation concerns mobile phones. The Mexican-based mobile company América Móvil has based its success on understanding the mobile phone needs of the lower–income population. The early expansion of prepaid cards is one of the reasons of the higher mobile penetration in Latin America with respect to other emerging markets. Mobile phones allow cleaning ladies and small vendors alike to improve their working conditions. A cleaning lady can manage their schedule and a street vendor or a fisherman can check prices and be able to compare where to sell their merchandise. Prepaid mobile phones have also been good for business – besides helping increase the customer base they have also proven to be very profitable in margins.

Government channel: Governments can act as redistributors of wealth through the distribution of tax revenues. The 'government revenue channel's efficiency depends on the one hand of the ability of the government to collect taxes and how they invest their taxes. However, with global competition between different parts of the world has obliged governments to take special measures to attract foreign direct investment. Free trade zones all over Latin America seek to attract American, Asian and European manufacturing facilities. To compete, different governments offer a range of perks including free import and export of products, tax exemptions for a couple of years and often free land. Capital is usually allowed to move freely and multinationals, local and foreign, have the ability to allocate capital efficiently and minimize their tax burdens. These mechanisms to reduce corporate taxation can be damaging in emerging markets with small bases of tax revenues. A recent report of the OECD development center discusses the power of taxes in the redistribution wealth and how Latin American countries, with the exception of Brazil, have been unable to collect taxes. The report also states that the extreme inequality in the region could also be alleviated through the redistribution of taxes.

The moral case of CSR

Latin American multinationals from Mexico to Brazil feel the need to engage with their communities and societies. As stated earlier, many public and formerly public owned companies were born with a public good goal with ethics and public service as part of their DNA. Thus it is not surprising that we can find a number of local multinationals such as the bakery Grupo Bimbo in Mexico or the cosmetics company Natura in Brazil and the Peruvian chain of restaurants Astrid and Gastón where ethical values have been integrated into their business strategy.

Grupo Bimbo, for example, the family-controlled Mexican bakery, has always had respect for the human being as a core corporate value. Promoting managers from within, rewarding loyalty, Bimbo was one of the first Mexican companies to introduce an employee stock-purchase program. Attentive to the well-being and dignity of its staff, the company naturally became involved in various CSR programs. Bimbo was able to resist the arrival on the Mexican market of the global food giant PepsiCo, thanks to its people-orientated approach. Bimbo is well known for its policy of avoiding lay-offs even in times of crisis and for introducing various incentives to strengthen loyalty and build the notion of common interest among its staff.

The same goes for the Brazilian cosmetic company Natura Cosméticos. The whole company is based on an environmental concept, in which its products are created through the sustainable use of natural products sourced from the Amazon rainforest from poor indigenous communities Its business model has improved the life of about 400,000 Brazilian women working in direct sales. The company considers that responsible practices are not a separate activity but rather form a part of the company's everyday operations, from production to its business relationships.

Astrid and Gastón (A&G) represents another example of the moral standpoint of CSR. The founders Astrid and Gastón Acurio see their chain of restaurants as intimately related to the improvements of Peruvians. They want Peruvians to rediscover the value of their unique local agricultural products and through them improve the image of Perú, a country that has suffered a lot from bad press internationally. Gastón Acurio is also reviving the tradition of small vendors of grilled food in the streets, banned earlier because of lack of health standards. The Peruvian chef is training those street vendors, who are mainly women from a poor background, so that they are able to meet the regulations and get back into business.

The business case for CSR

Companies all over the world have, at times been accused of using CSR initiatives as a public relations exercise to improve their image. However, CSR programs do help to move companies to the next stage of success and to integrate them better with the concerns of the societies in which they operate. And we should not forget the ability these policies have to motivate employees. Bimbo and Natura's employees see themselves as part of a wider project besides their mere employees of their respective firms. Grupo Bimbo has associated with community bank FinComún to provide credit to small shops. Eighty per cent of the multinational's revenues comes from small stores, and a quarter of those need small credits. The partnership of Grupo Bimbo and FinComún allows them to provide credit to their clients and make the value chain safer and more stable.

At 81 per cent Latin America has one of the highest enrolment ratios at all levels of the educational system. However, the emphasis is on higher education, producing a situation where middle-class children coming out of private primary schools enjoy world-class universities, while students from poorer families coming from public primary education are unable to go to university because the quality of public primary education is poor. Companies that help to improve the level of education of their employees, as well as their employability, provide long-term benefits to those who set up specific programs. For example, the biggest Brazilian private bank Banco Itaú has made education projects as the priority of their CSR policies. Their educational program 'Raizes e Asas (Roots and Wings)' has had a major impact in the salaries of the students in the program. The bank insvests US$12,000 per student and research shows that later on their salaries are 12 per cent higher than those who do not attend the program significant.

Some companies such as the Mexican building materials company Cemex are able to combine moral concerns and help the entrepreneurship spirit of the poorest segments of the population. At the same time they make a profit making sure the project will be successful in the long-term.Ten years ago Cemex launched 'Patrimonio Hoy, crece tu casa y tú (Patrimony, today, grow your house and you)'. The initiative combines a micro-credit to help low-income families to improve their houses and, at the same time gives free advice and fixed-price building materials. The advice is given by volunteers among Cemex employees. As with most of the micro-credit projects, the repayment rate is almost 100 per cent, which allows the company to make a profit through this project. Almost 200,000 families have received a total of US$70 millions in loans. Cemex, a pioneer in social innovation contributes to solve the housing deficit in the region of four million houses, affecting one in four Mexicans.

The Patrimonio Hoy experience helped the company to launch another one interesting initiative, 'Construmex'. Cemex receives remittances[2] of the Mexican immigrants in the US and, in exchange, gives their families in Mexico building materials. The company's partners in this project were Mexican immigrant associations and Mexican consulates in the US. The idea was to help immigrants to channel their savings to one of the most important investments, the building and improving of their houses in their homeland. The company has a strong environmental commitment with 16 per cent reduction in CO2 emissions.

Brazilian oil producer Petrobras's commitment to a wide variety of development schemes

[2] The term remittances refers to the money sent back by emigrants to their home country to support their families. Remittances from Mexican emigrants (mainly from the US) amounted to about US$25 billion in 2007. For Mexico, remittances are the second biggest source of foreign currency to cash from oil export revenues.

shows that long-term involvement in CSR can also lead to long-term benefit. The company estates that they have to create, through dialogue with stakeholders, a policy “which brings socioenvironmental resuts to society, aggregating social technologies, withouth putting at risk profitability’. However, Petrobras adds, ‘in developing countries, if we want to make a difference we must go further the law demands’. To be true to his words, Petrobras is involved with a number of social issues that go far beyond their core business: campaigns against sexual explotation of children. The company collaborates with UNICEF in a CSR plan with 22 companies in Latin America and the Caribbean that integrate (ARPEL) with focus on children’s education. Petrobras signed the Global Compact in 2003 and it is part of the Dow Jones Sustainability initiative and the Brazilian Business Council for Sustainable Development (CEBDS) and uses the Ethos Institute indicators. Petrobras has adopted CSR as an integral part of its mission and business strategy. And the company has now become the seventh biggest company in the world by market capitalization and the number 34 by revenues in the latest Fortune list of Global 500. The company represents 10 % of Brazil’s GDP and responsible for 6.5% of its exports. Petrobras has become so intertwined with the development of Brazil that President Lula says: ‘Petrobras is Brazil and Brazil is Petrobras’.

A 'New Deal' Against Poverty?

A number of Latin American governments have launched public programs to tackle poverty and they have served as a catalyst to involve firms from the private sector also. A good example is ‘Fome Zero (‘Zero hunger’, www.fomezero.gov.br) which includes various programs such as ‘Bolsa Familia’ (Family bag) which reaches about 11 million families each receiving about US$44 a month. Those families have an income of US$70 per capita. Those families in exchange have to make sure their children attend school and follow health checks. The program, launched the 2003, aims to eradicate hunger as well as extreme poverty. It also encourages the participation of civil society for monitoring and evaluating the efficiency of the programs. The private sector is also supporting this initiative. The combined efforts of the government, NGOs and private enterprises ensures the commitment of the Brazilian society to the success of this initiative as well as in ensuring transparency in the process. Both local and foreign multinationals have embraced this program. Petrobras has been one of the most influential promoters of the program. It stands as a model of global corporate citizenship. In 2008, the total budget of the program reached US$6 billion.

Mexico has a similar program, called Oportunidades which awards the subsidy to the female head of the household. Different studies show that mothers have proven to invest better the family resources.

However, poverty reduction is not being part of traditional measures of Corporate Social Responsibility. Even the ‘Global Compact’, created in the year 2000 by the United Nations and signed by 3000 companies all over the world, unions and other labor organizations, NGOs and governments does not consider the social concerns of emerging markets such as poverty reduction and social inclusion. CSR has at times been criticized as a creation by and for leaders for multinationals of the developed world. Questions are being raised about whether CSR is still the right concept during these times of crisis in the North when companies are requested to do more than ‘window dressing’ and show real social improvements. This is even more so in the developing world where social problems such as poverty and inequality are rampant.

Reaching a public private partnership to move forward to a better society

Some economists criticize CSR initiatives. Milton Friedman, for instance, in "Capitalism and Freedom" (1962) argued that "There is one and only one social responsibility of business-to use its resources and engage in activities designed to increase its profits.” Others see CSR policies as just another marketing and branding tool. Corporate scandals in US and Europe and the economic crisis have put companies under increasing media scrutiny and have resulted in public distrust. According to surveys by the World Economic Forum, the level of public trust in large corporations in 2009 was at its lowest level since 2001. In addition to integration into corporate structures and processes, CSR also frequently involves creating innovative and proactive solutions to societal and environmental challenges, as well as collaborating with both internal and external stakeholders to improve CSR performance.

A moot question for some is whether CSR policies for business should be voluntary or mandatory. A voluntary policy builds trust between businesses, governments and communities, but may limit results. On the other hand, a mandatory approach can be implemented universally but may cost more and generate ill will between public and private sectors in the process. However, solving problems of inequality and poverty are of paramount importance and will require a great deal of integrated action and the forging of new partnership arrangements between companies, government and civil society.

Various countries have widely benefited from consensus-based reform initiatives. In Europe, the 1978 Moncloa Pact was one such, a turning-point in the history of post-Franco Spain. It was prompted by the country's economic turmoil after the 1974 oil crisis. The government, unions, political parties, businesses and civil society came to a consensus on the way forward for the country's transition towards democracy and prosperity.

There needs to be a Moncloa-style broad consensus on the future of social responsibility in Latin America. While business could do more, it is also clear that most Latin American states have not done enough, so far, to reduce inequality. Both sides should endeavour to make growth more equitable. The need for private, public sector and civil society to work together in Latin America is more urgent than ever.

From philanthropy to social responsibility and global citizenship

At the onset of the current economic crisis, Klaus Schwab (2008), executive chair of the World Economic Forum, pioneered a new concept in his article in Foreign Affairs. He called to the fact that companies need global development, which brings stability and prosperity. That is why they need to contribute to the improvement of the state of the world. Companies are global citizens and their goal and strategy should reflect that. In the same vein, the business and government leaders gathered at the World economic Forum in Davos in January 2008 voted poverty reduction as the most pressing issue. This shows a general change in tone in societies and their citizens who are looking and demanding their leaders to move beyond short-term profits to the need and the urgency to improve the state of the citizens of the world. We are entering a new face of globalization in which we are looking a new economic model in which economic growth will have to go hand and hand with the general sustainable well being of societies.

Do corporations in this new context have to go beyond making profits and share with their governments in solving those urgent social matters? Following Petrobras's statement above, companies in emerging markets have to go past what the law requires and be a partner with the government and the civil society in reducing poverty. Corporate social responsibility should include a compromise in improving the societies in which they operate, including poverty reduction.

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Europe Campus
Boulevard de Constance
77305 Fontainebleau Cedex, France
Tel: +33 (0)1 60 72 40 00
Fax: +33 (0)1 60 74 55 00/01

Asia Campus
1 Ayer Rajah Avenue, Singapore 138676
Tel: +65 67 99 53 88
Fax: +65 67 99 53 99

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