

Foundation of fair use of materials protected by **copyright** for educational purposes

The following material has been reproduced, strictly for educational and illustrative purposes, related to the material's subject. The material is intended to be used in the University for International Cooperation's (Universidad para la Cooperación Internacional: "UCI", for its acronym in Spanish) virtual campus, exclusively for the teaching role and for the students' private studying, in the Management Skills course which is part of the academic program.

UCI wishes to state its strict adherence to the laws related to intellectual property. All digital materials that are made available for a course and for its students have educational and research purposes. The use of these materials is not intended for profit. It is understood as a special case of use for distance education purposes, in places where it does not conflict with the normal use of the document and where it does not affect the legitimate interests of any actor.

UCI does a FAIR USE of the material, based on the exceptions to copyright laws set out in the following regulations:

a- Costa Rican Legislation: Ley sobre Derechos de Autor y Derechos Conexos (Law on Copyright and Related Rights), No.6683, dated October 14th, 1982, Article 73 and Ley Sobre Procedimientos de Observancia de los Derechos de Propiedad Intelectual (Law on Procedures for Enforcement of Intellectual Property Rights), No. 8039, Article 58, which allow for the partial copying of works for educational illustration.

b- Mexican Legislation: Ley Federal de Derechos de Autor (Federal Law on Copyright), Article 147.

c- Law of the United States of America: In reference to fair use, it is contained in Article 106 of the copyright law of the United States (U.S. Copyright - Act), and establishes a free use of documents for purposes such as criticism, comments and news, reports and teaching (which includes making copies for classroom use).

d- Canadian Legislation: Copyright Act C-11, makes reference to exceptions for distance education.

e- WIPO: Within the framework of international legislation, according to the World Intellectual Property Organization (WIPO), this matter is foreseen by international treaties. Article 10(2) of the Berne Convention allows member countries to establish limitations or exceptions regarding the

possibility for legal use of literary or artistic works, by way of illustration for teaching, through publications, radio broadcasts, or sound or visual recordings.

In addition, and by UCI's indication, virtual campus students have a duty to comply with what is stated by the relevant copyright legislation in their country of residence.

Finally, at UCI we reaffirm that we do not profit from the works of third parties, we are strict about plagiarism, and we do not restrict in any way, neither our students, nor our academics and researchers, the commercial access to, or acquisition of, any documents available in the publishing market, may it be the document directly, or through scientific databases, paying themselves for the costs associated with such access or acquisition.

Corporate Social Responsibility in Latin America

Estrella Peinado-Vara
Inter-American Development Bank, USA

This paper presents an overview of two cases that illustrate a few lessons from creative solutions implemented by the private sector as part of its social responsibility to contribute to the improvement of living conditions of disadvantaged communities while expanding markets and increasing profitability. As shown in this paper, business initiatives are now using creative solutions to contribute successfully to alleviating social problems. These two examples provide inspiration for greater involvement of business in development, combining profits with a contribution to poverty alleviation.

- Corporate social responsibility
- Corporate citizenship
- Philanthropy
- Sustainable development
- Low-income consumers

Estrella Peinado-Vara is a private-sector specialist at the Inter-American Development Bank in Washington, DC, focusing on corporate social and environmental responsibility (CSR). She is the technical co-ordinator of the series of Inter-American Conferences on CSR and co-editor of the Proceedings. She holds an MBA from Georgetown University.



✉ Inter-American Development Bank,
1300 New York Av, NW, Stop B-800,
Washington, DC 20577, USA
estrellap@iadb.org
www.iadb.org/sds

THERE ARE MANY CONCEPTUALISATIONS OF CORPORATE SOCIAL AND environmental responsibility (CSR). For the purpose of this paper CSR is understood as the practices that are part of the corporate strategy which complement and support the main business activities, explicitly seek to avoid damage and promote the well-being of stakeholders¹ by complying with the law and voluntarily going beyond it.

Available evidence on progress in mainstreaming CSR in Latin America and the Caribbean is mixed; a general notion is that CSR is a growing movement, but still in its infancy. There is a need to improve the institutional capacity of governments, civil society and the investment climate, and also to adapt the CSR agenda to the specific characteristics of each country.

Additionally, the impediments that the public sector faces in its efforts to fulfil social and environmental needs heighten the need for the private sector to assume its social and environmental responsibility. Although it is clear that the private sector should not replace the state in the provision of basic public goods, it can contribute to the improvement of society. This is especially applicable to Latin America, where about 128 million people, or a quarter of the population, live on less than two dollars a day and about 50 million are considered extremely poor, living on less than one dollar a day (World Bank 2005). Governments and the United Nations have set in the Millennium Development Goals some ambitious targets for improving standards of living and reducing poverty; these actors are aware that the private sector has an important role to play in helping to achieve these goals (WBCSD 2004). Some companies are already doing business with the poor in a sustainable manner and within a win-win framework of corporate citizenship. Both firms and least favoured communities can benefit from promoting business as a key contributor to poverty reduction and standard of living improvement. The cases of Procter & Gamble (P&G) in Venezuela and Unión Fenosa (through Energía Social) presented in this paper are examples of creative solutions to doing business with the poor segments of the market while providing goods and services in a way that improves quality of life.

How widespread is CSR in Latin America?

There is mixed evidence on the extent of corporate social responsibility in Latin America. Data from some sources would suggest the existence of a fairly active private and social sector, and of significant potential for the development of a vibrant social and environmentally responsible private sector. However, there is still limited evidence of actual cases of CSR activity in Latin America. Some studies find that the same issues that slow the overall social and economic development and affect the creation of a strong private and public sector are hindering the development of CSR. These factors include the lack of institutional capacity in many governments (Pratt and Fintel 2002), weaker corporate governance (Chong *et al.* 2003), a less favourable business climate and a smaller business scale than in other regions.

The adoption of CSR by Latin American companies to contribute to socioeconomic development requires general progress to be made on all the fronts highlighted above, as well as adapting the CSR agenda to the specific needs of the region. Latin American CSR seems to be heavily influenced by international NGOs, guidelines from multinational headquarters and multilateral institutions (Haslam 2004), suggesting a lack of

1 Stakeholders include clients, suppliers, employees, financial resource providers, community, government and the environment.

local ownership of CSR initiatives. For CSR to be effective in contributing to a better society and prosperous private sector that results in economic sustainable development,² it must be adapted to the social and economic features of each particular country. This will require the adoption of a more democratic and participatory view of the respective roles of the government, the private sector and civil society at large.

Responsible solutions to both business and social problems

There is a long tradition of corporate philanthropy in Latin America where the private sector has had a paternalistic view of its role in society. These practices have emerged in the private sector in response to economic crises in Argentina and Peru, and social crises in Colombia and Brazil (Gutiérrez and Jones 2004). The problem is that donating financial resources or employees' time might fit the budget one fiscal year but not the next. In order to have a long-term impact on improving people's livelihoods the private sector must have an incentive to be engaged in such projects on a permanent basis. The greatest contribution of the private sector to sustainable economic development is to enhance the positive impact of business, producing cost-effective products and services, providing jobs and supporting knowledge and technology transfers, and minimising the negative effects of its activities (WEF 2002). In order to achieve this, responsible actions must be linked strategically to the business.

There are encouraging signs that lead to a more socially responsible private sector in Latin America. Several cases can be found where the solution to a business problem has been found in a socially responsible approach where the company has taken into account previously excluded customers as stakeholders, improving their standard of living, providing access to products and services and contributing to the sustainable development of communities.

The private sector is not going to solve all the social and economic problems but it can definitely contribute to prosperity and enhance its own prosperity in the process (Prahalad and Hammond 2002). Most companies have traditionally focused on market segment that provide substantial profits and quick returns on investments, on markets that they understand (where there is no extreme poverty). This is also the case for Latin America.

Good corporate citizenship and corporate social responsibility involve doing business with ethics, going beyond compliance with the law, and taking into account the expectations of the society in which a company operates. In this context, bringing the poor into the market is one of the private sector's responsibilities. The motivation is not merely altruistic and responds to a certain business problem or opportunity to expand untapped markets. The base-of-the-pyramid model focuses on meeting the needs of the least favoured segments of the market. Reaching the excluded and traditionally unattended customers that do not fit into the traditionally considered profitable income brackets will require innovative business models that also contribute to alleviating poverty and improving living standards or will not be sustainable. The cases presented below focus on actions targeting the poor that not only result 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 towards increased private-sector involvement is

2 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 memories of past ones.

needed. Foundations and non-governmental organisations (NGOs) are encouraging corporations to move beyond philanthropy towards 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 in order for companies to be financially able to sustain any programme.

Companies are recognising 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 sectors of the population, either 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).³ According to this integrated model for corporate responsibility 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
- ▶ **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
- ▶ **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 behaviour.⁴ This framework is applicable to the cases of P&G in Venezuela and Energía Social in Colombia. These are two successful examples of corporate social responsibility at the bottom of the pyramid that illustrate one aspect of the tendency towards CSR in the Latin American private sector.

P&G in Venezuela⁵

Procter & Gamble (P&G) in Venezuela realised that it was missing a potential market within the poorest communities. Following the model briefly described above P&G initiated a process of engaged learning. In the first steps of its market research P&G found that some of the myths that normally apply to poor sectors of society are not necessarily true. These include the idea that consumer product manufacturers do not find business opportunities in depressed markets; that their products do not adapt to this sort of consumer; or that price is a barrier to access for consumers in this segment (Pralhad and Hammond 2002). P&G identified a previously unattended market niche. First, the company realised the need to listen to these communities. Knowledge about consumption habits and distribution channels in these markets is weak. Social networks and structures are highly complex in communities that are usually overpopulated and

3 The Center for Corporate Citizenship at Boston College and AccountAbility in partnership with a group of ten global companies: IBM, GE, 3M, FedEx, Diageo, Cargill, Manpower, Omron, GM and Cemex.

4 For more information on this framework see www.accountability21.net/uploadedFiles/Event_Forum/Economics_of_Accountability/accountabilityreprint.pdf.

5 The sources for this section were Vives and Peinado-Vara 2004 and company information.

where trust in formal structures is absent. According to the firm, one of the findings for the Venezuelan market was that consumers from low-income sectors do not want to be treated in a differential manner.

The learning process results 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 new models with the same creativity that consumers in these segments show in covering their needs. The company focused on making its products more affordable and accessible to the poor, approaching informal settlements (with extremely complicated social structures) with integrated solutions to address their needs in a holistic way, rather than with individual products.

The operational excellence is reflected in the solutions implemented, such as selling shampoo in large containers that led to the creation of hairdressing centres in various communities, or selling large quantities of diapers to buyers' clubs that make the unit price more affordable for the individual, prompting the setting-up of care centres for children along the way. In the case of washing clothes, the lack of washing machines prompted the creation of itinerant laundry services that go wherever customers are to be found. From the moment that hairdressing centres are established, employment is created in communities racked by social problems. P&G meanwhile trains hairstylists to help their development and, of course, boost the use of its products (Vives and Peinado-Vara 2004). The company has contributed to provide the community with ways to access products and services that were previously unreachable, while teaching members of the community job skills that would otherwise not have been developed due to the lack of opportunities in these communities.

P&G has also developed ways to market innovative fortified products for the poor in its food line of business. This shows the leadership of the company which, along with some others, such as Unilever and Tetrapak, takes part in the Global Alliance for Food Fortification.⁶

Energía Social in Colombia⁷

When Union Fenosa entered the Colombian energy market in 2000, this market was characterised by scarce formal access to electricity in many areas and by socioeconomic factors contributing to fraud, waste and lack of a reliable billing and payment system (Medina 2005). Union Fenosa's investment in Colombia was approximately US\$1,500 million, probably one of the biggest investments of the Spanish company in any foreign market; but the company was facing lower revenues and higher energy losses than expected. In order to assure its profitability in 2004 the company created Energía Social with the purpose of attending and improving the management of what are known as 'subnormal' markets comprising clients from extremely poor areas, particularly in urban and coastal areas such as Barranquilla and Cartagena. Energy services management in the least favoured communities is a social problem affecting many Latin American countries. Changing the mind-set towards doing business with the poor might be guided by a mix of motivations, in this case the most relevant being the survival of the company.

In the process of understanding why the company was suffering higher energy losses and lower-than-expected revenues the company learned that 269,000 families (or about

⁶ For more information on the Global Alliance for Food Fortification see GAIN (Global Alliance for Improved Nutrition) at www.gainhealth.org.

⁷ The sources for this section were Vives and Peinado-Vara 2005 and company information

2 million people) had illegal access to electricity which also caused safety problems. The company's **engaged learning** process also revealed that living conditions and income patterns of these users were not the same as in the regular electricity market. With the creation of Energía Social, Union Fenosa is addressing a basic need: that is, safe and legal access to electricity, to market segments that had been traditionally excluded and considered not profitable for utilities providers, on a sustainable and cost-effective basis.

Regarding the business strategy, in conflict-sensitive societies, such as Colombia, unexpected problems are likely to arise when companies fund development projects without due consideration of needs, means and goals (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). Energía Social addressed the low revenues by developing an innovative method of collecting revenue through small enterprises (called *Mypimes*) created within the communities to measure usage, collect payments and provide customer and repair services. The company is outsourcing opportunities that can be met by local contractors using their knowledge of the community's own dynamics. It has established a collective billing system that allows the community to make a common investment and decide how to split the costs among themselves.⁸ The company worked closely with central and local authorities to develop an appropriate tariff and billing structure and raise awareness of the need for a legal framework reform in the Colombian energy market. The newly implemented regulation allowed more flexible payment periods to adapt to the income patterns of the inhabitants of these so-called abnormal markets. According to the company's annual report the fiscal year ended with a 60% increase in revenues from billing (US\$2,914 million increase).

In these poor communities there are resources available in the form of local knowledge and human capital. These can be integrated into the company's mainstream business if it is able to identify how to make the best use, in ways that add value or reduce operating costs. This was the case for the *marañeros*: a term used for people that manipulate the grid and connect to the electric service illegally. With very basic skills and receiving a little bit more than one dollar, they were able to provide electricity to a household. Apart from representing lost business to the company and being illegal, this activity was a safety hazard for all. To address the *marañeros* issue Energía Social designed and implemented a programme to include *marañeros* as beneficiaries. They were hired as contractors after a training period providing them with jobs and a more stable source of income.

The Colombian government is investing around US\$6 million (80% of the US\$7.5 million total required investment to normalise 18 communities) and local governments and Energía Social will contribute approximately US\$1.5 million or 20% of the total investment. The company has contributed to 'normalise' 12,000 families living on the Colombian coast, providing them with regular access to electricity that improves basic infrastructure in the area for local small businesses and schools, and safe wiring systems. Regarding the potential incremental environmental impact of having more people using electricity, this is minimal, as most of these communities managed to connect illegally to the electricity grid before. The benefit is a more reliable and safer service. These kinds of public-private partnership have also the potential to have a positive impact on business, such as enhancing corporate reputation and increasing productiv-

⁸ It must be mentioned that these initiatives are not exempt from conflict among individuals in the communities.

ity and quality, while contributing to the success of social, environmental and health programmes (Diara *et al.* 2004).

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

The creation of employment and the social integration of otherwise marginalised communities are highly favourable consequences of undertakings carried out by firms that seek the commercial inclusion of low-income sectors. New local businesses might also be created as a result of a company's presence, to supply it with raw materials, workforce and other resources needed. This aspect is especially relevant as small, medium and micro-enterprises have an important role in job creation and relieving 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 areas of innovation that can help bring success in these least favoured markets and the need to adjust the business model to suit local requirements and work with these communities. As shown in this case, the poor may be business partners, suppliers, employees or distributors. By bringing small entrepreneurs and local enterprises into their value chains, businesses can create employment and accelerate skills transfer. Energía Social tapped in to the entrepreneurial capacity of nearby communities and helped local people benefit from the company's know-how and strengthen their chances of earning a living.

Lessons learned from these experiences

In the first place, it is interesting to see how the two cases presented achieved objectives for the common good in two different sectors of Latin American society, at the same time achieving profitability for the companies involved. This refutes the prejudice that social action by business always has a negative impact on the bottom line. It also highlights the connection between the business mission of generating profits and bringing in society as an important part of a responsible business activity. These cases not only satisfy goals of establishing better communication between firms and their customers, but also have positive impacts on communities, such as job creation, and therefore generate a more stable income stream and improved living conditions.

As shown with these two examples, companies need to develop sustainable relations with low-income consumers, social organisations and local governments to fulfil 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 sector of the population. 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.

Conclusion

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

It is already possible to find business cases with a positive impact on both communities and companies' bottom line. P&G in Venezuela and Energía Social in Colombia

are examples that illustrate that firms can generate significant social value while at the same time improving their profitability. Companies that are able to successfully operate in these low-income markets can improve their reputations and gain competitive advantage as countries become richer, and more business opportunities emerge. These operations benefits can also help to improve corporate relations with governments and communities that provide licences to operate.

The private sector cannot ignore the challenges of lack of infrastructure, institutional capacity in government and a sound enabling business environment. By contributing to alleviate these deficiencies, supporting and being supported by governments and other stakeholders, business and society in Latin America can prosper. These actions also yield benefits that are central to the concerns of many Latin American NGOs, such as preserving the environment, job creation and creating roots for solid cultural values such as saving and solidarity. Often the private sector can optimise the creation of such value in ways that require less effort and are more sustainable than hundreds of non-profit making social organisations. 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* 1.3 (Spring 2002): 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; Washington, DC: Inter-American Development Bank).
- Diara, M., M. Alilo and D. McGuire (2004) 'Corporate Social Responsibility and Public-Private Partnership: The Case of the Academy for Educational Development and ExxonMobil', *Development* 47.3 (September 2004): 69-77.
- Fergus, A.H.T., and J.I.A. Rowney (2005) 'Sustainable Development: The Lost Meaning and Opportunity', *Journal of Business Ethics* 6 (September 2005): 17-27.
- Gaigals, C., and M. Leonhardt (2001) *Conflict-Sensitive Approaches to Development: A Review of Practice* (Saferworld, International Alert; London: International Development Research Centre).
- 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, Japan-Okinawa, Japan, 12-16 July 2004.
- 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, 24 March 2004.
- Medina, A. (2005) 'Fenosa desenreda el cable en Colombia', *Expansion*, 15 May 2005 (www.expansion.com).
- Prahalad, C.K., and A. Hammond (2002) 'Serving the World's Poor, Profitability', *Harvard Business Review*, September 2002: 48-57.
- Pratt, L., and E.D. Fintel (2002) 'Environmental Management as an Indicator of Business Responsibility in Central America', in P. Utting (ed.), *The Greening of Business in Developing Countries: Rhetoric, Reality and Prospects* (London: Zed Books, in association with UNRISD): 41-57.
- 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 Edición América Latina*, Agosto 2005: 31-38.
- and — (eds.) (2004) 'Corporate Social Responsibility as a Tool for Competitiveness', *Inter-American Conference on CSR Proceedings*, Panama City, Panama, 26-28 October 2003 (www.csramericas.org).
- Vives, A., and E. Peinado-Vara (eds.) (2005) 'Corporate Social Responsibility: Deeds not Words', *Inter-American Conference on CSR Proceedings*, Mexico City, Mexico, 26-28 September 2004 (www.csramericas.org).
- WBCSD (World Business Council for Sustainable Development) (2004) *Doing Business with the Poor: A Field Guide* (Geneva: WBCSD).

WEF (World Economic Forum) (2002) *Global Corporate Citizenship: The Leadership Challenge for CEOs and Boards* (Geneva: WEF).

World Bank (2005) 2005 World Development Indicators, Data for 2001, www.worldbank.org/data/wdi2004, 15 June 2005.

