



**Asia-Pacific  
Economic Cooperation**

# Corporate Social Responsibility in the APEC Region

## Current Status and Implications

**Economy Paper:  
Mexico**



# **Corporate Social Responsibility Status In Mexico**

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## ***Introduction***

In Mexico, CSR is traditionally and strongly tied to philanthropy. Ever since the times of the great pre-Colombian civilizations, society building has been deeply rooted in community values such as a sense of respect and support for others. However, during the colonial period (spanning from the fall of the Aztec Empire in 1521 until Mexico's independence in 1821) changes in social structures shifted the role of philanthropy: from a model based on community values, society drifted towards a totalitarian state that engulfed everything, including the ways in which people helped each other. Philanthropy came under the scope of religious institutions –a situation that remained unchanged well into the 20<sup>th</sup> century. With the increasing demands for better living conditions and the emergence of a new social and political system in the early 1900s, philanthropy started to surface once again from community basis. Private companies began to provide support systems for their employees, while several foundations –not only religious any more- also turned to help social causes. Nonetheless, it was not until the early 1990s that philanthropy started to give way to CSR. When Mexico joined several international economic agencies and initiated an economic opening process, new ideas and notions were brought into the scene. Environmental care and business involvement in community activities shows how CSR began to gather momentum in our economy. Joined by business and social organizations that promote CSR practices, Mexican society demands greater commitment and co-responsibility from companies to help set the nation's course.

## ***CSR Origins in Mexico***

Although CSR origins are strictly philanthropic in Mexico, a rising number of companies are currently incorporating CSR practices to their business strategies. New though the concept of social responsibility is in our economy, related actions date back to early local history.

The first signs of Mexican philanthropy are found in Pre-Hispanic times: several accounts describe the presence of *calpullis* in Aztec

society. These groups represented “social, economic, political, cultural and religious unity in Aztec society, since, in addition to gathering people of similar lineage, they were controlled by a head or patriarch who belonged to the same group and transmitted prevailing values.”<sup>i</sup> For Aztecs, schools not only acted as sources of knowledge and social aid but also disseminated society's values, while training young men as warriors and teaching home chores to women. Elders held a significant position in society, for they were viewed as sources of wisdom on account of their past experiences.

During the conquest (1521-1580), the Catholic Church played a crucial role: the first religious orders to arrive in Mexican soil were Franciscans, Dominicans and Augustinians. These missionaries set out not only to spread Catholic teachings, but also to help the local population in the construction of churches, hospitals and schools. Some accounts report that, usually, a hospital was built next to a church to provide care for the Indians, plagued by constant wars and disease outbreaks during the conquest. Religious communities protected Indians from the imposition of a European lifestyle so foreign to their traditional ways. Thus, society increasingly leaned towards a paternalistic model, in which solutions to all problems were expected to come from a higher authority.

In colonial times, the Spanish Crown and the Catholic Church were the prevailing social actors in Mexico. The Crown boasted both political and social power, but it was strongly influenced by the Church, which, in turn, amassed a great wealth on account of its power. Both the Crown and the Church embarked on charity works to help the Indians. An exemplary social initiative in those days was the Santa Fe Hospital, created by *Don Vasco de Quiroga*. This “institution sheltered orphans and pilgrims, provided a permanent home for helpless Indians and cared for the sick”.<sup>ii</sup> Its most striking feature was that the hospital offered craft training for children; later, it became a cooperative made up by craftsmen who worked together to better communities.

Fraternities emerged during colonial times and played a significant role as preaching, social,

subordinating, supporting and solidarity instruments. They also served as political, economic and financial organs.<sup>iii</sup> It should be noted that fraternities were built by communities –not the Church.

Mexico's struggle for independence began in 1810 and became the catalyst leading the country through paramount political and social changes. After the declaration of independence, two political currents swept the scene: liberals and conservatives. Liberals fought for the institution of a federal and republican state, while conservatives advocated the notion of a centralized state. In those days, there were dramatic inequalities among social casts, and the Catholic Church still held great economic power, while it provided social assistance. In 1857, Reform Acts were passed, leading to the expropriation of all Church possessions, including hospitals and schools. Thus, an "ideological and political struggle erupted among the two traditional powers –the Church and the State."<sup>iv</sup> Mexico was unprepared for this change, since the state was not able or ready to care for and to reach all the areas requiring social aid on account of Mexico's economic and political instability at the time.

The Mexican Revolution started in 1910 and drove progress to the nation's industrial and economic sectors. Farms, a major source of employment, suffered a severe blow from urbanization. In addition, railways hastened industrialization, which, in turn, demanded additional labor. "As a result, social security became a significant issue. Back then, companies covered medical aid, labor accident severance and deaths."

In 1910, the holding now called FEMSA (Fomento Económico Mexicano S.A.) became the first Mexican company to provide health care, housing support and saving funds for employees.<sup>v</sup> After the revolution, Mexicans claimed for laws that would ensure social welfare. To respond to these demands, the State submitted a proposal for a Labor Accidents and Job-Related Diseases Act. Thus, in 1925, the Mexican Social Security Institute (IMSS) was created to "guarantee the human right to the necessary health care, medical aid, livelihood protection and social services to ensure

individual and collective welfare.<sup>vi</sup> Step by step, the State took over the institutions once managed by the Church. In 1921, the Public Education Secretariat was created to provide lay, free and mandatory education on a nationwide basis.

The State's social work did not suffice to respond to all of Mexico's social needs. Other agencies were required to help address these emerging demands. In the early 1960s, CSOs started to surface as a result of community or group initiatives –for example, the Mexican Foundation for Rural Development (FMDR)<sup>vii</sup> and the Advisory for Micro-Ventures (ADMIC).<sup>viii</sup> The FMDR was created in 1963 to contribute to the development and welfare of rural areas through productivity enhancements. In turn, the ADMIC was a project implemented by leading businessmen from Monterrey to promote micro-ventures in order to mitigate un- and underemployment.

In addition to providing employment and welfare for workers, business companies have played a highly significant role in Mexican economic development. In 1972, a constitutional mandate created the National Fund for Workers' Housing Institute (INFONAVIT) and forced companies to "supply comfortable and hygienic accommodations for workers. In order to comply with this requirement, companies will contribute five percent of their total payroll to the National Fund for Workers' Housing."<sup>ix</sup>

Throughout this period, foreign company settlements in Mexico increased considerably, forcing the government to promote Mexican investments and to regulate foreign investments. In 1973, an act established that companies' controlling stock had to be Mexican, while a 1983 amendment allowed for a 49% foreign stake in companies operating in Mexico. Nowadays, current legislation sets no limits on foreign investments in companies.

In the 1980s, Mexico underwent major structural changes to move into international competition. In 1985, it joined the General Agreement on Tariffs and Trade (GATT), presently known as the World Trade Organization (WTO). This development would mark Mexico's shift towards free trade, later reinforced by its 1994

incorporation to the North American Free Trade Agreement (NAFTA), signed between the United States and Canada. Today, Mexico is the economy with more trade agreements network in the world.<sup>x</sup> The large number of foreign companies that arrived in the economy, bearing different standards and cultures, brought the CSR practices of their nations of origin to their local affiliates. This internationalization process also forced more Mexican companies to comply with worldwide standards in order to compete in foreign markets.

In various ways, companies started to embrace a change that would promote specific benefits for workers and their families. Initial practices stemmed from philanthropic initiatives lacking a strategic focus, often in the form of donations granted to organizations whose founders or principals were closely related to company board members or managers. To focus corporate philanthropic activities, a group of businessmen founded, in 1988, the Mexican Center for Philanthropy (CEMEFI), a pioneer business sector organization that joins civil society in its endeavors. A more thorough account of CEMEFI's activities will be provided later.

### **Scope of current CSR practices**

As mentioned before, Mexican CSR had been traditionally associated with philanthropic activities and corporate programs intended to benefit employees. However, since the 1990s, companies' social commitment took on a new course. This turn responded to both internal and external factors that eradicated the notion of CSR as a merely philanthropic behavior.

Outstanding external factors included, as mentioned before, Mexico's incorporation to the General Agreement on Tariffs and Trade (GATT) in 1986 and to the North American Free Trade Agreement (NAFTA) in 1994, as well as its involvement in the Organization for Economic Cooperation and Development (OECD). These mechanisms effectively opened domestic economic frontiers to international competition, driving local companies to follow global trends. Thus, the increasing worldwide concern for social development strengthened

Mexican companies' belief in a more active corporate involvement in community affairs as well as a more responsible utilization of natural resources. In the 1990s, transnational companies landing in Mexico brought these concerns along, unquestionably influencing local companies in their adoption of a more social vision.

The internal factors that broadened traditional Social Responsibility notions primarily included the democratic process, which marked a more active involvement of society in national developments. Companies could not fall behind, and, thus, social commitment and environmental care became more relevant.

Amidst these transformations, new organizations emerged to promote both philanthropy and CSR practices. In 1997, CEMEFI launched its first CSR program, which eventually awarded recognition to companies developing the best social practices. The Socially Responsible Company Program (SRC)<sup>xi</sup> provides an annual seal for companies that incorporate social responsibility activities to their operations. In addition, CEMEFI has also excelled at coordinating endeavors with other organizations, both from civil society and business sectors. After a CSR symposium held in 2000, Manuel Arango, CEMEFI's founder, invited several organizations to join their social development efforts. As a result of CEMEFI's collaboration with the Business Coordinating Council (CCE), the Mexican Employers' Confederation (COPARMEX) and other agencies, the Corporate Social Responsibility Alliance, known as AliaRSE,<sup>xii</sup> was created.

This Alliance responds to a multiple effort to promote CSR in Mexico that engages many other organizations, mostly from the private sector. The National Committee for Technological Productivity and Innovation (COMPITE), created in 1997, provides counsel on process improvement and quality for companies. It has recently designed an "Organizational Model for Social Responsibility and Integrity" that clearly shows that several companies and specialized consultants increasingly recognize the significance of CSR practices in Mexican business operations. Another noteworthy development that signals Mexico's rising adherence to CSR principles is,

as mentioned before, CEMEFI's seal for SRC. In 2001, 17 companies were awarded this recognition –a number that rose to 84 by 2005.<sup>xiii</sup> Although many more companies could still embrace social responsibility practices, this indicator shows the significant progress made in just a few years. In addition, there are companies that have joined other CEMEFI programs and are known for their social responsibility actions but cannot be awarded the SRC seal because of their controversial product portfolio –alcoholic beverages and tobacco products. These companies are credited for their “Best Practices” in corporate governance. Of course, there are also other socially responsible companies that do not publicly announce their programs; hence, the total number of Mexican companies actually undertaking CSR activities is indeed larger.

Surely, Social Reports provide a mechanism for companies seeking to ensure visibility for their social programs. Social Reports are published by both foreign and domestic companies, and they include international indicators that effectively standardize their data. British American Tobacco's Mexican Affiliate publishes its Social Report, in compliance with AA1000 and Global Reporting Initiative (GRI) standards –international guidelines used to measure corporate processes as related to employee and community welfare. Also, reports published by BATs Mexican Affiliate are certified by Bureau Veritas Quality International, a globally renowned independent agency.

In Mexico, only three companies publish their Social Reports according to GRI standards: CEMEX, Grupo Peñoles and British American Tobacco Mexico. Nevertheless, other companies, such as Ford Mexico, Hewlett Packard, Grupo Alfa, FEMSA, elaborate a social balance sheet to report on their social actions.

Clearly, CSR practices are expanding in Mexico. The current foremost challenge lies in widely promoting their application, so that not only large companies undertake and report CSR activities, but also SMEs, which account for most of the economy's business bulk. Unfortunately, economic hardship forces these smaller companies to neglect CSR practices for the time being, although their size would enable them to embark on more focused and effective

social activities. In general, SMEs feature a reduced number of people –i.e., they constitute closer working clusters. Thus, their close ties to surrounding communities offer a launching pad to expand corporate social commitment.

A significant step towards CSR incorporation to an increasing number of domestic companies hinges on their involvement in the United Nations' Global Compact, an international corporate citizenship network joined by “over 235 Mexican companies that account for 85% of the economy's overall employment and 90% of its GDP.”<sup>xiv</sup> This UN initiative pursues worldwide business commitment to environmental care, human rights, transparency, anti-corruption measures and fair labor conditions.<sup>xv</sup> Mexico's incorporation to this program proves domestic companies' willingness to embrace social commitment.

Currently, CSR in Mexico is more diverse and dynamic than before. Still, CSR undertakings require a renewed effort by companies, administrations and society at large. Mexico's present challenge is two-fold: on the one hand, more business and civil organizations, including small and medium-sized companies, should adopt CSR tools and practices, and, on the other hand, existing CSR practices should become embedded into business core strategies.

The following section describes the case of a company that has taken CSR programs to a strategic level.

### **Embedding CSR into Core Business Strategies**

Cervecería Cuauhtémoc Moctezuma (CCM), a company belonging to FEMSA Group, is one of the two leading beer manufacturers in Mexico. Operating virtually all over the economy, the company has developed a social sense that has been fully integrated to its core business competence.

In response to growing national concerns for excessive alcohol beverage consumption in some Mexican regions, such as Monterrey, CCM decided to formalize its social



responsibility programs by incorporating them to its core business. The company wanted its brand consumers to develop responsible, moderate drinking habits. Laura Solano, CSR manager at CCM, explained,

*“We know that, although beer is one of the beverages with the lowest alcohol content in the market (4.5% in average), it should be drunk responsibly and moderately.”*

The company struggled to find a way to urge clients to prefer their products but to drink them moderately. The key to its dilemma lay in developing a series of innovating programs that, without driving customers away, would raise their awareness of the need for responsible consumption. Thus, the company developed the following programs: Designated Driver<sup>®</sup>, Responsible Campaign to Success, Responsible Consumption in Sports and *VIRE*: Educational Workshop for Responsible Life Promoters, among others. These programs were consolidated through the company's strategic vision, since their significance and continuity was viewed as paramount since inception. These strategies have been incorporated as a primary business component that effectively and positively shapes the company's image and society's awareness of responsible alcohol consumption.

CCM has become a worthy example of how companies can take social programs to a strategic level, formalizing and consolidating their social purpose. It should serve as an inspiration for more and more companies to incorporate social responsibility to their core strategies.

So far, we have discussed CSR integration to business strategy, but it is equally important to survey how companies take social responsibility into their daily practices. Either through actions incorporated to day-to-day operations, their own foundations or cross-sector partnerships with social and/or government organizations, companies seek new and better ways to participate in community affairs.

Since many CSR programs are carried out by means of cross-sector collaborations, the next section discusses several examples of companies

that have joined society and government efforts to pursue community welfare.

### **CSR through cross-sector alliances**

CSR has been significantly promoted over recent years. Large companies are already enjoying some of the social and economic benefits that result from socially responsible behaviors, while SMEs are slowly approaching this subject. There is still a long way to go, but some examples provide a clear overview of CSR growth and expansion in Mexico. Several partnerships built by companies and CSOs show the development of CSR in our economy. In many cases, these ventures have emerged in a spontaneous and limited fashion only to become, in time, well-established programs, thoroughly integrated to core business models.

In the early 1990s, Danone Mexico, a dairy product manufacturer, learnt that, although its brand enjoyed wide market recognition, consumers perceived the company as cold and uncaring. In order to change this perception and to live up to its philanthropic nature, Danone designed a support program for a CSO.<sup>xvi</sup> Ultimately, the company decided to launch a cause marketing campaign, committing to donate a share of its revenues to social organizations working with children. Although, at first, the program served a more utilitarian vision, for it sought to improve Danone's image, gradually, a more formal and ongoing dynamics permeated the company's commitment to children-related issues.

Up to the present, Danone has supported numerous organizations –notably, the *Casa de la Amistad* (CdA), an association that provides care and assistance to cancer-afflicted children. The company's alliance with this institution has borne very favorable results for both organizations: while Danone profits from image enhancement or brand awareness benefits, CdA receives invaluable economic support to further its programs.

This program had been partially or informally managed since inception, it could not have been regarded as a CSR strategy but as a

philanthropic initiative. However, Danone found that, by deepening its community commitment, both the company and society benefited greatly. Its campaign for CdA became embedded in its core business, since it is not only carried out on a continued basis, but it has also attracted more and more company employees. The Danone-CdA partnership shows how Mexican companies undertake social responsibility programs through alliances with CSOs –a successful formula to expand CSR practices in Mexico that has already been deployed by many other companies.

Similarly, companies and business associations have joined government efforts to collaborate in specific programs to address community needs. Such is the case of the Chihuahua Business Community Foundation (FECHAC) in the economy 's northern region.<sup>xvii</sup>

After the 1990 thunderstorm that caused serious damage in Chihuahua, a group of local businessmen decided to create a special fund to support city reconstruction efforts. At first, the project involved donating a specific and additional percentage over the Payroll Tax companies regularly paid, in order to enable swift and easy collection. Yet, the system proved to be so efficient that, once reconstruction projects were completed, the initiative was kept in place for further community improvements.

Since then, FECHAC has funneled over US\$ 40 million –mostly coming from donations by more than 38 thousand businessmen. The Foundation screens and selects social development projects with proven feasibility and positive results for the community. Then, it analyzes how to collaborate with local administrations on project-related issues, if necessary. The local government's involvement in FECHAC projects illustrates how Mexican CSR initiatives also engage state officials and agencies in their approach to social demands. In fact, out of the 25 members of FECHACs Board, four are government representatives.

To be sure, FECHACs case is certainly not unique in Mexico: other companies have worked with local and federal administrations to improve living conditions all over the nation. In addition, several companies are directly

involved in mitigating social problems, not only through their support to CSOs, as in the case of Danone, or their collaboration with government agencies, but also by developing joint ventures with other members of their value chain –like distributors or dealers, for instance. The program *Patrimonio Hoy* by CEMEX, a leading Mexican cement manufacturer, provides a suitable example of “company-value chain member” collaboration.

CEMEX developed this program to “promote housing self-construction among poor population sectors”.<sup>xviii</sup> To engineer the program, CEMEX management was forced to innovate on virtually all its value chain processes in order to cater to an entirely new –and unknown to it so far- target market. Thus, the company determined that offering cement at lower, more competitive prices was not the answer. Rather, a product package that included a financial component would be appealing to low-income sectors and, at the same time, economically feasible for the company. However, program innovations did not end at product features or financial attributes: distribution to end-users was also highly innovative.

Sales were streamlined through promoters' networks, comprising groups of people mostly women- from poor communities, who would offer the product to new customers. For each new customer, promoters would be awarded a voucher for additional materials for their own construction projects or would receive credit benefits in their CEMEX loans. Thus, *Patrimonio Hoy* engaged low-income community members in its distribution system, gleaning benefits for both the company –through cost savings- and communities –employment opportunities for promoters. The formula used by CEMEX to bring its products to a specific market shows how some Mexican companies have involved their value chains in their social responsibility projects.

The examples provided by Danone, FECHAC and CEMEX prove that Mexican companies have successfully embarked on social responsibility programs by joining social organizations, government agencies or a specific stakeholders' group. This development further broadens the scope of CSR in Mexico.

So far, we have discussed how companies collaborate with specific actors to undertake social responsibility ventures. Still, some companies prefer to develop their own CSR programs, either through their dedicated foundations or by themselves.

### **CSR through business foundations**

Several Mexican companies have chosen to create their own foundations to engage in community work. Television companies TvAzteca and Televisa are just two of many companies taking on this kind of ventures. Their foundations are involved in myriad social programs, going from fund-raising for handicapped children rehab centers to toy distribution programs for low-income children.

Televisa Foundation was created in 2002, but its parent company has been involved in philanthropic activities ever since 1970. Committed to “broadening human development possibilities”, Televisa Foundation focuses its work on social and cultural promotion areas. Mostly through its educational, health care, nutritional and cultural promotion programs, this Foundation has effectively supported the development of over 3 million Mexicans.<sup>xix</sup> Though operatively independent from its parent company, Televisa Foundation channels Televisa Group’s social responsibility activities. The company’s mission clearly states that CSR accounts for a cornerstone of its core business competence.

Daniel Castillo Cárdenas, Project Coordinator at Televisa Foundation, refers to the close relationship between the company and the Foundation in the following terms: “On account of its reach, influence and repercussions, Televisa has a huge social responsibility in our country.”<sup>xx</sup> Hence, incorporating CSR practices to the company through its Foundation is crucial to its pursuit of its social purpose.

Televisa is not the only company streamlining its CSR practices through a dedicated foundation. Telmex Foundation and Azteca Foundation are two more examples of companies that have chosen to formalize their social commitments

through their own, yet independent, community organizations.

Mexican companies are increasingly engaging in social responsibility actions. Either by means of cross-sector alliances or by spin-off foundations, companies are undertaking specific programs to benefit local communities. Also, like HEB Supermarkets, business companies are discovering the economic and social benefits resulting from embedding CSR to their core business competencies. Both in the way CSR programs are incorporated to core businesses and in the various formulas used to “incarnate” these strategies, the examples described offer a measure of current CSR development in Mexico.

Nonetheless, CSR is only just dawning in our economy, so there is a lot of work ahead to turn it into a constant and widespread practice. Next, we will outline CSR anticipated perspectives in Mexico, in order to weigh current accomplishments versus future challenges.

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## **CSR Dimensions**

### **Legal framework**

In Mexico, the struggle to eradicate corruption has been a key factor in the creation of organizations to monitor law enforcement and compliance for environmental, accounting, labor and other areas in both the public and private sectors.

In order to promote nationwide transparency, the Federal Transparency Act was passed to “provide the necessary grounds to ensure unrestricted citizen access to the information held by the Union’s Powers, autonomous constitutional or legally autonomous bodies and any other federal entity”.<sup>xxi</sup> The Public Service Secretariat’s mission is to “eliminate corruption in the economy and provide overall transparency to Federal Public Administration institutions’ and public servants’ management and performance”. Part of the transparency program managed by this Secretariat focuses on standards set by the Organization for Economic Cooperation and Development (OECD), an international agency that promotes private sector transparency and “where governments work together to address economic, social and environmental challenges arising from interdependence and globalization”.<sup>xxii</sup>

A helpful method to regulate transparency in the private sector hinges on external audits carried out by international firms. These audits are usually handled by international companies and Mexican companies operating abroad in order to prove compliance. A challenge currently faced by the nation involves irregular companies operating in Mexico and disregarding local laws or employing unacceptable labor practices. Although CSR practices are still “voluntary” in Mexico, a growing number of domestic companies are abiding by them.

### **Human rights**

Mexico’s National Commission on Human Rights “promotes the protection and defense of Human Rights”,<sup>xxiii</sup> in addition to developing

several programs mainly devoted to population segments at risk of human right violations. For example, the Program for issues related to women, children and families provides “education and training programs to build a culture of respect for their rights, enabling the daily exercise of these rights in families and society at large.”<sup>xxiv</sup>

Additionally, the Labor and Social Security Secretariat develops a program called “Inclusive Company” that awards recognition to companies offering equal employment opportunities to handicapped people, as part of a new labor equality culture.

### **Corporate governance**

A survey conducted by the Boston College outlines the three phases companies go through when they initiate their CSR practices.<sup>xxv</sup> The first stage involves alignment and refers to CSR connection to business goals. The second phase focuses on integrating CSR across company business units and functional areas in order to move on to the third phase or institutionalization process, that ensures CSR long-term continuity through business strategies, policies, processes, systems and other practices.

CSR status in Mexico may be paralleled to companies’ quality process implementations. At first, these projects were viewed skeptically –construed, even, as “additional costs”, since they promoted the creation of a new department. Nowadays, quality management is deeply embedded in business strategies and fully responsible for operating excellence.

Consultant Vivian Blair states that “Social developments are usually improvised in companies. CSR must be central to the business itself; it must be incorporated to the company’s DNA.”<sup>xxvi</sup> CSR will hardly become institutionalized if it is not aligned to overall business strategy.

## **Human resources management**

Through its Labor and Social Security Secretariat, the Mexican Government promotes laws and institutions to ensure labor fairness and to mitigate dissimilarities among Mexicans. All business companies must comply with the Federal Labor Act, which also promotes human rights. By law, Mexican companies must supply housing loans, retirement saving funds, health care and educational services for their employees.

The Mexican chapter of The Best Place to Work ranks the top 50 companies to work for in the economy on the basis of three factors: relationships between managers and employees, relationships between employees and their jobs as well as their companies, and relationships among employees. This ranking is published by the *Expansión* Editorial Group.

In some domestic companies, CSR practices are undertaken and monitored by their human resources departments.

## **Commitment to the community**

At the World Economic Forum held at Davos in 1999, Kofi Annan, United Nations' Secretary General, urged companies to raise their awareness of their actions affecting communities. Companies are part of the communities where they operate and should not be isolated from their surroundings.

Business companies are drawing closer and closer to their communities. Through their Social Reports, they provide a tool for CSO representatives. Currently, three Mexican companies publish their Social Report according to Global Reporting Initiative (GRI) standards.<sup>xxvii</sup> In addition, other companies use other reporting means to communicate their CSR actions to society, although these vehicles are not audited by external parties, as mandated by GRI standards. Other companies that engage in social practices choose not to communicate them to the general public.

## **Environmental management**

The Environment and Natural Resources Secretariat (SEMARNAT) is in charge of "promoting the protection, restoration and preservation of ecosystems, natural resources and environmental assets and services, in order to foster their sustainable utilization and development."<sup>xxviii</sup> SEMARNAT's decentralized administrative organ, PROFEPA, oversees environmental law enforcement by subjecting business companies to environmental audits and inspections.

## **Organizational performance and effectiveness, supply chains**

This area accounts for an opportunity to leverage CSR initiative development among organizations, yielding direct benefits by improving suppliers' operating capacity and product quality. Some companies have faced severe criticism for failing to demand full legal compliance from their suppliers –as has been the cases of Shell, Nike and Coca-Cola. Even though vendors' management issues fall outside their specific responsibilities, companies do have the right to demand that suppliers abide by current regulations and standards as part of their negotiating conditions.

British American Tobacco Mexico encourages its business partners to embrace CSR practices by including specific clauses to that effect in its contracts. Thus, BAT Mexico promotes CSR standards across its value chain. This new cultural trend is gradually forcing SMEs to adhere to CSR practices in order to be able to compete in the business-to-business market of large corporations. In Mexico, over 90% of companies are characterized as SMEs. Therefore, the nation needs this large share of business companies to undertake CSR actions.

Within its SRC program, CEMEFI also awards "Socially Responsible Value Chain" recognition in order to promote CSR practices among SMEs while acknowledging companies that provide support for their supply chains.

Another institution fostering CSR practices in value chains is the Anáhuac Business

Development Institute (IDEA) of the School of Economics and Business of the Universidad Anáhuac. This institution has joined the Inter-American Development Bank (IDB) and 10 large companies to carry out the “CSR Practice Incorporation to Value Chains” program, intended to professionalize SMEs to benefit the entire nation.

### ***Challenges and Opportunities***

CSR is a relatively new subject in Mexico. Though originally linked to philanthropy, CSR now involves a set of practices with a dynamics of its own, since it no longer refers to donating money to social causes but to fully commit to them. As we have discussed, Mexico’s economic opening has led large companies to adopt CSR practices, which, in turn, have been replicated by local firms. Domestic companies know that they need to pursue CSR initiatives because their competitiveness depends on their successful relationship with communities.

In order for CSR to expand its reach in Mexico, companies should be made fully aware of the economic benefits to be drawn from social responsibility practices, so that these are not viewed as “an external expense”. The key lies in aligning CSR to core business strategies. This is the challenge to be overcome by several private and social organizations that seek to broaden the local scope of CSR. External audits may provide a valuable tool to grant further credibility and relevance to CSR development in Mexico.

Specifically, the SRC seal awarded by CEMEFI marks a significant advancement in CSR rollout in our economy. Since its launching, the number of companies applying for this seal has grown consistently every year. However, it is still a mere self-evaluating practice that lacks external validation. Even though the road is long and hard, the topic of CSR is gaining relevance in domestic business circles, as proven by the 235 Mexican companies that have adhered to the United Nations’ Global Compact. Thus, it is safe to assume that CSR will continue to increase its relevance in the following years.

Although significant progress has been made in this area, CSR practices need to expand their reach, so that more and more companies understand the economic and social benefits to be reaped by embedding social commitment initiatives into business strategies. Either through environmental care or social involvement strategies, CSR has landed in Mexico. This challenge demands a joint effort from society and companies yet, we believe current CSR promotion measures and practices will pave the road for more companies to join in the collective search for solutions to social problems.

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- <sup>xiii</sup> Mexican Center for Philanthropy, Op Cit.
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- <sup>xxviii</sup> Public Administration Act, Article 32 (b), amended at DOF on February 25, 2003.

