



## Corporate Social Responsibility

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# Non-Governmental Organisations and Corporate Social Responsibility (CSR) in Iberian America

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*Periodically, TJSGA publishes essays of relevance for The Living Wages North and South Initiative (TLWNSI). This is an assessment of the state of CSR in Iberian America from the perspective of civil society. The authors' global prognosis regarding CSR is that both institutional investors and corporations will gradually conclude that they cannot maintain a zero-sum game ethos for too long if they want to have a future, and they will move to shift their vision from the extremely short-term to a balanced approach in the pursuit of their own sustainability. In this way, relative to Iberian America, if the problems caused by the impact of corporate activity are to be addressed, Iberian America's organised civil societies must mobilise with urgency to include, in the pursuit of a truly sustainable global CSR, the elements that are of keen interest for the region.*

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### □ INTRODUCTION

While decades ago CSR acquired much importance on the agenda of the European Union and of some of its member countries, in Iberian America there is little interest among national governments, the business community and universities. Nonetheless, some countries (Colombia, Brazil, Argentina, Chile, etc.) have begun developing a corporate social responsibility conscience thanks to the efforts of non-governmental organisations, frequently supported by international organisations such as the Inter-American Development Bank (IADB), through its Social Capital, Ethics and Development Initiative.

This work, comprised of five sections, describes some CSR experiences standing out, especially in Mexico, in an attempt to profile the different attitudes assumed by business vis-à-vis CSR and the motives driving them, as well as the elements included and excluded from the concept. In this way, the first two sections describe the current CSR ethos in Iberian America. The first section ponders the diverse scenarios under which CSR is approached by business and the second describes the current state of CSR practice among the different actors in the region. The last three sections are devoted to the discussion of the three elements of fundamental or strategic importance. The third and fourth sections emphasise two key aspects absent from CSR culture worldwide but critical for Iberian America: the exclusion of the payment of living wages as a CSR standard and the lack of pre-established and mandatory standards for the accountability of corporations before governments and society, of which the first aspect is discussed in great detail. The last section argues (to some extent) in favour of the strategic value for Iberian America of leveraging the market via consumer pressure on a global scale. These last three aspects are examined in a global context, parting from the premise that the only successful CSR strategy for Iberian America is a global CSR strategy.

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## 1. BUSINESS ATTITUDES TOWARDS CSR<sup>1</sup>

Iberian America constitutes the most unequal region in the world (Gini index of 0.57 versus the world's average of 0.40) with extremely high poverty indices, which, so far this century, keep consistently growing: in 2000 poverty ravaged 42.4% of the population (206.6 million) and 18.1% (88.4 million) lived in extreme poverty; in 2002 the figures were 44.0% (221.4 million) and 19.4% (97.4 million) respectively; 2003 is estimated at 44.4% (226.6 million) and 20% (102 million) according to ECLAC (2003).

In Mexico's case, poverty amounted to 57 million people (58.8% of the total population) and extreme poverty exceeded 10 million people (10.7%) according to the National Institute of Statistics, Geography and Computing (INEGI 2000), and could amount to 75 and 54 million people respectively, according to the calculations of poverty specialists Boltvinik and Hernandez (1999). This implies 19 million more than in 1990. For this year the Mexican Gini index was 0.55. It is in this context that we intend to describe the diversity of attitudes adopted by private enterprise in the region, since poverty levels cannot be attributed exclusively to unemployment (which only affects about 10% of the population), hence they affect workers with wages and benefits in the formal economy. Traditionally, enterprises are deemed as belonging to the owners of their capital and to have the maximization of profits as their sole purpose. In a more contemporary version they are regarded as entities pursuing a diversity of objectives. Nonetheless, when attempting to be precise about these objectives, at least five variants are observed:

1) Those still considering that their sole objective is to profit; thus, they exclusively respond for their performance to the owners of their capital and reject any possibility of accepting responsibilities concerning life's social conditions, a position emphatically defended by Friedman: *"few trends could undermine in a more complete form the very foundations of our free society as the idea of those accountable for enterprise accepting a social responsibility, instead of attempting to obtain the greatest possible benefits for their shareholders"* (M. Friedman, 1966: 133).

<sup>1</sup> In this and the next section some works previously published are revisited: see Cardozo (January-June 2002 and July 2003).

- 2) Those admitting that the fundamental objective is to profit, but acknowledging an enterprise mission in the socioeconomic sphere resulting from the combination of interests between the groups with differing objectives that comprise the company (Cyert and March, 1965; North, 1990); thus, they answer to shareholders as well as to suppliers, consumers, employees, creditors and any other group directly linked to their trade. This position is found in texts such as: *"An enterprise in itself is the merging of natural, financial, human and technological resources that primarily pursues to profit from its activities, but fulfils as well a social function (meeting needs of the community) and an economic one (creating jobs and generating earnings), within its sphere of activity"* (Elizondo, cited by Paz, 1993:113). However, profit and social objectives have been difficult to reconcile throughout the span of managerial development, from Taylor's theories to those currently advocating employee participation in decision-making functions. Thus, the profit mission has prevailed over the other objectives.
- 3) Those openly acknowledging before society their responsibility for the problems generated by their activity, primarily in regards to accidents and illnesses provoked by internal working conditions and concerning environmental problems affecting people living in their environs. In this way, they are accountable before all individuals, internal or external, who are injured by the enterprise. Cuervo refers to this degree of responsibility as: *"... the enterprise's attitude, before social demands posed by society as a consequence of its activity, towards the evaluation and compensation for the social costs that it generates..."* (Cuervo, n/d: 322).
- 4) Those contributing to the general welfare of population with the funding of cultural, sporting, educational, healthcare, etc., or otherwise with programs aimed at groups with specific problems. They support people not part of the company through *"... the current concern among some enterprises for giving back to society a portion of the profits through the promotion of social benefits or through social investment activities..."* (Rincón and Urdaneta, 2001: 155).
- 5) Those combining the three preceding attitudes, reaching an ideal CSR model, which implies upholding it vis-à-vis the different actors directly

associated or not with the enterprise, especially workers in all aspects concerning their working and living conditions. This constitutes a new ethical position that recognizes that all groups participating in the economic activity and the creation of wealth have the right to achieve a dignified quality of life, and, thus, that this right requires a fair distribution of the benefits generated. This position implies: "...broadening the scope of objectives, defining the social role to be developed, to accomplish in turn legitimacy and responsibility vis-à-vis the diverse human groups constituting the enterprise and vis-à-vis society as a whole" (Ibidem: 322).

The three intermediate attitudes partially cover some CSR aspects whilst they neglect others. The last attitude is the only comprehensive one incorporating all aspects described in all-preceding attitudes. The four attitudes addressing some social objectives, undisputedly with the aim to profit, make us recognise distinctive degrees within the general concept of corporate social responsibility. We can define this concept, from the context of business ethics, as the set of actions that private enterprises perform to improve living conditions beyond those strictly mandated by law, taken about in full respect of the dignity of the recipients and eliminating paternalistic attitudes. The treatment of this theme is typically considered to belong to the realm of business ethics given that the reasons driving enterprises to get involved in the social area respond to different values:

- 1) Altruistic in character, committed to the idea of contributing to a more equitable distribution of wealth and to the achievement of a dignified quality of life for all communities (final type value), or
- 2) Based on the selfish computation of costs and benefits, realised after understanding that business activity cannot reach the desired economic benefits if it is not performed within the context of societies satisfied with their standard of living, capable of acquiring its products and services, and securing the social peace required in the development of this activity. This is an instrumental type value that can base the performance of social actions through a two-fold moral: a discourse in solidarity followed by a "social" behaviour used as a vehicle to reach the ultimate goal: the increase in earnings and competitiveness.

## 2. THE STATE OF CSR IN MEXICO AND REFERENCES TO OTHER IBERIAN-AMERICAN COUNTRIES

We consider in general terms that the Iberian-American situation is distinguished by a great lack of corporate and governmental interest to promote CSR actions, which have not merited any meaningful promotion in universities as well.

### 2.1. Governmental disregard of the promotion of CSR

Since the early XX century, Mexico's governments approved laws destined to protect the economic and social rights of workers. Subsequently, they created institutes and national funds for healthcare, housing or to guarantee social security within the imperative constitutional framework that obligates the State to guarantee a dignified labour life. In 1988 the government approved a General Law of Ecological Balance and Environmental Protection, which regulates the handling of dangerous residue.

These norms have been applied in a limited and unequal manner, in detriment of workers, but they have contributed to simplify and fund the legal obligations of business in social matters. In this way, enterprise regards as complying with its responsibility to limit its role to the payment of its contribution fees to the different funds or programs created by the government.

At the present time, the government tends to focus its actions against extreme poverty, abandoning other groups that do not enjoy as well minimum levels of welfare. This is accompanied by the absence of legislation ordering corporations to assume their CSR as well as the absence of incentives promoting their CSR adoption. In Mexico, in particular, income tax law distorts corporate social actions by offering greater benefits to those making donations to third parties for philanthropic activities than to those opting for investing these resources in the improvement of the internal working conditions and the wages paid to their own workers.

In the case of the few public companies remaining in the country, the situation is quite similar: their main concern to avoid disappearing or being privatised is to prove that they can be as efficient and competitive as private practice, which leaves no space but to timidly repair some social costs provoked by them (Pemex oil ecological programs).

## 2.2. Limited development at corporate and university levels

The Mexican Philanthropic Centre, Civil Association (CEMEFI A.C.), which promotes a CSR program, has guided the only work in the field done with continuity in the Mexican case. Recently, a new organisation interested in the topic has emerged: the Business Ethics Centre, operating at Iberian-American University, Tijuana Campus, on the U.S. border. It proposes creating an interdisciplinary space for dialogue between entrepreneurs, business managers, scholars and decision makers to "...propose better ways for enterprise development with a social responsibility conscience..." (www.itj.uia.mx).

A quick look at its list of partners (Citibank de México, Coca Cola de México, Grupo Financiero Banco Bilbao Vizcaya – Bancomer, Hewlett-Packard de México, Janssen-Cilag, Shell México, Segunda Mano, Apasco S.A., Nestlé México, Wal-Mart de México, etc.) makes clearly evident that most of these companies are subsidiaries of foreign companies and are strongly influenced by the social responsibility culture developed in other latitudes. The areas where CEMEFI's partners have collaborated include: education, food, ecology, the handicapped, health and environment.

Since 2000, CEMEFI organizes, along with other organisations (business magazine *Expansion*, Social Union of Mexico's Entrepreneurs, Confederation of Employers of the Mexican Republic, Mexican Enterprise Development), a contest to acknowledge the best corporate social responsibility practices, which join business success with a positive impact in society in the areas of quality of life in the workplace, environment, community development, business behaviour and community linkage. Such practices must have been applied continuously and have assessment and monitoring mechanisms.

The winners in the first award version, first of its kind in Iberian America, were: Janssen-Cilag, in the Environment Area; Danone México, in the Community Linkage Area; Cementos Apasco, in Community Linkage Area; Servicios Industriales Peñoles, in Community Development; and again Janssen-Cilag, in Life Inside the Company.

Notwithstanding the above, few Mexican companies maintain social interest programs. Though not all are distinguished by CEMEFI with the socially responsible

enterprise emblem (SRE)<sup>2</sup>, since it is awarded exclusively to corporations affiliated with the centre; 17 companies obtained such distinction in 2001, a figure increasing to 61 in 2004, including 11 receiving it for the fourth time and 25 new recipients.<sup>3</sup>

Lastly, there is no awareness of business efforts aimed at evaluating their actions within the framework of social responsibility, and the Social Balance is virtually unknown, albeit CEMEFI designed a diagnostics questionnaire with social responsibility indicators.

Another important event in the country was the first Iberian-American meeting, sponsored at the end of 1998 by the Chihuahua Entrepreneurs Foundation, under the theme of "Let's Share Ideas", where members of governments, companies and civil society from the U.S., U.K. Colombia, Peru, El Salvador and Mexico met to solve problems and promote social development.

Finally, it should be stressed that there is also a lack of interest in CSR at the university level, judging from the minimal number of baccalaureate and post-graduate degree theses as well as the scarce national periodicals on the topic.<sup>4</sup> It is amazing that this need is not perceived in the business programs and that the ethical, social and political values of CSR do not attract students in philosophy and social and political sciences.

## 2.3. Efforts made by NGOs

Despite the broad disinterest shown by governments, business people, and university communities, Iberian America has some important experiences on the subject, thanks to the recent effort made by an important number of NGOs in the region. Unfortunately, mention should be made as well about some cases of corruption among them:

<sup>2</sup> Corporations obtaining the emblem in 2001 were: ALFA Corporativo; Arthur Andersen, Ruiz, Urquiza y Cía; BBVA-Bancomer; Cementos Apasco; Citibank México; Coca Cola de México; Grupo Ángeles; Grupo Bimbo; Hewlett-Packard de México; Janssen-Cilag; Nestlé México; SC Johnson & Son; Segunda Mano; Shell México; Supermercados Internacionales HEB, Wall-Mart de México and Zimat Consultores.

<sup>3</sup> Corporations receiving it for the fourth time were: BBVA-Bancomer, Coca Cola de México, Grupo Ángeles, Grupo Bimbo, Hewlett-Packard de México, Inmobiliaria Parque Reforma, SC Johnson & Son, Shell México, Supermercados Internacionales HEB, Wall-Mart de México y Zimat Consultores.

<sup>4</sup> Only eight theses directly related with the topic and four partially linked were identified in the most import universities.

accepting grants from corporations to favour their interest, a loss of legitimacy with civil society due to conflicts of interests generated by the development of research and consulting work paid by the same corporations, etc. Nonetheless, without pretending to be exhaustive, following we make mention of some relevant experiences:

At the regional level, EMPRESA is an alliance of enterprise organisations based in Santiago, Chile, promoting CSR in the Americas, offering support and advice to 12 organisations located in 11 countries.

In Colombia the Colombian Centre for Social Responsibility and the Civil and Business Ethics Institute stand out. The first is dedicated to *“advancing sustainable human development in Colombia, promoting social responsibility in the business sector through inter-sector promotion and cooperation”* ([www.colombia2000.org](http://www.colombia2000.org)); whilst the second has promoted the execution of social balances in a diversity of organisations, from banking enterprises to universities.<sup>5</sup>

Chile has Enterprise Action (Acción Empresarial) that promotes the benefits of the integration of the CSR focus: attraction and retention of the best employees, reduction of absenteeism, reduction of operative costs, productivity increases, improvement of financial performance, etc. It bases its arguments on surveys and the analysis of cases made and published by magazines and prestigious universities in the Chilean and U.S. context. Its web page also includes documents, idea banks, projects and links to relevant sites. Its areas of interest include: responsible marketing, quality of labour life, environment, commitment to communities and business ethics. Given that globalisation requires competitiveness, and this in turn requires continuous progress in productivity, it shows that it is impossible to attain the latter without the endorsement of the company by its workers, which is accomplished when they fulfil their welfare needs. Thus, it poses that *“the major corporations are innovating quality of life in the company policies and the practices to take responsibility for the needs of all of their employees, as a way to support business objectives and retain the best talent... Global competition requires corporations to adjust to innovation, diversity and flexible locations of work.”* ([www.accionempresarial.cl](http://www.accionempresarial.cl)).

<sup>5</sup> See: [www.findeter.gob.co](http://www.findeter.gob.co), [www.chami.udea.edu.co](http://www.chami.udea.edu.co), [www.counivalle.com.co](http://www.counivalle.com.co), [www.suramericana.com.co](http://www.suramericana.com.co), [www.iletica.org.com](http://www.iletica.org.com), among others.

In Brazil, IBASE promotes the development of social and ethical responsibility of organisations in order to contribute to the eradication of poverty and the construction of a democratic society, and the Ethos Institute has an important proposal to execute the monitoring and evaluation of CSR actions based on a set of indicators that are at the disposal of all interested parties on its web page ([www.ethos.org.br](http://www.ethos.org.br)).

Argentina counts with the Argentine Institute of Corporate Social Responsibility, based in the city of Cordoba, and the Tucumán Foundation, located in the city bearing the same name. The first has as its mission to strengthen the commitment of the business sector with sustainable development and responsible social practice. The second also seeks to promote CSR and, concurrently, education in enterprise management from the part of civil society organisations.

Similar work promoting CSR is developing in El Salvador, Guatemala, Panama, Paraguay, Uruguay and Peru.<sup>6</sup>

The assertions of Rincon and Urdaneta (2001) led to the thinking that in Venezuela there are some experiences where the interest of some companies in social investment, environment, workplace safety and hygiene topics is perceived. The authors analyse the specific case of one coal enterprise in the State of Zulia concluding that, albeit the company does not comply with all the requirements to be considered an “ethical enterprise”, it shows that it is possible to make important efforts in the social field without ceasing to attain a good profitability.

Ecuador and Costa Rica have also contributed with the work of their foundations, the execution of a social balance or the publication of documents on the topic.<sup>7</sup>

Mexico appears in this Iberian-American context with the already-mentioned activities of CEMEFI, which also embodies an NGO. Its work, conducive to the

<sup>6</sup> See: [www.fundemas.org](http://www.fundemas.org), [www.centrase.org](http://www.centrase.org), [www.cedis.org.pa](http://www.cedis.org.pa), [www.compass.org.pa](http://www.compass.org.pa), [www.rse.org.py](http://www.rse.org.py), [www.deres.org.uy](http://www.deres.org.uy) and [www.peru2021.org](http://www.peru2021.org).

<sup>7</sup> See: [www.esquel.org.ec](http://www.esquel.org.ec), [www.cidh.ac.cr](http://www.cidh.ac.cr), [www.pwc.co.cr](http://www.pwc.co.cr), among others.

awarding of both its CSR emblem and the Best Practices award, deserve the following commentary:<sup>8</sup>

- The design of the requirements to obtain the seal began seven years ago. It was done taking into consideration the experience of the countries more advanced in the matter (Great Britain, U.S., Brazil, Chile, etc.). It was developed jointly with CEMEFI's partner corporations, which defined the concept, identified their relevant areas in the Mexican context and elaborated indicators and standards, in order to ensure that those companies receiving the award had a continuum of CSR policies integrated into their mission and not just isolated actions. Though, after the third year of practice, the seal has been offered to all companies wanting to participate and pay the corresponding subscription fee, this is a process endogenous to CEMEFI, which does not mean that those getting the emblem are better than others not requesting it. There are Mexican companies (Cooperativa Cruz Azul, in cement, for instance) that, despite their lack of a formally-developed CSR concept, are concerned for the quality of life of their workers; but, due to the process used by CEMEFI, they are not recognized as socially responsible (Cardozo 2004).
- The indicators used in the awarding of the CSR emblem would cover, in particular, the issues of quality of life in the internal community and the environment. However, such procedure is not public, in contrast with that of Ethos, its Brazilian partner, which can be viewed on its web page. Thus, its value and degree of trustworthiness is unknown. Moreover, the seal does not imply that those corporations receiving it are better than others that have not requested it. In particular, some corporations are identified, despite having been awarded with the seal for good practices, as leaving important doubts relative to industrial safety or the payment of living wages.
- In order to give the award to Best Practices, an evaluation group and a jury, composed of each of the participating corporations and one or two members of the Expansion Group, analyze the results of the indicators. In this way, a jury of evaluators formed by experts in the subject matter, who can guarantee its impartiality, is lacking.

- For CEMEFI, introducing a seal in Mexico is an important accomplishment and a step forward towards CSR certification; something that no Iberian-American country currently has. Nonetheless, this is a CEMEFI initiative in conjunction with the Mexican organizations previously mentioned, with no other endorsement than their membership in the Social Responsibility Hemispheric Movement, which groups organizations of different countries where they share their experiences. On the other hand, only some public entities have shown some recent interest in participating (Diconsa SA, Liconsa SA, Fonart), and the Mexican Government limits itself to providing them with its moral support. This lack of a greater national and international support becomes of even greater concern relative to the Centre's proposal to provide CSR certification in the short term.
- The impact achieved in the business sector is relatively important if it is assessed by the increase of participating corporations and foundations. It is a different story if we compare it with the total number of Mexican companies.
- The impact of the seal among consumers largely depends on the kind of corporation. It is easy to identify it on the packages in supermarkets and couriers, where customers have noticed it and have requested further information. It is far more difficult in the case of service companies where the seal only appears in their letterhead, reports, press releases, web page, etc.
- Lastly, there are also indirect impacts, such as the advantages achieved by a business with the seal when bidding for national and international projects with entities where CSR is respected.

#### ***2.4. Characterisation of the experiences reviewed***

In general terms, the experiences reviewed herewith allow characterising CSR actions as belonging to the second case of the four variants presented at the beginning (especially the case of Enterprise Action in Chile), albeit some of them show concerns for internal working conditions and the environment, which fall in the third attitudinal scenario (the case of the Venezuelan coal company). In most cases, the rationale corresponds to the instrumental case, which poses the need to contribute to solving problems that will in turn generate greater benefits for the corporation (once again, this is quite clear in the discourse of Enterprise Action).

<sup>8</sup> The information used was obtained by interviewing the Coordinator of the CSR in August 2002.

In Mexico, corporations partially fulfil the second attitude (there are quality problems in production, consumer warranties, serious distortions made via advertising, etc.), and they emphasize their interest for philanthropic actions, without trying to compensate for the social costs they generate. Thus, they cover the social-responsibility objective before external communities (fourth case), but they neglect those regarding the living and working conditions that they directly engender (third theoretical case). The rationale is, once again, instrumental in kind, as can be read in the following lines: *“The investment that your company destines to development will contribute to improve the quality of life of all Mexicans. However, your company will receive, in return, a series of benefits that influence the relationship that you established with your shareholders, employees, suppliers, creditors and consumers”* (CEMEFI, 2001). It also promotes a tax deductible “social commitment”, as expressed in the following recommendation to corporations: *“Limit the corporate social investment to public institutions and non-profit social organisations that receive donations from businesses that can use them as tax write-offs”* (Curt Weeden, reproduced in CEMEFI, December 2001). Recently its attitude has been reinforced by reproducing the following commentary from Robert Dunn, CEO of Business Social Responsibility in the U.S.: *“Enterprises incorporating social responsibility initiatives into their business strategies will be compensated by the shareholders. Those that ignore them will risk their business relationships”* (CEMEFI, 2004).

In particular, the aforementioned attitudes neglect two fundamental aspects: the living wages issue and the tendency to support self-regulation of corporations relative to accountability before the government and civil society, instead of defining its content in a pre-established and mandatory fashion (Cardozo, 2004).

Finally, it is worthwhile to acknowledge the efforts developed by many NGOs on the subject, which let us, at least, to count on the limited progress presented, without having knowledge of any case in Iberian America that would fall in the fifth theoretical model.

### 3. CSR VIS-À-VIS LABOUR RIGHTS AND LIVING WAGES

Parting from the premise that CSR can potentially be a good instrument for global civil society (GCS) to accomplish tridimensional sustainability –economic, social and environmental–, we will analyze current limitations, which are critical for both Iberian Americans and GCS to attain progress and propose specific actions to build a meaningful CSR.

One of the key areas of CSR is supposed to be labour rights and, yet, this is the area most systematically ignored or diminished by corporations and so-called democratic governments. It is even ignored by many non-governmental organisations that claim to represent the interest of civil society as a whole. This is not a problem characteristic of the incipient development of CSR in Iberian America or the South. On the contrary, the avoidance of labour rights, especially of the right to a living wage, is a major feature of CSR everywhere, as is being advanced by business, governments and many NGOs across both North and South, across both developed and so-called developing nations.

#### 3.1. CSR and the inclusion of labour rights as fundamental criteria

Labour rights are an intrinsic element of CSR. A multinational corporation (MNC) simply cannot be considered socially responsible if it denies its workers the right to unionize or the right to enjoy all the work benefits mandated by the country’s labour legislation, or if it employs child labour or if it does not provide equal compensation to women for equal work, to name a few instances.

From the perspective of true democracy, a living wage is the most fundamental element of labour rights and of CSR. A worker who cannot earn a salary enabling him to provide his family with a dignified quality of life is a worker who is openly exploited by the employer. The difference between the nominal wage paid by MNCs and the real wage required to live a dignified life is the part employers are immorally keeping as a contribution to their earnings. Indeed, employment and wages are the overwhelming factors in determining inequality in Iberian America. In this region, workers of MNCs typically earn a real wage of less than one-fifth of what their counterparts in the North earn for doing the exact same job (TLWNSI 2002). Yet, the corporation sells the products made in the South

globally at the same or a very similar price. MNCs globalise markets, prices and labour sources but they do not globalise their wages. In fact, real wages have consistently declined in the region in the last decades. In Mexico, just between 1994 and 1996, real wages dropped by a dramatic 35% to 40%, with proportionally larger falls in real wages among skilled workers.<sup>9</sup> The hourly real wages for manufacturing workers declined from 30% of U.S. manufacturing hourly rates in 1975 to only 15% in 2004.<sup>10</sup> In Brazil, manufacturing real wages also drastically declined from 43% of U.S. manufacturing hourly wages in 1996 to only 31% in 2002, albeit by 2004 they had recovered slightly to 35%.<sup>11</sup> The collapse of real wages has become a constant across the region. At the same time, market and labour liberalisation have engendered a pauperization of the work force by both increasing open unemployment and informal employment levels dramatically. Most countries in the regions consistently experience double-digit unemployment levels. Even Chile, the economy whose performance consistently outpaces all others in the region, had 11% unemployment in 1999.<sup>12</sup> Moreover, the rates of unemployment in the region have remained high despite the increased flexibility in labour legislation in hiring and firing practices and the increased use of temporary contracts supposedly to boost employment, which has not occurred. Instead, the informal sector has grown drastically and become a permanent feature of Iberian America. The International Labour Organisation (ILO) estimates an average rate of economic informality in the region of 27%, with rates ranging from 11% to 60% in 1999.<sup>13</sup> In fact, the actual share of workers by Iberian America's informal sector is estimated to have grown from 52% in 1990 to 58% in 1997<sup>14</sup>, and there have been negligible signs of improvement if at all.

<sup>9</sup> IADB 2000. Social Protection for equity and Growth, p.85, John Hopkins University Press, Baltimore, U.S.

<sup>10</sup> The Jus Semper Global Alliance (2006). Wage gap charts for Group of Seven (G7) largest economies and selected "emerging" economies with available wage and PPP data (1975-2004).

<sup>11</sup> The Jus Semper Global Alliance (2006). International Comparisons of Hourly Compensations Cost for Manufacturing Workers in G7 Countries and Selected "Emerging" Markets, expose a Widening Wage gap in PPP Terms. See <http://www.jussemper.org/Resources/Labour%20Resources/Resources/T4rcrsibr.pdf>

<sup>12</sup> IADB 2000. Social Protection for equity and Growth, p.83, John Hopkins University Press, Baltimore, U.S.

<sup>13</sup> IADB 2000. Facing up to Inequality in Latin America 1998-1999 Report, p.95, John Hopkins University Press, Baltimore, U.S.

<sup>14</sup> IADB 2000. Social Protection for equity and Growth, p.82, John Hopkins University Press, Baltimore, U.S.

In a market system, enterprises are free to pursue their business and unrelentingly seek to maximize profits by increasing efficiencies. Nonetheless, market systems in so-called democratic societies are not supposed to be an end but a medium to achieve progress. In democratic societies with free market systems, the first responsibility and first public interest of governments is "to procure the welfare of all ranks of society", like Adam Smith used to say. Therefore, MNCs are indeed free to pursue the maximization of profits, but not at the expense of other stakeholders. If democratic societies were to allow the private interests of MNCs to prevail over the first public interest, we would then destroy the essence of democracy. Indeed, in true democracy, MNCs cannot ignore any of the social spheres where they interact. This is because they are formed and managed by individual members of society, because their *raison d'être*, the accumulation of capital, is only possible due to the existence of societies, which constitute their markets, and, especially, because their activities have a tridimensional impact on societies and their habitat.

With the emergence of a global market system, a new GCS is also emerging. In the new GCS, MNCs represent the so-called corporate citizen<sup>15</sup>, who, as anybody, is subject to social rules. In the ethos of the GCS, the stakeholders are all the members belonging to the corporation's social environs, which contribute to, or are encroached by, the corporation's activity.<sup>16</sup> In this way, CSR is the inherent obligation of each business entity to account for the way its activity impacts the three dimensions of its environs and to ensure that this impact generates equitable and sustainable benefits –and no harm– to all stakeholders involved. Consequently, one of the most fundamental responsibilities of MNCs is to guarantee labour endowments that provide to all of their workers a dignified life. Indeed, the provision by the employer of fair labour endowments, ensuring an adequate standard of living, is a central human right as outlined by the UN Commission of Human Rights in the Norms on the responsibilities of multinational corporations and other business enterprises with regard to human rights.

It is clear then that, despite the systematic avoidance of this key responsibility, every corporation must

<sup>15</sup> The Centre for Corporate Citizenship at Boston College, Boston MA, [www.bc.edu/bc\\_org/avp/csom/ccc/index.html](http://www.bc.edu/bc_org/avp/csom/ccc/index.html).

<sup>16</sup> The Stakeholder Alliance, Washington, D.C. Statement of Principle, <http://www.stakeholderalliance.org/stmtprin.html>.



include labour rights as fundamental criteria of its CSR standards. Nonetheless, the fact that MNCs, governments and many NGOs in the North avoid the idea of global fair labour endowments makes them an outright exotic idea in the development of CSR in Iberian America. Thus, in this part of the world these criteria are virtually ignored, ever more so, by all stakeholders, including civil society.

### 3.2. *The ILO Conventions and CSR labour standards*

In most countries, labour legislation upholds labour rights that, in theory, protect their labour force against business practices that preclude them from enjoying a minimum level of welfare in performing their task in their workplace. Most countries have formally endorsed the eight core conventions of the ILO, and many also adhere to the ILO's priority conventions and to other secondary conventions and recommendations. In the best of cases, many MNCs, when developing their CSR culture, use some of the most popular standards developed by organisations representing a coalition of stakeholders, such as the Global Reporting Initiative (GRI) and Social Accountability International (SAI). These criteria typically make reference to the ILO conventions. At this time, the UN Global Compact, the OECD Guidelines for MNCs, the EU's Green Book, the GRI, SA8000 and ILO's Tripartite Declaration of Principles Concerning MNCs and Social Policy, among others, adhere to the ILO conventions. All these CSR principles and standards constitute the most widely-used frameworks of reference by MNCs in setting their own labour standards. Thus, with few exceptions, the highest aspiration of CSR standards currently relative to labour rights is typically that MNCs observe the standards outlined in ILO core conventions.

As could be expected, in the case of Iberian America the basic premise is that if the countries in the North and their MNCs are incorporating the ILO standards, then the same trend should be followed. Since most companies adopting CSR practice are subsidiaries of MNCs in the North, they directly adopt whatever their home office has defined as their CSR framework. Moreover, given that there is still little interest from most Iberian-American stakeholders to address CSR from an Iberian-American perspective, there is even less interest to develop a specific framework to address labour problems indigenous to the region. These problems, which are a direct result of the centuries old system of labour exploitation, have worsened considerably since the imposition of

the neoliberal paradigm. Nonetheless, since the world continues to be immersed in a neoliberal ethos, it is virtually impossible to expect that Iberian-American governments would attempt to set higher CSR labour standards. In fact, several Iberian-American nations such as Brazil, Mexico and El Salvador have not even ratified conventions such as the ILO's Fundamental Conventions 87 and 98 regarding the Freedom of Association and Protection of the Right to Organize and the Right to Organize and Collective Bargaining respectively. Not surprisingly, the United States has not ratified six of the eight fundamental conventions. Thus, this speaks abundantly about the huge relativity of the observance of the ILO conventions and of the enormous latitude in their actual use by MNCs and domestic enterprises in Iberian America or elsewhere. If governments do not necessarily abide by the ILO standards, much less could be expected from enterprises. Nonetheless, notwithstanding that the ILO standards are a good labour rights framework in many respects, even if they were closely followed they do not address issues that are critical for the welfare of workers in Iberian America and across the so-called developing world.

### 3.3. *The ILO vis-à-vis living wages*

It could hardly be disputed that the absence of living wages is the major culprit in the lack of generation of aggregate demand and, consequently, of the expansion of Iberian-America's economies. To this date, these economies continue to operate under a North-South system of exploitation as a result of a historical alliance between the domestic oligarchies and the centres of capital in the northern metropolises, which could be traced back all the way to colonial times. With the imposition of neoliberalism, a renewed neo-colonialism has been established with vengeance in the so-called young democracies of Iberian America. There is little doubt that the conditions described by dependency theorists (Prebisch) or in views (Hoogvelt) concerning the effects of globalisation on the "post-colonial" world are more prevalent than ever in the region. Relative to labour, the whole system banks on the free delivery of labour at the lowest possible cost and on the dismantling of any labour legislation that may obstruct MNCs in their quest for the greatest efficiencies in their operations. To be sure, Iberian Americans are enduring an open and strategic commoditization of labour imposed by the North-South partnership. Thus, from the perspective of the dominant opinion in Iberian-American Civil Society,

the commoditization of Iberian-American workers is a perverse and central element on the agenda of their governments and their foreign partners that must be opposed and defeated with utmost urgency.

In this way, from a CSR perspective, the ILO conventions are far from providing a framework that could assist Iberian Americans in changing the structures of exploitation through CSR. The central reason is that no ILO convention, whatsoever, addresses the issue of a living wage in its core or in any of its other conventions. From an Iberian-American perspective, this is a major shortcoming in the pursuit of both social justice and a meaningful CSR. If the ILO does not clearly incorporate living wages as a standard, there is little relevance in using its standards as the labour framework of reference for CSR development. For, if corporations ought not to be assessed regarding the quality of life provided to their workers by their labour endowments, then the assessment of their social responsibilities becomes a moot point. No business can be regarded as socially responsible if it exploits workers by paying misery wages.

The best the ILO conventions do about living conditions is to vaguely make reference, in regards to the establishment of a system of minimum wage, to the needs of workers and their families, the general level of wages in the country, and the cost of living and changes therein (secondary convention 131 and recommendation 135). Furthermore, a minimum wage is far from making a living wage in Iberian America or even in the most developed economies. For instance, a Mexican worker would need to earn three to four minimum wages just to buy the basic basket of goods and services and even more to earn a true living wage. Thus, this reference is useless. The closest ILO reference to the concept of a living wage is ILO's Fundamental Convention 100 regarding equality, which upholds the principle of equal remuneration for work of equal value. However, this is intended to eliminate gender discrimination and applies to equal remuneration for men and women for work of equal value, within the boundaries of each national economy. The spirit of the convention has nothing to do with equal remuneration –in terms of real wages and not nominal wages– for equal work of equal value across national boundaries, which is what Iberian Americans need in CSR standards.

In essence, the absence of an ILO core standard addressing the responsibility of enterprises to pay all workers a living wage, makes all CSR labour standards based on the ILO framework toothless instruments for Iberian America, vis-à-vis the fundamental and foremost importance that living wages bear in the achievement of social justice, economic progress and long-term sustainability. The ILO standards are a good basic framework in CSR development, but the void of a living wage must be filled by global civil society, for governments both North and South will not work in favour of a living wage, and many will openly oppose it. In this way, Iberian-America's civil society must work with civil society in the northern economies to make living wages a top priority element of CSR. It is hard to stress enough the importance of living wages, for, beyond the moral argument of human rights and the democratic argument of social justice, a living wage is an inextricable element in the sustainability of a market system.

#### ***3.4. The concept of a living wage from the perspective of Iberian America and the developing world at large***

There is a huge gap between the wages, benefits and working conditions that MNCs offer in developed and developing nations. This comes about because most developing countries have weak democracies or outright dictatorships that exploit their citizens and whose leaders personally benefit from investments made by MNCs, through the exercise of crony capitalism. With market liberalization, MNCs sell their products in, both, the host countries and in all other markets where they are active, including their home country, at the same or at a very similar sales price. They achieve maximum profitability when the manufacturing process in their developing countries' operations is at par with the standards used in their home operations, but their cost of labour is dramatically lower. In this way, the MNCs' markets and manufacturing and marketing operations are *globalised*, but their labour costs remain strategically very low in order to achieve maximum competitiveness at the expense of Southern workers.

The fundamental premise among many Iberian Americans is that there is no justification, whatsoever, for southern workers to earn a wage of 10% or less of that of northern workers when working for the same MNC in the same or a similar job in an ethos of global markets and global prices. Thus, the central argument in some emerging Iberian-

American initiatives such as TLWNSI (The Living Wages North and South Initiative), is that, precisely, the very invalidity of the wage gap opens a window of opportunity, within the context of CSR, to gradually reverse this situation with MNCs through a long-term gradual equalization process; and, concurrently, gradually achieve living wages for all workers of domestic companies within the South as a natural consequence of the gradual lifting of the labour endowments in each national economy. The aggregate in wages, transferred to labour endowments, is the part that workers should have received in the first place if it were not for the centre-periphery partnership, which has traditionally and strategically exploited them by retaining their fair share of the income resulting from the economic activity. In this way, for Iberian America, CSR must serve as an instrument to achieve social justice relative to the labour endowments. If CSR on a global level does not accept this premise, then CSR has no value for the aspirations of the majority of Iberian Americans. On the contrary, CSR would become a new obstacle in constructing true sustainability, for there cannot be a sustainable ethos without true democracy and social justice. It would be another hypocritical vehicle to make corporations and governments look good without doing the public good.

Notwithstanding Iberian-Americans' strong stance to change the current neoliberal ethos—as in Argentina, Bolivia, Brazil, Chile, Ecuador, Mexico, Nicaragua, Uruguay and Venezuela—pondering the oligarchic partnership opposition and the economic implications of a rapid change, there is clear awareness that the pursuit for living wages must be gradual. TLWNSI, for instance, proposes to achieve the goal of closing the wage gap in the span of thirty years, for real wage increments must be very gradual in order to sustain investment and economic expansion and not trigger reactions depressing investment. The idea is that corporations commit to closing their North-South wage gaps through a CSR framework that incorporates living wages. Thus, each year, each corporation adhering to this framework would increase real wages in the South about 3% to 6% percent until the wage gap is closed.

The concept of a living wage under this vision is that, in a global market system, workers of the same corporations performing the same or equivalent tasks

must enjoy the same quality of life.<sup>17</sup> Thus, they must enjoy the same real wages. It is assumed that the worker in the North earns a living wage and, thus, the wage of the equivalent worker in the corporation's home office is treated as the point of reference: the benchmark. How is then a living wage determined? The living wage of the equivalent worker in each country in the South is the same wage earned by the benchmark worker in purchasing power parity (PPP) terms. This allows us to account for the differences in cost of living. Thus, typically, an equivalent real wage in a southern country will be substantially less than the wage in the home office in nominal terms. For instance, if in 2005 a Ford worker in Dearborn, United States, earned \$23 dollars/hour and the equivalent Ford worker in Brazil \$2,5/ hour, and the PPP for Brazil for that year was of \$50 cents for every dollar, then the equivalent real wage for Brazil's worker should be \$11,50 dollars. The gap between \$11,50 and \$2,50 is what needs to be closed in the span of thirty years. In practice, since PPPs vary every year, corporations and civil society would jointly agree on the real wage increment for each year in compliance with the standards set in the corporations' CSR, until the gap is closed. To be sure, PPPs are not a perfect measure, but they are a legitimate and practical way to close the wage gap if there is genuine political will from corporations, even if their rationale is purely selfish and business oriented as described at the beginning of this chapter.

Albeit the key business motivation in the North for new foreign direct investment in the South is the transfer of jobs at extremely cheap labour costs, fair labour endowments play an essential strategic role in the sustainability of the market. Thus, there is a clear dichotomy between the corporate need to reproduce capital consistently and the management of its sustainability. The market system cannot enjoy sustainability if labour exploitation remains a core business strategy. However, the pressure of the stock market has imposed an extremely short-term (quarterly) business strategy to MNCs. Thus, this blocks any possibility of long-term sustainability and imposes a zero-sum game. In this way, raising real wages purely for business (and not social) reasons in today's global system is a valid scenario for Iberian Americans. To be sure, this vision's call to close the wage gap is also a call to change corporate culture

<sup>17</sup> The term "workers of the same corporation" includes all workers in the supply chain, regardless of whether they work directly for the MNC or for a contractor.

from extremely short term, based on shareholder value quarterly results, to long term in pursuit of the long-term sustainability of the business objectives. If this shift is made, based purely on the logic of the market, this proposal is clearly a winning business strategy. The fair increase of labour endowments will increase aggregate demand, which will in turn expand the size of the market and increase the odds for a far more sustainable global economy.

In economic terms, in the current ethos, the development of the conditions for equitable and stable reproduction of capital is disabled to fulfil the demands of the stock market. This is the classic supply-side neoliberal paradigm; but, if most other stakeholders have to lose in favour of international financial markets, the loss eventually expands to the supply side of the system. That is, if the regime of reproduction of wealth and of its accumulation is systematically centred on the supply-side, there is no possibility of developing a stable growing economy over a long period of time. The multiplying effects of an expanding economy fuelled by the generation of aggregate demand –which increases the probability of sustainable growth– simply cannot emerge if financial markets impose a supply-side paradigm. We can attest to this with the increasingly recurrent periods of recession and the increasing and concurrent widening of the gap between rich and poor in both poor and rich countries alike. Thus, there is no possibility of a sustainable economy without the existence of a permanent balancing act between supply-side and demand-side economics. The “*short termism*” of the stock market is the overwhelming obstacle to sustainability. How can MNCs expect long-term sustainability in the expansion of their business if they continue to focus only on the consumption of the middle classes of the Northern markets? How can a rational capitalist system expect long-term growth if it disregards the need for the continuous expansion of aggregate demand? Sustained economic growth without market expansion is absolutely unrealizable. Therefore, the call for the sustainability of the market, in economic terms, clearly advocates the need for “*global fordism*,” to put money in the pockets of the excluded, in order to unblock the expansion of the market.

Lastly, the evident win-win attributes of this proposal also benefit civil society in the North, for the best strategy to protect the jobs and labour endowments of workers in the North is by gradually increasing

wages in the South. In this way, the rate of North-South transfer of jobs and the downward pressure on wages in the North will gradually decrease. Furthermore, as Southern markets expand, many new jobs will be needed both North and South to fulfil the new aggregate demand, which will in turn generate a new virtuous cycle with renewed multiplying effects. This is an extremely important factor in the development of CSR. Since we live in a global market system, the achievement of living wages in Iberian America and elsewhere in the South can only be accomplished with the full participation of the North’s Civil Society. Not only do they live in the countries where most MNCs have their home offices, they also represent, by far, the most important portion of their market. With their consumption, they can leverage their economic power to influence corporate CSR behaviour. Therefore, it is extremely important that Iberian Americans and the South as a whole bring the citizens of the North on board in a coalition of global civil society to achieve global social justice and sustainability through a progressive CSR. To accomplish this goal, the South needs to make sure that the North clearly sees that working together to fulfil the very evident needs of the South will also benefit the North, in very worthy and specific terms, and contribute meaningfully to long-term global sustainability as a whole.

Notwithstanding the above, nothing will be achieved if Iberian American civil societies are not the first to uphold the need to make living wages an inextricable part of CSR. They must approach their counterparts in the North, who are leading the way in the development and use of CSR, and convince them to make living wages a core element. The North’s civil societies cannot be nearly as sensitive to the problems of social injustice as organized civil society in the Southern countries, who experiences, on a daily basis, the social problems deriving from increasing levels of exploitation and injustice, as well as from the absolute absence, in its so-called democratic governments, of the will to procure the welfare of more than half of their population living in misery.

#### 4. THE LIMITS OF VOLUNTARISM AND THE CASE FOR MANDATORY REPORTING IN ACCOUNTABILITY

The faith in democracy in Iberian America is weakening. In a 2006 survey, by Latinobarometro, the average support in seventeen countries for the

idea that “democracy is preferable to any kind of government” dropped to 58% from 63% in 1997, whilst barely one-fourth trust their Congress. This makes evident the despair and the loss of hope on the structures of democratic representation, as illustrated by the cases of Bolivians expelling its government for attempting to sell its energy resources to MNCs at dismal prices; of Mapuche Indians in Chile blocking an energy contract awarded to a Spanish MNC; of Argentineans forming cooperatives to re-start factories abandoned by owners, who fled the country with all the money; or of Mexicans blocking the construction of a new airport on an ancient lake bed previously designated as a protected natural reserve. These are just a few of the cases where people are beginning to take problems, in many instances created by their own governments, into their own hands.

#### 4.1. The limits of a voluntary CSR in true democracy

Clearly, there is little faith in Iberian America that a CSR legal framework could be established and much less respected, even if it is a UN legal framework. If, after decades, there are core ILO Conventions not yet ratified by Iberian-American countries or the U.S., there is no hope for a truly functional CSR legislation. The dominant feeling is that governments have become mere agents of the centres of economic power and behave as outright traitors. The lack of political will, on a global scale, to establish a binding CSR and the support for self-regulation is very consistent with the neoliberal paradigm, where governments keep the lowest profile, renounce their role of regulators, and let the markets deal with the issues. The “*laissez-faire*” attitude of the European pharmaceutical industry’s regulators, the “drugs agencies”, who do not carry out their own studies to ensure that new drugs indeed bring real benefits to patients and not just extra profits to drug firms, ensure the very private welfare of the industry giants.<sup>18</sup> The Enron, Worldcom, Tyco and Parmalat financial scams, or the U.S. State Department demand to a U.S. federal court to dismiss a human rights lawsuit by Indonesian villagers against Exxon Mobile, saying a trial could harm U.S. economic and political interests in Asia,<sup>19</sup> reinforce Iberian America’s loss of faith in democracy. To be sure, the growing dissatisfaction with voluntary CSR, both North and South, is generating strong demand for binding

regulation. In the 2002 World Summit on Sustainable Development in Johannesburg, a diverse international coalition of NGOs and trade unions demanded a binding framework on CSR. But the summit was sequestered by the MNCs, through the WTO, with the full support of most governments. Although some European governments did agree to develop and promote effective inter-government regulations, in practice nothing has been done, and the U.S. continues to openly reject any change to the self-regulatory neoliberal mantra.<sup>20</sup> In the same way, in 2006 the European Union avoided once again the awaited issue of the creation of a CSR regulatory framework, which triggered a harsh decry from organisations of the stature of Amnesty International and the International Federation for Human Rights.<sup>21</sup>

In this way, as could be expected, the current Iberian-American perception about the North’s CSR initiatives is that their power of persuasion for good corporate citizenship, through voluntary accountability and reporting, is rather bleak. In essence, the idea of offering corporations a set of CSR standards to be used on a voluntary basis and with great latitude in its application incites many MNCs to deceitfully portray themselves as good corporate citizens. Indeed, many NGOs are openly promoting or at least conceding voluntary regulation. The GRI is an emblematic case of a CSR framework designed “à la carte” for corporations.<sup>22</sup> They only have to choose what they like and ignore the rest. By the same token, there are hundreds of violations by MNCs to their proprietary codes of conduct and so-called best practices. Furthermore, some NGOs involved in CSR have accepted grants from MNCs and invited them to their boards, falling into the obvious conflict of interest and, ultimately, into self-corruption. The evidence that self-regulation is mostly a cosmetic device for self-congratulatory PR is rapidly mounting. Just in 2004, the Global Compact and the U.S. Bar Association agreed to a boiler-plated letter, which shields U.S. MNCs from lawsuits based on claims that they have failed to live up to the Compact. MNCs such as Gap, Starbucks and Newmont Mining have immediately signed up.<sup>23</sup>

<sup>20</sup> G8 Drops plans for business standards, fails developing nations, Friends of the Earth International, press release, 16 May 2003

<sup>21</sup> EU/CSR – New EU Communication on Corporate Social Responsibility: a Missed Opportunity. International Federation of Human Rights and Amnesty International, 27 March 2006.

<sup>22</sup> RG. Sustainability Reporting Guidelines, Version 3.0, 2001-2006, p. 5-6, Global Reporting Initiative

<sup>23</sup> Corporate Social Responsibility. Bluewashed and Boilerplated, The Economist, 19 June 2004

<sup>18</sup> Drug deals in Europe, Philippe Rivière, Le Monde Diplomatique, February 2002

<sup>19</sup> U.S. Wants Suit by Indonesians Dismissed. Los Angeles Times, 7 August 2002.

Despite this blatant cynicism, the good news is that credibility in this approach is mostly lacking. Thus, MNCs are increasingly feeling the need, for their own very private interests, to get serious about CSR and commit to frameworks, monitoring, reporting and audits that are defined and managed jointly with organised civil society and trade unions.

#### 4.2. *Mandatory CSR and true democracy*

Given the still infant state of CSR, the incipient but growing opinion in Iberian America is that civil society has to directly participate in the public matter and develop, along with GCS, a meaningful global CSR standard and enforce it. From this perspective, the voluntary approach to CSR, the latitude enjoyed by MNCs in its application, the lack of homogenous standards and processes and the clear avoidance of living wages make CSR still innocuous in our quest for true democracy and sustainability.

In consequence, a central element in this still-nascent opinion is that the only way to have enough leverage to enforce a truly democratic CSR is through the power of consumer spending. If corporations work with GCS, we would endorse them and drive consumers to support them through their spending. If they refuse to participate, we would call consumers to act responsibly and support those in the same line of business that are behaving responsibly. However, there is clear awareness that, in order to succeed, it is indispensable to focus on consumers in the North. Northern consumers account for nearly 80% of the MNCs' business. Thus, if northern consumers act as responsible citizens by shopping in an informed and socially conscious manner, MNCs would no longer be able to threaten a southern country with moving a plant, for regardless of where it goes, the corporation would still be penalised by northern consumers.

## 5. CONSUMER POWER VIS-À-VIS GOOD CORPORATE CITIZENSHIP

MNCs miss the point that true CSR does not mean higher costs but increased productivity through consumer support and sustainable market expansion.

### 5.1. *The strategic value of consumer leverage*

Leveraging consumer support to increase competitiveness and market share is a real and valuable business strategy to increase productivity. If GCS mobilizes to educate consumer behaviour from a social and sustainability perspective, we can leverage a double-edge sword to make corporations

behave responsibly. Consumers will give the competitive edge to good corporate citizens and penalize competitors that behave as robber barons. Corporations using CSR as a key element of business strategy to increase competitiveness can gain valuable market share against those refusing to behave socially responsible. Thus, from a purely market logic, educating consumers, with the help of unions and organized civil society, is a far smarter business strategy than the current speculative one. This would only work with consumer brand names, to be sure, but there are tens of thousands of multinationals in this category.

People want choices in their consumer decisions. If they are well informed, they will support corporations with consumer brand names they perceive to be friendlier to their workers, society and the environment. A central feature in the consumer mindset in democratic societies is that corporate greed cannot be above the welfare of society. This is why U.S. consumers, in the latest survey by Cone, Inc., when asked about their reaction to acts of corporate social irresponsibility, 73% said they would boycott the offenders, and 90% said they would consider switching brands. These numbers have grown consistently and significantly since 1993.<sup>24</sup> In a more recent study, aimed at young people 13-25, the responses in the same direction are equally convincing and with clear expectations of corporations acting as good corporate citizens. In that survey, almost nine out of ten want to work for a company that cares about how it contributes to society, whilst more than half would refuse to work for an irresponsible corporation.<sup>25</sup> In Europe, CSR Europe found that 70% of European consumers say that a company's commitment to CSR is important when buying a product or service, and 1 in 5 would be very willing to pay more for products that are socially and environmentally responsible.<sup>26</sup> This reflects the natural tendencies of consumers, with negligible effort from society and business to educate them, in favour of good corporate citizenship. There is tremendous potential to tap on consumer support for good corporate citizenship. It is a question of business savvy and political will to tap into the

<sup>24</sup> Cone, Inc. 2004 Cone Corporate Citizenship Study, Boston, United States

<sup>25</sup> Cone, Inc. 2006 Cone 2006 Cone Millennial Cause Study, Boston, United States

<sup>26</sup> CSR Europe, The First Ever European Survey of Consumer's Attitudes towards Corporate Social Responsibility, MORI, September 2000.

consumers' natural disposition to support the good guys and punish the greedy robber barons.

### 5.2. How much leverage can consumers deliver?

The value of consumer pressure is frequently unappreciated and sometimes regarded as politically incorrect, which is, in itself, a cynical argument when corporations and governments are constantly violating legislation and destroying any chance of sustainability. In any event, consumer spending can be a very effective measure in forcing corporations to change their ways. There is a growing list of cases where consumer backlash forced MNCs to sit down with NGOs to work out a plan to change their standards in some of their operations in the South. Nike, Mattel and Disney cases in the Chinese province of Guangdong have been well documented by various NGOs.<sup>27</sup> A similar case in Mexico with Mexmode, an in-bond plant working for Nike, along with Mexican federal and local labour authorities, was forced to accept the right of workers to freely organize and replace a corrupt corporate-controlled union with their own free union. This was possible because Nike was selling all of its production with this contractor to many university campus stores in the U.S., and students –as consumers– organized a coalition in over 80 universities to boycott all Nike products. The strategy worked and Nike, Mexmode and the Mexican government were defeated. The amount of business involved was very small for Nike, but the bad publicity and the fact that one of its more valuable markets –U.S. college students– became directly involved, proved to have more leverage than the benefit of maintaining a corrupt union.

Under this concept, the fundamental thing to bear in mind is that civil society does not need to take away a big chunk of market share from MNCs in order to generate positive results. There is mounting evidence that, for MNCs, losing a very small share of business would prove more damaging than becoming socially responsible. TLWNSI, for instance, asserts that taking away less than 1% of market share, through consumer action, can potentially cost a corporation in one year more than the entire investment required to close its North-South wage gap in thirty years.

From another angle, in the same way that some argue that not using CSR to become competitive can make corporations put in risk the support of shareholders,

not using it to address the needs of civil society will risk losing the support of both consumers and subsequently shareholders. Moreover, true CSR is a good thing for all players, for it is designed to achieve true global sustainability in all three dimensions both North and South. The key element in pursuit of true CSR is to gradually change the corporate mindset from short term to long term, and that can be attained through consumer leverage. The corollary is that it is completely realistic for Iberian-American, southern and global civil societies to garner enough leverage to force corporations and governments to behave socially responsibly by mobilizing consumer spending, especially in the North, but with the vision to establish true CSR both North and South.

### CONCLUSIONS:

1. The limited progress that CSR presents in Iberian America is primarily due to the efforts of NGOs in contrast to the lack of concern among governments, business people and university communities.
2. The arguments used by such organizations are mostly instrumental in kind; thus, the areas covered by the CSR concept minimally address the internal working conditions in the company and the environmental issues, and even less the quality of life of the families of workers and the community in general. By the same token, there is no agreement to use a minimum format in accountability reporting.
3. The case of living wages is a "*sine qua non*" matter in our aspiration to build a sustainable global market system in the world. Not including living wages as a core element of global CSR is blatantly unsustainable, irresponsible and hypocritical. For Iberian America in particular, and for the South at large, living wages is the most fundamental element in the pursuit of social justice and true democracy. For the North, beyond the moral issue, it is a plain question of sustainability for its own societies and for long-term global sustainability. Thus, we must work globally to make living wages an undisputable core element of CSR. However, Iberian America must take the lead to make living wages a core element of CSR, for the North cannot be as sensitive and interested in the huge inequalities of Iberian America as Iberian Americans themselves.

<sup>27</sup> Business Ethics. Sweatshop Wars, The Economist, 25 February 1999.

4. Self-regulatory CSR frameworks endorse the "*laissez-faire*" mantra to let so-called corporate citizens do as they please. In a true democratic ethos, corporations cannot profit at the expense of people, for private interest cannot be above the public interest. Therefore, as in the case of living wages, mandatory and comprehensive accountability and reporting, and with norms jointly developed with global civil society, must be the only kind of CSR practice. Doing otherwise will make a mockery of CSR by allowing corporations to select the extent and content of their standards on an "*à la carte*" basis.
5. From an Iberian American civil society perspective, a comprehensive and mandatory CSR cannot be developed with the structures of contemporary representative democracy in complete disarray, immersed in corruption, with governments working merely as agents to ensure that the interests of the centres of economic power are preserved. There is an evident and growing loss of faith on the concept of democracy. Thus, as in all other aspects of public life, civil society has to directly get involved and participate in a permanent manner in CSR practice.
6. In a global market system, a true and meaningful CSR cannot be approached from a national perspective, for corporate global strategy directly impacts, in a diversity of forms, the social, economical and environmental dimensions globally. Thus, for Iberian America and the South as a whole, CSR on a national scale has to be integrated globally in terms of both an international framework of comprehensive norms and across the entire global operation of each corporation.
7. Constructing a true global CSR implies then that all actors have to work to develop a global CSR framework. But even more so, national societies must approach CSR integrated as global civil society. Thus, for Iberian America and the South, it is indispensable to establish a common plateau with northern civil societies to develop a CSR that addresses the needs of everyone.
8. Since, currently, there is no possibility of making governments work to procure the welfare of all ranks of society, the only way to build a meaningful and comprehensive global CSR

framework is to leverage the power of consumer spending vis-à-vis corporations and their owners. Little has been done to make consumers shape their consumer habits, contributing their consumer behaviour as members of civil society, despite research consistently showing their natural disposition to support the common good and some initial efforts that have drawn positive results. However, for Iberian America, the support by northern consumers, accounting for nearly 80% of the global market, of comprehensive and sustainable CSR is a critical element in CSR strategy.

9. Pressuring corporations through consumer spending does not entail having to take away large portions of market share. For corporations, losing less than 1% of market share is overwhelmingly more expensive than agreeing to conform to a mandatory CSR and to gradually close the wage gap over thirty years. The key is to change the corporate mindset from short to long term.

## PROGNOSIS

Both institutional investors and MNCs will gradually conclude that they cannot maintain a zero-sum game ethos for too long if they want to have a future, and they will move to gradually shift their vision from the extremely short-term to a balanced approach in the pursuit of their own sustainability. Moreover, the growing pressure from all other participants in the system will move them towards a convergence of strategy, which will enable them to command much greater leverage to, in turn, push corporations, investors and governments into a new convergence of purpose and outcomes. The purpose is to incorporate CSR into the logic of the market with the intended outcome of generating tangible benefits for all stakeholders and attaining true sustainability. In this way, there are grounds to be optimistic about the current shortcomings gradually being eliminated in the near future. Therefore, Iberian America's organised civil society must mobilise with urgency to include in the process the elements that are of keen interest for the region in the development of a truly sustainable global CSR.



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Because of the long period between the date of delivery and the date of publication, some of the data have been updated when appropriate.

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