CHAPTER 9

Corporate Social Responsibility in Latin America: An Overview of Its Characteristics and Effects on Local Communities

By Roberto Gutiérrez and Audra Jones

Latin America is a region where inequality has created enormous gaps between social groups. Joint endeavors between the haves and the have-nots are a constant challenge. Links between them have always existed: exploitative relations, paternalism, charity, and solidarity. Exclusion and distance between groups have created distrust. It is not surprising that socially responsible activities, aimed at improving life conditions in a surrounding community, are not common corporate practices in Latin America. It is important to explore why business and community decide to work side by side, and the effects of such efforts. Great opportunities lie ahead.

This chapter provides an overview of the development of corporate social responsibility (CSR) practices in Latin America to understand the impact these practices have had on communities. We will review the research and practice of CSR in Latin America, then highlight successful and unsuccessful community development experiences resulting from CSR activities. The focus is on communities composed of low-income populations and the lessons learned from their experiences. The final sections describe current CSR trends in Latin America and the research that needs to be done.

An Overview of CSR in Latin America

Ethical questions exist about doing philanthropy at someone else's expense and Friedman's (1962) arguments resurface in one way or another. While managers are entrusted with the care of assets belonging to the firm's shareholders, "[s]upporting good causes out of their own generous salaries, bonuses, deferred compensation, options packages and incentive schemes would be admirable; doing it out of income that would otherwise be paid to shareholders is a more dubious proposition" (The Economist, 2004). Other questions can be asked about why managers

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should decide social-policy priorities when in a democracy this is a job for voters and elected politicians.

In Latin America, where a very skewed distribution of income and opportunities exist, these questions are not at the forefront of the debate. The interest of communities, and not shareholders, can be continually argued. Thus a move towards a "compassionate capitalism" comes as no surprise.

Multilateral agencies have been turning to the private sector to further the development agenda. States have lost part of their preeminent role in pushing the carts of development and, to face diverse social problems, all sectors of society are asked to contribute their share. On one hand, a vibrant third sector is evolving in many societies; while on the other, expectations have risen regarding what private companies can do as corporate citizens. Multilateral agencies are providing different kinds of support to the private sector so that it can fulfill these expectations.

In the meantime, distance and distrust make it difficult for businesses to assess community needs develop plans to address these needs, and learn from the processes. Attitudes of community leaders differ significantly from those of corporate leaders, not only in Latin America but also in other regions of the world (for an example of these differences in Israel, see A. Boehm, 2002). Since "attitudes toward supporting collaborative dimensions are influenced by the expected profitability of the collaboration," community leaders are more supportive of CSR because "the expected costs to the community are lower and their interests are more evident" (Boehm, 2002, pp. 188-189). Sometimes a humble and direct approach gets community and corporate leaders to work together; other times an intermediary brings together a business and its surrounding communities.

There are several frameworks available to help understand why business decides to work to improve life conditions in a community. Carroll (1999) describes the evolution of the CSR construct since the 1950s and alternative frameworks such as corporate social performance, stakeholder theory and business ethics theory. Considerable attention has been given to the reasons behind business engagement and to classifying the different approaches. The following three sections summarize the findings of this literature.

Motivations Behind CSR

The motivations and benefits of CSR practices are the topics of a sizable part of the literature. However, what drives a corporation to engage in socially responsible activities and what benefits are expected are two different questions.

The Argentine and the Peruvian economic crises, and the Brazilian and the Colombian social crises, have elicited responses from the private sector. Many more business people have come to understand that "there is no healthy business in a sick society." They have joined philanthropic traditions that in the past were rooted in religious beliefs and today respond to civic obligations. For example, Thompson and Landim (1997) describe practices introduced by Spanish and Portuguese colonial authorities in close coordination with the Catholic Church that were focused on giving and volunteering. A special issue of *Revista: Harvard Review of Latin America* (2002) traced such practices into modern times and described it as the evolution "from charity to solidarity."

One of the efforts to understand these motivations has been carried out by the Social Enterprise Knowledge Network research team, which studied 24 cases of collaborative endeavors between businesses and civil society organizations (Austin, Reficco et al. 2004). According to their findings, a wide range of motivations drives corporate engagement in the social sector, from altruistic to utilitarian ones, from benefiting others to benefiting one's own interests.[1]

Altruism and solidarity have been significant drivers in the Latin American private sector, resulting in large part from the tradition of charity derived from the region's Catholic background. Many business leaders, particularly in family-owned firms, describe their civil commitment as "doing the right thing" from an ethical standpoint. Leaders like Manuel Ariztía in Chile and Alberto Espinosa in Colombia have led their businesses and colleagues to collaborate in solving public education problems (Koljatic and Avila 2003; Trujillo and Gutiérrez 2003). Their contributions were not linked to any potential advantage for their businesses.

Two kinds of utilitarian motives were discovered in other cases in the Social Enterprise Knowledge Network (SEKN) sample: managing risks and looking for competitive advantages. First, corporate engagement with the social sector can be used to minimize the occurrence of an identified risk or to prepare to face it. A firm whose operations might face community opposition will want to work with the community to prevent negative reactions and strikes from happening. Ausol, a multinational corporation that constructs and manages highways in Argentina, works with communities along the transportation rights of way (Roitter and Berger

[1] As in their research, "we are not using the term Utilitarianism as it is sometimes used in moral philosophy as referring to a decision rule for resolving ethical dilemmas by weighing the relative costs and benefits from a moral perspective, but rather we are using it to focus on the practical costs and benefits to the individual partners as they consider their self-interest" (Austin, Reficco et al. 2004, p. 46).

2003). Since highways have many disrupting features, community goodwill became an "operating license" for Ausol. A second kind of utilitarian motive is the search for competitive advantages. The improvement in a firm's image or market share can be what drives its social commitments. According to Jaime Sinay, general manager of Farmacias Ahumada in 1997, "the company intended to establish a closer relationship with the community" because of customers' negative attitude towards drugstores, especially in countries like Chile, where medical expenses are not reimbursed (Koljatic and Silva 2003). Competitiveness might demand more than a closer relationship: Posada Amazonas, an eco-tourism project in the Peruvian Amazon basin, invited an indigenous community to work and eventually become owners. Their participation makes it a unique experience for travelers (Pérez 2003).

While a strategic conception of philanthropy is more of a driving force for hired managers, altruistic motives predominate when owners are managers (Austin, Reficco et al. 2004). However, in practice, the most sustainable ventures occur when utilitarian and altruistic drives are strong *and* blended. Altruistic motivations alone might not withstand economic downturns; utilitarian drives alone might distance social partners.

A second approach to motivations behind CSR is Martin's virtue matrix. The virtue matrix is a tool for understanding what generates socially responsible corporate conduct. It is based on a civil foundation (the norms, customs and laws that govern corporate practice) and an innovation frontier (where benefits for shareholders and society can be accrued). Widespread imitation of a successful innovator or government mandate will enhance the civil foundation; abandonment of a socially responsible practice by a critical mass of firms will diminish it.

The virtue matrix is helpful to address questions like what creates public demand for greater corporate responsibility, what the barriers are to increasing responsible corporate behavior, and what forces can add to the supply of corporate responsibility. Martin argues that "the most significant impediment to the growth of corporate virtue is a dearth of vision among business leaders," and that "the most effective weapon against inertia is collective action, either on the part of governments, nongovernmental organizations (NGOs), or corporate leaders themselves" (Martin, 2002, p. 10).

The Role of Legislation

This chapter has suggested two frameworks for understanding the corporate motivations that explain the evolution of CSR practices. One under-researched point is how the evolution of CSR itself is different in developed and developing countries, and how this affects the trends defining CSR at any given time. One can hypothesize that business responses to legislation or to organized pressure depend heavily on local context. Compare, for example, the evolution of CSR in Latin America and in the United States. In both regions, CSR originated with a few rich industrial families such as the Rockefellers and Packards in the U.S. and the Mendozas and Fortabats in Latin America. However, the axis of CSR activities in each region is distinct and has much to do with the role government played or did not play in creating a framework for enabling and fostering CSR activities.

CSR in the U.S. has grown through regulation and was initially driven by **responsible business operations** rather than by community investment. As a result of the great industrial boom in the mid-20th century, in the late 1960s and early 1970s the U.S. government established the "Big Four" regulatory agencies that shaped much of the baseline for responsible corporate business operations: Occupational Safety and Health Administration; Equal Employment Opportunity Commission; Consumer Product Safety Commission; and the Environmental Protection Agency. These agencies created and continue to maintain standards for socially responsible business practices. In the U.S., government has continued to develop ways to influence responsible business practices. For example, in 1994, the U.S. Department of Commerce's Bureau of Economic Analysis took the first steps toward calculating a "green" gross domestic product, a move that over time could have widespread impact in determining how the government sets tax policy. More recent examples of industry-specific and sector-wide regulations include the Community Reinvestment Act in the banking sector, the Clean Air Act, the Foreign Corrupt Practices Act and (post-Enron) the Public Company Accounting Reform and Investor Protection Act.

In Latin America, regulation of responsible corporate operations is less common, particularly outside of the Mexican and Mercosur markets where U.S. and European foreign direct investment have influenced some requirements. In part, this is a result of weaker formal workers' organizations (such as trade unions) or social groups (such as women and ethnic populations), which greatly determined labor and business practices in the U.S. throughout the 20th century. Without pressure from society, governments are less likely to create standards that imply a cost to corporations that often hold more wealth and power than government itself. Where there are standards in place, like along the U.S.-Mexican border, with environmental regulations created in several countries, the question becomes enforcement. While NAFTA envisioned creating California-like environmental standards for the border region, the resources on the Mexican side initially were not adequate to manage such enforcement. The other missing factor in promoting a culture of responsible business practices in Latin America is consumer or public consciousness. Without pressure or kudos from consumers, a traditional corporation without idealistic leadership is unlikely to operate responsibly at higher costs that it cannot recover through social marketing (Jones, 2004).

With a limited governmental framework for responsible business practices, and little enforcement, corporations in Latin America interested in creating a common baseline for responsible practices have taken it upon themselves to create standards. For example, the Abrinq Foundation, a non-profit in Brazil, offers a logo (or a special seal) to companies committed to fighting the use of child labor. Corporations are certified through Arbinq's Child Friendly Companies Program once they pass a series of social audits from unions, employees and NGOs. Companies use the logo to market their corporate value to youths (Grayson and Hodges 2002).

In contrast, it is arguable that CSR has evolved more through **community investment** than through business operations in Latin America. With more than 60 percent of the population living on less than one dollar a day, governments in the region are often not meeting the basic needs of their communities. Although corporations in Latin America are not well rewarded through tax breaks, as their US counterparts are, the private sector has stepped in to supplement and, sometimes, replace government to foster social stability, create jobs and ensure an enabling environment that allows businesses to operate effectively. Corporations in Latin America are investing in communities in order to have a stable society where they can produce and sell their products. Community investment directly improves their bottom line as much as it improves life in these communities. Helping others beyond legal requirements is more important where legal frameworks are limited and enforcement is weak.

There are even some cases in Latin America where corporations have influenced government regulation in order to enhance the impact of CSR activities on local communities. In 1990, after a flood devastated the state of Chihuahua in Mexico, the business community approached the state government with a plan to give assistance to those most in need: a special tax of 0.2 percent on earnings to be paid by each of the 29,000 business enterprises in the region with the condition that members of the business community themselves would manage the funds generated. The overwhelming success in providing disaster relief and rebuilding the community prompted the business community to make this "Community Investment" tax permanent under state law. In 1994, the Chihuahuan

Business Foundation was established to administer these funds. Its creation indicated that business leaders had come to two important decisions: First, the flood aid, though successful, was reactive in nature; Chihuahua's social and economic inequalities required a more proactive strategy. Second, corporations recognized that the complex implementation of community development programs lay outside their own core business functions and areas of expertise. A separate entity was needed if these programs were to develop successful methodologies and strategies to make them effective.[2]

Legislation influences the type of CSR practices companies adopt in a particular context. However, governments can go beyond legislation to promote CSR. Public-private partnerships are visible examples of communication because they pool different resources and have practitioners from various social groups.

Typologies for CSR Practices

In an article in which Jones emphasized CSR as a process, he defined it as "the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law and union contract." He considers stakeholders and scope to be two critical facets: "the obligation is a broad one, extending beyond the traditional duty to shareholders, to other societal groups such as customers, employees, suppliers, and neighboring communities"; and "the obligation must be voluntarily adopted" (1980). Carroll identified "four kinds of social responsibilities [that] constitute total CSR: economic, legal, ethical, and philanthropic." (1991). He also described a philosophy of responsiveness based on reactive, defensive, accommodative and proactive categories. Later, Wood (1991) elaborated on the processes of corporate social responsiveness such as environmental assessment, stakeholder management and issues management.

A good portion of the CSR literature is devoted to the classification of responsible practices. Several typologies can be devised when one considers the dimensions of CSR practices. These dimensions are related to basic questions such as:

[2] A similar scheme was developed in Colombia when some companies in the Department of Antioquia gave some money to their workers with families and the lowest income during the mid-1950s. This example prompted the federal government to enact a 4 percent wage tax in 1957. Regional nonprofit organizations were created to manage these funds and distribute them to the workers with the lowest income. In time, a smaller percentage of the collected funds were distributed and more were dedicated to various social services.

- What activities are completed to fulfill social expectations?
- How are these activities carried out?
- What is the scope of these activities?
- Who is the target of these activities?

Different forms of intervention can be mapped by examining what activities have been carried out by a company (strategic or not related to the core business) and how these activities have been carried out (by the company itself or in alliance with another organization) (see Gutiérrez 2003). Another possible typology considers that the social responsibility of a business encompasses economic, legal, ethical and philanthropic expectations (Carroll 1999).

The combination of Martin's virtue matrix and stakeholder theory provides yet another way of mapping the different activities companies undertake (see Table 9.1). The horizontal axis accounts for the scope an activity can have within the four quadrants outlined by Martin (2002): the first two within the scope of the social foundation, and the last two extending the innovation frontier. The vertical axis lists the stakeholders that participate in CSR activities, from those directly linked to the business to society in general (Freeman 1984; Epstein 1987; Blair 1995; Carroll 1995; Donaldson and Preston 1995; Jensen 2000).

Table 9.1 includes different examples within a set of possibilities for CSR practices. The first two columns state some of the possible issues by which a company complies with the formal and informal expectations

Table 9.1: A Typology for CSR Practices

Scope Stakeholders	Compliance with law	Observe social norms by choice	Direct integration into business	Social investment
Groups with direct link to business	OSH / EEO Consumer Protection	Fair trade		
Other groups with ties to business	Antitrust regulation	Cluster competitiveness		
Local community	Local content	Local culture		
Society	Environmental protection	Social inclusion		

of a society. In Martin's virtue matrix, these activities lie within the social foundation: the norms, customs and laws that govern corporate practice. The last two columns represent the space companies have to innovate with their social programs. In Latin America, large businesses have realized that their stakeholders go beyond their vendors and customers. As for scope, the tendency is to cluster towards the left of the continuum. Therefore, it is important to understand the characteristics of socially involved businesses because they hold the promise of addressing the region's social injustices. The experiences of some of these organizations will be described below.

CSR Interventions

Communities can be identified as communities of geography, of identity and/or of interest, depending on the importance of locality to the corporation making the investment. Communities of geography are those closest to the corporation or those most affected by the primary function of the business. These communities are interested in the associated benefits of being a company's neighbor: access to education, infrastructure, jobs, less crime, and so on. Communities of identity are those that define themselves through race, heritage, creed or age group. Finally, communities of interest share issues like environmentalism or human rights (Burke and Gilmartin 1999). The communities discussed in this chapter represent a range of interests but all represent low-income populations.

From the moment a company establishes itself in a community, relations are forged. It is to be hoped that they evolve from dependency into interdependency. Sometimes the moment of truth is when the company leaves a community. The ultimate test of the impact of a company's operations is to compare life conditions in a community before its arrival and after its departure. (For some cases of this, see Lozano 2003 and Gutiérrez, Barragán, and Uribe 2004.)

Changing Perspectives on Development

To explore the impact of CSR practices, a starting point is to define a strong and healthy community. Around the middle of the 20th century, giving was the practice of choice, creating donor–recipient relations. During the 1960s, providing poor people with things was criticized: it was said that people needed the ability to procure things for themselves. In the 1990s, these ideas changed even more: knowing how to get things is a limited ability; the key is to know how to organize. Poverty is no longer regarded as a lack of things, but as the inability to control circumstances. Being poor equates to not being organized. Poverty is not centered on income, but rather is dependent on empowerment.

Based on this concept, underdevelopment means waiting for others to solve one's own problems, while development is the capacity to shape one's future through self-sustaining economic, political and social processes. It took decades for the notion of citizenship to replace paternalistic and dependent relationships. A citizen is someone capable of creating or modifying a social order while working with others. Therefore, according to Flores d'Arcais (1992), democracy is one's possibility to be legitimately self-transformed. A strong and healthy community is one made up of citizens, people who organize themselves to define their own future. Participation, organization and interdependency characterize such communities. These characteristics are what we will look for in cases where companies intervene and change community life.

Types of Interventions

Life changes when a company arrives in a community. Participation and autonomy are key elements in this new relationship. The issues in which community members are invited to participate and the way their participation is elicited and maintained are important aspects in understanding the relationship between business and community. From the corporate standpoint, at least two types of interventions can lead to a strengthened community: companies can concentrate on their business or they can develop social initiatives that support community projects.

A company can pay attention to social issues within its **operations**. In order for a business to develop, all stakeholders are asked to contribute and they expect benefits from their participation. If the focus is solely on providing benefits to shareholders, the needs of other stakeholders may be ignored. Since this affects the sustainability of the whole enterprise, many companies study their environments and consider the needs of their stakeholders.

Another way in which companies contribute to society is by developing **social investments**. Establishing a foundation or supporting community projects are examples of social initiatives that are not directly related to a particular business. A company may be willing to make such investments for several reasons: among others, to satisfy various needs of the communities where it is located, improve its public image, increase its control over the amount of taxes it pays to government, increase worker morale and attract better employees, and obtain favorable responses from investors and public officials. Social investments concentrate on working with stakeholders who are beyond company boundaries. Although these investments are not directly related to the core of their business, companies benefit from them, while helping alleviate certain social problems.

External CSR programs lie on a continuum with three distinct points: traditional philanthropy, social investment and business integration. Philanthropy is the oldest form of corporate social responsibility, with limited dialogue between donor and recipient. Social investment represents the evolution of traditional philanthropy from a top-down approach to a more responsive one based on needs defined by society. When making a social investment, corporations consider their CSR activities as an investment with a social return. Finally and most recently, corporations are beginning to integrate vulnerable populations directly into their regular business practice. This is defined as business integration in this chapter.

Philanthropy:

While some would argue that philanthropy is outdated and often takes a top-down approach, it can be argued that philanthropy is sometimes appropriate and even necessary. In areas such at the arts, where it is important to preserve the creativity of the beneficiary, philanthropy is a less involved type of giving. For corporations that do not have the capacity to engage in a more involved level of external CSR, this is a reasonable option. Finally, on the receiving end, not all incipient and/or grassroots organizations are ready to "partner" with a corporation. For these organizations philanthropy is a necessary first step in the process.

Social Investment:

The second level of external CSR, social investment, is a phenomenon that appeared mid-way through the 20th century in response to heavy regulation and social lobbying. External CSR became less top-down in many corporations and more participatory, as programs were defined on the basis of needs expressed by the community. Many of these early programs involved social marketing and public awareness campaigns in which corporations would improve their image by discussing social issues relevant at the time.

In the late 1980s and 1990s, the concept of social investment became more widely used in discussing external CSR programs. Social investments funded through the technology boom in particular were analyzed from a business perspective and the program's "social return" was discussed. While one could argue that "social investment" is semantics, the results have been sustained and attained the commitment of more corporate levels than those involved with the giving of financial resources. The "investment" approach to giving is now becoming widely used in many external CSR initiatives.

A network of corporate foundations, RedEAmérica, promotes two types of social initiatives to transform life conditions in a community: programs to strengthen community-based organizations and programs to develop public interest institutions that support community development. Programs to strengthen community-based organizations include financing and operational strategies; the latter include aid for the creation and development of community-based organizations and of networks for these organizations. Several strategies are used in the programs to develop public interest institutions that support community development: from the creation and financing of non-profit organizations, to the establishment of public-private partnerships, the dissemination of good practices and public debates. Each of RedEAmérica's 38 members has projects in these programs and is working to understand the impact of their interventions (Villar 2003).

Direct Integration:

On the forefront of CSR evolution, particularly in lesser-developed countries, companies are integrating vulnerable populations into their business processes through training relationships, supplier relationships, distribution relationships and even market competitor relationships. These programs are often hotly debated as external CSR initiatives, since they have a direct tie to the companies' business interest. However, in the developing world, the direct integration model is very enticing as many countries rely heavily on foreign direct investment, rather than creating value-added, second-tier industries. Without value-added industry, the poorest echelon of a society will never have true economic opportunity.

Value-added business is often the multiplier to create the necessary enabling environment for economic development. Examples include an educational system capable of training future employees, open financial markets which allow small and medium sized businesses to participate in the supply chain, and a peaceful society which prospers economically and socially by allowing the poor equal representation. Business integration seeks to fill the socio-economic gaps that are a feature in countries where the economy is dominated by first-tier industry, as is most common in less developed countries.

Reports of corporate social responsibility tend to favor descriptions of social investments; it is less common to report a social impact by concentrating on the business at hand. One challenge for management is to eliminate at source anything that contributes to the problems that will later need an intervention. In this way, businesses act with responsibility and do not create social problems.

It is imporant to examine the effects of corporate interventions. By comparing success stories and difficult experiences, some answers are provided to questions like: When does empowerment occur and how does it happen? What makes a community investment more likely to be sustainable? What are suitable policy environments for sustainable company-community interactions?

Interventions at Work

There is a wide array of experiences where a company has had a lasting impact on a community. In this chapter we will take a look at several cases that highlight the achievements and shortcomings of CSR practices in improving life conditions in communities. In each case, we analyze the characteristics of the community, the process in which they engaged, and the effects of the intervention. Several of these experiences depict the **direct integration** of low-income populations into business processes; others exemplify cases of **corporate social investment**. Some have been able to include community members as active participants; others continue to exclude them. A road to be mapped emerges from these experiences.

Participation throughout All Stages

Twenty miles off the North coast of Honduras are a group of islets and keys known as Cayos Cochinos (Hog Keys). Though small and geographically unprotected from the storms coming through the Caribbean Sea, the Keys are an important economic hub for three Garifuna artisan-fishing communities. The Garifuna, descendants of survivors of a wrecked slave ship and local Arawak Indians, have been designated by the United Nations as a World Heritage Culture and maintain a distinct identity in their language, traditions and livelihood. Unfortunately, the Garifuna are faced with the challenges of extreme poverty, lacking access to healthcare and education, as well as the complexities of being a racial minority.

Since the early 1990s, there has been significant interest in the Keys because the surrounding coral reefs exhibit some of the greatest biodiversity in Central America. In 1992, the Smithsonian Institute completed a study that found threats to the local environment and concluded that a proactive management plan restricting human activity would eventually repair the damage. The study did not contemplate, however, a specific strategy for limiting local human activity or, more importantly, the needs of the Garifuna. Interest in the area converged to create a strategy of collective action for its long-term environmental sustainability. The Cayos Cochinos Foundation was established as a nonprofit organization and was capitalized jointly by members of the private sector, including multinational corporations and a dozen representatives of national Honduran businesses. Why did corporations in Honduras, a country with little CSR culture, commit to such a long-term, complicated undertaking? First, the international attention and support that Cayos Cochinos has received from the Inter-American Foundation, Texaco, Avina Foundation and World Wildlife Fund, created prestige in being associated with the project. Second, members of the Foundation's Board all have an individual interest and dedication to the preservation of the environment, making the Foundation fully operational very quickly.

Today, the Cayos Cochinos Foundation represents a model of companies bringing together resources, community input, political will and scientific study. As it was originally conceived, the Foundation solely devoted itself to the scientific study and environmental preservation by restricting human activity within the area. However, this resulted in friction with the local communities, who subsist on fishing. The Foundation learned that the socio-economic position of the Garifuna is critical to the success of managing the reserve and that local buy-in was at risk if the community was not involved in the Foundation's planning process.

The Foundation has learned that community participation is a valuable tool in managing community development programs. For example, in a scientific research and observation station on Cayo Menor, only Foundation staff, scientists and members of the Honduran Navy lodged there to patrol the waters of Cayos Cochinos and ensure compliance with fishing controls. Today, Garifuna fishermen are employed as park rangers and also reside at the station. Their job is to monitor activities in the protected zones, educate people about policies protecting the keys, and lend their unique expertise of the area to assist in the management of the reserve. Educational programs are jointly developed and taught by the Foundation and Garifuna educators to local school children. One such program involves students in raising and eventually releasing endangered species of sea turtles. Other initiatives include capacity-building exercises such as micro-enterprise development, exchange visits with artisanal fishermen in other countries, and grassroots lobbying efforts with the national government.

Cayos Cochinos presents many lessons on how community engagement must be participatory to be successful. Corporations that wish to support community development often find themselves acting in concert with other international and national donor organizations, all pursuing development from many angles. This can be a double-edged sword if project goals and coordination are not managed well and the community is an afterthought. Corporations should carefully consider the motives of intermediary organizations when working with them to make a community investment. Communities are complex systems. CSR programs must be clearly articulated to local communities, be prepared to commit for the long term, and have a mechanism for feedback from all involved partners. Having institutions with personnel dedicated to the program is key for stability, both from the company's perspective and the community's (James 2004a).

The Learning Curve during the Life Cycle of CSR Programs

The Department of Oruro houses 5 percent of Bolivia's 8 million inhabitants. The richness of the native Aymara Indian culture stands in contrast to the economic poverty resulting from the region's precarious agricultural system. In the early 1990s, more than 70 percent of the families in Oruro were officially categorized as living in poverty, 84 percent did not have access to potable water and/or latrines, and 55 percent could not reach the nearest community health center for lack of adequate transportation. The Inti Raymi gold mine is located in this region and is responsible for over 60 percent of the gold production in Bolivia. It has created 700 jobs for Bolivian citizens, paying out $8.2 million per year in salaries and benefits. The mine also spends $18 million annually on local goods and services and pays $4 million in taxes. The Newmont Mining Corporation, a company that became the world's largest gold producer in early 2002, is the majority owner of the Inti Raymi mine. The company exemplifies how, by concentrating on its business, it contributes to workers in Oruro. It prides itself on providing much higher income to its workers than the local and national averages.[3] The company also provides training and education, and full access to medical care to its employees. The Inti Raymi mine has one of the best reputations in Bolivia, a strong safety and health record, and good relations with the union representing the mineworkers.

In 1991, Mario Mercado, a former company president, established the Inti Raymi Foundation to promote sustainable development through alliances between the public, private and civil society sectors. Today, grass-

[3] According to 2001 figures, villagers in Oruro had an average annual income of $300, while the annual average salary for Inti Raymi workers was $10,500 (annual per capita income in Bolivia averaged $1,021).

roots development is one of the foundation's key objectives. Social investments include health and education programs, while productive investments involve a small business program, grants and a loans program. These were developed in partnerships with the municipal governments and with the Inter-American Foundation. By 2003, the Foundation had invested more than $10 million in rural development projects for 25 communities and the city of Oruro. Community members say, "living conditions have changed now that they have water, electricity, and latrines." The project has brought these services to more than 200 families in the region. Also, once dependent on potato farming, they now have access to a small fund that has made more than 50 credits to local community members for micro-enterprise development.

Whenever a large corporation has physical presence in a specific location, expectations are raised in the surrounding community. This is particularly true in regions where residents have little or no other means of economic security available besides the company's activities. An extractive industry is in the commodity business and, like the local community, depends on the available natural resources. There is one significant distinction, however, in that the mining corporation will eventually close operations and move on while the community cannot. Since the life of the mine is finite, the community, corporation and Foundation have worked together to develop a strategic plan to assure a smooth transition once the mining concession is over. Their overarching goal is to achieve continuity in the design, funding and implementation of social programs, so that even after the mine shuts down, the Foundation can continue.

To that end, the Foundation is exploring an endowment fund with seed capital from the company. As a first step, Inti Raymi created a U.S.-based foundation for fundraising. Different sources of funding have been explored, including the Bolivian expatriate community. Beyond organizational self-sufficiency, Inti Raymi is considering sustainability for specific projects like its micro-credit program. Another important factor in long-term planning is the development of sustainable leadership. Attracting visionary leaders to run the foundation could become more difficult once business interest no longer backs it. In response, Inti Raymi expects to open its Board of Directors to both community members as well as nationally known leaders, thereby increasing both the talent pool and the visibility of the foundation's management. Finally, certain procedural issues have already been planned in conjunction with community input, such as ownership of land and payment/compensation for land use. Due to the presence of the mine for so many years, the region enjoys good infrastructure such as roads, electricity and an airport. This could open the door for new productive land use. When the mine shuts down, possible replacement institutions include an industrial park, a university or a wildlife habitat.

Early in its timeline of community involvement, the Inti Raymi Foundation carried out a number of programs that included health initiatives such as the construction of a hospital and economic development initiatives such as a sheep production project. Several of the projects were primarily intended for the mineworkers, but were also made available to the community at large. Others, such as the sheep-raising and marketing projects, did not include miners at all and were targeted towards other segments of the population. Though the programs were described as successful and well-received overall, the foundation managed a top-down model of program funding, with ideas and implementation of projects generated by Inti Raymi and communities not included in the planning process.

To capitalize on corporate-sponsored social programs, communities must be able to participate fully and equally in this and other aspects of the operations. When local people are equal stakeholders, sensitive issues such as land tenure and usage rights can be resolved in a transparent manner. Inti Raymi has discovered that if communities are part of the negotiation process, agreements necessary for the mine's existence are resolved much more quickly and profits increase. Those agreements have a certain legitimacy in the eyes of the people, and the mine's daily operations are less likely to be interrupted by civil unrest.

This case presents two valuable lessons for other corporate foundations involved in CSR programs with local communities. There is a learning curve that can be accelerated by partnerships with institutions that have experience in community engagement. Though obvious for a mining company, a well-planned exit strategy should be a part of every company's efforts in community engagement as it actively commits both the company and the community to avoid traditional dependency programs. Finally, intangible benefits to the community, like an increase in individual self-esteem (2,300 community members indicated this in an evaluation process), are more valuable than an increase in income as they represent a change in mindset, particularly one from dependency to independence which is at the root of participation (James 2004c).

Strategic Initiatives that Promote Citizenship

Rural communities in Huila, a southern Department in Colombia, have lived on cattle for more than two centuries. For these disperse and isolated communities, government presence was rare and the arrival of an oil company in the 1950s was an important event. Roads were built to start oil production in the 1960s, and the international oil crisis of the 1970s boosted the oil industry in this neglected region. Communities finally had someone to ask for basic social infrastructure and Hocol, one of the companies there, responded by providing the resources to build schools and health centers.

Until the beginning of the 1990s, Hocol subcontracted organizations that would work with the communities where they had operations. In 1992, some of the community leaders who had been supported by Hocol through its micro-enterprise program organized a strike against the company. The oil industry was blamed for a painful drought, which in fact was due to specific weather patterns and cattle-raising conditions. Hocol's production was halted and, several days after the strike began, guerrillas blew up some of the production infrastructure. It was clear to Hocol that the community did not recognize them as being helpful. The company decided to stop subcontracting its social initiatives and from then on, its own foundation—established five years earlier—developed the micro-enterprise program and started an environmental education program. The latter became crucial for community members to understand the reasons behind the drought and to develop projects that would protect and recuperate water sources.

Another turning point was in 1994: financial difficulties ended up slashing, by half, the company's budget for social initiatives. The Hocol Foundation had already agreed with the communities to develop projects for twice the resources they had, but Hocol's people in the field decided to keep the year plan intact. The alternative was to raise funds within the communities and with the government, and the question arose as to why education and health had become Hocol's responsibility. From then on, government organizations were summoned to participate in every program and were funded by several partners. Between 2001 and 2003, social initiatives worth two million dollars were developed: 46 percent of the funds came from Hocol, 19 percent from communities, 16 percent from government, and 19 percent from other sources, such as multilateral agencies.

As the relationship between the communities and Hocol evolved, the meaning of community development changed for all parties. The Foundation opened programs for community development and for institutional strengthening. In the first one, a "School for Democracy" and a "Rural School for Community and Citizen Participation" were created because Hocol wanted to learn, with its communities, how to take advantage of the shift to a participatory democracy within the framework of the new Colombian Constitution enacted in 1991. According to a Hocol executive, "the best we can do is to teach people the value of being leaders of their own life." The "School for Democracy" is now formally offered at the state university and teaches how to participate in order to decide; community members are given tools to diagnose their needs, set priorities, and develop projects that are funded by different partners. Similar to the expansion of this school, other projects became regional initiatives. For example, in the institutional strengthening program, Hocol started by inviting the government to participate in community projects; in 2004, the company participated in eight different coordinating and decision-making committees at the regional level.

Strengthened communities have been key to the development of Hocol as a business. Oil companies explore vast and remote territories, and then produce with expensive machinery. As part of the armed conflict in Colombia during 2003, there were 753 attacks on oil infrastructures, but none on Hocol's. One of Hocol's main competitive advantages today is its capacity to operate in any part of Colombia. This capacity, extremely appreciated in the oil industry, has been instrumental for Hocol's expansion: the company has been invited as a partner in different projects with the main companies in the oil industry; it has become the third largest operator in the country, and its overseas shareholders have decided to close operations elsewhere and concentrate their investments in Hocol to expand its operations to other Andean countries. All of its projects show impressive figures: in record time they carried out one of the largest private seismic initiatives in recent years in Colombia; they had 2,350,000 working hours without any disabling accident in 48 rural communities, in five municipalities; created jobs for 1,430 local workers; and invested $5.7 million in social development in the region. An award-winning communications program was responsible for the clear, transparent and timely information that paved the way to reach consensus with the communities on issues such as wage definition, local workforce hiring, and payments for land usage within a moderate budget by industry standards.

Hocol has learned that it needs long-term relationships with communities. This involves communication, participation, consensus building and feedback. By interacting, communities have learned to work together to change their life conditions; not only are they able to solve their internal conflicts, but they are also able to apply external pressure for their rights to be protected. Communities that Hocol has left have continued improving on their own. As the company's employees say, "a public good has strengthened the social fabric" (Gutiérrez, Barragán and Uribe 2004).

Economic Benefits through Adequate Responses to Legal Requirements

Pará is the second largest state in Brazil. While the state has good industrial development indicators, few benefits trickle down to local communities: the average annual income is $2,200, compared to the national average of $7,600. Communities living within the Amazonian basin are further removed from the larger economy given their geographic isolation. Despite rich and plentiful natural resources, community-based agro-industries in the region face obstacles in their efforts to market products and engage in sustainable resource management. In terms of commercialization, these communities of producers often have limited organizational capacity, as well as limited access to technologies needed to tap into the larger markets. POEMAR, a non-profit organization located in Pará, trains in all aspects of product development with a focus on low-cost technologies that add value. POEMAR works with producers to diversify their production, gain information on market demand and quality standards, and establish relationships with corporations looking for local sourcing agents. POEMAR provides support in a way that ensures local agro-industrialists preserve their natural environment for future generations.

POEMAR is part of the larger "POEMAR system" within the Environmental Center at the Federal University of Pará. POEMAR capitalizes on the university's laboratories to study regional natural products and develop technologies for processing and quality control. POEMAR's competitive advantage is its ability to establish market relationships between different actors. For example, the organization has linked buyers and suppliers in the coconut fiber industry in Pará. POEMAR approached Daimler-Chrysler (at the time Daimler-Benz AG) to conduct research on substituting synthetic inputs with natural fibers for interior car parts. In 1992, Daimler-Chrysler agreed to make an initial investment of $1.4 million to research viable natural fiber products and the role local communities could play as suppliers of these products. The result of three years of research was a pilot project to produce headrests and other interior car parts in the community of Praia Grande. Initially, these were manufactured manually. Eventually, Daimler-Chrysler donated equipment to allow for more efficient processing of fibers. Amazonian Bank BASA later financed additional investments in the project. POEMAR trained community members in technology, administration, marketing and innovative agro-forestry practices. Coconut production was raised from 9 to 40 coconuts per tree.

Two major challenges were identified in the pilot project: transporting the car parts from the remote community and meeting production deadlines that were not customary in rural community production. With help from POEMAR these obstacles were resolved and in March 2001, the first fiber-processing plant was inaugurated. POEMATEC, a business also in the POEMAR system, undertook management of the plant and assures that quality and quantity are consistent with market demand. Financing for the plant came from the government of the State of Pará, the municipal government of Ananindeua, the Amazonian Bank, Daimler-Chrysler and (the German Investment and Development Company). Specifically, Daimler-Chrysler provided $4 million for the supply of imported machinery and provided training in the use of the equipment.

Today, the plant has a production capacity of 80,000 tons/month. A total of 25 percent of its production is dedicated to the demand for interior car parts at Daimler-Chrysler. The plant is quickly expanding to meet new client demand in the automotive industry from General Motors and Honda. The plant is also adding product lines like gardening pots and mattresses. Apart from the cutting-edge plant and technological innovations, the real success story is that of the benefits to the rural community organizations in eight districts that supply the coconut fiber to POEMATEC. POEMACOOP, a cooperative of small producers and specialized technicians, purchases inputs in bulk to allow small producers to benefit from the associated economies of scale. All this translates into approximately 4,000 new jobs created in coconut fiber production, including agricultural producers, processing plant workers, and plant workers. The project has allowed this community of agricultural producers to participate in the global economy with a Fortune 100 company.

The project also has measurable benefits for Daimler-Chrysler's business. The company is able to meet its local content requirements by sourcing its interior car parts from the coconut fiber plant. Also, the company is able to ensure that its vehicle production meets the high environmental and recycling standards set at home in Germany. Finally, sourcing these parts is as economically viable, if not more so, than their synthetic counterparts.

From the corporation's perspective, the key lessons learned from this case are two-fold: First, that corporate self-interest can be a powerful motivator in establishing sustainable, successful CSR programs. Daimler Chrysler has tied many business objectives to this program, to local content and to environmental content compliance, making it one of the most successful economic development programs in the region. Secondly, innovative commercial relationships can be mutually beneficial for a company and local communities, while also adhering to environmentally sound principles of sustainable development. Communities must identify their indigenous comparative advantage when engaging with a corporation. Regardless of representation of the communities by either NGOs or governments, the environment is often the platform for communities of interest. In the Amazon there is enormous support for sustainable resource management and this project would address concerns for communities of interest focused on the environment (Menucci 2004).

Community Investment through Partnerships

On the periphery of Mexico City's limits, the Delegación Iztapalapa houses some of Mexico's most marginalized neighborhoods, over 90 percent of whose inhabitants live in poverty. Annual family incomes range from $1,800 to $3,600, and the prospects for future generations are bleak, as only 50 percent of the children finish elementary school. Iztapalapa attracts immigrants from Mexico's 35 states, who come in search of economic opportunity. For most, the stark reality of Latin America's biggest city sets in and families begin to search for ways to sustain themselves as micro-entrepreneurs in the new urban setting.

In contrast, a well-known Mexican industrialist family, the Servitjes, founded Grupo Bimbo S.A., the eighth largest baked goods corporation in the world with operations in 60 countries. In 2001, the group had 70,000 employees worldwide and boasted net sales of $3,686 billion. Today, its investment in the community ties directly into its core business by linking credit to the company's distribution system through an innovative partnership with FinComún, a Mexican financial services business dedicated to serving low-income people. FinComún is widely recognized as Mexico's premier micro-finance institution. It is a pioneer on several fronts, including the capture of capital through savings accounts, customer service, use of technology, the testing of new ideas and innovative partnerships. These savings programs support FinComún's micro-lending program. Loans are made to low-income individuals, small businesses and productive activities, at the prevailing market rate for a period of 16 weeks. As of 2001, 11,576 loans have been made, totaling $12 million, with a default rate of 0.1 percent. FinComún has successfully used its reputation and ties to the private sector to gain recognition from the Mexican government to include management responsibility for a three-million-dollar government micro-credit fund and deep involvement in shaping national policy to regulate micro-finance activities.

FinComún presented an innovative opportunity to Grupo Bimbo as it tied its community investment strategy directly into core business activities. The partnership allows Bimbo to take advantage of FinComún's expertise in providing micro-loans, while FinComún is tapping into Bimbo's distribution network and product delivery methodology: FinComún's loan advisors accompany Bimbo delivery drivers on their daily routes.

Because loan amounts are small (starting at $50), with an average of $750 per client, financial sustainability depends on volume. As a way to increase its customer base, FinComún's new business model involves going physically into low-income neighborhoods to identify new clients, rather than depending exclusively on branch offices to attract business. The partnership with Bimbo enables this and, since the Bimbo brand is strongly associated with quality, it gives FinComún instant credibility with potential clients.

Grupo Bimbo was concerned about the bottom line: the company derives 80 percent of its income from small "mom and pop" stores; 20 percent of these clients regularly ask for credit. Previously, Bimbo had an informal program to provide credit services to these stores. As a result of the partnership with FinComún, Bimbo expects to reduce bad debt and the amount of time in which loans are repaid, and achieve its goal of providing credit to 22-30 percent of its clients.

Initial results of a small-scale pilot program between the two showed that 20 percent of Bimbo clients received credit and expressed overall satisfaction with the customer service provided by FinComún. The next stage of the plan involves the donation of a Bimbo van that will be customized as a mobile FinComún branch office. If the neighborhood is favorable to micro-credit operations, it will also be a precursor to a permanent branch office. With this new method, FinComún expects new branch offices to break even in six months, rather than the current one-year timeframe for the customer base to be established. And there are more collaborative plans in the pipeline: Once Grupo Bimbo's customer database can be merged with FinComún's credit analysis and client/industry profiles, there is the possibility of a program of pre-authorized credit. FinComún is looking at managing some of Bimbo's liquid assets. The possibilities for these community investments seem limitless.

The impact of this project is being evaluated to determine how much access to credit has allowed small and medium-size enterprises in Mexico City to expand their businesses, create employment, and generate capital in their local communities. More than 50 percent of FinComún's loan recipients are low-income women who engage in commercial activities, ranging from fruit and vegetable stands to seamstress shops and grocery convenience stores. At the same time, these entrepreneurs have begun to develop a credit record that will be invaluable to them as they attempt to advance their businesses and require more capital (James 2004b).

Unlike the other cases presented in this chapter, the community affected by Grupo Bimbo is less tightly sewn as it is comprised of individuals in an urban setting. They are a community of micro-entrepreneurs who depend on each other at arms length to drive the local economy and repay loans to further capitalize each other's business. The process of engagement uses a bank, FinComún, as an intermediary to articulate a very specific need of the community of micro-entrepreneurs in Iztapalapa: access to capital. Urban community interventions are arguably harder to assess in a collective sense, since people act much more independently in defining and responding to their needs.

A Continuum of Results from CSR Interventions

A company's impact on a community can be placed on a continuum that ranges from an end where environmental degradation, corruption and social unrest are common, to another end where conservation and citizenship practices have been institutionalized. A company with clean production that fails to promote citizenship is right in the middle. Moving towards the desirable end implies democratic efforts that increasingly empower community members.

Since no study has determined the main factors that affect the impact of CSR activities on a community, we chose to concentrate on five cases (Table 9.2 summarizes the characteristics of these cases). We can only infer some characteristics of the relationships between types of intervention, processes and impacts. At most, we can state hypotheses about these relationships.

The five cases show different ways in which direct integration of communities into business processes and corporate social investment take place. Daimler Chrysler and Grupo Bimbo were able to directly integrate a community investment program into their core business practices. The Inti Raymi Foundation and the Cayos Cochinos Foundation exemplify two different types of corporate investment in social initiatives: a corporate foundation investing in the community and a foundation established by several corporations to work on a common interest. Hocol started by investing in social initiatives and, in time, found those initiatives to be one of its main sources of competitive advantage.

The Business Integration Approach

Increasingly, corporations see the value in incorporating low-income communities directly into their supply chain through training relationships, supplier relationships, distribution relationships, and even market competitor relationships. Business integration can fill the socio-economic gaps common in less economically-developed countries with some trans-

Table 9.2: Main characteristics of five experiences

Cases	Initial life conditions in community	Type of intervention	Spaces for community participation	Link to operations	Distinctive characteristics of the intervention	Results and impacts
Cayos Cochinos	low access to health and education by racial minority	Corporations invest through foundation	Foundation programs and community education programs	Innovation not related to businesses	Community integration into foundation	Organized grassroots lobbying
Inti Raymi	84 percent with no access to potable water and latrines	Corporate investment by foundation	Negotiation processes and foundation board	Innovation sometimes related to business	Learning curve by foundation	Social services, 700 jobs, $10 million invested
Hocol	Fragmented and isolated rural communities	Business strategy by foundation	Foundation and community development programs	Strategic innovation for business	Social initiatives become sources of competitive advantage	Organized citizens; in one project alone, 1,430 jobs and $5.7 million invested
Daimler Chrysler	Fragmented and isolated rural communities	Strengthen community suppliers through NGO	Small producers cooperative	Strategic innovation for business	Compliance with local content and environmental standards	4,000 jobs, $5.4 million invested
Grupo Bimbo	Fragmented urban interest communities	Services to customers through NGO		Strategic innovation for business	Strategic partnership with NGO	$12 million credits

fer of technology, capital and business process from the corporation to the community: Daimler Chrysler invested in industrializing an indigenous technology and capitalized its development; Grupo Bimbo increases access to financial services to better serve its distribution system; and Hocol works in partnerships to improve life conditions in the society where it operates (see Table 9.3).

Multinationals working in developing countries have been motivated to engage in the business integration model of CSR by different factors: complying with regulations, profiting from market opportunities, developing competitive advantages, appealing to consumers and employees, or with a clear interest to create wealth in poverty-stricken contexts. National companies are also concerned that governments are not investing in the local resources required to keep their businesses going (Jones, 2004).

The effects of corporations on communities are unique to each experience. Interventions directly tying communities to business practices provide local groups with an opportunity to participate as members of the global economy. Sometimes, however, this opportunity is not available because corporations do not want to share their privileges. This happened when, in 2003, Bogotá's garbage collection system was renegotiated and the metropolis of 7.5 million people was divided into six geographic zones. Around 70,000 recycling workers, organized in 23 cooperatives, wanted to participate in the bidding process for garbage collection. It was far from being an equal opportunity process. Despite their efforts, these workers were excluded in an unfair process—according to the Colombian Supreme Court of Justice—and the six zones were assigned to large corporations. CSR did not mean, for any of these companies, working with recycling workers.

The Social Investment Approach

Social initiatives undertaken by corporate foundations—where corporate and community needs are less closely linked than in situations of direct business integration—require dialogue and community participation, rather than top–down programs. In three of the cases described above, an initial top–down approach resulted in losing sight of the community. Strikes and lack of organizational effectiveness disappeared when the foundations went beyond information and consultation and opened up spaces for community participation in designing, funding and executing programs. Without community input into program development, well-meaning corporate foundations can create projects that have no positive

Table 9.3: Examples of CSR practices

Scope Stakeholders	Compliance with law	Observe social norms by choice	Direct integration into business	Social investment
Groups with direct link to business	OSH / EEO Consumer Protection	Fair trade	Daimler Chrysler Brazil	
Other groups with ties to business	Anti-trust regulation	Cluster competitiveness	Grupo Bimbo	Inti Raymi Found. Cayos Cochinos F.
Local community	Local content	Local culture	Manpa	Shell Chile
Society	Environmental protection	Social inclusion	Hocol	Peñoles ASA-FEBRABAN

long-term effect on local communities and there is an increased risk of treating symptoms of social problems rather than their root causes.

When are corporate foundations the best vehicle for CSR investment in a community? In Latin America, corporate foundations offer companies a vehicle to administer social programs under a brand name with specialized staff that can design, implement and evaluate programs effectively. The corporate foundation is also sometimes a helpful intermediary between the community and the corporation. Foundations deal directly with the community and corporations can focus on day-to-day business. Sometimes, however, corporate foundations get in the way of community development.

The results of micro-credit programs in Colombia over the past couple of decades provide an example of the shortcomings of corporate foundations. An evaluation of the National Plan of Micro-enterprise Development concluded that employment was not generated, nor were people pulled out of poverty; beneficiaries remained in their positions (Departamento Nacional de Planeación, Fundación Corona y Corporación para el Desarrollo de las Microempresas 1998). Rojas examined the National Plan and the role of corporate foundations, contending that:

> *While contracts with corporate philanthropy increase economic resources and provide innovative solutions to social ills, they have not similarly contributed to the democratization of the decision-making process nor the strengthening of state legitimacy. Programs in the hands of foundations are not accountable to citizens nor do they in-*

crease the capacity of the state to act as an intermediary of powerful interests (2002).

Corporate foundations, for example, resisted the creation of an organization of micro-entrepreneurs that would participate in the decision-making processes. According to Villar (1999), political empowerment was not on the agenda of corporate foundations in their work with micro-entrepreneurs.

However, corporate foundations are only one among several alternatives. For example, social investment can be carried out through a subcontracted nonprofit organization or through an industry association. Four chapters in this book describe Latin American experiences in social investments. One company, Manpa, is working to make its social investment a strategic part of its business. The other three cases illustrate different ways in which communities are transformed through corporate social investments (see Table 9.3).

Motivations do not seem to be related to structures of intervention or to the results and impacts of corporate interventions in a community. As previously mentioned, in companies where top managers are also the owners, altruistic motivations may exist; utilitarian motives appear where professional managers report to the owners. Among the described cases, experiences fueled by utilitarian incentives experienced fewer upheavals than those where altruistic objectives predominated.

A Needed Intermediary Role

Despite their shortcomings, corporate foundations have a role to play. Applying a well-known principle in chaos theory, companies are high–energy systems that can distort or destroy a low–energy system like a community unless an intermediary exists. In the cases mentioned above, the relationship with the community is not direct: nonprofit organizations served as intermediaries between the company and the community. These intermediaries have been the catalysts to engage the communities with the corporation, articulate the potential for a partnership, and bridge the corporate requirements with community capacity. Nonprofit organizations can play an important role in the inclusion of disadvantaged populations in social, political and economic circles. Through service or advocacy, these organizations can make a difference.

Interaction between a company and an intermediary organization is not easy. Also, the effect of this intermediary on the community must be considered. The SEKN research team studied the interactions between private and social sector organizations in 24 cases throughout Latin America. They discovered six barriers to collaboration:

- The search for an interlocutor: "Sometimes, choosing an interlocutor is almost as important as choosing the message" (Austin, Reficco et al. 2004).
- The power of pre-existing relations: social networks are a critical organizational resource and prior links to an individual or to a cause influence the unfolding dialogue in different ways.
- Imbalances in partners' institutional capabilities: the greater the institutional capacity, the smaller the barriers to cross-sector collaboration. A community without an organizational structure exhibits the least institutional capacity; this capacity increases as a community leader attempts to organize efforts. Greater capacity exists when an individual or a group is backed by an established organization and the greatest capacity is achieved with a mature organization, one with executive leadership and specialized staff.
- Differences in organizational cultures: lack of a common language, negative stereotypes, clashes between a culture of austerity and a culture of opulence, and different time frameworks.
- Communicating effectively: "An effective message demands a skilled communicator" (Austin, Reficco et al. 2004).
- The importance of being proactive and persistent: "Connecting successfully with another organization entails an alignment of several factors" (Austin, Reficco et al. 2004).

Developing alliances involves time and difficulties. Holly Wise, one of the leaders of USAID in their alliance with Procter & Gamble, says: "true partnership involves shared problem definition and joint design of solutions; partners want to be involved at the front end, not invited to join after major decisions have been made; and alliances require special outreach and messaging which we are not accustomed to doing" (Gutiérrez 2003).

Although the collaboration between companies and intermediary organizations may be difficult, and the latter may have varying impacts on communities, these organizations are key to increasing well-being in a society. For example, they coordinate governments and communities to increase common goods, help protect some rights, promote self-control and sometimes promote citizenship.

Lessons Drawn from a Comparative Perspective

Both success stories and difficult experiences help show some of the important characteristics of the relationships between corporations and communities. These are some of the lessons learned:

- A company with an enlightened self-interest in its CSR program ensures its commitment to the program and the program's sustainability.
- Communities involved from the onset in defining a project make it successful; corporations cannot assume they understand the needs of a community by taking them at face value.
- Partnerships last when both institutional and individual relationships exist throughout. Partnering for its own sake is not enough; alliances involve alignment and value generation, and have to be managed.
- Projects do not create untenable expectations in local communities when they consider the whole life cycle and the sustainability of the investment after an appropriate exit strategy is executed.
- Financial resources are only part of the equation. Corporations can have enormous impact with limited financing if programs are well defined and well accompanied.

Current Trends of CSR in Latin America

All sectors of society are asked to contribute their share, since social problems have increased and states have lost part of the preeminent role assigned to them in pushing the carts of development. Expectations related to what private companies can do as corporate citizens have increased, and a support system is being developed so that the private sector can fulfill these expectations: multilateral agencies are investing more resources in the private than in the public sector; universities offer new programs for social enterprises; coalitions of civil sector organizations are forged; volunteerism is on the rise; and the mass media gives increasing attention to social initiatives.

Following in the steps of corporations in the economically developed countries, current trends in Latin America include the deepening of CSR models, the extension of CSR practices to small and medium-size suppliers, an increase in cross-sector alliances, and the building of relational capital through the development of grassroots organizations.

The Deepening of CSR Models

Drucker was clear about transforming social responsibilities into business opportunities: "But the proper 'social responsibility' of business is to tame the dragon, that is, to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth" (1984). Nowadays, according to Windsor (2001), "a leitmotif of wealth creation progressively dominates the managerial conception of responsibility." He cautions that it "can easily lead to both moral misconduct and financial manipulations ultimately destructive of social purposes and stakeholders' welfare." Without optimism, he observes how the economic conception of responsibility has been countered by a global corporate citizenship philosophy and by stakeholder management practices.

How does the deepening of CSR models look in practice? For example, a decision at the corporate level is not readily made operational at the local level. A firm's "level of corporate responsiveness may not be mirrored effectively in dealings between subsidiary business units and their most important direct stakeholders: local communities and in the developing world" (Wheeler, Fabig and Boele 2002). The deepening of CSR models depends on leaders searching for consistency between the definition and implementation of strategies. It is a path where profits, power and prestige are combined, and with critical challenges for the firm and its stakeholders. On one hand, companies need inclusive dialogues even where shared understanding is lacking; and firms should avoid legitimizing and de-legitimizing fragmented stakeholders. On the other hand, stakeholders need to dialogue even where trust does not exist and deal with contradictory views within firms.

An example of a company deepening its CSR model is Manpa, Venezuela's leading national paper manufacturer, which has an innovative program to establish a sustainable network of community-led recycling programs. This began as an offshoot of the philanthropic efforts of Manpa's founding family and, today, the program has the potential to be a strategic business ally for the company and a source of direct benefits for participating low-income Venezuelans. Despite difficult political and economic conditions, this case shows how corporations can develop successful community CSR programs that are good both for business and the community if they work in their enlightened self-interest as well in the interest of local communities (see Chapter 3).

Extension of CSR Practices to Suppliers

Large corporations are extending their CSR practices to their suppliers. Two examples among many: McDonald's and Techint, an Argentinean multinational in the steel, construction and energy industries, have transformed how their suppliers operate in many countries (Gutiérrez 2004).

CSR policies towards suppliers are especially relevant for three reasons: they take CSR practices beyond big corporations; responsible policies with suppliers improve the competitive position for both the supplier and the company; and cases with subcontractors and labor practices have lately been in the spotlight. Inclusion and responsible competition bring support to suppliers to the forefront. This support takes on different forms: training, help with certification efforts, joint R&D projects and the promotion of codes of conduct, among others.

These projects pose important questions to businesses and policy makers. Managers can observe how organizational limits are broken down as their companies get closer to suppliers, and how the nature of control and supervision changes. Policy makers will be interested in the outcomes of these tightened relations because they point towards different types of interventions that leverage social change.

Increased Cross-sector Alliances

Despite their operational difficulties, cross-sector alliances are increasingly frequent. Several authors contend that alliances will be the feature of the new century (Austin 2000; Vives and Heinecke 2003). Why is this happening? "The contributions that business can make to problems that communities experience is often achieved best by the corporation working with other businesses or with the government and NGOs. This helps to pool resources, cut costs, and share skills and risks among the partners" (Grayson and Hodges 2002).

In the past decade, cross-sector alliances have dealt with every type of social problem, and these collaborations are expected to increase even more (Sagawa and Segal, 2000). As an alternative path to development, alliances are particularly important in Third World countries. In Latin America, collaborative work has been enabled by three trends that have changed relations across the entire social landscape: democratization, decentralization, and "growth through the market" (Fizbein and Lowden 1999; Googins and Rochlin 2000). Tackling social problems is now a shared responsibility. As Trist recognizes, important social issues belong to an inter-organizational domain and cannot be solved by an organization acting alone (Huxham and Vangen 2001).

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Two Latin American cases described in subsequent chapters use cross-sector alliances as an operational strategy. The Federation of Brazilian Banks, Febraban, joined a network of NGOs called the Brazilian Semi-Arid Articulation (ASA for its acronym in Portuguese) to provide cisterns for the dry northeast region of the country. In the first phase, 10,000 cisterns were built, benefiting 50,000 people. The banks provided funds and support to management systems; ASA provided training, low cost construction methodologies, and local management; and the government promoted the program and served as a dialogue facilitator.

Chapter 5 describes the alliances established by Peñoles—a mining, metallurgic, and chemical company in Mexico—to improve the quality of life in communities surrounding its operations. In one of the 64 communities where it works, for example, Peñoles had a crucial role in the creation of the Committee for the Development of Zacazonapan in 1999. This committee works with community and local government in education, health, productive activities and infrastructure. In total, Peñoles participates in 12 Community Participation Boards, 12 Social Welfare Centers, and a volunteer network along the nine states where it has activities in Mexico.

Building Relational Capital

One last trend is the focus on building relational capital through the development of grassroots organizations. Working within the concept of "being poor is not being organized," many aid organizations have been working to strengthen the voice of some and the listening abilities of others. This work starts with increasing the capacity to organize and take collective action, thus augmenting *bonding social capital* within a given community. As organizations work together in networks, *bridging social capital* is developed. Last but not least, interaction with government institutions to scale up local operations builds on *linking social capital* (Villar 2003).

All of these forms of social capital are key to strengthening community-based organizations and to develop public interest institutions that support community development. Many corporate foundations, most working with the Inter-American Foundation in RedEAmérica, share this approach and are willing to learn along the way.

Some corporations are taking up part of the task directly. In Chile, Shell developed a volunteer program called "United Hands" with the nonprofit Casa de la Paz to improve quality of life in low-income communities. Joint initiatives have ranged from building infrastructure to environmental education campaigns. Communities have gained a sense of their potential and have started new projects with the municipal government (see Chapter 6).

Gaps in the CSR Literature: Research to Be Done

Research on CSR in Latin America has concentrated on studying specific experiences, working inductively to generate hypotheses. This article does not overcome this limitation since the attempt to understand the impacts of CSR practices on communities is based on an overview of existing studies. Limited cross-sectional studies in Venezuela, Colombia, Brazil, Mexico, Chile and Argentina have just scratched the surface of the complex relationship between business and society.

How to move forward? The scarcity of testable propositions provides an area in need of scholarly contributions. Analytical work must be done to establish causal relations between the structures behind CSR practices, the processes completed, and the results obtained. Brammer and Millington (2003) took an initial step towards the needed analytical work as they tried to link organizational structure, industry type and stakeholder preferences with different types of corporate community involvement.

It is also important to deepen our understanding about issues such as CSR management, outcome measurement and impact evaluation. Practitioners have traveled down this road, and systematic approaches are under construction. Nonprofit organizations in Brazil, Chile and Argentina lead the way.

There is also a scarcity of research on the limits between private and public responsibilities. Once again, practitioners have reflected on such questions and have provided several responses. For example, Hocol has defined its political stance after much deliberation: it considers the state its main client and defines its operations as the use of a public good to improve living conditions for all those related to its business.

One starting point is to explore the two fundamentals that, according to Windsor, CSR reasoning must grapple with: "One fundamental is the prevailing psychology of the manager. The other fundamental is a normative framework for addressing how that psychology should be shaped" (2001).

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