Making Sense of Corporate Social Responsibility.

By Audra Jones

Introduction.
In my tenure at the Inter-American Foundation (IAF), I have had the privilege of working first hand on the issue of Corporate Social Responsibility (CSR) with companies interested in promoting grassroots development in the Americas. Regardless of the industry, country, or level of engagement within the corporation, one lesson stands out in my mind: for the private sector to develop participatory, sustainable investments in the community, it must have an enlightened self-interest in the process. Without a clearly articulated reason for getting involved in CSR, a company will fail when undertaking socially responsible programs. This CD-ROM was developed to help companies define their self-interest in investing in Latin American communities by looking at innovative examples of partnerships between the IAF and the private sector.

The CD-ROM highlights cases from different countries and industries as well as outlines motivations for CSR programs. In the end, they should provide anyone interested in developing or improving their external CSR programs in Latin America with real lessons learned from some pioneers in the field.

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Overview.
The term corporate social responsibility (CSR) is broadly used to mean different things. As the CSR industry evolves and new products or trends develop there is a tendency to dismiss previous trends as "less sophisticated" or obsolete and an attempt to redefine the industry around the newly identified phenomena. The purpose of this article is to suggest taxonomy of CSR incorporating all of these trends, particularly those that fall within the external CSR movement more commonly known as corporate giving.

Today, CSR is a commonly used but sometimes misunderstood term. In an effort to make some sense of CSR, it is helpful to recognize that the overall movement has evolved into two perspectives: ***one related to internal corporate behaviors and the other related to external corporate behaviors***. Internal behaviors refer to the way a corporation conducts the day-to-day operations of its core business functions. External behaviors refer to a corporation's engagement outside of its direct business interest; this behavior has traditionally been defined as a corporation's giving program.

By coupling internal and external CSR perspectives, we see that corporations have not only financial commitments to their shareholders, employees and consumers, but also social and environmental commitments to them, as well as the communities affected by their activities. As stated earlier, the most important thing a company should consider when undertaking external CSR programs is to identify its enlightened self-interest. To understand what can be gained from CSR, we must first consider its evolution. The specific benefits and evolution of CSR in Latin America can be contextualized by first considering its evolution in neighboring North America.

CSR in the United States.

In the United States, CSR trends evolved in large part by a few visionary leaders like Rockefeller, Carnegie, Ford, Hewlett and Packard. The *growth* of CSR, however, is owed to regulation. Beginning in the late 1960s and early 1970s, the U.S. government established regulatory agencies that shaped much of the internal CSR benchmarks. OSHA (Occupational Safety and Health Administration), EEOC (Equal Employment Opportunity Commission); CPSC (Consumer Product Safety Commission) and the EPA (Environmental Protection Agency) created standards for responsible corporate business practices which have become thresholds for minimal internal CSR behavior. Today, government continues to regulate corporate behavior. More recent examples of industry specific and sector wide regulation include the Community Reinvestment Act in the banking sector, the Clean Air Act and, post-Enron, the Public Company Accounting Reform and Investor Protection Act.

In response to initial regulation, there was a deliberate move by corporations to establish government affairs positions to manage their relationships with Washington. Corporate lobbyists engage policy makers to define legislation that is beneficial to their business. In turn, watchdog groups representing the public lobby congress to ensure that social, environmental and economic development concerns are measured against corporate concerns. As a result, the internal CSR movement is well defined, regulated and disseminated in an effort to influence the public and Congress.

While internal CSR may be more visible in the sense that it is highly regulated and reported, external CSR has evolved since the beginning of this century with the activities of great philanthropists like Rockefeller and Carnegie. In fact, the formalized efforts of philanthropy in the early part of the 20th century fostered the first regulatory response to CSR in the form of the tax-break to corporations making charitable contributions to non-profit organizations. Today, however, corporate charity is not significant enough to solve the serious social and economic problems in society. Consider that U.S. corporate giving as compared to individual giving is less than 10% of total philanthropy.[1] Corporations interested in promoting prosperous societies have to look beyond traditional charity programs towards more sustainable ones if they intend to affect social and economic change that will simultaneously support their profit making strategies.

CSR in Latin America.

In Latin America there is very little regulation of internal CSR practices, particularly outside of the Mexican and Mercosur markets where U.S. and European foreign direct investment have influenced some requirements. There has been little government movement towards regulating these standards into business when compared to the U.S. In part, this is a result of weaker formal organizations of workers such as trade unions, or social groups such as women or ethnic populations that greatly determined labor and business practices in the U.S. in the 20th century. Without pressure from society,

[1] Source: Giving USA 1997.

governments are less likely to create standards that imply a cost to corporations who often represent more wealth and power than government itself. In those cases where there are standards in place, like the U.S. Mexican border vís a vís environmental regulations, 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 its enforcement.

The other missing factor in promoting a culture of internal CSR practices in Latin America is consumer or public consciousness. Without pressure or kudos from society, a traditional corporation, without idealistic leadership, is unlikely to create internal CSR programs that imply costs without financial returns.

In terms of external CSR, corporations in Latin American are not well rewarded through tax-breaks like their North American counterparts. However, corporations both national and multinational are giving to their communities in Latin America. Remarkably, without incentives or requirements, companies in Latin America do attempt to solve social and economic development issues among the poor. What is their motivation?

Corporate interest in external CSR in the Latin American context can be attributed, in broad strokes, to the private sector's interest in fostering stable societies. Without a stable society, business cannot pursue a profit-making strategy, as they will not be able to produce or sell their products. Corporations initially may designate a significant portion of their community giving resources as set asides to respond to crisis and/or risk management strategies to ensure that they can "negotiate" if they have poor relations with the local community. While corporations begin with this goal, they soon realize that they must balance this strategy with one that will limit society's dependency on them for social welfare where government cannot or does not step in. Corporations in Latin America must remember that they are often akin, in societies' eyes, to government in that they represent power, accumulated wealth and sometimes close association to government. Successful corporate programs must foster local community participation to limit dependency and promote the concept of self-help development.

Taxonomy of External CSR.

External CSR programs lie on a continuum defined by three distinct points: traditional philanthropy, social investment and business integration. Philanthropy is the oldest form of corporate social responsibility and is really charitable giving where there is a limited dialogue between donor and recipient. Social investment represents the evolution of traditional philanthropy from a top-down approach to a more responsive approach 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 low-income populations directly into their regular business practice. This is defined as business integration in this article.

Philanthropy:

While some would argue that philanthropy is outdated and often takes a top-down approach, the counter argument is that there are instances where philanthropy is appropriate and even necessary. In areas such at the arts where it is important to preserve the creativity of the beneficiary, philanthropic giving allows for a less involved type of giving. For corporations that do not have the human resources capacity to engage in a more involved level of external CSR, philanthropic giving 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 philanthropic giving is a necessary first-step in their evolutionary process.

Social Investment or Strategic Philanthropy:
The second level of external CSR, social investment or strategic philanthropy, is a phenomenon that appeared mid-way through the 20th century in response to heavy regulation and social lobbying. Corporations felt they needed to direct charitable giving in response to social pressures. As a result, external CSR became less top down in many corporations and more participatory through defining programs via needs expressed by the community. Many of these early programs were related to social marketing and public awareness campaigns where 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 more sustained and integrated levels of involvement from the corporation that is not limited to the giving of financial resources. The "investment" approach to giving is now becoming widely used in many external CSR initiatives.

Direct Integration.
On the forefront of CSR evolution, particularly in lesser-developed countries, companies are integrating low-income 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 given they have a direct tie to the companies' business interest. However, in the context of the developing world the direct integration model is even more 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 because the necessary enabling environment will not be developed.

Value-added business is often the multiplier to create the necessary enabling environment for economic development. Examples would include an educational system capable of training future employees, open financial markets which allow small and medium sized business 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 socioeconomic gaps that are a feature in countries where the economy is dominated by first-tier industry as is most common in less developed countries.

Multinationals working in developing countries have been motivated to engage in the business integration model of CSR by regulation, market opportunities, consumer & employee potential and, some, by a clear interest to create wealth in poor countries.

National companies have been motivated by concern that the government is not investing in the local resources required to keep their businesses going.

Lessons Learned:
This CD-ROM attempts to present some of the best cases of external corporate CSR programs funded by the IAF and the private sector. They are divergent in their scope, sustainability and levels of development assistance, but all reflect some basic lessons learned:

- First and foremost, a company should have an enlightened self-interest in its CSR program to ensure its commitment to the program and the program's sustainability;

- Partnerships last when you have both institutional and individual relationships throughout the life of the partnership. Partnering for the sake of partnering is not enough;

- Communities must be involved from the onset in defining a project to make it successful; corporations cannot assume they understand the needs of a community by taking them at face value; communities needs must be considered within the local context and culture;

- All projects must have a well contemplated exit strategy;

- Financial resources are only part of the equation. Corporations can have enormous impacts with limited financing if programs are well defined and well accompanied;

- It is eminently possible to measure the qualitative and quantitative results of social investments;

For organizations thinking of partnering with the private sector:

- Think Globally and Act Locally --- when working with companies, no one will ever be "perfect"; when assessing a potential corporate partner consider the local reputation over the global one of the company;

- A civil society organization is always a partner at the negotiating table. Companies are looking for good ideas and strong partners with solid opinions on programs.

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Ms. Jones developed and edited the following cases on the IAF Web site and CDROM. She is grateful for the efforts of the individual researchers on each case.