

CORPORATE SOCIAL RESPONSIBILITY IN MEXICO

**How changes in the behaviour of multinational enterprises
contribute to economic development**

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Executive summary

Research design

This study is concerned with the impact of Corporate Social Responsibility (CSR) in developing economies, an area that has so far received relatively little attention in academic research on CSR. The research focuses on Dutch Multinational Enterprises (MNEs) in the industrial sector and empirical data were collected in Mexico from February till July 2003. The main research question reads as follows:

What is the influence of recent CSR developments on the contribution of Dutch MNEs in Mexico to economic development?

The next section explains how the influence of local CSR initiatives on MNEs' contributions to economic development is analysed. Three recent CSR developments that may lead such initiatives are investigated:

1. The rise of a new CSR perspective
2. The rise of corporate CSR commitments
3. The rise of international CSR standards

In short, the rise of a new CSR perspective consists of the diffusion of new ideas, attitudes and strategies related to CSR. In the process of investigating the influence of recent CSR developments, the research describes the CSR perspectives of relevant organizations in Mexico. The rise of corporate CSR commitments consists of CSR initiatives that are decided upon at the corporate level. What causes the rise of these corporate commitments is a question that falls outside the scope of the research. The rise of voluntary international CSR standards does not in itself lead to CSR initiatives and therefore has an indirect influence on MNE behaviour only. International standards can be endorsed or used as a point of reference by MNEs or they can strengthen civil society efforts to promote CSR. The OECD guidelines for MNEs served as an important point of reference for the research.

An important proposition behind the research design is that CSR should not be treated as a single issue, but as a set of related issues such as labour issues, environmental impacts and business integrity. These are developing unequally and influence MNEs' contributions to economic development in different ways.

By means of enterprise visits and several telephone interviews and questionnaires, data were obtained from enterprises belonging to the following ten Dutch MNEs: Akzo Nobel, Corus, DSM, Hunter Douglas, Nutreco, Philips, Shell, Sobel, Unilever and Zuid. Enterprise visits started with management interviews and in most cases these were followed by interviews with different enterprise stakeholders, such as employees, trade unions, clients or local governments. In addition, interviews were conducted with representatives of various organizations in Mexico involved with the promotion of CSR, including NGOs, trade unions, business organizations, international organizations and the Mexican National Contact Point (NCP) for the OECD guidelines.

Theoretical framework

In order to determine the influence of recent CSR developments on the behaviour of MNEs, it is important to understand the incentives that cause changes in enterprise conduct qualifying as CSR initiatives. Four categories of local CSR incentives were distinguished in this research:

1. Ethical incentives
2. Internal profitability
3. Structural profitability
4. External pressures

The last three categories are business incentives. Internal profitability refers to improvements in operational efficiency to which stakeholder relations and the external business environment are irrelevant. Structural profitability results from structural market forces. The third type of business incentives, external pressures, refers to the profitability of anticipating or responding to specific stakeholder pressures. Together with corporate policies, these four categories explain why enterprises take CSR initiatives. The research shows that enhanced corporate CSR policies have been far more influential than local CSR incentives.

Next, to demonstrate that CSR initiatives have a positive influence on different aspects of MNEs' contributions to economic development, two things need to be shown. Firstly, CSR initiatives need to address market failures or otherwise improve market functioning, and secondly, it needs to be appropriate for MNEs to take such initiatives. These are two legitimate concerns commonly raised by neoclassical economists, although not always clearly distinguished. The nature of the first concern is purely economic, whereas the nature of the second concern is political. Proponents of CSR often fail to address these concerns properly.

As for the first concern, CSR initiatives on some issues, such as business integrity, protect or improve the correct function of markets and will therefore automatically have a positive influence on economic development. The influence of other types of CSR initiatives, notably labour standards, depends on the profitability of such initiatives. If they improve enterprise results, the influence on economic development will be positive, assuming that profitability does not result from exaggerated market requirements or stakeholder demands. Yet if such CSR initiatives significantly lower enterprise profits, their influence depends on the balance between the social benefits of improved CSR performance and the social costs of a fall in demand for labour.

Regarding the second concern, a considerable part of the social responsibility of enterprises can be justified on the basis of a combination of moral arguments and social contract theory. According to this approach, CSR can be considered part of the constraints on enterprise behaviour that are required or expected by society. In principle, such an approach does not contradict neoclassical economics. A few CSR issues like stimulation of the host economy, as well as philanthropic donations, are not supported by these arguments.

CSR perspectives in Mexico

CSR is still in an early phase in Mexico. Traditionally, enterprise managers associate CSR with corporate philanthropy, not related to the core-business of a company, and do not seek engagement with civil society. The traditional perspective of Mexican civil society is centred on legal compliance and characterized by a hostile attitude towards the private sector. The historical lack of cooperation between different sectors of society is a large obstacle for the development of CSR in Mexico. Although for a large part these traditional attitudes still persist, a slow culture change has set off among enterprises and other relevant actors. A new CSR perspective, which defines the social responsibility of an enterprise in terms of responsibilities towards all enterprise stakeholders, has found its way from Europe to Mexico.

The research showed that interaction between Mexican civil society and business-oriented organizations remained still very limited, though. Within civil society, some organizations had already adopted a new CSR perspective, but most of them were still exploring CSR strategies. Business-oriented organizations were clearly ahead of civil society in taking up the theme of CSR. They had formed a broad network to promote CSR and reached a common set of guidelines for minimum CSR norms. In general, they showed many characteristics of a new CSR perspective and emphasized the business case. The promotion of CSR through business networks and exchange of experiences is important, because even when CSR initiatives can be profitable investments, not all enterprises will automatically recognize this.

A few organizations displayed an alternative non-traditional CSR perspective that stresses the personal responsibility of managers instead of the responsibility of enterprises towards their stakeholders. It focuses on ethical rather than business incentives and is characterised by 'soft' strategies, with an emphasis on awareness raising. In countries like Mexico, where both legal and civil regulation mechanisms are weaker and social awareness is considerably lower, such 'soft' strategies may become more important, at least as a complement to other strategies.

A common element of the strategies of all business-oriented organizations is that they do not actively promote stakeholder engagement and do not pay attention to regulatory mechanisms. Despite the non-traditional characteristics of their CSR attitudes, the majority still opposed direct involvement with civil society.

With respect to Dutch MNEs, a new CSR perspective was sometimes transmitted from the corporate headquarters in the Netherlands down to the local level. In general foreign MNEs were hardly influenced by CSR developments at the local level, but independently developed their own corporate CSR programmes. The promotion of CSR through business networks and exchange of experiences is therefore more important for domestic enterprises. Whether corporate CSR commitments contributed to a change of enterprise culture at the local level strongly depended on the type of corporate CSR management. Two main types were identified in the research. The first type is characterised by a focus on the top-down implementation of corporate CSR rules alone, whereas the second type is characterised by the top-down transmission of a new CSR perspective along with corporate CSR rules. Only the second type causes a change in local enterprise culture.

CSR does not affect all impacts of MNE operations

Recent CSR developments did not affect all investigated aspects of the impact of MNEs on the host economy. They had very little influence on the development relevance of MNE operations, which compromises the amount of direct and indirect employment generation and impacts on international capital movements, the transfer of technology and dualistic development. These impacts are largely determined by fixed enterprise characteristics, like the technology it employs in production and the inputs it requires. Recent CSR developments had a weak influence on local tax revenues and the creation of backward linkages only. Hence, CSR can never replace government regulation or other national strategies to enhance the contribution of FDI to the economic development of the host country.

The same enterprise characteristics also have important implications for CSR initiatives. For example, favourable terms of employment are an element of competition to attract and retain skilled workers for MNEs with high-technology and capital-intensive production processes. In contrast, efficiency-seeking MNEs that established in Mexico because of low labour costs are severely constrained to improve labour standards by business incentives. This effectively inverts the social contract: MNEs try to meet expectations of society within constraints of profitability. For some CSR issues like favouring local procurement, inversion of the social contract is appropriate, but for other issues like core labour standards it is certainly not. While inversion of the social contract limits CSR initiatives, the influence of these initiatives becomes automatically positive, because they do not produce any negative effects on enterprise competitiveness.

A new CSR perspective causes a positive shift towards core-business issues

The rise of a new CSR perspective influenced enterprise behaviour in two ways. Firstly, some changes occurred in the context in which enterprises operate. These changes may again be subdivided into changes in market forces and changes in external pressures on enterprises. As for external pressures, these had hardly increased in Mexico over the past years and remained an unimportant incentive for CSR at the local level. Regular market forces, on the other hand, were an important incentive and HSE requirements had recently increased, especially in export markets. This contributed to recent improvements in environmental performance.

Secondly, a new CSR perspective influenced enterprise behaviour through changes in enterprise perspective. These had a larger influence on enterprise behaviour than changes in enterprise context. They consist of the enhanced perception of enterprise responsibilities and of profitable opportunities for CSR initiatives by enterprise managers, which often went together. As a consequence, in some cases different kinds of incentives were becoming increasingly integrated and the influence of individual incentives could therefore no longer be determined.

Ethical incentives were hardly ever mentioned as the only type of incentives for a CSR initiative. In recent years, increased awareness about ethical responsibilities has resulted in more attention for community impacts, and to a lesser extent for wages and benefits and integration into the local economy. MNEs generally regard these issues as context-specific. There has been a recent shift

away from the traditional notion of CSR in Mexico, centred on philanthropic donations, towards direct community involvement and a broader interpretation of CSR, more related to the core-business of an enterprise. This shift should be welcomed, because community support and other forms of mainstream social engagement are more appropriate and more likely to enhance market outcomes than philanthropic donations. Confusing CSR with corporate philanthropy, which happens very often in Mexico, is detrimental to economic development.

The enhanced perception of business opportunities led to several new or reinforced CSR initiatives, even though the compelling general business case for many types of CSR initiatives is not new. These initiatives most often concerned improvements in general employment conditions, environmental standards and community impacts and were beneficial for economic development as well as for the MNEs themselves. They indicate that even if there exists a good business case for CSR, external market forces or entrepreneurial spirit in itself will not automatically raise CSR standards.

Corporate CSR commitments cause important positive changes, but differences between MNEs are large

The rise of corporate CSR commitments had an important influence on enterprise behaviour. Yet recent changes in corporate CSR standards did not always influence local practices. Apart from implementation failures, this was also caused by the low ambition level of these standards, which did not always go beyond commonly observed legal obligations. The research revealed large differences between MNEs with respect to corporate CSR policies and their implementation. At one end of the spectrum are MNEs that did not have any explicit corporate CSR policies, like Hunter Douglas. At the other end of the spectrum are MNEs like Shell, which in Mexico had more or less succeeded in mainstreaming CSR throughout all its operations and required direct business partners to comply with its business principles as well. Most investigated MNEs were somewhere in between.

The influence of corporate CSR policies was strongest for Health, Safety & Environment (HSE), employee training and business integrity. Together with competition and transfer pricing policies, enterprise managers generally regarded these as global issues for which uniform corporate standards are most appropriate, regardless of the local context. The research indicates that crowding out of intrinsic motivation by corporate standards did not occur. On the contrary, the diffusion of a new CSR perspective along with corporate standards could raise local awareness of both enterprise responsibilities and potential business benefits of CSR.

Corruption is a major obstacle to economic development in Mexico. The reinforced efforts of MNEs to fight corruption, which were identified in the research, are therefore probably the largest contribution to economic development that result from recent CSR developments. It was generally expected that these policies would be in the long term interest of the MNEs themselves as well. The positive influence of improvements in environmental performance was also relatively strong. In addition, corporate CSR commitments had a moderate positive influence on employee development and employment conditions, but not on wages. The number of initiatives related to competition and transfer pricing practices was relatively low.

The total profitability of corporate CSR policies could not be assessed, because the most important business benefits are to be expected at the corporate level. At the local level, the impact on enterprise results depends on the type of corporate CSR management. This impact was often neutral but could not always be determined.

International CSR standards are mainly used at the corporate level

The direct use of international CSR standards at the local level was limited. Corporate CSR policies and market requirements for HSE standards were most conducive to the use of international CSR standards. In contrast, enterprise managers that took CSR initiatives because of ethical incentives, internal profitability or a response to labour market forces, did usually not seek the guidance of international standards. International CSR standards were not well-known among civil society organizations, and they had not been used by enterprise stakeholders to support their demands in the few cases where external pressures were present.

Market requirements for HSE standards, which were more important for exporting enterprises, usually involved certification by an international standard, like ISO 14000. International CSR

standards were frequently used as a point of reference for corporate CSR policies and business principles. However, managers at the local level hardly ever know this. Due to the limitations of the research data, it can only be concluded that the influence of international CSR norms mainly results from their incorporation into corporate CSR standards. The total influence of the rise of international CSR standards on enterprise behaviour could not be determined.

International CSR standards are not inappropriate or illegitimate

The legitimacy and appropriateness of international CSR standards like the OECD guidelines for MNEs are frequently questioned. The research shows that such standards are not illegitimate and did not produce adverse impacts, although they may be of limited value to local civil society for the promotion of CSR.

As for legitimacy, the OECD guidelines are broadly supported in Mexico by civil society and business-oriented organizations as well as managers, trade union delegates and employees of the investigated enterprises. However, it should be noted that many civil society organizations had only learned about the OECD guidelines in 2003 and did hardly know other new international CSR standards. Business-oriented organizations, on the other hand, knew the OECD guidelines and other international CSR standards well and had used them as a reference to design their own CSR standards.

From a civil society point of view, the greatest shortcoming in the contents of the OECD guidelines is probably the lack of any norms about wage levels. The norms about labour relations, which are frequently violated in Mexico, were mostly valued. Yet because of the Mexican tradition of protective labour relations, some enterprises may prefer not to involve an active trade union in order to avoid protectionist practices that would actually harm employees. Although this option violates international standards, is perfectly understandable in the Mexican context and may function more or less equivalent to the representation of workers by a democratic trade union.

Regarding the use of the OECD guidelines, they were welcomed as a point of reference, but neither traditional nor non-traditional civil society organizations regarded them as a key instrument to promote CSR. Most were sceptic about the functioning of the complaints mechanism and the willingness of the government to promote them. Distribution was still far from sufficient at the time of the research and the Mexican NCP clearly lacked visibility and accessibility, two central criteria for the functioning of NCPs. Furthermore, civil society and business-oriented organizations alike expected that enterprises would be more receptive for standards that were closer to reality and adapted to the Mexican context.

International CSR standards did not produce any adverse effects. As MNEs generally consider wages and many other labour issues to be local issues, concerns about inappropriate global labour standards that are imposed on enterprises in developing countries are exaggerated. The research shows that contrary concerns about corporate managements not assuming responsibility for labour conditions in their production sites abroad are closer to reality. Possible broader adverse effects of increasing attention for CSR and the adoption of international CSR standards by MNEs are unlikely to occur at this early stage of CSR in Mexico. No evidence of such effects was found in this research.

Discussion

The central research question has now been answered: although the influence of recent CSR developments on the behaviour of Dutch MNEs differs strongly among CSR issues, it enhances their contributions to economic development. Although these conclusions may sound very positive, they should be seen in the right perspective. To some extent the results are context-specific. Furthermore, the research did not measure how much recent CSR developments enhanced the contributions of MNEs to economic development. The influence of recent CSR developments may be relatively small compared to the influence of fixed enterprise characteristics. In addition, the conclusions do not imply a statement about the total impact of MNE operations on economic development. Probably by far the largest impact of MNE behaviour results from their influence on national and international regulations and policy formulation, which was not investigated. As a consequence, it does not follow from the conclusions that all efforts for the promotion of CSR and civil regulation should be welcomed. Although the influence of recent CSR developments is positive, the promotion of CSR is not necessarily an efficient way to stimulate economic development.

Recommendations

On the basis of the research results, the following recommendations can be made.

- For MNEs: with a focus on new CSR rules only, some benefits of CSR may not be realized. These include a better enterprise reputation at the local level, a reduction in operational risks and a higher motivation of employees. Strong internal and external communication about CSR, including at local enterprise level, will increase the business benefits of CSR and increase the credibility of CSR initiatives.
- For organizations in Mexico: more cooperation on CSR within civil society and between different sectors of society could improve efforts for the promotion of CSR and enhance the impact of CSR initiatives.
- For NGOs and trade unions: corporate policies are the main driving force behind CSR initiatives, so approaching the corporate headquarters of a MNE may be the most effective way to change MNE behaviour. For local organizations, this requires international alliances. To stimulate a culture of CSR at the local level and to ensure the legitimacy of NGO expectations, the engagement of local stakeholders should also be emphasized. Organizations should not focus on all CSR issues, as improvements are more likely on some issues than on others. Corporate lobbying should receive a more prominent place on the CSR agenda. Finally, it should be reminded that the promotion of CSR may not always be an efficient way to stimulate economic development.
- For policy makers: no crowding out of intrinsic motivation was found within MNEs, which suggests that binding norms do not limit the ambition level of CSR initiatives or enterprise creativity. Instead, these depend on efforts for awareness raising and for the promotion of CSR. Given its very weak influence on the development relevance of MNE investment, it should be realized that CSR can never replace government regulation or other national strategies to enhance the contribution of FDI to the economic development of the host country.
- For the National Contact Point for the OECD guidelines: it would enhance its functioning by improving its accessibility and visibility and the distribution of the guidelines. More promotion of the business case for the OECD guidelines and the establishment of regular contacts with civil society would also contribute to a better performance.

List of acronyms

| Acronym | Meaning |
|----------------------|---|
| <i>ANIQ</i> | <i>Asociación Nacional de la Industria Química</i> [National Association of Chemical Industry] |
| ICCA | International Council of Chemical Associations |
| <i>UVM</i> | <i>Universidad del Valle de México</i> [University of the Mexican Central Valley] |
| CRT | Caux Round Table |
| BIAC | Business and Industry Advisory Committee (to the OECD) |
| BIT (<i>APPRI</i>) | Bilateral Investment Treaty (<i>Acuerdo para la Promoción y Protección recíproca de las Inversiones</i>) |
| BITC | Business in the Community |
| <i>CANACINTRA</i> | <i>Cámara Nacional de la Industria de Transformación</i> [National Chamber of Transformation Industry] |
| <i>CCT</i> | <i>Contrato Colectivo de Trabajo</i> (Collective Labour Contract) |
| <i>CEPAL</i> (ECLAC) | <i>Comisión Económica para América Latina y el Caribe</i> [Economic Commission for Latin America and the Caribbean] |
| <i>Cie</i> | European Commission |
| <i>CILAS</i> | <i>Centro de Investigación Laboral y Asesoría Sindical</i> [Centre for Labour Research and Trade union Consultancy] |
| <i>COMPITE</i> | <i>Comité Nacional de Productividad e Innovación Tecnológica</i> [National Committee for Productivity and Technological Innovation] |
| <i>CONCAMIN</i> | <i>Confederación de Cámaras Industriales de los Estados Unidos Mexicanos</i> [Confederation of Industrial Chambers of the United States of Mexico] |
| <i>CONCANACO</i> | <i>Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo</i> [Confederation of National Chambers of Commerce, Services and Tourism] |
| <i>CSES</i> | <i>Centro Sindical de Estudios Superiores</i> [Trade union Centre for Advanced Studies] |
| CSR (<i>RSE</i>) | Corporate Social Responsibility [<i>Responsabilidad Social Empresarial</i>] |
| <i>CTM</i> | <i>Confederación de Trabajadores de México</i> [Confederation of Mexican Workers] |
| <i>DF</i> | <i>Distrito Federal</i> (Federal District that contains the largest part of Mexico City) |
| <i>DNB</i> | <i>De Nederlandsche Bank</i> (The Dutch Central Bank) |
| EU (<i>UE</i>) | European Union |
| <i>EVD</i> | Dutch agency to assist Dutch business in international operations (no acronym) |
| <i>FAT</i> | <i>Frente Auténtico del Trabajo</i> [Authentic Labour Front] |
| FDI (<i>IED</i>) | Foreign Direct Investment |
| <i>FNSI</i> | <i>Federación Nacional de Sindicatos Independientes</i> [National Federation of Independent Trade unions] |
| <i>FNV</i> | <i>Federatie Nederlandse Vakbeweging</i> [Federation Dutch Labour movement] |
| <i>FUNDES</i> | <i>Fundación para el Desarrollo Sostenible en América Latina</i> [Foundation for Sustainable Development in Latin America] |
| <i>FUNTEC</i> | <i>Fundación Mexicana para la Innovación y Transferencia de Tecnología en la Pequeña y Mediana Empresa</i> [Mexican Foundation for Innovation and Transfer of Technology in Small and Medium Enterprises] |
| GNP (<i>PNB</i>) | Gross National Product |
| GRI | Global Reporting Initiative |

| Acronym | Meaning |
|------------------------|--|
| HDI | Human Development Index |
| HR | Human Resources |
| ICFTU (<i>CIOSL</i>) | International Confederation of Free Trade Unions |
| ICHRP | International Council for Human Rights Policy |
| IDB (<i>BID</i>) | Inter American Development Bank |
| <i>IDEA</i> | <i>Instituto de Desarrollo Empresarial Anáhuac</i> [Business Development Institute Anáhuac] |
| ILO (<i>OIT</i>) | International Labour Organization |
| <i>IMEF</i> | <i>Instituto Mexicano de Ejecutivos en Finanzas</i> [Mexican Institute of Financial Executives] |
| INTRAC | International NGO Training and Research Centre |
| ISO | International Standard Organization |
| MNC | Multinational Corporation |
| MNE | Multinational Enterprise |
| <i>Nafinsa</i> | <i>Nacional Financiera</i> [National Financial] |
| NAFTA (<i>TLCAN</i>) | North American Free Trade Agreement |
| NCP (<i>PCN</i>) | National Contact Point (for the OECD guidelines for MNEs) |
| NGO (<i>ONG</i>) | Non-Governmental Organization |
| ODA | Official Development Assistance |
| OECD (<i>OCDE</i>) | Organization for Economic Development and Cooperation |
| <i>PAN</i> | <i>Partido de Acción Nacional</i> [National Action Party] |
| PET | Polyethylene terephthalate |
| <i>PITEX</i> | <i>Programa de Importación Temporal para Producir Artículos de Exportación</i> [Programme of Temporary Import for the Production of Export articles] |
| PR | Public Relations |
| <i>PRD</i> | <i>Partido Revolucionario Democrático</i> [Democratic Revolution Party] |
| <i>PRI</i> | <i>Partido Revolucionario Institucional</i> [Institutional Revolution Party] |
| <i>Profeco</i> | <i>Procuraduría Federal del Consumidor</i> [Federal Consumer Solicitorship] |
| <i>Profepa</i> | <i>Procuradería Federal de Protección al Ambiente</i> [Federal Solicitorship for Environmental Protection] |
| R&D (<i>I&D</i>) | Research and development |
| <i>RMALC</i> | <i>Red Mexicana de Acción frente al Libre Comercio</i> [Mexican Action Network opposed to Free Trade] |
| <i>SCHP</i> | <i>Secretaría de Hacienda y Crédito Público</i> [Ministry of Finance and Public Credit] |
| <i>SE</i> | <i>Secretaría de Economía</i> (Mexican Ministry of Economic Affairs) |
| <i>SE/PYME</i> | <i>SE, Subsecretaría para la Pequeña y Mediana Empresa</i> (<i>SE</i> , Undersecretariat for Small and Medium Enterprises) |
| <i>SEMARNAT</i> | <i>Secretaría de Medio Ambiente y Recursos Natural</i> [Ministry of Environment and Natural Resources] |
| <i>SER</i> | Sociaal Economische Raad (Social and Economic Council) |
| <i>SMO</i> | <i>Stichting Maatschappij en Onderneming</i> (Foundation for Society and Enterprise) |
| <i>SOMO</i> | <i>Stichting Onderzoek Multinationale Ondernemingen</i> (Centre for Research on Multinational Corporations) |
| SRI | Social Responsible Investment |
| <i>STPS</i> | <i>Secretaría del Trabajo y Previsión Social</i> [Ministry of labour and Social Security] |
| <i>STPS/Trabajo</i> | <i>STPS, Subsecretaría de Trabajo</i> [<i>STPS</i> , Undersecretariat of Labour] |

| Acronym | Meaning |
|--------------------|--|
| TNC | Transnational Corporation |
| TI | Transparency International |
| TUAC | Trade Union Advisory Committee (to the OECD) |
| UDHR | Universal Declaration of Human Rights |
| UK (<i>RU</i>) | United Kingdom |
| UN (<i>ONU</i>) | United Nations |
| <i>UNAM</i> | <i>Universidad Nacional Autónoma de México</i> [National Autonomous University of Mexico] |
| UNIAPAC | International Christian Union of Business Executives (<i>Unión Internacional Cristiana de Dirigentes de Empresa</i>) |
| UNRISD | United Nations Research Institute for Social Development |
| USA (<i>EUA</i>) | United States of America |
| <i>USEM</i> | <i>Unión Social de Empresarios de México</i> [Social Union of Entrepreneurs of Mexico] |
| <i>VMD</i> | <i>Vereniging Milieudéfensie</i> [Friends of the Earth Netherlands] |
| WCED | World Commission on Environment and Development |
| WBCSD | World Business Council for Sustainable Development |
| WTO (<i>OMC</i>) | World Trade Organization |

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1 Introduction

1.1 Subject and relevance of the research

The phenomenon of corporate social responsibility (CSR)¹ is not entirely new, but its importance on the agendas of multinational enterprises (MNE),² investors, civil society organizations, governments and intergovernmental organizations has increased considerably over the past ten years. MNEs have made increasing CSR commitments, there has been a rise of new and improved corporate business principles and codes of conduct, monitoring systems and reporting on CSR. A variety of international standards has been created for CSR or specific aspects of it. Yet it is not clear what the effects of these developments will be.

Although CSR has received a lot of attention from the academic world in recent years, important questions remain to be answered. The vast majority of academic research on CSR has been carried out with a focus on business economics. Research in this field needs to investigate, for example, how the corporate social performance of different companies could be better compared (Cramer 2001), in which way CSR should be best implemented and monitored (Cramer & Rutten 2001, Wempe & Kaptein 2000) and, not the least important, whether and how CSR should be promoted (Graafland 2001, ICHRP 2002, SER 2000, Williams 2000). In addition, the discipline of business ethics is actively involved in studies on the foundations and boundaries of CSR. The impact of CSR on economic development, in contrast, is an area that has so far received relatively little attention in academic research on CSR. Furthermore, research on CSR remains largely focused on high income countries, especially with respect to the role of civil society and strategies to promote CSR. This study has a focus on development economics. It is concerned with the impact of CSR in developing economies³ and in the process describes the perspectives and strategies of relevant civil society organizations.

Often it is simply assumed that CSR will benefit developing countries, although possible adverse effects are frequently pointed out (Heap 2000 p121-6, Macdonald 2000, Utting 2000 p31). Some even argue that CSR will only increase poverty in developing countries (Henderson 2001, Norberg 2003). Many of those who are convinced of the beneficial effects of CSR tend to focus on general perceptions of MNE responsibilities and the direct influence of MNE behaviour only. Yet it cannot simply be assumed that what is generally regarded as socially responsible conduct in individual cases is indeed beneficial for developing countries. On the other hand, those who argue that CSR will reduce welfare tend to rely on general theories of market functioning only and tend to overlook the market failures and irresponsible behaviour that CSR initiatives can reduce. Reality is of course more complex than either of these limited views and a more sophisticated analysis is required.

CSR is still in an early phase in most developing countries and therefore measurable results of CSR initiatives are still hard to come by. Nonetheless, some changes in MNE policies and practices intended to improve CSR performance can already be identified and during the preparatory phase of this study it turned out that there was an urgent need for research on CSR in developing countries⁴. It was therefore an appropriate moment to conduct an explorative research on the effects of CSR in developing countries. Economists and development specialists need a better understanding of the phenomenon of CSR in developing countries and its influence on economic development. MNEs need to know which responsibilities they should assume and how they should do this. Non-governmental organizations (NGOs) and policy makers need to know whether their efforts to promote CSR contribute to economic development, and how their strategies and policies can be improved.

¹ For a list of acronyms, including English translations or Spanish equivalents of the original, see page 9.

² The expressions transnational corporation (TNC) and, less frequently, multinational corporation (MNC) are also used in CSR literature. They are interchangeable with the expression multinational enterprise (MNE) used in this study.

³ Sometimes a distinction is made between developing and transition economies, but here developing economies refers to both. In addition, developing economies and developing countries are used here interchangeably.

⁴ This need was confirmed in interviews that preceded the actual research with CSR specialists from the Dutch Ministry of Foreign Affairs (Minbuza), Nijmegen School of Management (NSM), the Centre for Research on Multinational Corporations (SOMO), Novib Oxfam Netherlands and others.

It is the aim of this study to address these needs and to contribute to a better understanding of CSR in developing economies. More specifically, the research covers the following three areas that are still relatively unexplored. Firstly, the effects of MNEs' CSR commitments and corporate CSR policies in developing countries. These effects will turn out to be positive, although differences between MNEs are large. Secondly, and related to this, the effects, the legitimacy and the appropriateness of international CSR standards in developing countries. While international CSR standards are a major point of reference for MNEs and NGOs alike and are considered important instruments to further CSR, they are probably the most heavily criticized aspect of the rise of CSR (e.g. Henderson 2001). International CSR standards have almost invariably been designed by organizations and companies from high income countries, which raises concerns about their legitimacy and the extent to which they reflect the priorities that are felt in developing countries (Heap 2000 p129, Utting 2000 p31). This research will show that such standards are not inappropriate or illegitimate, but their influence on enterprise behaviour could not be precisely determined due to the way they are incorporated into MNE policies. Thirdly, the functioning of local mechanisms in developing countries to promote CSR. Until now pressures and initiatives from high income countries have been the main drive behind CSR and as a consequence, local promotional efforts and regulatory mechanisms have received little attention. It will turn out that considerable changes are still needed at the local level for such initiatives to have an important influence on MNE behaviour.

To enhance the relevance of the research it had been purposefully designed to coincide with the knowledge needs of the NGO network *Red Puentes*⁵ [Bridges Network], expressed in its plans for 2003-2005 (Red Puentes 2002). It needs to be stressed that the research itself was completely independent, though. The members of Red Puentes are NGOs and consultants from Mexico, Brazil, Chile, Argentina and The Netherlands and they seek to promote CSR in Latin America.⁶ The Dutch NGOs of Red Puentes showed a special interest in a number of international CSR standards and originally the research had a stronger focus on these standards, but the central research question was broadened when this focus turned out to be too narrow.

1.2 Research questions and design

The research has been limited to Dutch MNEs in the industrial sector and was carried out in central Mexico. There were several reasons to limit the research to Dutch MNEs and to conduct it in Mexico. Previous knowledge about MNEs of my own nationality and the probability of easier access to Dutch MNEs and information about them were an asset. Most readers of this study will probably be Dutch and a research among Dutch MNEs might be of more interest and use to them. Furthermore, the Netherlands is one of the world's leading countries in CSR and Dutch MNEs could therefore be expected to have advanced more than average in the implementation of CSR. The selection of MNEs according to nationality and sector was expected to improve the comparability between the different MNEs, while it would still yield sufficient opportunities for the research, given the amount of time and resources available.

As for the geographical choice, the Spanish speaking part of Latin America was the most appropriate region of developing countries to conduct the research for practical reasons, especially that Spanish is spoken by the author. Of all countries in Latin America CSR has advanced most in Brazil, Mexico takes the second place and after that come countries like Chile, Argentina and Colombia. The presence of Dutch MNEs is also greatest in Brazil and Mexico, respectively. Within Mexico, Dutch MNEs turned out to be heavily concentrated in and around Mexico City and to a lesser extent in the Monterrey region, hence the focus on central Mexico.

In order to reach the aim of this study, while taking into account all considerations that have been explained above, the central research question is:

What is the influence of recent CSR developments on the contribution of Dutch MNEs in Mexico to economic development?

⁵ Previously called 'Grupo Puentes'.

⁶ For a more elaborate description of the Mexican NGOs in Red Puentes, see section 4.5.

Chapter 3 will explain MNEs' contributions to economic development. The recent CSR developments that appear in the central research question refer to three related developments that have already been mentioned:

1. the rise of a new CSR perspective;
2. the rise of corporate CSR commitments;
3. the rise of international CSR standards.

This divides the central research question into three parts, about the influence of each development, that will be dealt with separately. Attention should be paid to the difference and the relation between these three parts of the research question, though.

In short, the first development consists of the diffusion of new ideas and ways of thinking about the role of MNEs, promotion of CSR and pressure for changes in MNE behaviour that might result in local initiatives for CSR. The diffusion of a new CSR perspective in Mexico will first be charted by investigating organizations in Mexico that seek to promote CSR. Once the actual rise of new ideas and strategies has been identified, the relation between CSR initiatives and this first development can be established.

The second development, the rise of corporate CSR commitments, consists of CSR initiatives that are decided upon at the corporate level. These initiatives often take the form of global codes of conduct or other policies and strategies that are imposed on the individual enterprises that belong to a MNE. What causes the rise of these corporate commitments is a question that falls outside the scope of the research. Because the research was carried out in Mexico, the first development is studied in more detail. The first and second part of the research question are concerned with the influence on MNEs' contributions to economic development of CSR initiatives at the local and corporate levels, respectively.

The third development, in contrast, does not in itself lead to initiatives for CSR and therefore has indirect effects only. Voluntary international CSR standards can influence the behaviour of MNEs in several ways. They can be adopted or used as a point of reference by MNE managers themselves, either at the local or corporate level, but they can also strengthen civil society pressures to change MNE behaviour or be used in efforts to promote CSR. In the first case the influence of international CSR standards is determined by the way they affect local or corporate CSR initiatives. The third development then affects the responses to the first or second development rather than these developments themselves. In the second case they affect the promotion of CSR and alter the incentives for CSR initiatives. This can take place at the corporate or local level, but as the incentives for corporate CSR commitments fall outside the scope of the research, the use of international CSR standards for the promotion of CSR is only investigated at the local level.

The theoretical framework for the analysis of contributions to economic development in chapter 3 indicates that the incentives and the profitability of CSR initiatives need to be included in the analysis. In that chapter it will be argued that CSR initiatives resulting from outside pressures or ethical incentives might disturb the functioning of markets, whereas CSR initiatives resulting from regular business incentives cannot have such adverse effects. Again, the incentives for corporate initiatives are not investigated, but this is partly solved by an assessment of the profitability of CSR initiatives at the local level. It is also necessary to check profitability because local CSR initiatives that are not intended to obtain business benefits may still have a positive business impact. Thus, incentives and actual profitability may be related but are included separately in the research.

It follows that the information that is needed to determine the effects of the three CSR developments will be produced by answering the set of more detailed questions below.

1. What are the recent CSR initiatives of Dutch industrial MNEs in Mexico at the local level?
2. What are the incentives at the local level for these CSR initiatives?
3. What is the influence of the rise a new CSR perspective in Mexico on the CSR initiatives?
 - 3.1 To what extent has there been a rise of a new CSR perspective in Mexico, as indicated by the ideas and strategies of organizations in Mexico that seek to promote CSR?
 - 3.2 What is the influence of these ideas and strategies for CSR on the CSR incentives at the local level?

4. What is the influence of the rise of corporate CSR commitments on the CSR initiatives?
 - 4.1 What are the recent corporate CSR commitments of the MNEs?
 - 4.2 What is influence of these corporate CSR commitments on the CSR incentives and initiatives at the local level?
5. What is the influence of international CSR standards on the CSR initiatives?
 - 5.1 What use is made of international CSR standards for the promotion of CSR by organizations in Mexico?
 - 5.2 What use is made of international CSR standards for corporate CSR commitments of the MNEs?
 - 5.3 What other use is made of international CSR standards for the CSR initiatives at the local level?
6. Are the CSR initiatives profitable at the local level?
7. What is the influence of the local CSR initiatives on MNEs' contributions to economic development?

The recent CSR developments mentioned in the central research question appear in the questions 3, 4 and 5 above. The answer to question 3.1 makes up a substantial part of this study. Question 4.2 is a dual question because it relates corporate CSR commitments to both incentives and initiatives at the local level. If managers at the local level are stimulated to take their own CSR initiatives, this may enhance their perception of CSR incentives and space to manoeuvre, but will not directly determine CSR initiatives. By contrast, if MNE-wide CSR standards are adopted at the corporate level, this may directly translate into local CSR initiatives, but local incentives for CSR may remain unchanged.

The local and corporate levels that are mentioned in the research questions need some further explication. The corporate level of a MNE refers to the highest level or levels of decision-making at which global, MNE-wide policies are decided upon. These include corporate CSR commitments. Next, some MNEs consist of multiple business units, divisions or branches. These usually refer to different product groups that may have considerable autonomy. A MNE can also be divided into several formerly independent parts that have merged but retain some of their original autonomy or identity. In both cases divisions may have their own brands. A MNE can have regional divisions too, and some have combinations of business units, brands and geographical divisions. Most variation in MNE structures is in these intermediate levels; some have many and some have none at all. After that comes the local level which refers to all individual enterprises plus a national MNE division in the case of Shell, Philips and Unilever. Each individual enterprise may finally consist of different plants or locations. Note that CSR itself does not necessarily refer to the corporate level, but to company responsibility in general.

The relations between the different questions are visualized in figure 1. The three CSR developments that are studied appear at the top of the figure, with international developments on the right side. All arrows indicate influences and the figure shows how the rise of a new CSR perspective in Mexico (3.1), corporate CSR commitments (4.1) and international standards may, in several steps, influence the contributions of MNEs to economic development (7), which appears at the bottom of the figure. Profitability at the local level (6) has been depicted as an aspect of CSR initiatives rather than something influenced by it.

The first part of the theoretical framework, chapter 2 on CSR theory, is used to analyse everything in the upper part of the figure down to CSR initiatives at the local level (1) and their profitability (6). The second theory part, chapter 3 on CSR and economic development, is used to analyse the complex relation between CSR initiatives (1) and the contributions of a MNE to economic development (7) at the bottom of the figure, a relation that is influenced by the profitability of the CSR initiatives (6).

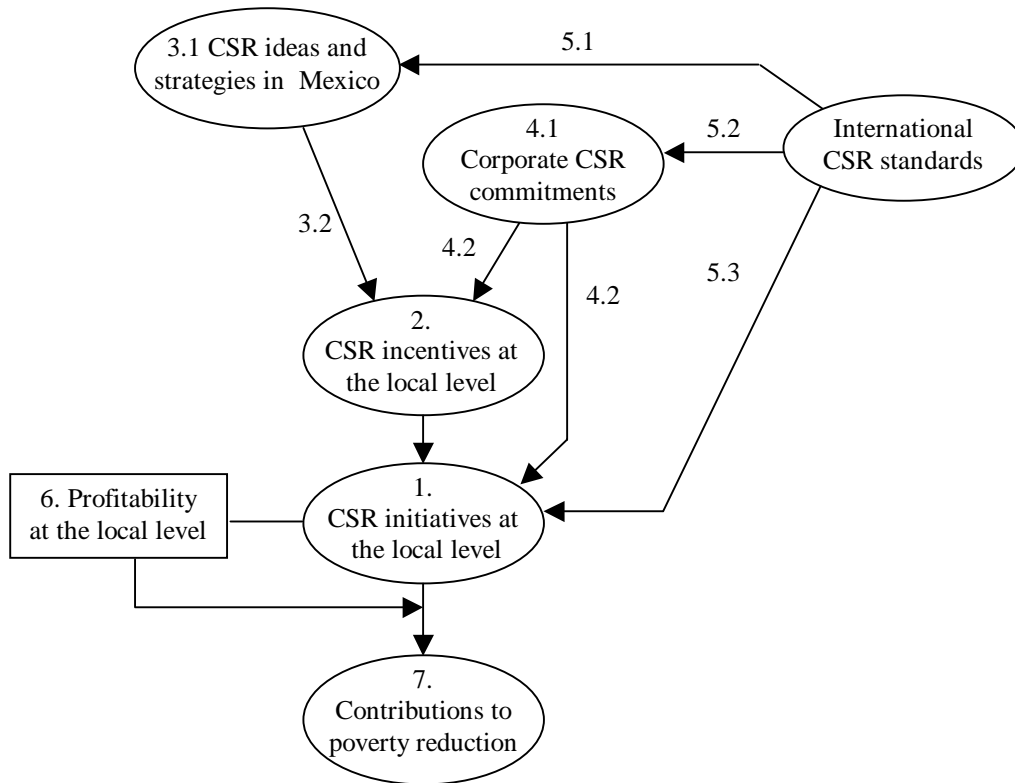


Figure 1: The relations between the research questions.

A more elaborate description of the three CSR developments and the definition and operationalization of CSR itself, CSR initiatives and other expressions that are used in the formulation of the research questions will follow in section 1.3 on methodology and chapter 2. For now it is enough to note that CSR will be used in a broad sense, like it is generally understood by its proponents, and that CSR initiatives are concerned with changes in MNE behaviour that are perceived to contribute to CSR. The need to use such an interpretation of CSR follows from research design, which can be summarized as follows: to explore whether the rise of what is generally considered as CSR is indeed beneficial for developing countries.

An important proposition behind the research design is that CSR should not be treated as a single issue, but as a set of related issues such as labour issues, environmental impacts and business integrity that are developing unequally and influence MNEs' contributions to economic development in different ways. The developments in CSR and their effects are therefore analysed separately for each issue. Such an approach is not so often encountered in CSR literature. The research includes the following selection of CSR issues: labour issues, employee health and safety, environment, stimulation of the host economy, community impacts, business integrity, taxation and free competition. More will be explained about these and other CSR issues in section 2.2.

The influence of CSR initiatives on MNEs' contributions to economic development will be assessed individually for each of the various CSR issues using a theoretical framework that considers both direct and indirect, micro and macro effects. The debate about the desirability of CSR is politically loaded because it involves a statement about the distribution of responsibilities between enterprises, the state and civil society. The framework that is developed in this study is itself intended to be neutral. An important limitation of this study is that the effects are not quantified. Attention will be paid to possible adverse affects of CSR initiatives, but they will not be weighted against positive impacts. Furthermore, no effort will be made to aggregate the impacts on individual CSR issues into a total net effect of CSR as a whole.

1.3 Methodology

The empirical data for the research have been gathered from Dutch MNEs and a variety of organizations in Mexico in the period from February till July 2003. The data from the organizations in Mexico is used to answer the questions 3 and 5.1 and the data from Dutch MNEs is used to answer the other questions and 3.2 as well. Before discussing the methods that were used to obtain the data for the research, a few remarks should be made about the use of the data.

Sometimes CSR initiatives have to be identified by comparing company conduct to effective legal obligations; more will be explained about this in section 2.2. However, enterprise initiatives can only have been influenced by recent CSR developments if they are themselves recent and date from no more than some six years ago. The underlying incentives will indicate how recent CSR initiatives relate to recent CSR developments. Non-recent CSR initiatives are investigated as well because they may tell something about opportunities and limitations for recent CSR developments. The effects of CSR are determined by comparing the changes of company conduct in time for each company, not by comparing between companies. Similarly, the influence of international CSR standards on enterprise practices is determined on the basis of individual case-studies and not by comparing between enterprises that did or did not adhere to international standards. For question 5.2 mainly secondary data about corporate policies is used and it will turn out that this question cannot be answered in full.

1.3.1 Selection of enterprises

In addition to nationality, some other criteria were used to establish the research population of enterprises. The selection has been limited to the industrial sector to obtain a more homogenous group of enterprises in the research. Other sectors like services, finance, extraction of natural resources and agriculture would each imply a different focus on CSR issues. Although improved comparability between enterprises is not necessary to determine the effects of individual enterprise initiatives, it is useful to get a more representative view of overall initiatives on each CSR issue. Thus, it enables the aggregation of data of different enterprises per CSR issue. Engagement in direct production was added as a criterion to exclude import and export agents, sales agencies and holding constructions that were irrelevant for the research. Finally, only medium and large enterprises were selected because recent CSR developments, especially the creation of international CSR standards, are first affecting these enterprises. The formal criteria to decide whether an enterprise in Mexico belonged to the research population at the time of the research are listed below.

Criteria for enterprise selection

- It is owned for more than 50% by a MNE that is registered and has its headquarters in The Netherlands or, when it is owned by a MNE that in turn belongs to a larger MNE, the Mexican enterprise is owned for more than 50% by the first MNE (which does not have to be Dutch) and this first MNE is in turn owned for more than 50% by a MNE that is registered and has its headquarters in The Netherlands.⁷
- It belongs to the economic sector of industry and manufacturing, according to its classification in the *Sistema de Informacion Empresarial de Mexico* (SIEM, Mexican Enterprise Information System).⁸
- It is engaged in direct production according to information from the enterprise itself.
- It has at least 50 employees.

The population was first established using a list of Dutch MNEs in Mexico prepared by SOMO (Schipper 2001), which was based on Elsevier enterprise reports 2001 and the Dun and Bradstreet database 2001 and selected using the Lexis/Nexis database. This list was combined with enterprise

⁷ For instance, the Mexican enterprise Química Esteroidal is owned by Diosynth, based in the USA, and Diosynth is controlled by Akzo Nobel. By formulating the criterion of final Dutch control this way, enterprises like Química Esteroidal are included in the selection. Royal Dutch/Shell, Unilever and Corus, which are based in both The Netherlands and the United Kingdom, are counted as Dutch MNEs.

⁸ Hunter Douglas and some of the Unilever enterprises did not appear in this system at the time of the research but were nonetheless classified as manufacturing enterprises. For more information about the SIEM, see references.

listings from the Mexican Embassy in The Netherlands and the Royal Netherlands Embassy in Mexico. All lists were different and the Elsevier and Dun and Bradstreet listings included many MNE that were registered in The Netherlands only but had their headquarters in another country or belonged to a parent MNE of another nationality.

Many non-Dutch MNEs that invest in Mexico are registered in The Netherlands because of attractive investment regulations.⁹ Before the North American Free Trade Agreement (NAFTA) was enacted in 1994, complex ownership constructions involving subsidiaries of the same corporation in different countries were also used to satisfy the Mexican requirement for the registration a foreign enterprise to have at least five different shareholders. Only after the research had started it was discovered that because of such constructions a complete and reliable listing of all Dutch MNEs in Mexico does currently not exist. Indeed, a few enterprises that did not appear on any of the consulted enterprise lists were identified through other sources and added to the research population. Information about nationality was corrected for recent takeovers and other criteria for selection were verified using the SIEM, company websites, news articles, other enterprise information available from the Internet and through personal communication with the enterprises. These sources were also used to collect general and CSR-specific information about enterprises before realizing interviews or sending questionnaires. The total number of identified enterprises that met all criteria was lower than expected at 25, excluding corporate offices and Unilever enterprises. A list of these enterprises can be found in appendix 1.

1.3.2 Enterprise interviews

In the end, about half of the selected enterprises turned out to be located in and around Mexico City, mostly in the *Distrito Federal*¹⁰ (DF) and the Estado de México (one of the 63 Mexican states that almost encloses the DF), but also in the states Querétaro and Morelos. These enterprises could be visited for case studies, depending their cooperation with the research. Such visits always started with interviews with one or more members of the enterprise management. Sometimes these were followed by interviews with other enterprise employees and with representatives from organizations that had some interest in the operations of an enterprise. The latter included trade unions, providers, clients, local governments, employers' unions and university research departments. In addition interviews were held with one manager each at the corporate offices of Shell, Philips, Unilever and Shell in and near Mexico City. After that, an interview by telephone was realized with the manager from the Shell offices in Mexico City and a manager from the Shell plant in León at the same time. In addition, one case study of a Philips enterprise was included, but no individual Unilever enterprises were visited. A couple of times two persons were interviewed together and some of the enterprise managers provided a second interview or responded to additional questions sent afterwards by e-mail.

At the start of the research Guadalajara and Monterrey were identified as possible areas for more enterprise visits with various selected enterprises each, but only one enterprise was visited in Guadalajara after the original selection proved to be erroneous and several non-Dutch enterprises were removed from the list. Enterprises in Monterrey were approached in a later stadium and interviews were held by telephone for cost-efficiency reasons. Three enterprises in Monterrey cooperated with the research. For 7 enterprises plus the enterprises which belong to Unilever, visits or telephone interviews could not be realized because of a failure to establish contact and plan interviews within the time available for the research, the lack of information that could be provided by the enterprise or a refusal of the enterprise to cooperate. The effects of this non-response will be discussed in section 5.11.

By these various ways 12 different enterprises and 3 corporate offices were covered through a total of 50 interviews. The different cases range considerably in size from a one-hour telephone interview with an enterprise manager to more than a dozen of interviews after repeated visits, including with various organizations of the type mentioned above and supplemented by policy information, reports and other documents provided by the enterprise.

Interview guides were used for all interviews. Although they were based on a general guide of interview topics, there was considerable variation in the interview guides depending on the previously

⁹ This was confirmed during interviews with resource persons in Mexico. In addition, some rumours exist about Dutch phantom-companies that serve to produce tax-deductable holidays in Mexico only, disguised as visits for annual shareholder meetings.

¹⁰ *Distrito Federal*: the Federal District that contains the largest part of Mexico City.

available information about an enterprise and the function of the interviewed person or the interests of a related organization in the enterprise. No example of an interview guide is therefore attached to this report. Some degree of flexibility was also present during the interviews, mainly resulting from differences in enterprise priorities, approaches and of course acquaintance with the concept of CSR. After an explanation of the research project, and when necessary an introduction about the enterprise or organization concerned, virtually all interviews started by a asking about the responsibilities of an enterprise. Furthermore, the next topics were always touched, the words in brackets correcting for the function of person interviewed and the presence or absence of CSR initiatives: recent CSR initiatives of the enterprise, (perceived) reasons for (not) taking CSR initiatives, (expected) effects of CSR for the enterprise and other parties and the use of international CSR standards.

For reasons explained in the previous section, these and other topics were as much as possible handled per issue and not for CSR as a whole. Net profitability of CSR initiatives was not calculated through a complete cost-benefit analysis but indicated by enterprise managers. When possible, the answers were cross-checked in other interviews to correct for social desirability, which may cause responses to be biased towards profitability. Free competition and taxation received less attention than the other issues and were not included in all interviews.

1.3.3 Enterprise questionnaires

Apart from the enterprise interviews, questionnaires were sent by email to enterprises that were not located near Mexico City, Guadalajara or Monterrey. The questionnaire has been tested once at the first enterprise visit, in which it has been used as an interview guide, and was then adjusted and restructured. Originally the combination of case-studies and a survey was intended to deliver not only qualitative descriptions of individual cases but also information that would, despite the use of two different methods, have some quantitative significance for all Dutch industrial MNEs in Mexico that cooperated with the research on topics that appeared both in questionnaires and interviews. Because a complete overview of Dutch enterprises in Mexico does currently not exist, the identification of a reliable population and a representative sample were impossible, thus the attempt failed. No estimate of the number of Dutch MNEs that have been overlooked is available. It can only be assumed that the selection includes all well-known and more conspicuous enterprises and market leaders. In fact, many enterprises in the selection are market leaders and this leads to problems in the analysis concerning the link between market position and CSR initiatives.

Other factors that severely reduced the contribution of the survey to the research were the dwindling numbers of Dutch enterprises after it was discovered that the original selection was based on wrong data, difficulties to obtain correct address information and to establish contact with enterprises in time and probably the length of the questionnaire and the sensitivity of some questions. In the end not more than 8 questionnaires could be sent and only 2 were returned, one of which had been sent because the management preferred a questionnaire above an enterprise visit. The questionnaires could therefore be regarded as an alternative way of gathering enterprise data that is used for the same purpose as the data gathered by interviews. Adding the questionnaires to the interviews, data about 14 enterprises and 3 corporate offices belonging to 10 different Dutch MNEs was obtained.

1.3.4 Organization interviews

Unlike the selection of enterprises, only a few organizations in Mexico that seek to promote CSR were identified in advance. When these were visited they provided information about other organizations in Mexico that could be interesting for the research and an overview of organizations in Mexico was then established through a snowball-method. Of course not all organizations in Mexico that were involved with the promotion of CSR could be visited, but it can be assumed that the most important organizations have at least all been identified and most of them have been visited. This is deduced from references of the organizations that have been visited last, which did not point towards important new organizations anymore, attendance of organizations at two major conferences in Mexico about CSR and secondary information about CSR in Mexico. On the same grounds no network of any significance, consisting of other organizations and largely unconnected to any of the organizations that have been visited, can be expected.

The selection of organizations for interviews was intended to achieve maximal variety in the type of organizations and to cover all major organizations and members of all major networks of organizations. A total of 25 interviews was held with representatives of development-oriented and business-oriented¹¹ NGOs, business organizations, CSR researchers and consultants, trade unions, employers' unions and chambers of commerce confederations, the Royal Netherlands Embassy, intergovernmental organizations present in Mexico and the National Contact Point (NCP) for the OECD guidelines for MNEs¹² that is run by the Ministry of Economic Affairs. Only universities and ministries, other than the NCP, have not been visited. The findings of the organization interviews are described in chapter 4 and appendix 2 contains address information of the organizations.

Apart from a few exceptions it was relatively easy to establish contact with these organizations and there were no refusals to give interviews. All visited organizations, and indeed all major organizations that are involved with CSR except for a few universities and regional organizations, are located in Mexico City. Several representatives were interviewed twice. Many of them provided large amounts of secondary information too such as magazines, leaflets, booklets and newspaper articles. Similar to the enterprise interviews, information about organizations was collected in advance using information available from the Internet, especially organization websites, news and magazine articles and from materials that had already been provided by other organizations.

Interview guides were used for all interviews and were adapted to previously available information and the organizational focus. After an explanation of the research project, and when necessary an introduction about the organization concerned, most interviews started by asking about the importance of CSR for the organization. The topics that appeared in all interviews were their strategies to promote CSR, perceived incentives for CSR, the acquaintance with, use and appropriateness of international CSR standards, and cooperation with and opinions about other organizations in Mexico that seek to promote CSR. Due to the large differences among organizations, more flexibility was allowed than in enterprise interviews. Despite the variety of CSR issues it was not useful to distinguish between them at all moments, because organizational strategies to promote CSR were often applied to CSR as a whole.

Many organizations in Mexico interested in CSR, especially civil society organizations, did not have promotional activities yet or had started such activities only recently. Some were therefore still in the process of defining their strategy or exploring new strategies to further CSR. However, other organizations had already initiated projects and programmes that yielded sufficient data to assess the rise of a new CSR perspective in Mexico.

In addition to the organization interviews, the large *Primer Congreso Internacional de Responsabilidad Social e Integridad en México* [First International Congress on Social Responsibility and Integrity in Mexico] was attended. This conference took place on June 18th, 2003 and was organized by business-oriented NGOs and business organizations, led by the *Comité Nacional de Productividad e Innovación Tecnológica* [National Committee for Productivity and Technological Innovation] (COMPITE). Another major event about CSR was the *Seminario Internacional: 'Directrices de la OCDE para Empresas Multinacionales'* [International Seminar: 'OECD guidelines for Multinational Enterprises']. This seminar was held on March 31st and April 1st and organized by trade unions and NGOs on the initiative of the *Friedrich Ebert Stiftung* [Friedrich Ebert Foundation] (FES). This seminar was not attended because it was only noticed afterwards, but detailed information about the conference was obtained afterwards and a couple of interviews were held with seminar speakers. Furthermore, an annual meeting of the NGO *Fundación Vamos*,¹³ which had a roundtable session on CSR, was attended. At the end of the research a workshop for trade unions delegates was given at the *Centro Sindical de Estudios Superiores* [Trade union Centre for Advanced Studies] (CSES) of the *Confederación de Trabajadores de México* [Confederation of Mexican Workers] (CTM). This workshop delivered some useful data for the research as well.

¹¹ The distinction between development-oriented and business-oriented NGOs is explained in section 4.3.

¹² In Spanish: *Líneas Directrices para las Empresas Multinacionales* (LEMs)

¹³ Not to be confused with the NGO 'VAMOS!'. Note also that the website of *Fundación Vamos* is <http://www.vamos.org> and the website of VAMOS! is <http://www.vamos.org.mx>.

1.4 The structure of this thesis

This first chapter has explained the purpose of the research project, the research design and the methods that were used. The structure of the remainder of this thesis is as follows.

The chapters 2 and 3 first provide a theoretical framework for the analysis of the research data. Chapter 2 reviews CSR theory and explains how the CSR initiatives of Dutch MNEs are identified. In this chapter the definition and operationalization of CSR and CSR initiatives are given and indicators of a new CSR perspective are presented. Furthermore, the chapter discusses the incentives for CSR and their relation to recent CSR developments. The concepts, categories and models introduced in chapter 2 return in all subsequent chapters. Chapter 3 provides the analytical framework to assess the influence of CSR initiatives on MNE contributions to economic development. It deals mainly with the impact of FDI in developing countries and the economic influence and appropriateness of CSR initiatives. This second theoretical part is used in chapter 6 only.

The next two chapters describe and analyse the research data. Chapter 4 studies the emergence of CSR in Mexico. The first part of this chapter provides essential background information about the Mexican economy, which will be referred to in chapter 5. The central part of chapter 4 consists of an extensive description and analysis of the attitudes and strategies of organizations in Mexico involved with the promotion of CSR. The conclusions of chapter 4 answer the research questions 3.1 and 5.1 about the rise of a new CSR perspective in Mexico and the use of international CSR standards by organizations in Mexico. Chapter 5 deals with the CSR initiatives of Dutch MNEs in Mexico and analyses the relation between CSR initiatives, CSR incentives and recent CSR developments. The answer to the research questions 1 and 2 about CSR initiatives and incentives can be found in section 5.3. The conclusions of chapter 5 answer the research questions 3, 4 and 5 about the influence of recent CSR developments on enterprise behaviour and research question 6 about the profitability of CSR initiatives.

Chapter 6 continues with the analysis of recent CSR initiatives and deals with their influence on MNEs' contributions to economic development. In this relatively short chapter no new research data are introduced. The conclusion of the chapter explains why it is important to distinguish between the development relevance, social responsibility and social engagement of a MNE and answers research question 7 about the influence of CSR initiatives.

Chapter 7 combines the conclusions and the most important results of the chapters 4, 5 and 6. It starts with a short description of CSR perspectives in Mexico, which helps to put the conclusions in the right context and is also an interesting result in itself, and then continues by answering the central research question. After that follows a discussion on the interpretation and limitations of the conclusions and a short set of recommendations for different actors. The sections of this final chapter resemble the sections of the executive summary carrying the same titles, but only the recommendations are exactly the same. The other sections in chapter 7 are more detailed.

2 CSR theory

2.1 Introduction

This chapter explains how the CSR initiatives of Dutch MNEs are identified. It also provides the theoretical framework to analyse the rise of a new CSR perspective in Mexico and the incentives for CSR, and to relate the incentives to recent CSR developments. The theory of this chapter is used to answer the research questions 1 to 6. The economic theory that is used to assess the influence of CSR initiatives and answer research question 7 will be presented in the next chapter.

Section 2.2 starts with a discussion about the concept of CSR, followed by the definition and operationalization of that are used in this research. After that, it explains the identification of CSR initiatives of Dutch MNEs. Section 2.3 briefly discusses the three recent CSR developments identified in the introduction. It provides a list of indicators that is used to identify the rise of a new CSR perspective in Mexico. Next, section 2.4 distinguishes four categories of local CSR incentives and explains each of these four categories. Together with corporate policies, these categories play a central role throughout the research.

The following two sections continue with a more detailed discussion of two recent CSR developments, employing the categories of CSR incentives have been distinguished in section 2.4. Section 2.5 facilitate the analysis of the rise of a new CSR perspective by introducing some models that are commonly applied as a frame of reference for studies on CSR. Section 2.6 relates the different categories of CSR incentives to the possible uses of international CSR standards by enterprises and organizations in Mexico. Because the research took place in Mexico, the rise of corporate CSR commitments itself is not investigated in detail. A more elaborate theoretical foundation for the analysis of this third recent CSR development is therefore not required.

The conclusion of this chapter summarizes the main elements of the analytical framework that is used to study CSR initiatives, CSR incentives and recent CSR developments and explains which CSR issues are covered in this research.

2.2 The concept of CSR

Corporate social responsibility can be a highly confusing concept. Many different opinions exist about what actually constitutes the responsibility of a company and CSR is also used as a label for a huge variety of company commitments and initiatives. Although CSR is increasingly being understood as a combination of economic, social¹⁴ and environmental responsibilities, often referred to as the ‘Triple P’ of people, planet and profit (Shell International 1999) or the ‘Triple Bottom Line’ (Elkington 1997), there is no general agreement that businesses do indeed have such responsibilities.

Some neoclassical economists argue that enterprise managers do not have a social responsibility other than to maximize shareholder value, while obeying the law and engaging in free competition. They are not authorized to serve other goals because they have no democratic legitimacy to decide what these goals should be. A stakeholder perspective in itself does not provide sufficient guidance, as all choices about CSR involve trade-offs between the interests of different stakeholders (Boatright 2000 p340, 359). It is the task of the government to determine what the public interest is and to impose measures in order to ensure that profit-maximizing business will contribute to it. Pursuing private profits, businesses will end up creating more welfare than when they intended to assume other responsibilities as well (Friedman 1962 p133, Henderson 2001 p21, Norberg 2003, “Lots of it about” 2002). The only additional responsibility of companies then is to correct market failures and internalize the externalities that are not contemplated by laws and official regulations (Henderson 2001 p22, 158-9), in which case a judgement about the public interest has to be made by company managers anyway. More will be said about the neoclassical view on CSR in section 3.3.2.

¹⁴ In corporate social responsibility the adjective ‘social’ is used in a general sense, meaning total corporate responsibility, but when used to distinguish these three areas it gets a more specific meaning. In this thesis it is normally used in its general sense.

More generally, to present social and environmental issues as separate areas of company responsibility is problematic from an economic point of view. As far as the allocation of scarce productive resources is concerned, which is usually the case,¹⁵ any responsibilities grouped under these headings are in fact economic responsibilities and affect welfare (Heertje 2002, Henderson 2001 p48-9). It is important to distinguish between *responsibilities* and *issues*, though. It can be helpful to think of CSR as a concept that encompasses social and environmental issues and this method was frequently used in the interviews to bring up more issues, but social and environmental issues remain nonetheless economic responsibilities. Likewise, social and environmental capital can be considered forms of economic capital (Elkington 1997 p74-5). Even if this is recognized the distinction between social and economic issues can be confusing and was interpreted in various ways by the interview partners.

In contrast to these general economic approaches, CSR is usually not defined in terms of welfare or market failures. Instead, the scope of company responsibilities is often determined by considering the relations between a company and its stakeholders. The stakeholders of a company are all groups that have some legitimate interest in the operations of the company, that is, all groups that are affected by its operations and organizations that represent such groups. These include shareholders and investors, consumers, customers, suppliers, business partners, competitors, employees, trade unions, NGOs, authorities, communities that are affected by a company's operations and other organizations that represent interests of society in general¹⁶ (Clarkson 1995, Holme & Watts 2000, SER 2000 p17). Following this approach, a company is supposed to have a certain responsibility in each of these stakeholder relations (Boatright 2000 p356-9). The development of stakeholder theory has been a major factor that contributed to the rise of CSR (Henderson 2001 p30).

The main CSR issues that can be derived from these stakeholder relations are listed in table 1. With CSR issues is meant here areas of company responsibility towards stakeholders. Of course several CSR issues are of special interest to more than one type of stakeholder, but that has no effect on the total inventory of CSR issues in the table. In most inventories of CSR issues other topics such as complying with legal obligations, transparency and reporting standards, stakeholder engagement and supply chain management appear. These are not included in the table below because they are instrumental or operational concerns that cut across areas of responsibility. In principle, freedom of association and allowance of collective bargaining by democratic trade unions are instrumental issues as well, but they have been included because they are generally considered a fundamental norm in itself. Health and safety are not listed under labour issues but listed as a separate issue, because MNEs often have corporate Health, Safety and Environment (HSE) policies. This causes them to be more closely linked to environmental issues than to labour issues. Human rights are not included as a separate issue because they typically concern labour rights or indigenous peoples' rights that fall under labour issues and community impacts respectively. There might still be a small overlap between some of the issues in the table but that is not relevant for the research. The company conduct that can be considered responsible is described for each issue.

These CSR issues and what is considered responsible company conduct on each issue is intended to reflect the stakeholder perspective, which is the dominant international CSR perspective. The inventory in the table is therefore based on sources such as the CSR Frame of Reference developed by a coalition of some 30 Dutch civil society organizations (CSR Platform 2002). Furthermore, the inventory of CSR issues is meant to be as broad as possible and therefore draws from

¹⁵ Strictly speaking, some specific aspects of responsible company conduct do not directly require the use of scarce resources. Among such aspects are respect for local culture, no harassment or abuse of employees, freedom of association and allowance of collective bargaining by democratic trade unions (see table 1). Indirectly, however, these responsibilities can have important consequences for resource allocation. For example, allowance of trade union activities may have an impact on labour standards, which do affect the allocation of resources.

¹⁶ Society in general will not be regarded as a stakeholder in itself because it is not an actor. It may be true that enterprises are generally considered to have responsibilities towards society in general as well and even to future generations, including in the absence of organized interest groups. An obvious example is the responsibility to minimize long-term environmental impacts. However, to regard society in general as a stakeholder would unnecessarily complicate the analytical framework for this research and in practice, usually a more specific group of affected actors can be identified or organized interest groups are present.

the OECD guidelines for MNEs (OECD 2000), one of the broadest international CSR standards, and an inventory of issues that appear in other international CSR instruments (OECD 2001c p71-5).

| Stakeholders | Main CSR issues | Conduct that is considered responsible |
|---|---------------------------------|--|
| Shareholders and investors | Corporate governance | High corporate governance and accounting standards |
| Consumers | Consumer protection | Sufficient access to basic products and services, sufficient consumer information, no harmful products, no unfair advertising, high product quality and safety |
| Customers, suppliers and business partners | General business conduct | No breach of contract, respect for intellectual property rights, no discrimination of suppliers ¹⁷ |
| Competitors | Free competition | No limitation of competition, no abuse of market power |
| Employees and trade unions | Labour issues | Freedom of association, allowance of collective bargaining by democratic trade unions No bonded labour, no child labour, no discrimination of employees, ¹⁸ no harassment or abuse of employees, high job security, high wages and benefits, high investment in training, good other labour conditions |
| Communities | Health & safety | Safe and healthy working conditions |
| | Community impacts | Respect for community rights, respect for local culture, high community investment, adequate disaster prevention |
| Authorities, NGOs and other actors that represent interests of society in general | Taxation | No tax evasion, including through transfer pricing |
| | Political involvement | No complicity in civil right abuses, no undue political influence ¹⁹ |
| | Business integrity | No bribery of foreign government officials, no corruption in business transactions, no conflicts of interests |
| | Environment | Low waste generation, low emissions, low resource consumption, low energy use, low environmental product impact |
| | Stimulation of the host economy | High employment of local people, high use of local suppliers, high transfer of technology, high investment in R&D in host country |

Table 1: An inventory of CSR issues.

Based on Holme & Watts 2000, UN 2003, MVO Platform 2002, OECD 2001c p71-5 and OECD 2000.

It is very important to distinguish between the different issues that are part of CSR according to the stakeholder perspective. CSR is not a homogenous concept and different aspects of CSR have different impacts on business performance (Elkington 2001 p202, SustainAbility n.d.). Every branch of the economy and indeed every individual company has a different CSR focus. Moreover, CSR issues are developing unequally and to some extent independently from each other, because the

¹⁷ However, 'positive' discrimination that favours local suppliers is generally considered responsible.

¹⁸ Similarly, 'positive' discrimination that is intended to increase the participation of disadvantaged groups is generally considered responsible.

¹⁹ However, active promotion of civil rights is sometimes considered responsible.

incentives and opportunities for what is considered responsible company conduct are not the same across all issues. The impact of CSR initiatives on contributions to economic development are also assessed individually for each issue. The number and character of company initiatives and their influence on a company's contribution to economic development will turn out to differ greatly among the issues covered in the research.

Sometimes CSR is also associated with partnerships between companies and governments or NGOs for the implementation of development projects or with mere philanthropy rather than with responsibilities towards stakeholders in the core-business of a company. These can be seen as forms of social engagement instead of social responsibility (Minez 2003). CSR perspectives that combine issues related to the core-business with social engagement can also be found (e.g. CEMEFI 2003, Kapoen 2002, Waardenburg & Schutten 2001). Although it is not always possible to draw a sharp border, activities related to the core-business of companies are generally regarded as the basis of CSR, thus reducing other initiatives to an optional addition (Graafland 2001 p2-3, Marsden 2001 p45-6, MVO Platform 2002 p2-3, Prakash-Mani, Thore & Zollinger 2002 p32, SER 2000 p12-4, Van Ardenne 2003). The stakeholder perspective entails a focus on the core-business and what comes closest to philanthropy in table 1 is high community investment.

For the purpose of this research, CSR is defined as the type of enterprise conduct that is generally supposed to be desirable in all areas of responsibility towards stakeholders. However, its operationalization described in table 1 is far more important than the definition itself. A multitude of definitions of CSR already exists and the definition above can be replaced by any other definition as long as it is compatible with table 1. The operationalization of CSR used in this research is largely qualitative and does not specify a minimum of company conduct that can be considered responsible for all areas. No corruption and no discrimination of employees are absolute norms, for instance, but it is not stated how good labour conditions should be, how low environmental impacts should be, what access to basic goods and services is sufficient, etcetera.

The reason that quantitative norms are lacking for some areas is that within the stakeholder perspective there exist two main approaches to CSR of which only one stresses absolute and universal norms for company conduct. The other approach is not absolute but relative and perceives CSR as a process of continuous improvement of business performance rather than a fixed standard that has to be observed (e.g. Cramer 2001). Often the two approaches are combined in some way. For example, the Dutch government understands the social character of CSR as not just obeying the law but going beyond it in taking initiatives (Ybema 2001 p4). Many international CSR standards contain absolute norms for some issues and stress continuous improvement for others. This can be illustrated with the OECD guidelines for MNEs. For labour issues these guidelines include many specific universal minimum norms, but at the same time they recommend MNEs to continually seek to improve corporate environmental performance and maximize positive economic and technological externalities for the host country (OECD 2000).

Even those who stress continuous improvement usually recognize that it is part of CSR to comply with national and international legislation, although a relative or combined approach to CSR implies that it is theoretically impossible to incorporate all CSR requirements in legal norms. As a result, there is some consensus about absolute norms but only for a limited number of specific issues. This is reflected in the combination of qualitative and quantitative descriptions of desirable company behaviour in table 1. For this study, the difference between absolute and relative approaches is not so important. A definition of CSR is only needed to identify CSR initiatives. The selection of areas of company conduct where it is supposed to have responsibility towards its stakeholders and the type of company conduct that is desirable in each of these areas are sufficient for this purpose.

CSR initiatives can now be properly defined as all enterprise practices and policies that are desirable from a stakeholder CSR perspective. A point of reference is often necessary to identify CSR initiatives. The largely qualitative operationalization of CSR employed here only allows practices and policies to be qualified as more desirable than other practices and policies. The only exception is when an enterprise complies with absolute norms mentioned in the table above while it is not already forced to do so by effectively enforced legal obligations. For example, if it abstains from paying bribes. In all other cases, a point of reference is required.

Company policies are qualified as desirable when they are intended to result in company conduct that is more socially responsible, compared to the situation before or without that policy. For

company practices a similar point of reference is not always available. If there has been a change in company practices, they can be compared to the practices of the same company before that change. Yet if there has been no such change, two other criteria are used.

If possible, company practices will be compared to the legal minimum of company conduct which is effectively imposed on the company by the host country. Because not all national legal obligations are sufficiently enforced in Mexico and can sometimes be avoided by bribing government officials, the effective minimum is considerably below official obligations. Labour laws and anti-corruption laws can often be violated with impunity, and for smaller enterprises this is true for environmental laws as well. Thus, the research pays attention to the area between effective and official obligations, where legal obligations can be evaded but are nonetheless frequently respected by MNEs, whereas the effects of effective legal obligations on company conduct are not a part of the research. When there has been a change in enterprise practices or when they can be compared to effective legal obligations, responsible practices need not be accompanied by explicit policies.

For a few specific CSR issues, though, absolute or legal norms do not exist, so any fixed point of reference is not available. This applies mainly to local procurement, transfer of technology and R&D investment in the host country. Therefore enterprise practices on these issues will only qualify as CSR initiatives when they result from explicit policies to enhance contributions to economic development. In any case, practices of comparable companies are not used as a point of reference, because market forces, for instance, may cause all comparable companies to adopt the same practices.

Company policies and practices that can be qualified as desirable will from now on be called CSR policies and CSR practices, even though companies themselves do not always recognize or label them as such. It should be reminded that whenever recent changes in company practices are absent, CSR practices cannot be caused by recent CSR developments, but are included in the research because they yield valuable information about CSR and the possible future influence of CSR developments.

2.3 Recent CSR developments

2.3.1 The rise of a new CSR perspective

One of the developments that have contributed to the rise of CSR is the change of NGO attitudes (Tavis 2000). Only a decade ago nearly all NGOs were very hostile towards MNEs and regarded them as exploiters of poor countries that worsen inequality and form an outright obstacle for development. This traditional attitude is still influential, and some even fear that the vast majority of NGOs remains, at best, highly critical of MNEs, capitalism, free trade and capital flows and including the idea of a market economy (Henderson 2001 p67-8). Nonetheless, NGOs now perceive MNEs more and more as agents of change and potential partners for development (Cramer 2001, Noordergraaf & Van Workum 2000 p140-4, Van Genugten & Lubbers 2000). A similar change has occurred in MNE attitudes towards NGOs. It is increasingly being acknowledged by MNEs that NGOs represent legitimate concerns, that it is important to respond to them and a dialogue is often profitable for both (Holme & Watts 2000, Prakash-Mani, Thore & Zollinger 2002 p31, SER 2000 p46, "Living with the enemy" 2003).

In the introduction it was mentioned that CSR is not a new phenomenon, but has developed quickly in recent years. Some developments have been qualitative, like the change in NGO-business relations described above, a change in NGO strategies, the redefinition of CSR from a stakeholder perspective and the emerging consensus about the desirability of CSR (Henderson 2001). Many of these developments were already signalled in Jacoby's 1973 book 'Corporate Power and Social Responsibility'.

Yet there has also been a major quantitative change in the amount of attention for CSR. To a large extent this is linked to the process of globalization (Henderson 2001 p30, Tavis 2000). It is usually perceived that globalization has increased the power of MNEs (Van den Bergh 2000 p108). Furthermore, the surge of Foreign Direct Investment (FDI) in combination with declining levels²⁰ of Official Development Assistance (ODA) has attracted more attention towards FDI as a stimulus of economic development for developing countries (Murphy & Bendell 1999 p40-1, 59; UNCTAD 2001 p33). This combination of factors, which will be further discussed in section 3.4.3, has raised concerns

²⁰ In 2002 ODA-levels rose again, but were still lower than in the early 1990s (OECD 2003).

about MNE behaviour. Not surprisingly, some development-oriented NGOs have shifted the focus of their activities from dealing with governments towards direct engagement with the private sector and especially MNEs (Heap 2000 p1-6, Sustainability 2003b). Activities of trade unions and NGOs to promote CSR, stimulation of CSR by business organizations, public attention for MNE behaviour, policy initiatives at the national and intergovernmental level and attention from the academic world have all surged.

The rise of a new CSR perspective, then, refers both to the qualitative emergence of a new perspective and the quantitative spread of the new ideas about CSR that have emerged. An important part of the new thinking on CSR is the idea that it could be profitable for companies to engage in CSR (Aaronson & Reeves 2002 p3, Prakash-Mani, Thore & Zollinger 2002, Utting 2000) or even a prerequisite for their own long-term sustainability (Elkington 1997, Holme & Watts 2000). The rise of such a perspective is not the same as the rise of CSR itself, because the former only refers to the developments in thinking about CSR and strategies to stimulate it, whereas the latter includes the rise of company CSR initiatives that might result from these developments.

The rise of this new perspective and of CSR itself should not be overestimated, though. In many developing countries there have been no or few changes yet (Hupperts & Kwaks 2001, Hupperts 2001) and even developed countries differ with regard to the adoption of the new CSR perspective by businesses. To determine the influence of this development, it is thus necessary to first investigate the actual diffusion of ideas and strategies associated with the rise of a new CSR perspective in Mexico. The following indicators are used to measure this among organizations in Mexico.

Ideas and attitudes

- Use of a stakeholder perspective to determine company responsibilities
- The idea that MNEs can and should contribute to national development
- The idea that CSR can be profitable or that win-win situations for MNEs and local stakeholders are possible
- No hostile attitude towards cooperation between MNEs and civil society organizations

Strategies

- A focus on the core-business of MNEs instead on philanthropy
- Attempts to convince companies of the need or profitability of CSR (before using confrontational strategies)
- A focus on alternative compliance instead of legal obligations (see section 2.5)
- Promotion of CSR standards

In section 2.5 the transition process towards a new CSR perspective will be discussed in more detail. The research findings about the rise of a new CSR perspective in Mexico are presented in chapter 4.

2.3.2 The rise of corporate CSR commitments

In recent years, many large MNEs have embraced the idea of CSR and publicly committed themselves to it. Some argue that these commitments are not just reactions to outside pressures, but reflect a new positioning about the role of MNEs in society as active promoters of sustainable development (Henderson 2001). The difference between CSR commitments and CSR initiatives is that the former are always based on explicit CSR policies whereas the latter are not, so CSR commitments are a special type of CSR initiatives. It has already been mentioned that such corporate commitments often start by endorsing a corporate code of conduct.²¹ Consequently, the number of MNEs with a code of conduct has risen quickly, especially outside the USA where a majority of MNEs traditionally had a code of conduct already. For example, out of a total of 24 AEX enterprises the number of enterprises with a code of conduct almost doubled from 2001 to 2002 and grew to 17 (Van Uffelen 2002). The content of such enterprise codes vary widely (Kolk e.a. 1999), from general references to principles, values and CSR issues that should be considered in company decisions, issues for continuous improvement and aspirational goals for company conduct to detailed norms that have to be strictly observed.

²¹ In chapter 5, a distinction will be made between general business principles and core values on the one hand and codes of conduct and codes of ethics on the other. At this point, it is simply assumed that MNEs have one type of code only, which appears to be a common implicit assumption in literature on 'codes of conduct'.

It has been remarked about codes of conduct that 'a code is nothing, but coding is everything' (Kaptain & Klamer 1991 p23) because the stakeholders of a company should be involved in the process of drawing up a code to make the code meaningful and reflect the issues that are considered important in society (Heap 2000 p128). Besides, a code will only function when the people who work for the company support its content. According to such a vision, actors from both inside and outside a company should be involved in the coding process. However, this approach produces all different kinds of codes that do not have a common standard and include a wide array of varying issues, making it difficult to reach a common minimum standard and to compare the performance of companies (Cramer 2001, Doane 2002, Utting 2000 p36). Therefore it is often suggested that companies should refer in their codes of conduct to internationally agreed standards.

Furthermore, for a MNE it is impossible to have a corporation-wide code and at the same time consult all local stakeholders and adapt the code to specific local circumstances. A code that is implemented top-down has the disadvantage that it does not stimulate a dialogue with local partners and commitment from employees, but on the other hand a multitude of locally adapted codes diminishes transparency and consistency. Sometimes this problem is circumvented by setting a code at the headquarters of a MNE (Schouten 2002 p41-4). Each local enterprise belonging to the MNE subsequently may draw up its own code of conduct, in dialogue with internal and external stakeholders and taking into account local contexts and in accordance with the corporation-wide minimum standard.

Apart from the adoption of codes of conduct, corporate CSR commitments may take several other forms. Local company managers can be stimulated to take CSR initiatives, for example by initiating discussion about values and CSR issues, disseminating best practices, allowing and supporting local CSR initiatives or transmitting a CSR culture in corporate communications. In fact, some authors explain the variety of attention for CSR between different countries mainly from differences in business culture (Aaronson and Reeves 2002 p51-2). Such corporate commitments contribute to the spread of a new CSR perspective within a MNE, from the corporate headquarters to production sites in other countries. They can increase local CSR incentives, their perception by local managers and their space to manoeuvre to respond to them.

Comparing the different approaches to codes of conduct and other forms of corporate CSR commitments, it becomes clear that a more centralized and top-down approach, with decisions about the importance and ambition levels of different CSR issues taken at the corporate level, probably leads to a stronger focus on norms instead of continuous improvement and global instead of locally adapted norms. Research findings about corporate CSR commitments are presented in section 5.9.

2.3.3 The rise of international CSR standards

Related to the previous developments is the development of international CSR standards by a variety of business forums, intergovernmental organizations, certification companies, NGOs and trade unions (Elkington 2001 p154-62). The recent surge of international CSR instruments is illustrated by the selection below of important standards for company conduct followed by the year they were developed:

- Universal Declaration of Human Rights (1948) and other Human Rights conventions;
- International Labour Organization (ILO) conventions (various years);
- Caux Round Table (CRT) Principles for Business (1994);
- ISO 14000 standards (1996);
- Global Reporting Initiative (1997);
- ICFTU Basic Code of Labour Practices (1997);
- SA8000 (1997);
- AA1000 (1999);
- United Nations Global Compact (1999);
- Global Sullivan Principles (1977, revised in 1999);
- OECD guidelines for MNEs (1976, revised in 2000).

Two more important new CSR standards are being developed at present by the International Standard Organization (ISO) and the United Nations Sub-Commission on the Promotion and Protection of Human Rights.

These international standards differ widely. Firstly, the AA1000 principles and the Global Reporting Initiatives are concerned with CSR implementation processes and reporting. The other standards all contain norms for company conduct, but they differ considerably with respect to contents and follow-up mechanisms (OECD 2001c p57-75, Oldenziel 2003). Some standards cover more CSR issues than others. The SA8000 and the ICFTU Code are standards for labour issues only and the ISO14000 is specifically designed for environmental management, the other normative standards above all contain multiple issues. Standards also differ in the amount of detail of CSR norms. The Global Compact and the Global Sullivan Principles are among the least detailed codes because the idea behind these two initiatives is to establish general principles and then promote continuous improvement of practices. The OECD guidelines, that will be explained in more detail below, can be classified as both comprehensive and detailed (OECD 2001c).

Some of the most striking differences lie in the follow-up or implementation procedures of the codes. The CRT Principles for Business have no procedures for promotion or follow-up and are intended as an aspirational framework within which individual MNEs can draw up their own, more specific code of conduct (Cavanagh 2000, Tenbrunsel 2000). The Global Sullivan Principles and the UN Global Compact seek the endorsement of companies. In early 2003 the number of companies that have endorsed the UN Global Compact was around 600 (UN Global Compact 2003). The Global Sullivan Principles were at that time endorsed by some 200 companies plus a number of local governments, education institutes and non-profit organizations (Global Sullivan Principles 2003). The implementation procedures of the OECD guidelines rely on the work of the National Contact Points. While company endorsement was not a primary goal and is not officially being registered, some corporations have recently declared their support for the OECD guidelines.

Compared with other international standards, the OECD guidelines cover a broad spectrum of CSR issues. They refer to human rights and include the norms of the fundamental ILO conventions but also deal with environmental issues, taxation and business integrity. The governments of the OECD countries and the non-members Chile, Argentina, Brazil, Slovenia, Lithuania and Estonia have officially adopted the recommendations of the OECD and agreed to encourage its private sector to act in accordance with the guidelines. The OECD guidelines have a voluntary character but their endorsement by governments gives them a special status.

At the major review of the guidelines in 2000 the accompanying implementation procedures have been strengthened. The National Contact Points are responsible for the promotion of the guidelines and should function in a visible, accessible, transparent and accountable way (OECD 2000). A unique feature of the implementation procedure is that complaints about multinationals that do not live up with the guidelines can be filed at the NCP of any country the MNC operates in, whether or not the multinational itself has acknowledged them. The problem may be solved by mediation of the NCP and this might at least press companies that would otherwise refuse a dialogue to start discussing their conduct (VMD 2002 p10-1). When it is proven that there has been a breach of the guidelines and no agreement for improvements is reached, the NCP is expected to make a public statement about the case. This can put pressure on a company that does not behave responsibly. Some countries have taken additional steps to promote the guidelines. The Dutch government took the strongest approach, linking it to government subsidies, which has led to severe business opposition (Aaronson & Reeves 2002 p15)

The guidelines have some weak sides too. The only official sanction for breaching the guidelines being a negative public statement about a company, doubts may arise about its enforcement mechanism. Besides, the language is unclear on implementation, because of qualifications like 'where practicable'. This has caused disagreements, most importantly about how companies can be held responsible for the actions of their contractors and subcontractors. Several countries like Mexico and the USA have done virtually nothing so far to promote the guidelines. Therefore, some authors claim that the implementation process is not working (Aaronson & Reeves 2002 p12, Macdonald 2000). The OECD guidelines may have been officially endorsed by governments, only a limited number of MNEs have made the effort to fully incorporate them into their corporate policies.

From a business point of view, the OECD guidelines may not be most prominent CSR standard (Maresca in OECD 2001a). Others argue that a combination of instruments is needed. For example, it has been mentioned that the weakest point of the OECD guidelines is its treatment of non-financial disclosure and reporting and this is complemented by the detailed GRI guidance for reporting. The implementation of the guidelines could also be linked more closely with those of the ILO (OECD 2001c p56).

Few representatives of civil society view the OECD guidelines as the key tool that will press business to adopt more responsible behaviour in their global actions (Aaronson & Reeves 2002 p29). Nonetheless, Friend of the Earth Netherlands has designed a toolkit for NGOs to make use of the OECD guidelines to promote responsible business behaviour (VMD 2002). Members of Red Puentes also expect the OECD guidelines to be a useful instrument (Red Puentes 2002) and the guidelines are strongly supported by the European Commission (European Commission 2002).

In section 2.6 the uses of international CSR standards will be discussed in more detail. Research results about the use of the OECD guidelines and other standards are described in chapter 4 for organizations in Mexico and in chapter 5 for enterprises.

2.4 CSR incentives

A heated part of the debate about CSR is concerned with the driving forces that cause companies to take CSR initiatives. This is a crucial issue for policy formulation because it has far-reaching consequences for the ways to stimulate CSR and the type of standards and reporting that are required. Yet what matters most for this study is that the incentives for CSR have consequences for the type and ambition level of local CSR initiatives, the use of international CSR standards and possible adverse effects on economic development. The debate is sometimes highly politicised because assessments of different CSR incentives and their functioning can be influenced by predetermined expectations about MNE behaviour and the functioning of markets. This is especially true for political positions about the role of the state and the freedom that should be allowed to companies and easily leads to biased statements about the strength of any of the incentives described below. Special attention should therefore be paid to the interpretation of the inventory provided in this section. Possible incentives are identified and their implications for CSR initiatives are discussed, but this does not yet imply any judgement about their functioning in practice. Political arguments in favour or against CSR are discussed in the sections 3.3 and 3.4.

2.4.1 Categories of CSR incentives

The analysis the CSR incentives is facilitated by grouping them together into broader categories. The United Nations Research Institute for Social Development (UNRISD) distinguishes structural, economic and political factors (Utting 2000 p21-3). These factors are similar to the space to manoeuvre (structural), competitive advantage (economic) and external pressure (political) that appear in Cramer's model (Cramer 1999). However, in Cramer's model they are three independent dimensions that together determine the ambition level of CSR. The problem about the factors distinguished by UNRISD and Cramer is that in the end they all come down to economic incentives, thus the category of economic factors or competitive advantages must be somehow more limited.

Other authors use different categories. Graafland divides all incentives for business to engage in CSR into intrinsic, ethical incentives on the one hand and business interests on the other. Theoretically, all incentives can be restated in terms of the other two categories. Legal obligations to behave responsible, for instance, have to be either acknowledged on ethical grounds or worth respecting because it makes sense from an economic point of view (Graafland 2001 p8-10). Van Tulder distinguishes responsive behaviour, combining the political pressures of UNRISD and legal obligations, and responsible behaviour, combining all economic and structural forces (Van Tulder 2002). This useful grouping is in fact a subdivision of Graafland's business interests and misses but ethical category.

For the purpose of his study, a classification is used that strongly resembles the combination of Graafland's and Van Tulder's categories but has a subdivision added to it. CSR Incentives are divided into ethical incentives and three types of business incentives. The relation between this classification and the divisions of Graafland and Van Tulder are shown in figure 2. It should be remembered that, apart from Graafland's considerations outlined above, national legislation cannot be included in this

study as an incentive for CSR because CSR initiatives have been defined as company conduct that goes beyond effective national legal obligations. More will be said about legal obligations in section 2.4.6.

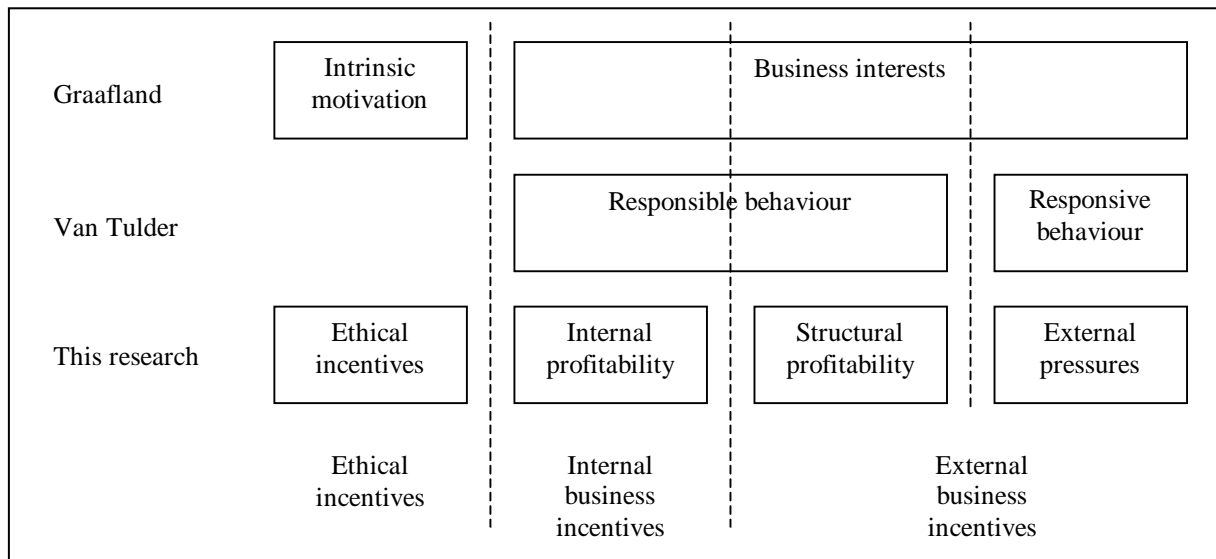


Figure 2: Categories of CSR incentives.

The three categories of business incentives that are distinguished here are internal profitability, structural profitability and external pressures. Although it is not contained in the name 'external pressures', this category of incentives is also a source of profitability, because responding to them makes sense from a business point of view. Internal profitability occurs when stakeholder relations are irrelevant to the business benefits, although it can sometimes resemble structural profitability. An example of an internal source of profitability is environmental process improvement that results in lower production costs. The two other sources of profitability are external because they result from the behaviour of stakeholders in their relation with the company. To avoid confusion, it should be stressed that what these external categories include the relations with stakeholders that one might identify as internal to the company, such as employees. The division between ethical incentives, internal and external business incentives is indicated separately in figure 2.

The sources of external profitability are divided among the lines of agency and structure.²² External pressures result from the purposeful use of agency and are exercised by specific actors – to be precise, individual or collective actors or uncoordinated groups of individual actors – that have some interest in the behaviour of a company. These have already been identified as a MNE's stakeholders. The actions of the actors involved in external pressures are aimed at a specific company in search of specific goals of interest to them.

In contrast, structural profitability result from constraints, opportunities and developments in the economic system at all levels. This system will be understood as a social structure. Profitability is external too in the sense that it results from the behaviour of company stakeholders, but this time the behaviour of these actors does not consist of deliberate intentions to mount pressure on a company and change company conduct. Instead, the behaviour of stakeholders in their relation with the company involves the reproduction of structured patterns of actions and can therefore be described as social structures or market forces.

Although it is not always possible to draw a sharp border between the two categories of external business benefits, they do have some different characteristics. Firstly, CSR initiatives driven by structural profitability are a response to market forces, whereas CSR initiatives brought about by external pressures are a response to political forces (Jacoby 1973 p195). Secondly, CSR initiatives to enhance company image are aimed at the creation of a distinctive and attractive company identity when motivated by structural profitability, while they serve to sustain company reputation when driven by external pressures. Thirdly, the latter leads to business-focused and defensive or reactive and

²² For a discussion of the concepts agency and structure as they are used here, see Sibeon 1999.

CSR initiatives. Initiatives are reactive if they are a response to actual pressures on an enterprise and defensive when they are intended to prevent such situations. Structural and internal profitability take a middle position here, leading to more or less neutral initiatives, neither driven by potential or actual pressures nor really proactive. Ethical incentives appear at the other end of the spectrum and are conducive to both proactive and broadly-focused CSR initiatives (Henderson 2001 p23-3).

Apart from business benefits, CSR is obviously accompanied by cost increases as well. Especially in the case of corporate commitments, the main burden of CSR initiatives is likely to consist of the additional demands on management at all levels (Henderson 2001 p59). Furthermore, increases in wages and benefits, waste treatment, community investment etcetera all imply direct additional costs, while norms such as refusing to work with business partners that do not comply with certain CSR standards can cause lost business opportunities and other types of forgone revenues (Henderson 2001). What matters, then, is whether or not the benefits exceed the costs and CSR is on overall net-profitable. Several studies have confirmed a positive or at least non-negative correlation between CSR standards and various measures for financial performance among companies (Arthur D. Little & BITC 2003, Kolk e.a. 1999 p149, McWilliams & Siegel 2000, Waddock & Graves 1997, Webley & More 2003). This means that CSR is a strong indicator for financial performance and sound corporate governance (Echo Group 2003, Webley & More 2003) which is sufficient to influence decisions of investors, but does not yet prove a causal relation between CSR and financial performance. A general explanation would hold that because of one or more of the sources of profitability identified below, CSR initiatives do indeed result in financial out-performance. Yet even then it still has to be proven that this would be true for all firms, because MNEs that show high financial performance might for some reason be in a position where they can access more sources of profitability or are subject to more pressures. Finally, a serious limitation of such studies is that they normally try to prove a relation between financial performance and CSR as a whole, while there are great differences between CSR issues, including with respect to profitability.

Before discussing the three categories of sources of profitability and ethical incentives for CSR in more detail, the purpose of the inventory that follows should be recalled. It is intended as a framework for the analysis of incentives and profitability of CSR initiatives at the local level and for the derivation of possible uses of international CSR standards. If CSR standards set at the corporate level, already discussed in section 2.1.2, are added as a fifth category, the inventory should contain all reasons why local companies implement CSR initiatives. A few incentives and company strategies to obtain business benefits were first identified during the research, but are already included below so, the resulting inventory provides a complete framework for the analysis of incentives behind CSR initiatives, profitability of these initiatives and the derivation of possible uses of international CSR standards.

For CSR incentives at the corporate level a slightly different inventory would be needed. Most incentives are basically the same, except of course that the category of corporate CSR standards needs to be dropped and a category of international legal obligations needs to be added instead. While national legislation cannot be an incentive for CSR because of the definition employed for this research, effectively enforced international legislation can. Profitability too applies to the local level only, so in the three categories of business benefits the costs of the additional burden on corporate management and other non-local costs are not considered. Similarly, sources of profitability like pressures at corporate level, facilitation of international production chain management, company identity in export markets, employee motivation effects in the home country and other non-local effects are not included in the inventory.

2.4.2 Ethical incentives

Ethical incentives cause enterprise managers to implement socially desirable practices because they acknowledge they have the responsibility to do so, whether or not it is profitable (Kapoen 2002, Quarter 2002). When MNEs state that it is their role to actively contribute to sustainable development, this is usually driven by ethical incentives. These can become more important when a company is in private ownership or when the majority of company shares is held by a family or personal network. The Body Shop is a famous example of a company with high ethical standards that are facilitated by concentrated ownership of shares in the hands of people who feel strong ethical responsibility (Quarter 2002).

While ethical incentives can be a reason for a company to engage in CSR for issues where ethical responsibility is recognized, they do not by themselves explain the level of CSR commitments. Cramer argues that, in addition to ethical imperatives, the level of CSR ambitions is determined by the profitability that results from the initiatives and the space to manoeuvre that is available for company managers (Cramer 2001 & 1999). Graafland argues that ethical responsibility would assign a value in itself to responsible company conduct, so progressively increasing standards of responsible conduct could offset for decreasing profitability to form iso-value curves of different combinations that are of equal value to a company manager. As a result, ethical responsibility should cause a company to increase CSR standards beyond the point where this ceases to be profitable. Combined with the argument that CSR is in general profitable this leads him to conclude that an ethical drive is largely absent (Graafland 2001).

By definition, any local CSR initiatives that do not deliver business benefits are philanthropic and motivated by ethical incentives. Even when local CSR initiatives do deliver business benefits, as long as these were not considered or recognized in advance such initiatives are still automatically classified as motivated by ethical incentives, although they are not philanthropic. A reason for managers to make purely philanthropic donations through their company rather than on a personal account is that such donations are tax deductible (Friedman 1962),²³ but although this makes them less costly, they remain philanthropic.

2.4.3 Internal profitability

Perhaps because the stakeholder perspective on CSR focuses on the relations between a company and its stakeholders, internal factors profitability of CSR initiatives are not so often mentioned in CSR literature. Yet they exist, for instance, cost savings and productivity raising have been proven to make a strong business case for environmental process improvement and improved human resource management (Prakash-Mani, Thore & Zollinger 2002). The incentive of internal profitability can also be expected to be present for reducing accidents and lost time, that make a strong case for occupational health and safety (Henderson 2001 p113, SustainAbility n.d.). Especially in the areas of education and healthcare when government services are insufficient, community investment, not to be confused with corporate philanthropy, can deliver important business benefits. The returns come in the form of a more healthy and better schooled workforce and may be so large that these investments can be profitable even for individual firms. Some kinds of company donations that may at first sight seem purely philanthropic can also serve concealed business interests, for example, donations in kind to poor people which are at the same time a form of promotion of company products.

In the case of internal profitability incentives, the issues and ambition level of CSR initiatives are not influenced by stakeholder relations. The issues where action is undertaken are determined by the opportunities for profitable initiatives that are recognized, while one should expect the ambition level of CSR initiatives to be an equation of marginal cost and revenue and conducive to continuous improvement.

2.4.4 Structural profitability

In contrast to internal profitability, many sources of profitability that invoke the behaviour of stakeholders, but not political pressures, can be found in CSR literature. In short, it is argued that companies can use stakeholder engagement, stakeholder expectations about CSR and structural CSR requirements to their own benefit and use CSR standards to manage industrial relations. Stakeholder engagement can also make a valuable contribution to the organizational learning of a company (Murphy & Bendell 1999 p27-8, Zadek 2001).

Some sources of competitive advantage are strongly related to the increase of official requirements and expectations about CSR performance. A company can adopt a CSR policy to anticipate future developments in markets and national or international regulations. The threat of possible future legislation has been identified by UNRISD as a major drive for CSR in the past (Utting 2000). Being an early-mover could provide a company with specific advantages such as setting a standard for others or accessing resources that will become increasingly scarce (Hart 1995, Hösle 1991). Furthermore, when certain CSR standards are officially required in high-income export markets, companies can increase their market access by adopting these standards.

²³ Company donations are tax deductible in Mexico too.

A distinct incentive for CSR is the market share of ethical consumers, who will in their purchasing decisions not only consider information about price and quality but also corporate social performance (SER 2000 p43). Readily recognizable and reliable labels are required to inform consumers about company standards. Currently, this is only a separate niche-market for fair trade and ecological products. The market segment of these products could grow, but several studies show that not all consumers care about social and environmental performance and that consumers often do not base their purchasing decisions on elaborate comparisons (Bruin, Custers & Scholten 1993; Cowe & Williams 2000; Hertz in Arets & Asveld 2002; Trendbox 2000). A related phenomenon, strongly resembling philanthropy but producing business benefits, is cause-related marketing (Heap 2000 p42-8, ITESM e. a. 2000). Companies that practice this strategy try to enhance their market share and company identity by publicly funding a social cause that appeals to consumers. In contrast to the ethical consumer market, cause-related marketing does not involve standards for CSR in the core-business of a company.

Yet there are more markets than the consumer market alone that offer rewards for a company that creates a corporate identity which positively distinguishes it from its competitors. Labour and capital markets are most frequently added to the consumer market as driving forces that make it profitable for companies to take CSR initiatives (SER 2000 p35-42, Van Tulder pD17-8).

Labour markets are in the first place a stimulus for CSR initiatives on labour issues. Even in developing countries where unemployment is endemic, better wages, employee benefits and labour conditions might result in less job rotation. This in turn increases the returns from investment in employee training which can be required to achieve high quality levels and raise productivity. Apart from labour issues, CSR in general could appeal to employees and therefore have positive impacts on employee commitment and motivation and reduce recruitment expenses and absenteeism (DHV 2003, Echo Group 2003, Shell 2003b, SustainAbility n. d.).

Capital markets will offer incentives for CSR when CSR initiatives result in improved financial results or when investors take corporate social performance into account when making investment decisions. With regard to improved financial performance, it is of course a tautology that this makes CSR profitable and capital markets will only strengthen other business incentives for CSR that must already be present. On the ethical side, investors make less time-constrained and more elaborate decisions than consumers, so ethical investors are more likely to bring about more responsible business behaviour than ethical consumers. Furthermore, a small number of large investors accounts for a major share of capital markets (Macdonald 2000). The decision of a limited number of actors could therefore have a significant impact. Measures such as the requirement for pension funds in the United Kingdom to disclose information about their investment decisions, which has prompted the majority of them to make more elaborate ethical considerations (Aaronson & Reeves 2002 p26-7), make optimal use of these features of capital markets. The market for SRI in The Netherlands and elsewhere is growing (McCallin 2003, Sirigroup n. d.) and this suggests that profitability in capital markets is becoming a more important incentive for CSR. As far as equity investment is concerned, SRI incentives at the local level are not so important in this study, because the enterprises in the selection are owned for over 50% up to 100% by the Dutch MNE they belong to.

Trends in the global economy and the organization of production in different economic sectors can also be an incentive for corporate responsiveness to stakeholder concerns. The most important structural developments occurring in the global economic system conducive to CSR are the rise of flexible specialization, global commodity chains and thicker institutional networks of international production, including subcontracting, joint ventures and strategic alliances. The smooth functioning of such production chains and networks requires greater attention to issues of stakeholder management and CSR (Utting 2000 p23-6). This adds arrangements with and requirements of joint venture partners, customers, suppliers and other business partners to the already identified structural incentives of consumer, labour and capital markets. Codes become profitable as a new instrument for the management of industrial relations and the reduction of transaction costs.

This means their primary function would not be to promote responsible behaviour but to select internal and external suppliers that meet high standards (Van Tulder 2002 pD18). Although one might expect these high standards to consist primarily of quality requirements, it is often perceived that quality management involves the whole production process and quality standards are therefore linked to labour and other standards (Sweeney 2000). Other aspects that are likely to appear in arrangements

between different companies are product safety, environmental standards and the rejection of corruption.

The incentives for CSR resulting from such structural factors are likely to be very uneven in sectoral and geographical terms, because developments in the global economic system affect some product sectors and countries more than others. Among commodity chains the conditions and constraints that shape the possibilities for change, such as the distribution of power among different actors in the chain and the degree of dispersion of the chain, differ considerably (Utting 2000 p28-9, Cramer 1999).

2.4.5 External pressures

One of the most conspicuous pressures for CSR are the potential dangers of losing company reputation in the eyes of consumers. Although this pressure originates in consumer markets, it should not be confused with the structural profitability of the ethical consumer niche market and has very distinct features. The best known examples are the campaigns against the Shell Group, first concerning the Brent Spar and then its operations in Nigeria. The reorientation of corporate strategies that followed turned Shell into one of the world's leading MNEs in CSR (Henderson 2001). Companies driven by this incentive try to keep up a good reputation, because when they lose it this might result in falling market shares or even a consumer boycott and falling share value (Graafland 2001, Van Tilburg 2002).

NGOs are a crucial factor for this CSR incentive. Without organizations that closely monitor companies and that start public campaigns against underperforming companies, companies need not fear the reactions of consumers and investors. The pressure of investors will not be discussed in detail because it applies to the corporate level only. Civil regulation by NGOs can be understood as consumer politics as far as the pressure of consumers is involved and shows resemblance to the producer politics practised by trade unions. In producer politics the counterbalancing force of trade unions controls the access of business to workers. Similarly, in consumer politics NGOs offer a counterbalancing force to business by controlling access to consumers (Murphy and Bendell 1999 p43-4). Recent research demonstrates that the consumer reputation mechanism has proven to be effective in conflicts between NGOs and companies to force some companies to change their behaviour (Van Tilburg 2002). It is especially effective when its consumer image is very important for a company like in sportswear.

On the other hand, the same research indicates that the mechanism may not be effective when a company does not operate in consumer markets but in business to business markets only. Corporations that use unit or product branding (each product carrying a different name, e.g. Unilever) instead of corporate branding (all products carrying the name of the firm, e.g. Shell) are also less sensitive to consumer pressures. Furthermore, it can be expected that the reputation mechanism works best for issues that highly appeal to consumers like child labour (Lee 1997). Negative publicity about companies often causes little harm to their reputation and some companies that simply ignored public concerns could get away with it without getting in trouble (DHV 2002). It has also been shown that some companies can keep their reputation up by improving their public relations efforts instead of improving business standards (Lubbers 2002), further relativating the importance of the mechanism. Consumer pressures are also largely absent in developing countries' domestic consumer markets. It can thus be expected that in developing countries exporting MNEs will be more prone to respond to consumer pressures (Murphy & Bendell 1999 p55, Utting 2000 p30).

The 'license to operate' incentive resembles the consumer reputation mechanism. This incentive rests on the reasoning that a license to operate has to be secured because CSR is expected and actively obliged by many stakeholders, including consumers, shareholders, governments, employees and trade unions, local communities and NGOs (Shell 1998, Kapoen 2002). This adds more possible sources of pressure to the consumer market. One obvious example are the traditional pressures of trade unions for better employment conditions, backed by the option of a strike. Local communities that are affected by a company's activities can also try to force them to stop undesired business practices. They could even resort to direct action to block the operations of a company, for example by occupying plants or sabotage. Pressure groups can try to influence the shareholders of a company by protesting or asking critical questions at shareholders' annual general meetings, if shareholders do not already raise concerns by themselves. Recognized authorities like Ministries of

Economic Affairs, the OECD and the UN can exert pressure on companies too (Heap 2000 p36-40, Murphy & Bendell 1999 p42).

Like structural business incentives, in the case of external pressures a stakeholder dialogue need not only be an operational concern. On the operational side, it facilitates the satisfaction of stakeholder demands and helps to bridge the credibility gap between the claims and performance of a company that tries to restore its reputation. Yet it might also be beneficial in itself as it decreases operational risks (Prakash-Mani, Thore & Zollinger 2002; Shell 2003b). Furthermore, it creates understanding among the critics of a company about the dilemmas it faces. (Baker 2002, Murphy & Bendell 1999 p27-8).

External pressures in general are likely to be stronger for market leaders and other more conspicuous enterprises. Not only is their reputation often of more than average concern to them, but they are also better known by consumers, which facilitates confrontational campaigns, and large market shares cause actions of civil society organizations to be more cost-efficient.

2.4.6 Combinations of CSR incentives and legal obligations

Different incentives and combinations of incentives will be present for different CSR issues. For example, it can be assumed that some issues yield more internal benefits than others (e.g. environmental process improvement), some have a greater impact on consumer reputation (e.g. no child labour), some are found more important by business partners (e.g. business integrity) and some lack incentives (e.g. no transfer pricing). Thus in practice, MNEs respond to both market and political forces (Jacoby 1973 p195). Incentives also differ between MNEs and a couple of general company characteristics that influence them were already encountered: the markets it operates in and its market position.

Furthermore, there may be links and moves between the different categories of incentives. For example, Shell started its CSR initiatives as a response to external pressures, but quickly shifted from a reactive to a proactive CSR strategy that became driven by ethical incentives as well (Henderson 2001). Such a shift may seem strange because reactive and proactive CSR approaches are extremes, but in fact it is not. The shift from a reactive to a defensive approach, and then from a defensive to a proactive approach involves gradual changes in the CSR perspective of an enterprise. When the nature of CSR incentives is concerned, such a change does not involve a jump between extremes either. Responding to internal profitability factors is nothing else than business as usual – responding to market forces – while responding to structural profitability factors is still business as usual, but in a changing structural context. Anticipating or responding to external pressures is not just business as usual, because political forces influence the achievement of business goals as well. Ethical incentives are even further away from business as usual because they affect the goals of a MNE themselves. If ethical incentives are present, the driving forces behind enterprise behaviour are not even strictly business. Hence, if a MNE has to reconsider its strategy because of external pressures, the adoption of non-business goals next to business goals can be a relatively small step. Table 2 schematically presents possible gradual shifts in the nature of CSR incentives and in CSR approaches, which all point towards a proactive CSR approach at least partly driven by ethical incentives.

| CSR incentives | Nature of CSR incentives | CSR approach |
|------------------------------|--|--------------|
| Ethical incentives | Not strictly business | Proactive |
| Internal profitability | Business as usual | Neutral |
| Structural profitability | Business as usual, but in a changing context | Neutral |
| Actual external pressures | } Business, but not as usual | Reactive |
| Potential external pressures | | Defensive |
| Ethical incentives | Not strictly business | Proactive |

Table 2: Gradual shifts in the nature of CSR incentives and CSR approaches.

Legal obligations can also influence CSR incentives. The interaction between binding CSR standards or reporting obligations and CSR strategies is important for policy formulation. Opponents of binding

guidelines warn that these will crowd out intrinsic motivation, limit creativity and innovation and overburden companies with reporting obligations (Altekoster in Aaronson & Reeves 2002 p21, Frey & Oberholzer-Gee 1997, SER 2000 p51, "Lots of it about" 2002). Furthermore, values that are not supported by a company are bound to be ineffective in promoting responsible behaviour (Van Tulder 2002 pD17). Furthermore, even when MNEs are receptive for CSR issues and adopt a code of conduct,²⁴ they can be reluctant to report them or allow independent verification, because their commitments make them more vulnerable than companies that do not have codes of conduct (Noordergraaf & Van Workum 2000 p146-9, Cavanagh 2000). As a result more transparency and binding company standards might lead to lower objectives that are easier to reach and limit company initiatives.

On the other hand, binding standards have positive sides for companies too. They create a level playing field when business impacts of CSR initiatives are negative at least in the short term and prevent free-rider behaviour when CSR benefits accrue to other companies as well, making it easier to raise business standards and focus on long-term sustainability of the company and a more favourable business climate on general (Baker 2002, Elkington 1997 p345-51, ICHRP 2002, Murphy & Bendell 1999 p147). Compulsory standards also provide clarity about expectations from companies and make it easier for firms that go beyond the required minimum to claim that they are more responsible. Market-based instruments like taxes and subsidies are attractive alternatives to compulsory standards. They stimulate internalization of external costs without weakening market forces and innovation (Elkington 1997 p345-51, SER 2000 p51-3). Thus, there even exists a business case for tighter legislation, because it enables CSR initiatives of which the business benefits will only be realized in the long term or do not accrue to individual enterprises.

2.5 Shifts in CSR attitudes and strategies

Each category of incentive is conducive to certain types of CSR initiatives and strategies and the different CSR incentives explain to a large extent why a new CSR perspective is rising. However, to better understand the process of this rise, some more attention will be paid in this section to the shifts in CSR attitudes and strategies and to the shift in relations between MNEs and civil society organizations.

2.5.1 The shift towards cooperation

In section 2.2.1 it was mentioned that there has been a 'silent revolution' (Noordergraaf Van Workum 2000 p140) in NGO-business relations and a move towards more cooperation. However, it is often remarked that both conflicts with radical NGOs and trade unions and cooperation with less radical groups are needed for an effective civil regulation mechanism (Heap 2000, Murphy & Bendell 1999 p32-3, 51). This new mechanism is a form of co-regulation, involving different parties, that has emerged next to legal regulation and self-regulation (Murphy & Bendell 1999 p37-43, Utting 2000 p34-7, Zadek 2001). In the legal regulation mechanism, business behaviour is controlled by national and international laws and legal sanctions apply. Self-regulation, in contrast, means that companies set the norms themselves and regulate their own behaviour. One form of co-regulation consists of negotiated agreements. The private sector and the government work together to reach such agreements about business behaviour and non-compliance remains sanctioned by the state. Civil regulation is another form of co-regulation and occurs 'when organizations from civil society, such as NGOs, set the standards for business behaviour' (Utting 2000 p46). It has an alternative mode of compliance based on NGO and trade union activism and other external pressures. Globalization has increased the potential for civil regulation, because the power of international NGO networks that try to influence the behaviour of MNEs has grown and MNE behaviour has become more exposed (Henderson 2001 p30, Murphy & Bendell 1999 p40-7, Utting 2000 p34-7).

The rationale for each of these regulatory mechanisms can easily be derived from the incentives for CSR. Internal and structural profitability or ethical incentives could lead to effective self-regulation. This makes a business case for co-regulation if a level playing field and the prevention of free-rider behaviour are necessary to make CSR profitable. The key to success of co-regulation consists of both soft elements such as a dialogue and promises and hard sanctions by law and civil

²⁴ See note 21.

society protest. Independent verification is often regarded as a key feature (Utting 2000 p34). The enforcement of civil regulation, one of the co-regulatory mechanisms, relies on the effectiveness of external pressures. If effective CSR incentives or an effective combination of incentives are absent, legal sanctions would still be required if companies were to adopt higher CSR standards. International CSR standards do not always fit with the characteristics of a single regulatory mechanisms. The OECD guidelines, for instance, were agreed by governments, business, NGOs and trade unions. Together with their official endorsement and complaints mechanism, this suggests that they are some kind of negotiated agreement, but compliance still relies on effective CSR incentives instead of legal sanctions.

The rise of a new CSR perspective entails a shift away from legal regulation only towards other regulatory mechanisms or combinations of mechanisms. Although all mechanisms can have a role in the promotion of CSR, depending on the incentives for companies that are present, the option of civil regulation can be considered a central aspect of the new thinking about CSR. A move towards civil regulation poses a few risks for NGOs that engage with business. When NGOs change from activists to consultants, selling technical advice and other services like social auditing or environmental management to companies, critical positions of civil society might be incorporated and diluted (Utting 2000 p27-8, 32). When they engage with business to press for compliance with CSR standards, the opportunity costs are considerable (Murphy & Bendell 1999 p55). In addition, some kind of government regulation and protection may be a prerequisite. Weak legal protection, limited freedom and corruption make campaigners and organized labour in developing countries more vulnerable (Murphy & Bendell 1999 p54-6).

The rise of civil regulation causes changes in the relations between different civil society groups as well. Sometimes it is argued that the relation between NGOs and trade unions with regard to codes of conduct could lead to problems. Because of their different focus, some NGOs expect a larger role of MNEs in human rights, including the promotion of civil, political and labour rights. Sometimes they tend to take over the tasks of trade unions when the rights of employees and unions in codes of conduct or the verification of these are concerned (Etty 2000 p23). Yet the agenda's of NGOs and trade unions could also complement each other (Utting 2000 p38). For instance, when trade unions are not representative, NGOs can bring up this problem (Etty 2000 p23). A division and increase in tension between radical and cooperative civil society groups has been reported as well. Radical anti-capitalist and anti-globalist groups opposed to large private businesses in general are still influential and sometimes NGOs that cooperate with MNEs in an attempt to improve CSR standards are attacked by other, more radical NGOs (Heap 2000). It also happens that NGOs gain public credit because of demonising MNEs and cannot in a later stadium change their attitude without losing public support, even if the MNEs in question have considerably improved their corporate social performance (Sweeney 2000 p258).

2.5.2 The shift towards core-business issues

The shift towards more cooperation between MNEs and civil society groups described so far already applied to CSR issues, that is, issues directly related to the core-business of a company and not philanthropy. However, in many countries including Mexico social involvement of companies often takes the form of charitable donations, not related to the core-business (Hupperts & Kwaks 2001). It is important to recognize these two extreme forms of company responsiveness, but a few categories can be added in between to facilitate the analysis of the shift from pure philanthropy towards core-business issues that is related to the rise of a stakeholder perspective on CSR (Echo Group 2003). Table 3 presents a four-stage model for NGO-MNE relations designed by Heap that can be used for this purpose.

In this model a company responds to external, mainly structural forces. Note that in each subsequent level the number of stakeholders involved increases. Although up to the third stage CSR remains largely confined to donations or community investment, the sources of profitability increase as well, starting from zero in the first stage. This trend might continue up to the fourth stage, but it might also be reversed, for it does not automatically follow from this model that complete corporate accountability is the most profitable stage. Profitability as a driving force behind increasing company responses may give way to a more proactive approach and the inclusion of ethical incentives in the fourth stage.

| Stage | Type of MNE-civil society relation | Description |
|-------|--------------------------------------|---|
| 1 | Private sector philanthropy | A company makes a wide range of charitable donations. These are often small and at the personal instigation of company managers. Business benefit is largely incidental. |
| 2 | Strategic contributions | Company donations are fewer but larger and have a more structural character. They are focused on a limited number of topics, often related to the business environment, can be applied for cause-related marketing and contribute to the local license to operate. |
| 3 | Mainstream involvement | In this stage community involvement is more immediately linked with operational business concerns. Donations are often in kind instead of cash, like company products, access to company facilities and staff time and expertise. This promotes employee involvement in community relations and increases benefits such as staff motivation and customer loyalty. |
| 4 | Corporate accountability or true CSR | Company relations in this stage are characterized by full, open and long-term engagement with all stakeholders. |

Table 3: A four-stage model of MNE-civil society relations.

Source: adapted from Heap (1998) in Heap 2000 p41-8.

Another interpretation of the model is concerned with the structural changes in the capitalist system since World War II (Jacoby 1973 p40, Owen 2001). During the 1950s and 1960s managerial capitalism was the dominant form. In this type of capitalism the managers of MNEs enjoyed a large degree of freedom to manage their companies. This type was gradually replaced by shareholder capitalism that has been the dominant type of capitalism during the 1980s and 1990s, in which there is more active control of shareholders over MNE management. Managerial capitalism is most conducive to private sector philanthropy, the first stage in table 3, that consists of donations depending on the personal ideas of managers, perhaps even considered as part of a manager's responsibility and not intended to obtain business benefits. Shareholder capitalism forces managers to focus on long-term shareholder value maximization. It therefore causes a shift to the stages two and three in Heap's model, where social involvement is closer to core-business issues and becomes profitable. Some authors suggest that a new type of capitalism, called socially responsible, stakeholder or sustainable capitalism, is currently emerging and may replace shareholder capitalism as the dominant mode in the near future (Heap 1997, Owen 2001). This new state of the capitalist system is characterized by more CSR incentives of all categories, adds political to market incentives (Jacoby 1973 p40, 192-5) and forces MNEs to practice true CSR, the fourth stage in the model.

The model was initially meant to describe the development of NGO-business relations that become deeper and less centred on financial contributions over time as relations progress towards higher stages, but research by the International NGO Training and Research Centre (INTRAC) shows that NGOs and MNEs can enter into relatively complex relations without passing through the earlier stages first (Heap 2000 p41). Moreover, not all partnerships fit easily into the four stages. When the goal of a partnership between a company and an NGO is the implementation of a development project or the improvement of a product or a production process, stakeholder engagement need not be confined or even directly related to the normal core-business of a company. However, the role of the company is not always a merely supportive one like in the third stage either (Kapoen 2002).

Stakeholders engagement in the core-business of a company and other close or complex NGO-business relationships become possible only when there is a positive attitude towards cooperation (Murphy and Bendell 1999 p36). This is thus linked to other aspects of the rise of a new CSR perspective. Research among multinationals in Guatemala indicated that confrontational attitudes may cause a company to make charitable donations only and that neutral attitudes fit well with the strategic contributions stage. Trust, personal ties and shared norms and values also contribute to the success of deeper and more complex MNE-NGO relations (Schouten 2002 p102-14). Other success factors are interdependent goals, knowledge exchange and a good understanding of the partner's resources and

interests, which requires a good negotiation process (Kapoen 2002). Despite these general observations, important components of partnerships often remain context specific (Murphy and Bendell 1999 p34).

In chapter five it will turn out that the model remains useful to classify a few types of enterprise initiatives and that gradual progress towards higher stages did occur. Yet at the local level in Mexico, the model will serve better to describe the changes inside MNEs than the changes in relations between MNEs and civil society.

2.5.3 The shift towards ethical behaviour

From an NGO perspective another classification than the four-stage relationship model might be more useful to decide on the strategies that should be employed to deal with MNEs. Table 4 presents another model that consists of five stages in the ethical development of corporations and provides more guidance for NGO strategies.

| Stage | Type of MNE | Description |
|-------|--------------------------|--|
| 1 | The unethical MNE | Profits are pursued at any cost. |
| 2 | The legalistic MNE | This type of MNE conforms to the letter of the law, but not to its spirit. |
| 3 | The responsive MNE | Interest in being a responsive citizen is present and business principles are formulated. |
| 4 | The emerging ethical MNE | The existence of a social contract ²⁵ between business and society is recognized and the MNE seeks to adopt a corresponding attitude. |
| 5 | The ethical MNE | In this final stage profits and ethics are balanced in all operations and decisions of the MNE. |

Table 4: A five-stage model of MNE behaviour.

Source: adapted from Starke (1993) in Heap 2000 p107-8.

The final stage of the model is merely an ideal stage. In contrast to the previous model, where CSR was conceived as an increasingly active and profitable response to external structural forces at least up to the third stage, here increasing CSR commitments are supposed to be driven by ethical considerations all the way. CSR is associated with a self-defined active and positive role for MNEs in sustainable development and a net rise in costs instead of a profitable response to external forces. In addition, CSR is depicted as a single issue so the model supposes CSR issues to develop evenly and simultaneously. The model therefore serves to analyse the transition process of MNEs towards more ethical behaviour. Combined, this model and the one discussed in the previous section provide a solid theory framework to study the shifts in CSR attitudes and strategies and the relations between MNEs and civil society organizations. Different combinations of aspects from the two models can be made to fit with the CSR incentives that are present in each case and for each issue.

Getting back to the strategies of NGOs to deal with MNEs, these are sufficiently explained by a simplified three-stage model. The bottom level consists of non-responsive MNEs, the highest level remains the ideal ethical MNE, and MNEs in between are receptive for CSR issues or already in transition. Normally NGOs use confrontational tactics against non-responsive MNEs and cooperative strategies to deal with receptive MNEs. Large NGOs often have a dual approach, trying to cooperate with businesses but launching campaigns against MNEs that refuse to cooperate and do not respond to NGO demands (Heap 2000 p19). It is even possible for NGOs to apply both strategies to one MNE at the same time, for example, implementing a common project while criticizing other aspects of the MNE's operations (Vossen 2004). Some large NGOs, like Oxfam, have defined a minimum standard for business ethics and do not accept donations from companies that perform below this standard (Heap 2000 p47-8), thus linking aspects of corporate social performance to other kinds of NGO-business relations.

²⁵ See section 3.4.1.

2.6 Uses of international CSR standards

The theory framework about CSR used to answer the research questions 1 to 6 is completed by connecting different CSR strategies of MNEs and stakeholders to different uses of international CSR standards. The strategies, which result from CSR initiatives, have already been identified in the previous sections of this chapter. The possible uses of international CSR standards can be derived from these strategies. A complete overview of CSR strategies and uses of international CSR standards is provided in appendix 3. Only local CSR incentives and uses of international CSR standards are considered, but corporate policies are added to the four categories of CSR incentives.

In general, international CSR standards have a dual role. Firstly, they can support mechanisms that generate incentives for CSR and secondly, they can provide guidance for managers that try to respond to these incentives. In addition, incidentally an adverse use of standards is reported, for instance, some companies have adopted codes of conduct to minimize the role of trade unions (Utting 2000 p31, Schouten 2002).

The different incentives for CSR are quite important here because they determine to a large extent what kind of use of international CSR standards can be expected. Companies driven by ethical incentives or internal profitability will use international CSR standards for reference only, except when they attach inherent value to the official endorsement of such standards on ethical grounds. Other incentives are more conducive to the adoption of standards.

Company managers motivated by structural profitability might choose to comply with standards to anticipate legislation, increase their market access or create a positive company identity at the local level. Standards can be imposed on business partners to manage business relations. They may also be requested by business partners or form a condition for government support or procurement. Apart from these structural demands, stakeholders do not exert pressure in their relation with a specific company and therefore no real stakeholder strategies, other than the promotion of CSR in general, can be expected. International CSR standards may function as a point of reference and are at most actively promoted by stakeholders.

In contrast to the first three categories, external pressures are accompanied by more different uses of international CSR standards. Company managers may find themselves under pressure to adopt such standards or may adopt them to anticipate such pressures, although they may also resolve demands without endorsing international standards. When exercising pressures on a MNE stakeholders can demand compliance with international CSR standards or invoke them to legitimate their demands. In addition, the OECD complaints mechanism may further support such demands. It may help establish a dialogue between stakeholders and the company when the latter first refuses or makes a statement about unresolved complaints that can be used to increase pressure on a MNE (VMD 2002).

Lastly, corporate policies can require the implementation of international CSR standards at the local level or include their distribution at the local level for reference. Sometimes a tension between MNE-wide standards and locally adapted responses appears. Common international codes would increase transparency, while context specificity is said to increase the probability of compliance. In theory the stakeholders can make the balance flip either way, but in practice the great majority of MNEs' codes of conduct have a global character (Kolk, Van Tulder & Welters 1999). However, international CSR standards can be incorporated in corporate standards in such a way that the original international standards are implemented, but not themselves known, at the local level. They can also be partly incorporated in codes of conduct and other corporate policies. Incentives are not the same across all CSR issues as this may lead to selective inclusion of CSR issues in MNE standards (Heap 2000 p110, OECD 2001a p3)

2.7 Conclusions

In this chapter CSR was defined as the type of enterprise conduct that is generally supposed to be desirable in all areas of responsibility towards stakeholders. This definition is intended to reflect the general notion of enterprise responsibility as derived from a stakeholder perspective. More important than the definition itself is the operationalization of CSR, described in table 1 on page 25. It identifies what kind of enterprise conduct is generally considered desirable on the different areas of enterprise responsibility. An important assumption behind the research design is that CSR is not a homogenous

concept. The different CSR issues that could be derived for a stakeholder perspective are therefore assessed separately.

Not all issues are investigated in this research. The focus is on labour issues, HSE, stimulation of the host economy, community impacts and business integrity. Taxation and free competition receive some attention as well. A different research design would have been necessary to cover the remaining issues, which are corporate governance, general business conduct, consumer protection and political involvement. Besides, it would be difficult to assess the impact of corporate governance on contributions to economic development and it would not make much sense to investigate corporate political influence at the national level. Corporate lobbying can have a major impact on economic development through its influence on legislation, international agreements and government policies, but it is often directed at rich country governments and international organizations (Balanyá e.a. 2000, Zadek 2001).

A distinction was made between CSR and social engagement. The latter encompasses public-private partnerships, social investment and various forms of corporate philanthropy. In section 3.4.1 this distinction will be further discussed. Although philanthropic donations and social investment are not considered a part of CSR, they are included in the research to show the influence of the traditional CSR perspective in Mexico and the current shift away from it. The traditional CSR perspective is described in section 4.2.3 and the findings about changes in enterprise perspective are presented in chapter 5, mainly in the sections 5.4 and 5.9.

CSR initiatives, then, were defined as all enterprise practices and policies that are desirable from a stakeholder CSR perspective. In the introduction it was already mentioned that non-recent CSR initiatives are investigated as well, because they may tell something about opportunities and limitations for recent CSR developments. CSR policies are mainly investigated to identify the incentives for CSR and the operational aspects of CSR initiatives. In the absence of recent changes in enterprise behaviour, effective legal obligations are often used as a point of reference to identify CSR practices. For stimulation of the host economy a point of reference is not available and enterprise practices on this issue qualify as CSR initiatives only when they result from explicit policies to enhance contributions to economic development. In other cases, CSR practices need not be accompanied by explicit policies. The CSR initiatives of Dutch MNEs in Mexico are described and analysed in detail in chapter 5.

In section 2.3 the three recent CSR developments mentioned in the previous chapter were further examined. To determine the influence of the rise of a new CSR perspective in Mexico, it is necessary to first investigate the actual diffusion of ideas and strategies associated with it. On page 28 a set of eight indicators was listed to measure the presence of a new CSR perspective among organizations in Mexico. These indicators play an important role in the analysis of research data about organizations in Mexico, which is to be found in chapter 4. Regarding corporate CSR commitments, two main forms of corporate initiatives were described. Firstly, MNEs can adopt codes of conduct that contain global or locally adapted norms for enterprise behaviour, and secondly, MNEs can stimulate local managers to take CSR initiatives. In section 5.9 it will turn out that corporate CSR policies always include the top-down implementation of global norms, but not always the top-down transmission of a new CSR perspective. The recent rise of international CSR standards has resulted in a large variety of codes, guidelines and other CSR instruments. The OECD guidelines for MNEs were identified as a comprehensive and detailed normative and they have an interesting implementation procedure, which was explained on page 30. The OECD guidelines were therefore used as a main point of reference for this research. In organization and enterprise interviews, they often served as a model for international CSR standards to ask interview partners for their opinion about such standards. The most important results about the use of the OECD guidelines and other international standards are described in the sections 4.7, 4.9.2, 5.4 and 5.9.2.

In order to relate CSR initiatives to recent CSR developments, the incentives for these initiatives need to be understood. Four categories of local CSR incentives were distinguished: ethical incentives, internal profitability, structural profitability and external pressures. The last three categories are business incentives. Internal profitability refers to improvements in operational efficiency to which stakeholder relations and the external business environment are irrelevant. Structural profitability results from structural market forces. The third type of business incentives, external pressures, refers to the profitability of anticipating or responding to specific stakeholder

pressures. Together with corporate policies, these four categories explain why enterprises take CSR initiatives. Each category of CSR incentives is conducive to certain types of CSR initiatives and strategies. The incentives have important implications for MNE approaches to CSR, which can range from reactive to proactive. Research results about CSR incentives and the relation between CSR initiatives and recent CSR developments are described in chapter 5.

The different incentives for CSR help to understand the shifts in CSR attitudes and strategies that contribute to the rise of a new CSR perspective. Business incentives can be conducive to closer cooperation between MNEs and civil society organizations, the rise of new regulatory mechanisms for enterprise behaviour such as civil regulation and a shift towards core-business issues. Ethical incentives, on the other hand, can cause a shift towards more ethical behaviour and that may be required to enable cooperation between NGOs and MNEs. The four-stage model of MNE-civil society relations on page 40 will be used for the analysis of research findings at various points in the chapters 4 and 5. The five-stage model of MNE behaviour on page 41 will be referred to in the next theoretical chapter in section 3.4.1 and when describing civil society strategies focused on awareness raising in chapter 4.

The different CSR incentives also influence the uses of international standards by enterprises and enterprise stakeholders. This will return throughout chapter 4. In the next chapter it will be argued that the different types of incentives have consequences for the legitimacy and economic impact of CSR initiatives as well.

3 CSR and economic development

3.1 Introduction

This chapter will provide the analytical framework to assess the influence of CSR initiatives on MNE contributions to economic development and answer research question 7. Section 3.2 first presents the debate about the impact of FDI in developing countries. It establishes a list of key areas of FDI impact. Section 3.3 continues by linking these areas of FDI impact to the CSR issues were identified through a stakeholder perspective in the previous chapter. It will turn out that there exists a vague border between the impacts of foreign MNE investment that are covered by CSR and those that are not. Next, two concerns about CSR initiatives commonly raised by neoclassical economists are identified, about the appropriateness and the welfare impact of CSR initiatives. The section 3.4 and 3.5 therefore analyse the appropriateness and the welfare impact of CSR initiatives of CSR, respectively. In these sections different CSR issues are discussed separately. The appropriateness and welfare impact of CSR initiatives is also linked to the three categories of business incentives identified in the previous chapter. Section 3.6 concludes the chapter by summarizing and combining the various parts of the analytical framework into a set factors that need to be investigated to determine the influence of CSR initiatives.

3.2 The impact of FDI in developing countries

CSR initiatives have an influence on economic development by changing the impact of foreign MNE investment. The impact of FDI in developing countries is therefore very important for this study. This subject has aroused a lot of controversy in development economics and should be approached with care in order to avoid a biased analysis. The following discussion is based on Todaro (2000 p578-88), who gives an excellent review of the debate about the costs and benefits of FDI.²⁶

Four main arguments in support of private foreign investment are listed. Firstly, it helps to bridge the gap between domestic savings and investment, which will stimulate the growth of the national economy. Secondly, if foreign MNEs can generate a net positive flow of export earnings, this can add to foreign exchange earnings and supplement insufficient export earnings and foreign aid. The third gap that can be filled by MNEs is that between targeted governmental tax revenues and locally raised taxes, enabling developing country governments to finance development initiatives. The fourth argument is a transfer of management practices, entrepreneurship, technology and skills by the local operations of foreign companies that will foster national economic development.

The response against the pro-private foreign investment position consists of four counter arguments. Firstly, although MNEs provide capital, they may also lower domestic savings and investment rates because of several reasons, like expatriating instead of reinvesting much of their profits and raising incomes for groups with lower savings propensities. In Latin America as a whole, profit repatriation was on average 29% of FDI inflows over the period 1991-1997 (UNCTAD 1999b). Secondly, the long-run impact of MNE investment may be to lower foreign exchange earnings on both current and capital account by importing capital goods and intermediate products and repatriation of profits and other funds. The third contribution of MNE investment, public revenue, is generally quite low due to for example tax concessions, transfer pricing and disguised public subsidies. Fourthly, transfer of skills and technology may have little impact on developing local resources and may even prohibit their development by dominating local markets. Takeovers of domestic enterprises by foreign MNEs may also be followed by downgrading of domestic R&D capacity and the concentration of R&D in a MNE's home country (Oxfam International 2002).

²⁶ Note that a precise definition of economic development is not given here, because such a definition would be very complicated and is not required for the following analysis. It needs to be stressed that economic development is not the same as economic growth and refers to structural changes in the economy as well. Economic development is a complex concept and Todaro (2000) does not provide a precise definition either. The operationalization of MNEs' contributions to economic development will offer a sufficient foundation for the theoretical framework in this chapter.

Yet the most important criticism of MNE investment usually takes place at more fundamental levels. It would have an uneven impact on development and reinforce dualistic economic structures, produce inappropriate products for national markets and as a result allocate resources for undesirable economic activities. MNEs are accused of damaging host economies by suppressing domestic entrepreneurship, driving out local competitors, crowding out local investors and using their economic power to influence government policy. Most of the arguments criticising the impact of MNEs in developing countries at the same time support CSR and some have indeed contributed to its emergence.

Todaro (2000 p586) summarizes the debate about the impact of foreign MNEs in terms of seven key issues, most of which are also CSR issues. In order to create a suitable inventory of issues for this research, several have been added to Todaro's list and some original issues have been adapted or merged. The thoroughly transformed list draws also from Boatright (2000), Elkington (1997), Korten (1995) and Oxfam International (2002) and is shown in table 5. Slightly more emphasis is given to economic and social than to environmental issues. The structuring of the list is quite different from inventories of CSR issues because it is primarily concerned with the impact of MNEs on economic development of the host country instead of responsibilities in stakeholder relations. The areas of FDI impact are compared with CSR issues in the next section.

Some issues in table 5 require a short explanation. Direct employment generation is not always positive, because MNE investments can take the form of acquisition of a local firm followed by downsizing (Elkington 1997 p26, Korten 1995 p215-21). Special attention should also be paid to relocations. Even when they generate sound profits, MNEs sometimes move operations from one country to another in search of lower operation costs. This causes low stability of employment and limits the time-scale of all impacts.

The impact on various issues is closely linked to the appropriateness of the technology that is used by a MNE. This is mainly determined by the relation between factor inputs of a MNE's local production systems and local factor endowments and may influence direct and indirect employment generation, international capital movements and the value of technology transfer. Some large MNEs have high capital-to-labour and turnover-to-labour ratios (Korten 1995 p215-21), which suggests that applied technology does not favour direct employment creation and efficient resource allocation. The OECD guidelines recommend on this issue that a MNE's activities should be compatible with the host country's science and technology policies (OECD 2000).

In line with Todaro, the stimulation of consumption patterns that favour luxury consumption at the expense of basic needs is considered inappropriate. For the delivery of basic goods and services by foreign MNEs, accessibility is a crucial factor (Elbers 2002). Additional development initiatives should be assessed with special care. Although enterprises can contribute to economic development by taking such initiatives, they may be assuming government responsibilities, which would be inappropriate. This problem will be further discussed in the following sections.

The distribution of impacts has an influence on income distribution and dualistic development, social structure and stratification. Dualistic development occurs when the unequal development of rural and urban areas causes economic imbalances, such as large differences in productivity and wage levels. This can happen when development takes place in the industrial sector but not in the agricultural sector, for example. When the activities of MNEs are urban-biased this is likely to worsen rural-urban inequalities, dualistic development and excess migration (Todaro 2000). The wage policies and composition of the work force of a MNE determine its influence on income distribution. Some important questions about income distribution are whether a MNE reinforces income inequality or whether it raises the incomes of marginalized social groups (Todaro 2000 p586). For economic development, the distribution of benefits and the type of economic growth are more important than growth itself (Korten 1995 p37-50).

Enterprise sustainability is about the influences on all kinds of capital reserves that an enterprise needs for its continued existence (Elkington 1997). Sustainability of capital reserves includes financial sustainability, but also the sustainability of social and environmental capital that are needed for enterprise operations. Most of the impacts of a MNE on economic development will be short-lived if the MNE does not make profits and often there exists a trade-off between enterprise sustainability and other issues. For example, suspending immediate layoffs may be a delay of execution and ultimately force a company to close down entirely (Elkington 1997 p86).

| Area of FDI impact | Description |
|---|--|
| International capital movements and income flows | This area covers balance of payments and savings effects, profit repatriation, transfer pricing and tax revenues. |
| Direct employment generation | Apart from the amount of direct employment generation, the conditions and stability of employment are important too. Employment conditions include wage levels and other labour standards. |
| Indirect employment generation and external effects | Indirect employment is generated by backward and forward linkages and affected by the impact on local competitors. External effects are for example negative environmental externalities, which may also indirectly affect livelihoods outside the MNE itself. |
| Market functioning | The impact on market functioning is determined by the use and concentration of market power or the stimulation of competition. |
| Delivery of goods and services | This issue refers to the appropriateness of the goods and services produced for the host country's domestic market and the accessibility of basic goods and services delivered by foreign MNEs. |
| Knowledge and technology transfer | Determinants of technology transfer are the transfer of R&D operations and control over technology. Knowledge transfer includes the transfer or development of skills and knowledge, management practices and entrepreneurial attitudes. |
| Additional development initiatives | This combines community investment and other forms of social engagement, corporate philanthropy and the funding of development projects for cause-related marketing. |
| Political influence | Political influence refers to the influence exercised by the MNE on domestic policies and international regulations and agreements, in order to serve the interests of the MNE's operations in the host country. |
| Income distribution and dualistic development | The distribution of impacts cuts across all other issues, except international capital movements and enterprise sustainability, because positive and negative impacts of MNE operations often affect different social groups and geographical areas in different ways. |
| Enterprise sustainability | Enterprise sustainability is concerned with the sustainability of the operations of a MNE themselves. It does not directly influence economic development but determines the continuity of the impact on all the other issues. |

Table 5: Areas of FDI impact in developing countries.

Based on Todaro (2000 p586), Boatright (2000), Elkington (1997), Korten (1995) and Oxfam International (2002).

The issues in the table provide conflicting arguments about the impact of FDI (Todaro 2000 p587). Even for case-studies of individual MNEs, a judgement about the total impact of the operations of the MNEs on economic development is complicated, because positive and negative impacts on different issues will have to be weighted against each other. In this study, only the change in impact caused by CSR initiatives is investigated and no judgement is made about the total impact of MNE operations. However, CSR initiatives often change the impact on multiple issues as well. Some initiatives intended to enhance the contribution to economic development negatively influence the profitability and thus the sustainability of enterprise operations. Similar trade-offs may occur between positive changes on various issues, including employment conditions, and the amount of employment generation. Nonetheless, such changes in impact are easier to access than total impact, because sometimes the changes on all issues turn out to be positive. For example, better employment conditions can under certain circumstances increase profitability.

Even though the issues listed by Todaro are key disputed issues, the real debate about the impact of FDI involves ideological and value judgements and ultimately concerns the strategies and policies that will lead to economic development (Todaro 2000 p586-7). The advocates of foreign MNE investment tend to believe in the efficacy and efficiency of free markets and liberal policies,

whereas the critics are more convinced of the need for national control and government regulation of domestic economic activities. A moderate position would hold that FDI has potential but not automatic benefits for developing countries. The nature of FDI flows is therefore of vital importance (Oxfam International 2002 p176-206). These different perspectives largely coincide with the neoclassical and traditional civil society perspective on CSR that were described in chapter 2. They also coincide with the cases against and in favour of CSR in general and international legally binding CSR standards in specific.

3.3 The responsibilities of MNEs

The social responsibility of MNEs is related to the contribution of MNEs to national economic development, but it is not the same. In section 2.2 the responsibilities of MNEs, as perceived from a stakeholder and a neoclassical perspective, were already shortly discussed. This section analyses these responsibilities in more detail. It first presents the analysis from a stakeholder perspective and then goes on to discuss the criticism it provokes from a neoclassical perspective. Due to the large differences between the two perspectives, the two parts of the analysis follow a very different approach.

3.3.1 A stakeholder perspective

The analysis from a stakeholder perspective may seem rather straightforward, because the responsibilities of MNEs were already listed in table 1 on page 25. However, it will turn out that the stakeholder perspective does not offer sufficient guidance to draw a sharp border between the possible impacts on economic development that fall under CSR and those that do not.

There exists a large degree of correspondence between the issues about the impact of foreign MNEs on economic development and the CSR issues derived by a stakeholder perspective. The inclusion of new CSR issues in the OECD guidelines, such as taxation and transfer of technology, suggests even deliberate convergence between CSR issues and possible impacts on economic development. The first general policy remark of the OECD guidelines also reads that MNEs should 'contribute to economic, social and environmental progress with a view to sustainable development' (OECD 2000).

Table 6 below shows which of the main CSR issues listed in table 1 are relevant to each of the areas of FDI impact on economic development, presented in table 5 in the previous section. It shows that enterprise responsibilities, as defined from a stakeholder perspective, exist on all areas of enterprise impacts on economic development. Yet the table provides a general overview only and many impacts are only partly covered by CSR issues. Dualistic development and displacement of domestic production are central issues from a development economic point of view, but in general they are not considered to fall under MNE responsibilities. This is indicated by the fact that they are not mentioned in the OECD guidelines or other CSR standards (OECD 2001c). Balance of payments concerns are not explicitly mentioned in any CSR standard either, although not transferring away profits and stimulating local economic linkages by preferring local inputs does affect international capital flows. The sections of international CSR standards on consumer interests often deal with consumer protection and the newest standards tend to include the accessibility of basic goods such as medicines as well. The impact of a MNE on domestic patterns of consumption, however, is generally not considered an aspect of CSR.

In contrast, corruption is now a major CSR issue, but in development economics it receives less attention as an impact of the operations of MNEs. More attention is given to the political influence of MNEs that may result from illegal payments. In development economics, corruptive practices are often regarded as an aspect of the national business environment that imposes additional costs and risks on MNE operations. The national business environment is one of the determinants of inward FDI flows (Trevino, Daniels & Arbeláez 2002, UNCTAD 2002). Hence, development economics and CSR look at corruption from different points of view. Although it is certainly true that the corruption in a country has more influence on the behaviour of MNEs than the other way around, the way foreign MNEs deal with corruptive practices can still have an impact on market functioning. For the purpose of this research, the behaviour of individual MNEs is more relevant.

| Area of FDI impact | Relevant CSR issues |
|---|--|
| International capital movements and income flows | Taxation, Stimulation of host economy |
| Direct employment generation | Stimulation of host economy, Labour issues, Health & safety |
| Indirect employment generation and external effects | Stimulation of host economy, Environment, Community impacts |
| Market functioning | Business integrity, Free competition, General business conduct |
| Delivery of goods and services | Consumer protection |
| Knowledge and technology transfer | Stimulation of host economy, Labour issues |
| Additional development initiatives | Community impacts ²⁷ |
| Political influence | Political involvement |
| Distribution of impacts | Stimulation of host economy, Labour issues |
| Enterprise sustainability | Corporate governance, Profitability of all CSR initiatives |

Table 6: CSR issues relevant to different areas of FDI impact.

What causes this difference between CSR issues and impacts on economic development? One could say that development economics are more concerned with impacts on a macro-level, whereas the stakeholder perspective focuses on the impacts of a foreign MNE on its stakeholders. Because of this focus, little attention is paid to the wider influence of a MNE on economic development, for example through aggregate impacts of FDI on dualistic development, consumption patterns or market outcomes.

A related reason is that probably not all impacts on economic development are considered part of the responsibility of individual MNEs. MNEs cannot be expected to assess and regulate all their positive and negative impacts on the economic development of the host country themselves. Although the convergence between the issues covered by international CSR standards and impacts on economic development indicates that expectations from MNEs are rising, these rising expectations might be increasingly difficult to meet. Transfer of technology for example, a new issue in the OECD guidelines, can still reasonably be controlled by individual enterprises. Yet additional efforts on this issue may be difficult without additional incentives provided by the government, as the social benefits of technology spill-over are external effects. Thus, the CSR issues identified through a stakeholder perspective may include expectations from MNEs that are inappropriate or somewhat unrealistic.

One may wonder, then, where to draw the border between MNE responsibilities and aggregate outcomes that cannot be controlled or regulated by individual MNEs. A stakeholder perspective does not provide sufficient guidance to draw this border. Business ethics will not offer a satisfactory answer either, because this discipline also fails to take into account of the influence and capacities of MNEs in this border area. Instead, an empirical analysis is required to determine what can reasonably be expected of MNEs. This calls for a broad selection of CSR issues in the research, so that contributions to aggregate impacts of FDI are covered as far as possible and eventual unrealistic expectations can be identified.

3.3.2 A neoclassical perspective

The analysis will now continue by an assessing MNE responsibilities from a neoclassical perspective. Neoclassical economics do not support a definition of CSR in terms of responsibilities towards enterprise stakeholders. This second part of the analysis therefore requires a completely different approach that is more concerned with the functioning of markets.

²⁷ Although it is not a part of CSR, the analysis in chapter 5 includes the issue 'philanthropic donations' as well. Like the social investment aspect of community impacts, this issue corresponds with 'additional development initiatives'.

In section 2.2 it was explained that some neoclassical economists argue enterprises would create most welfare if they focus on maximizing shareholder value, while respecting the law and engaging in free competition. This argument is based on the assumption that enterprise profits are an approximate indicator of welfare creation (Henderson 2001). They are not a perfect measure, though, and markets often suffer from imperfections. Therefore, apart from maximizing profits and respecting the law, enterprises have the social responsibility to ensure that their profits are a good indicator of welfare creation. They also have the social responsibility to refrain from unfair competition, exercising market power and other practices that disturb the optimal functioning of markets (Henderson 2001).

To address undesirable market outcomes, especially with regard to the distribution of income and other welfare effects, is a task of the government and not of enterprises. CSR cannot and should not compensate for the failure of governments to perform this task adequately and government responsibilities should not be transferred to MNEs (Baker 2002, "Lots of it about" 2002). From this point of view, the convergence between the issues covered by international CSR standards and impacts on economic development, which was mentioned in the first part of the analysis, is undesirable.

The neoclassical criticism on what is generally considered as CSR can be summarized into two perfectly legitimate concerns. Firstly, CSR might not address market failures. As a result, CSR does not improve market outcomes and lowers welfare instead of raising it. If stakeholders exert external pressures for CSR on an enterprise, the main question is whether these pressures cause enterprise profits to be a better measure for welfare creation or not (Henderson 2001). The nature of this concern is purely economic. Secondly, even if market outcomes are not optimal and CSR initiatives can improve welfare, it is not the responsibility of enterprises to take such initiatives (Boatright 2000 p340, 359; "Lots of it about" 2002). The nature of this second concern is political. Although one should expect both concerns to play a central role in the debate about CSR, this is not always the case. Academics that argue against CSR often fail to distinguish the economic and the political component of their argument, whereas academics that argue in favour of CSR often pay attention to the second concern only or fail to address both of them.

The relevance of these legitimate concerns about CSR for this study is clear. In the discussion from a stakeholder perspective above, it was concluded that an empirical analysis is required to determine which CSR initiatives can be reasonably expected of MNEs. In order to demonstrate that CSR initiatives contribute to economic development, two more things need to be shown. Firstly, CSR initiatives need to address market failures or otherwise improve market functioning, and secondly it needs to be appropriate for MNEs to take such initiatives. Thus, an analysis of both welfare and non-welfare arguments for CSR is required. The following sections provide this dual analysis, starting with non-welfare arguments.

3.4 Non-welfare arguments for CSR

3.4.1 Moral foundations and social contract theory

A first non-welfare argument for CSR is based on moral foundations. It starts by emphasizing that it is the role of enterprises to enhance the welfare of society (Galle 2000). An example of this view is found in the OECD guidelines, which state that MNEs should 'contribute to economic, social and environmental progress with a view to sustainable development' (OECD 2000). The important point about this argument is that it partly disconnects the imperative for CSR from enterprise profits. Thus, enterprises should focus on shareholder value if that does indeed maximize contributions to welfare creation, but if it does not they should act in another way that contributes more. If CSR initiatives can improve welfare, it is regarded a moral responsibility of enterprises to take such initiatives. However, so far moral arguments provide little guidance on the distribution of responsibilities between the private sector, the state and civil society.

The responsibilities of enterprises may be clarified by assuming an implicit social contract between society and the private sector (Galle 2000 p133). The private sector and society depend on each other, and a social contract reflects this interdependence. It allows enterprises to pursue private profits as long as they stay within the border conditions that are expected by society. CSR can be understood as a part of these border conditions (Boatright 2000), which offers more guidance on the social responsibilities of enterprises.

In this respect Carroll provides a helpful classification of enterprise responsibilities into legal, economic, ethical and philanthropic responsibilities (Carroll 1991 & 1993 in Boatright 2000 p132). Economic responsibilities should be understood in a very narrow sense and mean that enterprises should be profitable, minimize costs and maximize revenues. These are required by society and they equal the responsibilities to shareholders, investors and owners that are part of CSR, but also reflect that profits are to some extent an indicator of welfare creation. Legal responsibilities are equivalent to the neoclassical border conditions of obeying the law and engaging in free competition²⁸ and are also required by society. Ethical responsibilities include the duty to avoid doing harm, to operate above the minimum of the law and more generally to behave in an ethical way. These are expected by society and include most aspects of CSR as defined by a stakeholder perspective.

Philanthropic responsibilities, which are perhaps better called philanthropic initiatives,²⁹ are desired by society but go beyond minimum expectations of enterprise behaviour. They do not form part of CSR or the social contract and fall outside the responsibilities of enterprises. However, this does not imply that enterprises are not allowed to take such initiatives or that philanthropic initiatives cannot contribute to economic development.

From the above it can be concluded that it is a duty of enterprises to minimize the negative impacts of their operations, whereas it is not a duty to maximize any positive external effects. More specifically, the operations of a MNE should not add substantially to the deprivation and suffering of people (Boatright 2000 p384). To support the duty of enterprises to avoid doing harm, it is sometimes argued that it is a duty of enterprises to respect universal Human Rights (ICHRP 2000). The preamble of the Universal Declaration of Human Rights reads that '(...) every individual and every organ of society, keeping this Declaration constantly in mind, shall strive (...) by progressive measures, national and international, to secure their universal and effective recognition and observance (...)'

(United Nations 1948). Every organ of society, then, includes enterprises as well.

The primary constraints that CSR imposes on enterprise behaviour therefore consist of not evading the law or searching for loopholes. This makes a case for basic labour rights, HSE obligations, business integrity, fair taxation and free competition. In addition, this supports good corporate governance, consumer protection and abstaining from undue political involvement, but these issues were not investigated in the research. Because of the implicit social contract, it also becomes a duty of business to take appropriate measures to minimize the negative impacts of their operations in the absence of adequate government regulation. Recalling the five-stage model of MNE behaviour from page 41, these constraints on enterprise behaviour require a MNE not to be unethical or legalistic but at least responsive, and to conform itself to both the letter and the spirit of the law.

This apparently limited interpretation of enterprise responsibilities is not incompatible with a neoclassical perspective (Henderson 2001 p22, 158-9). For example, Henderson rejects CSR because the demands it places on enterprises would be unjustified, but he does therefore not reject all governmental or societal demands. Enterprises should not assume any responsibilities that interfere with the proper functioning of markets, but expectations about internalizing the externalities that are not contemplated by laws and official regulations are justified. Voluntary CSR initiatives are 'complementary to official laws and obligations, in so far as both are directed towards "the redressing of market failures"' (Henderson 2001 p158, quoting OECD 2001b p20). This leads the moral argument for CSR partly back to welfare arguments. The moral argument for CSR initiatives that go beyond observing the law and not searching for loopholes would be valid if, and only if, CSR leads to more welfare creation by improving market outcomes. This applies to expectations about MNE behaviour concerning higher HSE standards, employment conditions that go beyond basic labour rights and community impacts. Recalling again the different stages of MNE behaviour, a MNE that responds to these expectations can be classified as an emerging ethical MNE. The welfare impacts of initiatives on these CSR issues, which are required to determine whether expectations can be justified, will be discussed in section 3.5.

It is sometimes argued that a stakeholder approach towards CSR confuses the responsibilities of a corporation, which include obligations to stakeholder groups, with its objectives, such as making

²⁸ See page 23.

²⁹ In order to avoid confusion with the category 'philanthropic donations' introduced in chapter 5, it should be noted that here philanthropic initiatives include social investment.

profit for shareholders (Galle 2000 p358). In the classification of Carroll, economic responsibilities are the goals of an enterprise, and legal and ethical responsibilities are the constraints on enterprise behaviour that follow from the social contract. A stakeholder perspective on CSR does therefore not imply that social and environmental contributions become the primary objectives of an enterprise, as neoclassical critics of CSR are eager to point out (Henderson 2001 p76-8). Profitability remains a measure of business success and most aspects of CSR are legitimate constraints on business behaviour, provided that they raise welfare.

3.4.2 Power and potential

In section 2.3.1 it was mentioned that the rise of CSR has been closely linked to the process of globalization (Henderson 2001 p30, Tavis 2000), a process which has increased the power of MNEs. Although some may argue that MNEs have not gained more power (Henderson 2001), what matters most and raised concerns about MNE behaviour is the general perception that they did (Van den Bergh 2000 p108). In a more globalized world the regulation of MNE behaviour by national legislation has become less effective and shifted the power balance in favour of MNEs (Cramer 2001, Elkington 1997, Held e.a. 1999, Van Genugten & Lubbers 2000). At the international level, the rights of MNEs have been greatly extended, but other issues, like protection of human rights and of the environment, have not received comparable attention (Kell & Ruggie 1999, Oxfam International 2002). The globalization of production and the increase of corporate power have not been matched by international regulation of corporate behaviour. Furthermore, especially for middle-income countries FDI has become more important as a potential stimulus for economic development (Murphy & Bendell 1999 p40-1, 59; Oxfam International 2002; UNCTAD 2001 p33). Attempts to attract more FDI have resulted in competitive deregulation by national governments of developing countries, a so-called race to the bottom in which low labour and environmental standards are considered competitive advantages. The decrease in effective constraints on MNE behaviour has been accompanied and reinforced by corporate concentration (Balanyá e.a. 2000 p7-10).

Two different types of non-welfare arguments for CSR are based on these developments. Both arguments stress that increased corporate power implies increased responsibilities (Meintjes 2000 p86). Firstly, some argue that MNEs are not effectively restrained anymore by market forces and government regulation (Boatright 2000 p344, Murphy & Bendell 1999 p14). MNEs therefore have the responsibility not to abuse their power. This would justify the duty of MNEs to observe CSR standards, either voluntarily through self-regulation or forced through civil regulation. This responsibility is not new and hardly contested. In principle the argument is equally valid for all types of enterprises, but it becomes more important when the power of an enterprise increases and when effective constraints on its behaviour decrease. The duty of MNEs not to abuse their power is quite similar to the moral argument and is valid for the same CSR issues. Globalization and the increasing power of MNEs have only reinforced the importance of the social contract and expanded its scope (UNCTAD 1999a p20). Like the moral argument, this duty does not support stimulation of the host economy or corporate philanthropy. Neither does the argument detract from government responsibilities. Although MNEs have a vast influence, the ultimate responsibility for employment conditions resides with governments (Oxfam International 2002 p190).

Secondly, some argue that MNEs have the duty to protect the welfare of deprived enterprise stakeholders if the state is unable or unwilling to do so, because this lies within their potential (Tavis 2000 p28). This argument applies to MNEs and large enterprises only. The failure of national governments to manage the negative effects of economic globalization and the withdrawal by states from their responsibilities were certainly among the factors that gave rise to CSR (Baker 2002). However, this does not mean that it is the role of powerful MNEs to fill this gap. This second argument is therefore not valid.

Rather than a justification for CSR, it explains the rationale for NGOs to engage with MNEs. MNEs become more interesting as potential agents of development when it is perceived that the power of governments declines and the power of MNEs increases. Apart from preventing bad behaviour, the promotion of good practices and common development projects can also be of great value to NGOs (Macdonald 2000). The increasingly acknowledged potential of MNEs to contribute to development is employed through partnerships and funding relations. Recalling the limitation of CSR discussed on

page 25, many of these initiatives are additional initiatives and do not fall under CSR as defined from a stakeholder perspective.

3.4.3 Profitability and sustainability

Sometimes it is defended that enterprises should assume CSR because it is in their own interest. Many authors argue that it is in fact profitable for an enterprise to engage in CSR and that MNE with high corporate social performance will outperform other MNEs, at least in the long run (Aaronson & Reeves 2002 p3; Prakash-Mani, Thore & Zollinger 2002; Utting 2000). Even more compelling, some argue that CSR is not merely a competitive advantage but a necessity for enterprise sustainability (Elkington 1997, Holme & Watts 2000). However, these arguments are incentives rather than a foundation for CSR. They are not sufficient to justify that it is appropriate for enterprises to assume CSR.

As mentioned in section 3.3, a crucial point here is whether CSR causes enterprise profits to become a better indicator for welfare creation or not. This leads back to welfare arguments again, but is also related to the type of CSR incentives. Furthermore, the profitability argument has general validity only if CSR is profitable for all enterprises. These two points are discussed below for the three categories of business incentives that were distinguished in section 2.4.

CSR initiatives driven by internal profitability do usually increase welfare. Internal profitability incentives for CSR are normal business incentives, largely independent of external expectations or changes in the business environment. This supports improvements in labour standards of individual enterprises, for example, but does not justify uniform global labour standards (Henderson 2001 p112-8). Yet even when an enterprise cares about internal profitability only, problems may arise about the border with government responsibilities. When public services like education or health care in a country fall short, it is sometimes profitable for an enterprise to provide these services itself. Yet such initiatives can reduce the incentives for governments to improve public services, which raises questions about the appropriateness of such initiatives. This is a complicated problem about the role of enterprises, which equally exists with a neoclassical focus on stakeholder value. It is often argued that enterprises should carry out this type of social engagement initiatives in partnership with governments or NGOs (Minbuza 2002), which may prevent lowering government incentives and transferring responsibilities. Engagement of enterprises in public-private partnerships is appropriate when enterprises contribute specific knowledge, experience or resources that would otherwise not be available to government and civil society partners. Again, it should be recalled that many of these initiatives go beyond CSR.

Like internal profitability, structural profitability is not different from regular business incentives and is usually conducive to more welfare creation. An exception would be when structural changes in the behaviour of enterprise stakeholders make it profitable for an enterprise to adopt inappropriate CSR standards. For example, changing market preferences could stimulate enterprises to adopt very high environmental standards, of which the marginal costs are higher than the social benefits. For the moment it is assumed that such inappropriate market demands do not occur. The next section will come back on this assumption.

An important weakness in the profitability argument is that it does not necessarily make the case for CSR as an integrated approach or for all kinds of firms. Not all aspects of CSR need to be profitable. Especially in the areas of competition policy and taxation, MNEs should not be expected to take voluntary initiatives because this is not in their own interest (Bols e.a 2001, Fortanier 2001). The nature of the business case for CSR is sector and context specific (Prakash-Mani, Thore & Zollinger 2002; Utting 2000). Moreover, it can be argued that not all companies care equally about strategic long-term competitive advantages, which might be available to early movers only. Some may be more concerned about keeping their production costs low than about keeping their corporate identity high. This would signify that the argument goes only for market leaders, early movers and enterprises that operate in high-end consumer market segments.

External pressures alone can never be a valid argument for CSR. It may be profitable for an enterprise to respond to social demands and expectations even if these are not legitimate (Henderson 2001). Civil society organizations may force MNEs to perform tasks that do not belong to them (Friedman 1962 p133, "Curse of the ethical executive" 2001). A typical counter-argument stresses that MNEs do not have to bow to NGO demands, but need to understand the interests and concerns of the

stakeholders they represent. Instead of interfering with markets, the rise for CSR is explained as a response to market forces (Prakash-Mani, Thore & Zollinger 2002 p32). However, this counter-argument is not valid. Insisting that business is business is as much in error as compelling business to concentrate on social improvements (Jacoby 1973 p197). Whereas responding to external pressures can be more profitable than not responding, this need not improve business results compared to a situation without external pressures.

Satisfying external demands does not automatically lead to desired general welfare outcomes, let alone optimum outcomes. Pressures from Northern NGOs may not reflect Southern needs accurately. For example, combating child labour can make children worse off when pursued without paying sufficient attention to local contexts. A MNE that leaves a developing country because it is accused of unacceptable practices is perhaps replaced by smaller and even less accountable companies. Misplaced NGO demands or consumer concerns can put MNEs under pressure to ignore the more legitimate complaints from local stakeholders. Moreover, only those issues that appeal to Northern consumers may be put on the corporate agenda (Heap 2000 p121-6, Macdonald 2000).

Finally, the profitability argument only goes for business. For many civil society organizations it would be unacceptable that the duty of enterprises to engage in CSR depends on the profitability of CSR initiatives. It has to be concluded that profitability and sustainability can be important incentives, but do not provide a foundation for the enterprise responsibilities that can be derived from a stakeholder perspective.

3.5 Welfare arguments for CSR

The analysis of non-welfare arguments provides support for most CSR issues, yet non-welfare arguments alone can never be a sufficient justification for CSR. It remains to be shown that CSR initiatives enhance market outcomes. This section will analyse welfare arguments for CSR.

The following analysis is mainly based on a neoclassical perspective, which assumes that free markets are most conducive to economic development. This implies that CSR initiatives will only lead to economic development if they correct market failures. Some of the sources of market failure which may be addressed by CSR initiatives are the presence of market power, externalities, missing markets and coordination failures (OECD 2001b p20). However, in practice perfect markets and perfect competition do not exist and markets in developing countries typically suffer from many imperfections. Under such conditions, the removal of only one type of market distortions will not necessarily improve market outcomes (Krugman & Obstfeld 2000). If this is taken into account, it has to be questioned whether CSR initiatives that address only one source of market failures contribute to economic development. This would also imply that CSR initiatives that add to the distortion of free markets can contribute to economic development, which would largely refute neoclassical concerns about the welfare impact of CSR and would call for a more complex analysis. It will therefore be assumed that CSR initiatives that address market failures do contribute to economic development. Although this is not entirely correct, the possible trade-offs between improved CSR performance and enterprise results that need to be investigated remain basically the same and the concerns raised by neoclassical economists are effectively addressed.

CSR initiatives, then, can enhance market outcomes in two ways. Firstly, They can protect the correct functioning of markets by improving competition and strengthening market forces. In this case it has to be assumed that enhanced market functioning will contribute to economic development, but if this were not the case, the neoclassical concerns that welfare arguments need to address would themselves not be valid. Secondly, CSR initiatives can correct market failures by making enterprise profits a better indicator for welfare creation. It is important to realize the difference between these two ways of improving market outcomes. In the first case CSR initiatives address market imperfections that distort the signalling function of markets. Marginal costs and benefits at enterprise level move closer to the equilibrium that would exist in a free market. In the second case the market signals themselves are improved. Marginal costs and benefits for enterprises become a better measure for social costs and benefits.

Business integrity and free competition are important CSR issues with regard to the protection of market functioning. Systemic and widespread corruption inhibits the correct functioning of markets (Boatright 2000 p393), because price signals are ignored by public or private employees that base their

purchasing decisions on the corrupt payments they receive. Business integrity measures that put an end to such behaviour therefore enhance allocative efficiency. Practices that restrict competition also prevent the correct functioning of markets and result in price levels that differ from those that would prevail in free markets. Competition policies that prevent such practices can be expected to enhance market functioning. Setting internal pricing levels at market prices can also contribute to fair competition, by not allowing fiscal advantages to MNE divisions that are unavailable to local enterprises. If profits are simply transferred to another country with a comparable corporate tax rate, there is no effect on market functioning. In this case non-welfare arguments are sufficient to justify market conform transfer pricing practices.

For labour issues and health and safety standards the picture is more complicated. In theory, CSR initiatives on these issues could either compensate for the imperfect functioning of markets or address undesirable market outcomes. Neoclassical economists argue that employment decreases when a MNE raises wages and other labour conditions above those prevailing in the market (Fields 1990, Maitland 1997). The demand for labour falls, because the higher production costs associated with improvements in labour conditions result in higher product prices and lower sales. Setting standards too high can therefore actually reduce welfare (Henderson 2001 p113-8, World Bank 1995). For this outcome it does not matter whether the improvements in labour conditions are imposed on a MNE or undertaken voluntarily.

However, it is possible that commonly prevailing labour standards are not optimal for the enterprise itself. MNEs may find that investing in their workforce, through training and more favourable employment conditions, may lead to greater returns than a so-called sweatshop strategy of cheap labour (Hartman, Shaw & Stevenson 1999). In theory it is possible that enterprises do simply not realize that improvements in human resource management could result in better business results. It is therefore important to determine the incentives for CSR initiatives on these issues and their profitability. If internal or structural profitability incentives play an important role and the resulting CSR initiatives are indeed profitable, they are likely to correct market imperfections. This is also true for profitable initiatives on other issues, such as environmental process improvement. For initiatives that are profitable because of external pressures this does not hold, for the reasons explained in the previous section. The impact of initiatives on these issues that do not correct imperfect market functioning will be discussed later on in this section.

CSR initiatives on the issues environment and community impacts can improve market outcomes by reducing negative externalities (SER 2000 p14). Externalities, which can be positive as well, are 'those consequences for welfare or opportunity cost that are not fully accounted for in the price or in other ways by market systems' (Bannock & Davis 1972/1999). If the price of a product does not correctly reflect production costs because of externalities, markets do not lead to an optimal allocation (Begg 1994 p265, Henderson 2001 p158-9). However, this does not provide support for the elimination of all negative externalities or global environmental norms (Henderson 2001 p109-18). Like improvements in labour standards, the reduction of external effects may raise production costs and reduce production levels and employment. It can be argued that the balance of marginal social costs and benefits of further reduction of negative externalities need not be judged the same in all countries, the costs consisting of a fall in employment.

Although the reduction of negative externalities can address market failures, it would be very difficult to determine to what extent they should be eliminated in order to optimize market outcomes. If external pressures on a MNE to reduce external effects are present, this indicates that perceived marginal social benefits of reducing externalities probably exceed the costs. In this case CSR initiatives will improve market outcomes. Although in theory it would be difficult to assess initiatives that go far beyond expectations of local stakeholders, in practice it can reasonably be assumed that environmental standards, for example, are not exaggerated and improve market outcomes. Even neoclassical economists usually accept that the internalization of externalities is desired from a welfare point of view. A strong case can also be made for occupational health and safety norms (Henderson p22, 158-9), regardless of the profitability of such initiatives.

The operations of a MNE can also produce inherent positive externalities, such as technology spill-overs or investments in local infrastructure that are implicit results of its core-business. The social benefits of such externalities are not fully captured by the market and do not always translate into business benefits. As a consequence, MNEs experience no or weak market incentives to increase

positive externalities. Such initiatives could nonetheless increase welfare (SER 2000 p14), depending on their influence on enterprise results. More care is needed when assessing additional development initiatives that do not directly follow from the core-business of a MNE, such as philanthropic donations, mainstream involvement or favouring local procurement. These are likely to interfere with the functioning of markets. Moreover, philanthropic projects do not necessarily improve welfare. If enterprises lack the required expertise for such projects and do not involve professional partners, well-intended projects can be counterproductive. Past experiences with development aid have clearly shown that badly planned or implemented projects can do more harm than good. On the other hand, philanthropy or social engagement may be intended as a compensation for negative externalities that cannot be avoided. In this case such initiatives are not only more appropriate, but when successfully implemented they can also compensate for market failures, which makes them desirable from a welfare point of view. In some cases social investment can also be profitable for an enterprise. The previous section already provided an example: when public services like education or health care in a country fall short, it can be profitable for an enterprise to provide these services itself.

Some authors argue that bad labour conditions and poverty wages are a way of externalising production costs (Roozen & Van der Hoff 2001 p260-1). The harmful character of these social³⁰ externalities would be similar to that of environmental externalities. Social externalities are certainly possible, for example when the operations of a MNE reduce the access of other people to common goods and services. Yet what these authors call social externalities are in fact undesirable market outcomes. Sometimes such outcomes are caused by severe market distortions, such as the unequal bargaining position of many small producers against a few large MNEs that have the power to set global prices (Oxfam International 2004). In reasonably competitive markets this argument is not valid, though, as social externalities require the assumption of minimum wages and labour conditions that need not prevail in a free market. It will be assumed here that such power imbalances did not occur in the investigated cases, because the enterprises in the research belong themselves to large corporations and are no external suppliers.³¹ The employees that are offered poor employment conditions do themselves decide to accept these conditions (Sargent & Matthews 1999) and any undesirable outcomes for the employees can therefore not be called externalities. As long as they do not perform bonded labour, the argument that the employees do not have a real choice, for example because they have no alternatives for employment (Hartman, Shaw & Stevenson 1999), is not valid either.

Higher labour expenses may result in a falling demand for labour. At the time of the research, many MNEs were leaving Mexico and relocating their operations to other, lower cost countries like China. Poor employment may still be a better option than no employment at all, so the impact of raising labour standards need not always be positive (Henderson 2001 p117-8). The impact of such improvements in employment conditions, which go beyond basic labour rights and that are not profitable for an enterprise, is probably the most controversial aspect of CSR. In theory the same would apply to HSE standards and measures to limit community impacts, although in practice it can reasonably be assumed that such initiatives will still yield positive marginal social benefits.

Even if improvements in labour conditions are not profitable, it is still possible that they improve market outcomes. There are several reasons why the labour standards that would prevail in perfect markets are not necessarily the labour standards that are optimal from a welfare point of view. These are mainly linked to the distribution of impacts. While free markets are effective to stimulate the productive and efficient use of resources, they do not by themselves lead to an optimal distribution of goods, services and other means that contribute to welfare. The initiatives of MNEs to raise labour standards can contribute to a more progressive distribution of income and other benefits within and between countries. Whether such initiatives increase welfare depends on the balance between the welfare gain of a more equal distribution and the welfare loss of lower demand for labour. Initiatives to improve other employment conditions beyond the point where marginal benefits equal marginal costs for the enterprise have similar distributional and employment effects. It would be too

³⁰ By exception, the adjective 'social' is used here in a narrow sense, like it is used in the sometimes confusing division of CSR into environmental, economic and 'social' responsibilities. See also note 14.

³¹ In addition, it will turn out that local supply chains, in which large power imbalances may occur, did usually not exist.

complicated to fully assess such balances between welfare gains and losses in this research. The impact of this type of initiatives will therefore remain indecisive. Without the welfare arguments that are required in these cases, the research will not provide sufficient support for the legitimacy of expectations about MNEs behaviour either. However, in the chapters 5 and 6 it will turn out that there were actually very few initiatives that could be expected to produce significant competitive disadvantages.

Often it is argued that international CSR standards could have additional adverse impacts because they were designed in high income countries and focus on MNEs (Henderson 2001 p111-9). When MNEs demand their suppliers to meet certain criteria, this might be regarded as a form of neo-colonization, with high income countries dictating worldwide social and environmental standards. Some argue such demands function as a non-tariff barriers, restricting market access for developing countries and therefore have a negative impact on their development (Henderson 2001, "Curse of the ethical executive" 2001). There is reason to fear for such an effect when it comes to ever rising food safety and environmental standards in high-income countries. For social standards the argument is slightly different. Supplier firms may be squeezed between demands for high standards and low prices paid (Heap 2000 p125, Utting 2000 p31). Yet in this case the low prices paid rather than demands for high standards may be identified as the real problem (Oxfam International 2002).

Another problem about international standards, when only implemented by MNEs, is that they may disturb local markets. An extreme example is given by Nike factory workers in Vietnam that would earn more than doctors, causing high social costs ("Curse of the ethical executive" 2001). Such double standards could also worsen dualistic development or cause excess rural-urban migration because of high expectations from employment in MNEs (Todaro 2000). Small enterprises might suffer if production becomes concentrated in large firms where employment standards are easier to monitor. The poorest people usually do not work for MNEs and codes of conduct can attract attention and capacity of NGOs away from these people. International standards tend to ignore or not to be designed for domestic production, seasonal agricultural work and the entire informal sector (Heap 2000 p123-5). The first-best solution to enhance employment conditions and wages is therefore not through standards for MNEs or trade agreements, but through domestic legislation and improved enforcement (Van Dijck 1996, Oonk 2002). International standards for MNEs can be counterproductive by reducing pressures to improve domestic legislation and good governance (Utting 2000 p31). Research findings about potentially adverse effects of international standards will be presented in chapter 6.

3.6 Conclusions

This chapter started by representing the dispute about the impact of foreign MNEs in developing countries. CSR initiatives influence the impact of MNE operations and thereby affect the contributions of MNEs to economic development. However, CSR issues do not cover all aspects of the impact of MNEs on the host economy, because individual MNEs cannot be expected to assess and regulate all the positive and negative impacts of their operations themselves. An empirical analysis is required to determine what initiatives can reasonably be expected of MNEs.

To demonstrate that such CSR initiatives contribute to economic development, two more things need to be shown. Firstly, CSR initiatives need to address market failures or otherwise improve market functioning, and secondly it needs to be appropriate for MNEs to take such initiatives. These are two legitimate concerns commonly raised by neoclassical economists, although not always clearly distinguished. The nature of the first concern is purely economic, whereas the nature of the second concern is political. Proponents of CSR often fail to address these concerns properly.

As for the first concern, CSR initiatives on some issues, such as business integrity, protect or improve the correct function of markets and will therefore automatically have a positive influence on economic development. The influence of other types of CSR initiatives, notably labour standards, depends on the profitability of such initiatives. If they improve enterprise results, the influence on economic development will be positive, assuming that profitability does not result from exaggerated market requirements or stakeholder demands. Yet if such CSR initiatives significantly lower enterprise profits, their influence depends on the balance between the social benefits of improved CSR performance and the social costs of a fall in demand for labour. This balance will not be investigated

and in such cases it will be concluded that the influence on economic development is indecisive. However, in the chapters 5 and 6 it will turn out that these CSR initiatives did usually not generate competitive disadvantages. Finally, some CSR initiatives are likely to interfere with markets, like philanthropic donations or stimulation of the host economy. The influence of these initiatives can nonetheless be positive, for example if they are intended to compensate for negative externalities or if their impact on enterprise results is minimal, which has to be investigated.

Regarding the second concern, a considerable part of the social responsibility of enterprises can be justified on the basis of a combination of moral arguments and social contract theory. According to this approach, CSR can be considered part of the constraints on enterprise behaviour that are required or expected by society. This does not contradict neoclassical economics. The increased power of MNEs reinforces their responsibility to meet these requirements and expectations. For some CSR issues, the legitimacy of social expectations partly depends on welfare arguments. Expectations about MNE behaviour are legitimate only if this behaviour contributes to higher welfare creation. A few CSR issues like stimulation of the host economy, as well as philanthropic donations, were not supported by these arguments because they may be desired by society but go beyond expectations. The appropriateness of such initiatives is open to discussion. Sometimes profitability and enterprise sustainability are also mentioned as a justification for CSR. Although these can be important CSR incentives, they do not provide a valid foundation for the social responsibilities of enterprises that can be derived from a stakeholder perspective.

These conclusions and their implications for the research are summarized in table 7. The first column of the table distinguishes the legal, ethical and philanthropic responsibilities of enterprises according to the classification of Carroll. Each of these three categories relates to a set of investigated CSR issues. For some issues it has to be empirically determined whether these can be reasonably controlled by individual MNEs in the absence of government incentives, which is indicated in the third column. For compliance with minimum standards and philanthropic donations this is not necessary, as it is clear that enterprises can manage compliance with minimum standards and private sector philanthropy is common in Mexico. The validity of non-welfare arguments, mentioned in the fourth column, follows from the different categories of enterprise responsibilities as discussed in section 3.4.1. The results of the analysis of welfare arguments for CSR appear in the last columns. As argued in section 3.5, the influence of CSR initiatives sometimes depends on the profitability of these initiatives. For the ethical responsibilities of enterprises, welfare and non-welfare arguments are closely related, because the legitimacy of expectations about MNE behaviour depends on the associated welfare impact.

If MNEs are unable to take CSR initiatives on a certain issue, no influence on related areas of FDI impact should be expected. If MNEs can and do take CSR initiatives, this will have a positive influence on MNE contributions to economic development if it is appropriate for them to do so and the initiatives enhance market outcomes.

| Type of MNE behaviour | Investigated CSR issues | Reasonably within MNE control | Supported by social contract | Influence | |
|----------------------------------|---|-------------------------------|--------------------------------------|-----------------------------|-------------------|
| | | | | If profitable ^{a)} | If not profitable |
| Required behaviour ^{b)} | Business integrity, Free competition, Taxation | To be determined | Yes | Positive | Positive |
| | Labour issues, HSE and community impacts: minimum standards ^{c)} | Yes | Yes | Positive | Indecisive |
| Expected behaviour | Labour issues, HSE and community impacts: higher standards | To be determined | Depending on influence ^{d)} | Positive | Indecisive |
| Desired behaviour | Community impacts, Philanthropic donations ^{e)} | Yes | No ^{f)} | To be determined | To be determined |
| | Stimulation of the host economy | To be determined | No ^{f)} | To be determined | To be determined |

Table 7: Required empirical support to determine the influence of different CSR initiatives.

^{a)} Internal and structural profitability only and assuming that market requirements are not exaggerated.

^{b)} Includes not searching for loopholes.

^{c)} These refer to legal obligations, universal Human Rights and other minimum norms such as ILO conventions.

^{d)} Supported if the influence is positive, insufficiently supported if the influence is indecisive.

^{e)} Philanthropic donations were investigated, but do not fall under CSR

^{f)} Appropriateness of such initiatives may still be demonstrated in individual cases.

4 The rise of a new CSR perspective in Mexico

4.1 Introduction

This chapter describes the emergence of CSR in Mexico. It starts with background information about the Mexican economy in relation to foreign MNE investment, labour relations and the traditional CSR perspective centred on philanthropy. Labour relations in Mexico are of special relevance to this research because of their special features and the common violation of international norms.

The rest of the chapter provides an extensive description and analysis of the attitudes and strategies of organizations in Mexico involved with the promotion of CSR. It examines the rise of a new CSR perspective in Mexico and the use of international CSR standards by organizations in Mexico. To facilitate the analysis, section 4.3 first provides an overview of relevant organizations. In this respect four main networks of organizations in Mexico are distinguished: the FES network, Red Puentes, the COMPITE network and AliaRSE. Within a network, organizations often have important elements of CSR attitudes and strategies in common. The sections 4.4 and 4.5 are devoted to the two civil society networks, the FES network and Red Puentes respectively. Section 4.6 analyses the AliaRSE and COMPITE networks, two business-oriented networks that are partly integrated. Section 4.7 elaborately examines the functioning of the Mexican National Contact Point for the OECD guidelines for MNEs and the implications for the use of these guidelines. Section 4.8 shortly describes the support for CSR from the Royal Netherlands Embassy and the OECD Mexico Centre, two organizations that do not belong to one of the networks identified before.

The chapter ends with conclusions about the rise of a new CSR perspective in Mexico and the use of international CSR standards by organizations in Mexico. These conclusions answer the research questions 3.1 and 5.1.

4.2 Background information about Mexico

4.2.1 General information about the Mexican economy

Mexico has a population of about 100 million people and a considerable part of them lives in poverty. Poverty estimates base on income levels vary wildly. According to the Interamerican Development Bank (IDB), a high estimate of 51% of the Mexican population lives below the poverty line ("En México" 2002). The United Nations Development Project (UNDP) found that in the past decade 24% of the Mexican population lived in poverty and 8% in extreme poverty, according to the UNDP daily income level poverty lines of 1 and 2 US\$ at purchasing power parity, respectively (UNDP 2003). Figures of the *Comisión Económica para América Latina y el Caribe* [Economic Commission for Latin America and the Caribbean] (CEPAL) are somewhere in between with 40% living poverty and 12% in acute poverty in 2002 (CEPAL 2003b). The figures of CEPAL are based on a daily income poverty line for Mexico set at 5 US\$ per day. Other crude estimates are based on the assumption that two or three times the official minimum wage would be necessary to afford a basket of basic goods for a small family, which is at least 8 US\$ per day for a family head. This implies that at least 44% of the economically active population earns a poverty wage (Milanés García 2003, Zuñiga 2003).

These figures are necessarily inaccurate. They are based on an estimated total Mexican population ranging from 75 million to over 100 million, the higher end estimates being more reliable. Some estimates of income distribution use data from the *Instituto Mexicano de Seguridad Social* [Mexican Institute of Social Security] (IMSS), which applies on a relatively favoured population of 12,2 million affiliated workers only (Zuñiga 2003). Even though the figures are inaccurate and inconsistent, these poverty lines are drawn rather arbitrarily and income levels are seriously flawed poverty indicators (Moon 1991, Morris 1979), they indicate that absolute poverty in Mexico is serious. Moreover, all estimates indicate that the official minimum wage in Mexico of 4 US\$ a day is insufficient to cover the basic household needs for a family (Oxfam International 2002 p192).

Some major causes of structural poverty in Mexico are the high income inequality, the low economic growth and declining real wages. Income inequality is exceptionally high in Mexico ("En México" 2002). It is estimated that the 20% of the Mexican population with the highest incomes earns

about 17 times as much as the 20% with lowest incomes (UNDP 2003). The skewed income distribution is also indicated by a very high Gini-coefficient³² of 0,52 after taxation (CEPAL 2003b, UNDP 2003). Data about trends in income inequality is contradictory. While one study concluded that inequality had strongly increased between 1996 and 1999 (“En México” 2002), another study found that inequality had remained more or less constant during the 1990s and had decreased considerably in more recent years (CEPAL 2003b). Low economic growth is another factor contributes to the persistence of poverty in Mexico. Since the crisis in 1982 the Mexican gross national product (GNP) per capita has grown on average with a low 0,4% per year (Arroyo Picard 2001, Hupperts & Kwaks 2001). In 2001 the Mexican GNP was on average around 5900 US\$ per capita, or 8000 US\$ at purchasing power parity (UNDP 2003, World Bank 2003). Real wages in Mexico have steadily fallen since 1976. Between the crisis in 1982 and 2003, real wages have decreased 80% (Hupperts & Kwaks 2001, Martínez 2003). Real wages are now at a level comparable to minimum wages in the early 1950s.

Mexico has a large informal sector. Officially registered unemployment in Mexico is only 2,8% (UNDP 2003, Bueno Rodríguez 2003). However, hidden unemployment is much higher and over 50% of the economically active population subsists from informal activities (Zuñiga 2003). Even employees in the formal sector do not always receive the benefits to which they are legally entitled. Only 12 million workers are affiliated to the IMSS (Milanés García 2003) and more than 50% of small and medium enterprises fail to insure their workers at the IMSS (Zuñiga 2003). An estimated 10 million formal employees do not receive any benefits at all, and adding these figures to those of the informal sector, the proportion of all Mexican employees do not receive benefits is above 60% (Zuñiga 2003).

Over the past decades Mexico has received large amounts of inward FDI. Subsequent Mexican governments have sought to stimulate FDI, first through the maquila programme and after that through preferential trade agreements and investment agreements, of which NAFTA was most important. In terms of FDI and exports, these strategies have been successful. FDI inflows increased from some 4 billion US\$ per year in the early 1990s to almost 14 billion US\$ in 2002. Exports grew between 1985 and 2000 from 19 billion US\$ to 166 billion US\$ and Mexico’s share in world exports is now over 2,5% (UNCTAD 2002). 90% percent of these exports is destined for the USA and at the time of the research the impact of the economic recession in the USA was strongly felt in Mexico. 80% of Mexico’s exports consists of industrial products, and almost 50% of total exports consists of car parts and electronic products alone (UNCTAD 2002 p173). MNE investment in the automotive, electronics and apparel sectors is efficiency-seeking³³ (CEPAL 2003a) and in this respect Mexico functions as an export-oriented investment platform for labour intensive stages of production (UNCTAD 2001). Production with moderate and advanced technology have also become an important share of industrial exports (UNCTAD 2002). FDI in agro-industry, on the other hand, is mainly national and subregional market access-seeking (CEPAL 2003a).

In terms of contributions to national economic development, Mexico’s policies to attract FDI have not been equally successful. Mexico is often cited as an example of a country that attracts FDI in high quantities, but with low quality (Oxfam International 2002). MNEs now account for 10 to 15% of employment in Mexico, but they have established very few linkages with the local economy (Arroyo Picard 2001, Oxfam international 2002 p190, UNCTAD 2001). Many MNEs in Mexico process imported inputs for re-exportation and use little other local inputs than labour. Promoting local linkages is there would therefore be a more important aspect of CSR in Mexico than supply chain management. However, subcontracting of services like cleaning, security and catering is common among MNEs. Employment conditions of MNEs tend to be above those of average domestic enterprises (Oxfam International 2002).

³² The Gini-coefficient is a measure for income inequality. 0 indicates a perfectly equal distribution among the whole population and 1 indicates a maximum concentration of the national income in the hands of a few. As a reference, Sweden has an extremely equal distribution with a Gini-coefficient of 0,25 and Brazil has an extremely unequal distribution with 0,61 (UNDP 2003).

³³ See the sections 5.10 and 6.2 for more information about efficiency-, market- and resource-seeking MNE investment.

Despite the increasing share of industrial exports with moderate and advanced technology, the attractiveness of Mexico for FDI in the industrial sector still relies on cheap labour. Other countries are now encroaching on Mexico's position as an export-oriented investment platform. From 2000 to 2001 value added in the maquila sector increased by 11%, but 200 thousand jobs were lost because of competition from China and other lower cost countries. Of the MNE production sites that closed down in Mexico in 2002, 60% was moved to Asia and the rest was relocated to Central America (Schilders 2003, UNCTAD 2003 p54).

About two thirds of foreign investments in Mexico come from the USA. Over the period from 1994 to 2001 Dutch companies ranked second on the list of foreign investors with a share of 9% of total inward FDI in Mexico (EVD 2002, SE 2002). Dutch investments in Mexico increased after 1994 to levels above 200 million Euro from 1997 and jumped to a billion Euro in 2001, of which 40% were takeovers and participations (DNB 2003, EVD 2002). In 2002 these flows turned into a net disinvestment of 481 million Euro. The higher investment flows and greater volatility during the last years probably result from large acquisitions of Dutch companies in Mexico's financial sector, some of which were later reversed. There has been a peak of FDI in Mexico's financial sector because restrictions for foreign investors have recently been dropped. However, as a result of the complex ownership constructions used for investments in Mexico as explained in section 1.3.1, it is not completely clear what is included in these FDI figures nor does there exist a complete overview of the Dutch MNEs that made these investments.

4.2.2 Labour relations in Mexico

Mexico has a special tradition of labour relations, the so-called 'protective unionism'. Mexican labour relations are explained here because of their relevance for the research. Traditional labour relations, as well as some of the solutions to avoid these, cause enterprises to violate international labour standards.

Until the start of the maquiladora programme, there existed three types of trade unions in Mexico. The protective unions of the state (*charro*) and the protective unions of enterprises (*blanco*) did usually not represent the interest of workers. The former, of which the Confederation of Mexican Workers (*Confederación de Trabajadores de México*, CTM) is the largest, are linked to the *Partido Revolucionario Institucional* [Institutional Revolution Party] (PRI) that governed Mexico until 2000. Until recently being a member of the CTM automatically meant being affiliated to the PRI. The second type of trade unions is run by the enterprises themselves. This type fits well with the general perception among managers in Mexican that it is the role of trade unions to support enterprises rather than to oppose them and defend the interests of workers (Bizberg 1997). The third type consists of independent and democratic trade unions, which have little influence at the national level (Bueno Rodríguez 2002). Although the representatives of protective trade unions were not democratically elected by workers, they still had to obey to the government in the case of *charro* trade unions and to the enterprise management in the case of *blanco* trade unions. Traditionally all workers used to know their Collective Labour Contract (*Contrato Colectivo de Trabajo*, CCT), their trade union and its leaders. They were members of the trade union and paid membership fees.

The Federal Labour Law (*Ley Federal del Trabajo*, LFT) grants protective trade unions a large degree of control over the work force. It specifies that a CCT may contain an 'exclusion clause' which obliges an employer to dismiss any workers that renounce or quit the trade union that signed the CCT with the enterprise. This prevents the foundation of new trade unions and the affiliation of employees to other unions. A provision which further increases the power of trade unions is that they can recruit new workers and present them to the enterprise in the case of job vacancies. Another feature of the Mexican labour legislation is that it distinguishes between trust workers (*trabajadores de confianza*) and base workers (*trabajadores de base*). Employees in the area of management, finance, coordination, security and other tasks at the service of the executives are in general trust workers, while base workers perform mainly production tasks. The benefits of trust workers are usually not specified in a CCT but superior to those of base workers (Bueno Rodríguez 2002). Normally trust workers are not unionized and if they are, the LFT prohibits them to belong to the same trade union as the base workers, which weakens the involvement of employees in trade unions. The resulting power of trade union leaders enables them to enrich themselves through widespread corrupt practices, at the expense of the interests of workers and sometimes of enterprises too.

This corruption can take two different forms. Firstly, trade unions can offer repression of workers and sign an inexpensive CCT in exchange for a bribe. In this case the trade union cooperates with the enterprise and enterprises often pay the leaders of trade unions a percentage of enterprise profits or of the amount of money they save by weakening workers' rights in the contract. For the repression of critical employees, trade unions can use disciplinary sanctions including dismissal under the exclusion clause, and some unions even use violence. Secondly, trade unions can use their control over the labour force to extort enterprises. In this case trade union leaders threaten to mobilize workers to demand higher wages and benefits and better working conditions. An agreement involving a payment to the trade union leader is usually reached before the trade union and its members resort to a strike.

Sometimes conflicts over CCT negotiations occur between different protective trade unions. In these conflicts a trade union challenges the role of negotiating and contracting party for a certain enterprise, which is at that moment fulfilled by another trade union. What is at stake in such a challenge is the control over the labour force of an enterprise and the illegal payments to trade union leaders that can be obtained through this control. Because of these practices of offering protection against employee revolts, corruption, extortion and conflicts among themselves, protective trade unions are sometimes compared to gangster organizations (Cartier 2003).

The *maquila* programme gave rise to a fourth type of trade unions, commonly called the phantom union. This type is an extension of the protective unions in the sense that it is not democratic, but unlike the other three types the trade union is not known to the workers. A CCT is typically negotiated before workers are contracted. They do not learn about the existence of the CCT and are not affiliated to the trade union. The trade union leaders usually collaborate with the enterprise management, which directly pays the expenses of the trade union, but they are not accountable to anyone. In the case of a phantom union, real trade union activities are inexistent, but on paper a collective representation exists that complies with all legal requirements contained in the LFT and the Social Security Law (Bueno Rodríguez 2002).

Labour relations are most restrictive in Northern Mexico and especially in the border region, where almost all trade unions belong to the CTM (Bueno Rodríguez 2002). According to the experiences of an independent trade union, the governments of the Northern states do not allow independent trade unions to enter the maquilas and want direct control over the workers through their own trade unions. In the labour movement of central Mexico, mobilization of workers and confrontation with the enterprise management are highly valued.

4.2.3 The traditional CSR perspective in Mexico

CSR is still in an early phase in Mexico. Corporate philanthropy, not related to the core-business of a company, appears to be the dominant mode of corporate social involvement (Hupperts & Kwaks 2001, Sarvide, Rubio & Blair 2002, SustainAbility 2003a) and CSR is often associated with philanthropy or cause-related marketing. Enterprise managers in Mexico are increasingly acknowledging that they have an active role to play in the solution of social problems (Sarvide e. a. 2002). Nonetheless, knowledge about CSR in the core-business and experience with CSR or best practices to indicate the way forward were still largely lacking in 2001 (Hupperts & Kwaks 2001). Many explain this as an influence from the business culture of the USA where corporate philanthropy is deeply rooted (Hupperts & Kwaks 2001, Sarvide e. a. 2002). In some interviews for this study the influence of catholic traditions was also mentioned as an explanation. A neoclassical perspective, which rejects both philanthropy and CSR in its broad sense, is rarely found. In contrast, a traditional civil society perspective, hostile towards business, and a traditional business perspective, centered on philanthropy, are still very influential.

Not surprisingly, Mexican consumers are not acquainted with CSR either. Various civil society organizations mentioned the lack of a consumer organization in Mexico³⁴ as another obstacle for the development of CSR, because it limits the possibilities to put pressure on enterprises with low social performance through domestic consumer actions. On the other hand, there does exist domestic consumer support for enterprises that positively distinguish themselves. Cause-related marketing

³⁴ However, there does exist a governmental organization to defend the rights of consumers, the *Procuraduría Federal del Consumidor* [Federal Consumer Solicitorship] (Profeco).

appeals to Mexican consumers and in a survey three quarters of Wal*Mart consumers indicated that they would buy products of another brand if it supported a social cause (ITESM e. a. 2000). An increasing majority of consumers also agrees that private enterprises have the responsibility to help to solve social problems such as poverty and better education and health services. These issues are increasingly perceived as a shared responsibility of the private sector, the government and civil society as well (Blair & López-Taymani 2003, ITESM e. a. 2000).

Such new ideas contrast with the historical lack of an alliance culture in Mexico, which is probably the greatest obstacle for the development of CSR. Until recently, different segments of society operated completely independently. This is rooted in the past political climate, which did not foster trust and cooperation between civil society, the private and the public sector. The lack of cooperation did not change quickly after the end of PRI-rule and most NGOs are still hostile towards private enterprises (Hupperts & Kwaks 2001). Many NGOs and democratic trade unions hold on to radical ideologies and Marxist sympathies and one Mexican NGO director mentioned that even some Mexican partners of progressive international organizations are only interested in enterprises for donations or do not want to deal with them at all. In addition, in a workshop among trade union representatives it was brought up that a shift towards a less hostile approach may be desired by an organization but impaired by its support group.

As a consequence, a culture change may be necessary, both among enterprises and among other actors relevant for the development of CSR in Mexico (Sarvide e. a. 2002). Albeit slowly, such a change of attitudes is already happening at the moment, as there exists a tendency among civil society organizations towards multisectoral partnerships (Sarvide e. a. 2002).

4.3 Networks of organizations in Mexico promoting CSR

A striking feature of the promotion of CSR in Mexico is that organizations are exploring and undertaking CSR activities independently from other organizations that also seek to promote CSR. In this respect four important networks of organizations in Mexico can be distinguished: Red Puentes, the FES network, the COMPITE network and AliaRSE. This section explains the main features and the composition of the networks of organizations in Mexico promoting CSR.

Within a network there is regular exchange of information and active cooperation between organizations and CSR attitudes and strategies are similar. However, between networks exchange of information and cooperation are much more limited, and if they take place at all it is between individual organizations that belong to different networks. The lack of cooperation may be based on the differences in CSR attitudes and strategies between networks, but this is not always the case. Sometimes organizations are simply unaware of the existence of other networks. In other cases organizations refuse to cooperate because they are misinformed about each other or because rivalry exists between them.

The historical lack of cooperation between business organizations and civil society persists in the composition of the different networks. A loose network of trade unions and development-oriented NGOs interested in CSR, with linkages to socialistic politicians³⁵ and academics, recently emerged with the organization of the international seminar about the OECD guidelines on the initiative of the FES. This network will be called the FES network. In part its internal linkages stem from another network with a different purpose, the *Red Mexicana de Acción frente al Libre Comercio* [Mexican Action Network opposed to Free Trade] (RMALC). The FES only learned about the NGOs of Red Puentes, which has already been mentioned in the introduction, when it was already too late to invite them to the seminar. Both the FES network and Red Puentes, which are the main networks of Mexican civil society organizations that seek to promote CSR, were unaware of the activities of COMPITE, the leading organization of the largest business-oriented CSR network in Mexico. Apart from *Vivian Blair & asociados*, they first learned about COMPITE in the course of the research.

The composition of this business-oriented network was apparent at the First International Congress on Social Responsibility and Integrity in Mexico organized by COMPITE and other important members of what will be called the COMPITE network. It consists of private sector organizations and business-oriented NGOs, business associations, departments of ministries and a few

³⁵ Mainly of the *Partido Revolucionario Democrático* [Democratic Revolution Party] (PRD).

universities. The COMPITE network partly overlaps with the formally organized *Alianza por la Responsabilidad Social Empresarial en México* [Alliance for Corporate Social Responsibility in Mexico] or AliaRSE, which consists of 7 business-oriented organizations. Cooperation and exchange of information between these two networks remained limited due to tensions between COMPITE and the *Centro Mexicano para la Filantropía* [Mexican Centre for Philanthropy] (CEMEFI), the leading organization of AliaRSE.

Figure 3 shows the composition of all networks. In addition, the figure shows some organizations in Mexico engaged in the promotion of CSR that do not belong to any of the four networks identified above. All organizations are mapped into one sector of society to provide a better overview of the composition of the networks. In the figure, the different sectors are indicated at the right and separated by horizontal dotted lines. The mapping of the organizations into the different sectors of society needs some explanation, especially with regard to NGOs.

Firstly, a distinction can be made between development-oriented and business-oriented NGOs. Several persons interviewed for the research remarked that some NGOs do not approach CSR from a civil society point of view and these NGOs are perceived as business-oriented rather than development-oriented. It has been mentioned that they are no 'real NGOs' because they do not represent the interests of enterprise stakeholders. Although a clear border between the two does not exist, in this study civil society refers to trade unions plus NGOs that do not approach CSR from a predominantly business-oriented perspective, thus excluding for example the USEM. Civil society organizations are to be found in the upper part of the figure, in the sections 'Trade unions and related organizations' and 'NGOs'.

Secondly, a vague border also exists between NGOs that provide CSR consultancy to enterprises, AVAL for instance, and private consultancy firms that offer the same services. CSR is becoming a big business in itself and some NGOs may therefore start to behave like commercial enterprises, just like MNEs that adopt new CSR strategies may start to perform tasks that used to be the exclusive terrain of NGOs (Heap 2000). It should be reminded, then, that NGOs are a very diverse group of organizations.

Thirdly, in figure 3 some NGOs are mapped into other sectors of society. The CILAS is to be found in the section 'Trade unions and related organizations' and the USEM appears in the section 'Private sector organizations'. Similarly, the ILO and the TUAC, which depend on the United Nations and the OECD respectively, could be regarded as intergovernmental organizations instead of labour organizations, and Expansión might be labelled a media organization rather than a private sector organization. Hence, alternative mappings are possible.

Finally, the figure does not provide a complete overview of all organizations in Mexico that supported CSR at the time of the research. Only organizations at the national level are included in the figure and for simplicity not every chambers of commerce federation and business organization in the COMPITE network has been mentioned.³⁶ With regard to academic institutions, a previous study found that attention for CSR is rare and limited (Sarvide e. a. 2002) and to a large extent this is still true.

The following sections describe the attitudes and strategies of organizations in Mexico involved with the promotion of CSR.

³⁶ For a full list of members of the technical committee of COMPITE, see COMPITE 2003.

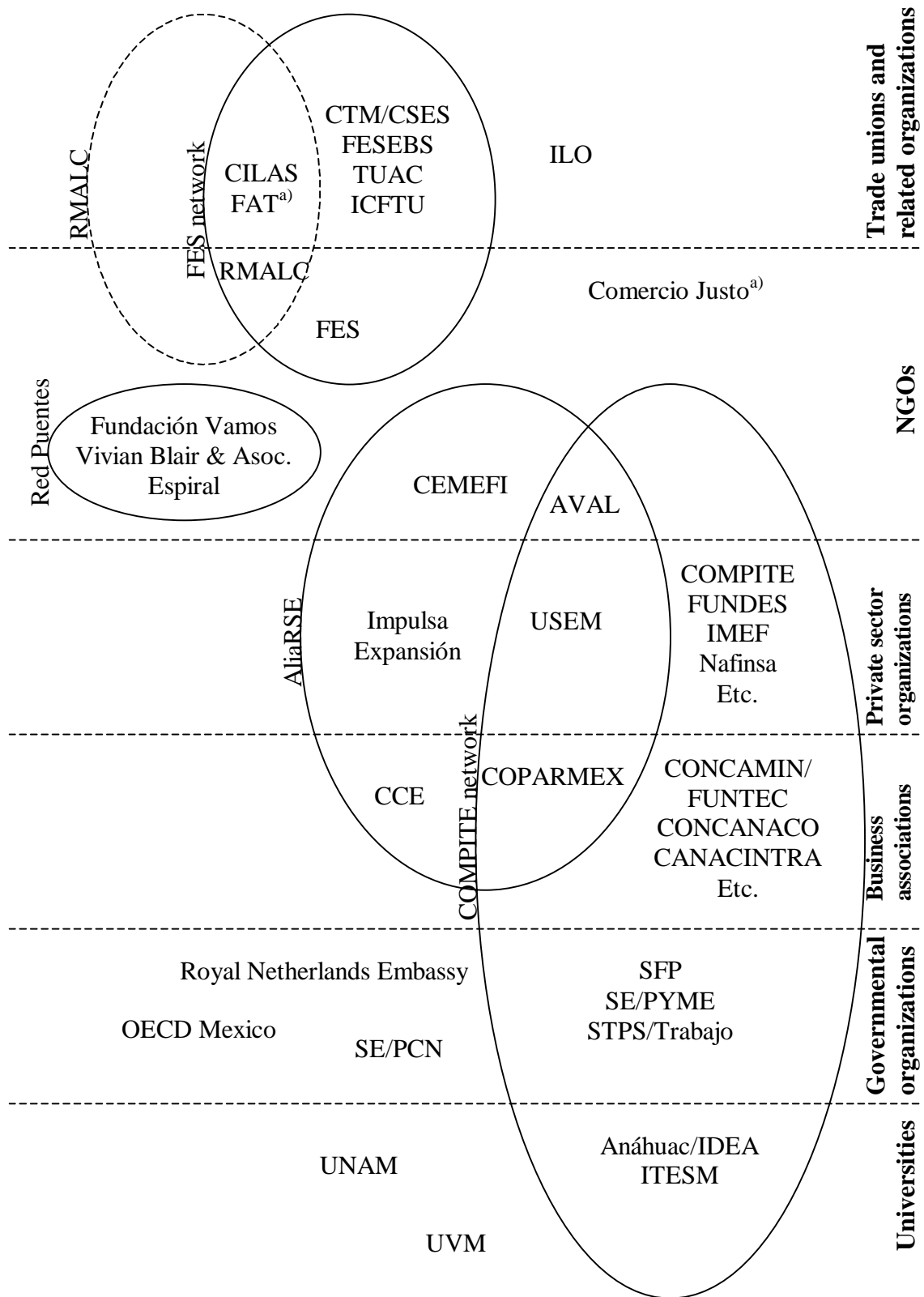


Figure 3: Networks of organizations in Mexico that seek to promote CSR.

For the meaning of acronyms, see the list on page 9.

^{a)} Comercio Justo and the FAT also participate in monthly meetings of Red Puentes.

4.4 The FES network

4.4.1 The FES and the seminar about the OECD guidelines

The FES is connected to the German Social-Democratic Party and has been present in Mexico for 30 years. The central axis of its work is the stimulation of political dialogue between Mexico and Germany and its main programme is concerned with the strengthening of the democratic trade union movement in Mexico. In early 2003, the FES received instructions from its headquarters in Bonn to take up the issue of CSR, which was new for the FES in Mexico. A first result of this initiative was the international seminar about the OECD guidelines for MNEs, organized together with the Trade Union Advisory Committee (TUAC) to the OECD and its Mexican members the CTM and the *Federación de Sindicatos de Empresas de Bienes y Servicios*³⁷ (FESEBS). The FES has now planned to organize another seminar and to start a monitoring programme of German MNEs in Mexico.

Due to its previous work on labour relations, the FES is mainly connected to NGOs, trade unions, politicians and academics that share a traditional attitude and accompanying strategies towards MNEs. Thus a focus on the core-business of enterprises, especially on labour rights and stimulation of the host economy, was already present, but a stakeholder perspective had never been used to derive more issues of enterprise responsibility. Attitudes towards MNEs could sometimes be hostile and the main strategies to influence MNE behaviour were attempts to influence government policy, CCT negotiations and trade union activity, backed by legal obligations.

The FES itself has for long enjoyed good relations with several large German MNEs, most importantly with Volkswagen. This enterprise has a huge production site in Puebla, close to Mexico City. Some enterprises and private sector organizations were invited to speak at the seminar too, but in the end none of them accepted the invitation. Volkswagen Mexico had first promised its venue but subsequently cancelled it. According to someone close to the management, the reason for this cancellation was the short time-span between the invitation and the seminar which would not allow for consultation with the corporate headquarters in Germany.

Because of the central theme of the seminar, the OECD guidelines for MNEs, the absence of the Mexican NCP for these guidelines was even more conspicuous. The TUAC invited the head of the NCP in Mexico, but because of agenda reasons none of the three persons that work for the NCP was able to attend it. Not surprisingly, its absence and perceived inactivity were widely criticised by all participants, including representatives of the OECD centre in Mexico. However, the OECD centre agreed that the invitation they received themselves, one month before the seminar, was late indeed.

Representatives of Mexican ministries also refused to attend the seminar. The FES made special efforts to secure the presence of a high official of the Mexican sub-ministry of labour, because the Minister of Labour and Social Security from Costa Rica came to deliver a speech at the seminar. However, no representative of his Mexican counterpart would come to meet him, not even at the dinner afterwards, although the relationship between this ministry and the FES used to be good. After the NCP replied that they were unable to contribute, efforts were made to find other high officials of the Ministry of Economic Affairs prepared to speak at the seminar and meet the representative of the Guatemalan Ministry of Economic Affairs, but also in vain.

The seminar initiated by the FES, then, gave rise to a loose network of critical civil society organizations. Although there has been exchange of ideas and information about CSR, most have not yet worked out any activities to stimulate CSR so there is still very little cooperation in common projects. Because of the lack of support from the government and the private sector to the seminar, the organizations were from the outset highly critical of public and private action to promote CSR in general and the OECD guidelines in particular. Nonetheless, the seminar has initiated a shift in CSR perspectives among many of them, most importantly by diffusing the OECD guidelines for MNEs. These provide a frame of reference for CSR based on a stakeholder perspective and support a form of alternative compliance. A questionnaire, answered by some of the participants after the seminar, revealed that 32 out of 37 respondents did not know the OECD guidelines before. Out of 31 respondents, 27 believed the guidelines can be an instrument to promote CSR and 26 answered they would apply the guidelines in their activities, for instance as a tool to defend the right to collective negotiations and to form a trade union. However, the FES and many trade unions are sceptic about the

³⁷ Federation of Trade unions of Enterprises of Goods and Services

OECD complaints mechanism, after a complaint at the German NCP did not help to resolve the trade union conflict with Euzkadi,³⁸ a German tire producer that illegally closed one of its plants in Mexico in December 2001 (Pastrana 2003). Stronger and faster enforcement mechanisms, more diffusion and more government support are desired by this network.

The FES believed that the OECD guidelines and especially the implementation procedures need to be adapted to the Mexican context. In general, the contents of the guidelines are good and all themes are important although more explicit attention should have been paid to gender issues. For the FES, the greatest problem of the OECD guidelines is their ambiguous nature with respect to compliance and promotion. Furthermore, the guidelines are still hardly known in Mexico. According to the FES, the OECD guidelines are useful as a general guide, but they are far from reality in Mexico. Therefore they need to be complemented by another more practical document, to be discussed by a tripartite committee, which describes their application in the Mexican context and the procedures for the complaints mechanism. Strict timetables should be set for the handling of specific instances, because the FES fears that the mediation of conflicts by the NCP could take very long while problems for workers may be urgent. The NCP, currently is run by the government only, should become tripartite too.

The FES expects that in Mexico MNEs will not observe the guidelines because they are voluntary. According to the FES, it is not part of the Mexican culture and apart from a few exceptions, such as Volkswagen and the Mexican MNE Bimbo, in Mexico MNEs are not committed to CSR but to profit and productivity only. They do not like to find regulations imposed on them and would see the OECD guidelines as a burden. In order to further the observance of guidelines, the FES stresses that government support and legal obligations are needed. The use of alternative compliance mechanisms like consumer action, mentioned at the seminar by the Jus Semper Alliance, is a new idea for the FES. Thus, FES shows still many characteristics of a traditional CSR perspective.

Four other civil society organizations that can be regarded as important members of the FES network have been visited for interviews and are described in more detail below.

4.4.2 The RMALC

The *Red Mexicana de Acción frente al Libre Comercio* (RMALC) is itself an NGO as well, a small body that coordinates the actions of its members with a traditional and somewhat hostile attitude towards MNEs. It does not focus on CSR in general but on economic, social and cultural Human Rights compliance of MNEs. Although these Human Rights could be considered a basic part of CSR, voluntary international CSR standards and enterprise codes of conduct are not regarded very useful as long as Human Rights are not respected. The nature of Human Rights is not voluntary and their observance should be legally obliged instead of promoted through voluntary CSR initiatives. In this context, it is rather irrelevant whether CSR initiatives are profitable or not. Besides, the RMALC is very sceptic of the OECD guidelines because it does not know a single case in which they helped to solve a conflict. The organization therefore continues to target government regulation and in particular Bilateral Investment Treaties (BITs) instead of working directly with MNEs.

4.4.3 The CTM

The *Centro Sindical de Estudios Superiores* [Trade union Centre for Advances Studies] (CSES) is a central organ of the CTM that started to explore CSR three years ago. It claims to support the democratization of labour relations in Mexico. For the CTM, the labour issues of CSR are concerned with compliance of basic Human Rights, the LFT and the ILO conventions. It is still studying what use they can make of new CSR strategies and instruments and there exists an internal research programme about globalization, the role of MNEs and outsourcing practices. There is no cooperation with other trade unions in these initiatives. Together with the FES and other organizations, the CTM wants to organize a second seminar about CSR, codes of conduct and the OECD guidelines. In contrast to the first seminar, leading MNEs should participate in it as well. CSR is now being inserted in training programmes for trade union secretaries and delegates as a strategic issue, because according to the CTM many CSR issues can be introduced into collective labour contracts, which are quite flexible. Win-win situations for CSR improvements, including the promotion of the OECD guidelines,

³⁸ The report of the annual meeting of NCPs on the 23rd and 24th of June 2003 mentions that the case had by that time been transferred from the German to the Mexican NCP (OECD 2003 p9-10).

are considered likely. This is based on past experiences of higher employee commitment and mutual trust and improvements in productivity, quality and environmental impact which in turn increased access to more demanding markets.

Not all labour norms in the OECD guidelines are equally interesting for the CTM. For example, the prohibition of discrimination is important while norms about child and compulsory labour are irrelevant in the context of formal employment in Mexico. Furthermore, sufficient access to information about enterprise performance for employees and trade union delegates is very important. This is fundamental for meaningful negotiations over wage revisions and profit sharing and has been difficult to obtain by trade unions. For the CTM, the timely notification of enterprise reorganizations or closure is also very important. It would like to see the OECD guidelines distributed to all trade unions, because although they are voluntary they carry some political weight in negotiations. The OECD guidelines are therefore an additional instrument for trade union struggles and offer a wider frame of reference for their demands.

In the opinion of the CTM, the complaints mechanism accompanying the OECD guidelines leaves something to be desired. The CTM learned about the OECD guidelines through the TUAC and not through the NCP. However, the CTM stressed the need to alter the composition of the NCP rather than the apparent inactivity of the current staff. In some other countries the NCP is not run by the government only but tripartite and the Mexican NCP should be tripartite as well to reach a better equilibrium between the influence of the government, the private sector and civil society.

4.4.4 The CILAS

The *Centro de Investigación Laboral y Asesoría Sindical* [Centre for Labour Research and Trade union Consultancy] (CILAS) is engaged in a monitoring project of Dutch MNEs. This project takes place in different developing countries and was initiated in late 2001 by FNV Mondiaal, the international wing of the largest federation of Dutch trade unions. Although it is focused on labour issues, the project includes non-labour Human Rights' and environmental issues as well and can therefore be understood as the monitoring of corporate social performance of MNEs. The MNEs Akzo Nobel and Philips were selected for the first phase of the research project in Mexico which was executed by the CILAS. Thus, the organization does already have experiences with the monitoring of CSR issues and established direct relationships with Dutch MNEs.

The contacts between the CILAS and enterprises of both corporations were very difficult at the start but cooperation improved in the course of the project. At first, there was ignorance from both sides and the MNEs rejected the request of the CILAS. Contacts at a higher level, between FNV Mondiaal and the corporate managements, proved to be easier and these resulted in agreements to cooperate in the monitoring project. The agreements at the corporate level were followed by an important change of attitude at the local level. The four Akzo Nobel enterprises started to cooperate and at the completion of the first phase of the research there were good relationships between these enterprises and the CILAS. Philips Mexicana was more reluctant to cooperate in full; it imposed several restrictions on the research project and mutual distrust continued to exist. A second phase of the monitoring project consists of feedback of the research results to the enterprises involved and it has been planned to extend the project to other Dutch MNEs and perhaps to German and Swedish MNEs as well.

Thus, the CILAS is in search of cooperation. It prefers to establish a dialogue with enterprises and to use pressure only when that option is not possible. A dialogue is intended to convince enterprises of possible win-win situations and in the ideal case the majority of enterprises would recognize that CSR initiatives serve their own business interests. However, the CILAS is perfectly aware that this is more difficult when CSR initiatives lower enterprise profits or are profitable at the longer term only, due to the differences between the various CSR issues. If an enterprise refuses to cooperate, pressure can be mounted in many ways as there exist many options between a dialogue and a strike. For example, a first step could be to search for support of other actors to have a stronger voice. Further steps depend on specific circumstances and it is not the role of the CILAS to put pressure on enterprises itself, although they can advise trade unions how to do this.

According to the CILAS, the promotion of CSR in Mexico will be more effective if it is supported by more actors. The CILAS does not actively cooperate on CSR with other organizations at the moment. The support for CSR from civil society organizations is still diffuse and just beginning

and it is perceived that real networks of NGOs and trade unions for CSR do not yet exist in Mexico. Therefore, the position of civil society is very weak and forces should be joined. Linkages with the private sector for the promotion of CSR in general may perhaps be established in the future, after civil society has organized itself.

4.4.5 The FAT

The *Frente Auténtico del Trabajo* [Authentic Labour Front] (FAT) is perhaps the organization of the FES network that shows most characteristics of a new CSR perspective. For the FAT, CSR is new only in its totality. They were already familiar with various aspects of CSR and thinking in terms of responsibilities towards employees and accountability of enterprises. There have been experiences with win-win situations in the past concerning the introduction of total quality management. Moreover, they argue that the legitimacy of private enterprises needs to be acknowledged and that win-win situations should be actively sought. Although the FAT is a federation of independent trade unions, unlike a large part of the independent trade union movement it rejects fundamentalism and always seeks to establish a dialogue. Pressure is used if enterprises do not want to respond, but primarily as a means to obtain a real dialogue.

It is still studying its new strategy for cooperation with enterprises and also with the government. This is remarkable given the general suspicion about government intentions among the organizations of the FES network. The FAT is convinced that to stimulate CSR changes are necessary within civil society as well. A joint effort of trade unions, ecologists and a future consumer organization is especially desired by the FAT. Alliances between trade unions and NGOs are not new for specific campaigns, but still lacking for the promotion of CSR in general. In the absence of effective pressures at the national level, the FAT mentions the option of international alliances with organizations in the USA and the European Union where CSR movements are better organized. Yet another strategy could be to approach enterprises as consultants and sell them the idea that CSR enhances business opportunities, although this would probably only function in combination with effective pressures. The reorientation towards such strategies clearly marks a shift towards a new CSR perspective.

The FAT is one of the few Mexican civil society organizations that found out about the OECD guidelines before the seminar. It attended a workshop organized by Friend of the Earth Netherlands about the use of the OECD complaints mechanism, which took place in March 2003 in The Netherlands. It is of the opinion that this mechanism in itself is not sufficient, but can be helpful to support a wider campaign. However, the FAT does not have positive expectations about the functioning of the NCP in Mexico. Furthermore, the contents of the OECD guidelines are not perfectly adequate because they lack any norms about wage levels, like many other international CSR instruments. Real wage levels have been falling for over 25 years in Mexico and fair wages are one of the most important aspects of CSR, according to the FAT and many other civil society organizations. The FAT perceives that MNEs and governments alike prefer to regard wage levels as a national issue, while it stresses that global wage policies of MNEs are also a responsibility of the MNEs themselves. Another complication of the OECD guidelines is that they are too difficult, or perhaps too comprehensive, to demand their full implementation in a country like Mexico. In contrast, compliance with for example ILO conventions can be perfectly demanded in Mexico. Still, the OECD guidelines serve as a point of reference for the FAT and provides some further legitimacy for demands.

Finally, the FAT has important linkages with organizations outside the FES network that want to stimulate CSR. It knows the NGOs of Red Puentes and actively cooperates with Espiral. The FAT is aware of the activities of CEMEFI as well, but it perceives that CEMEFI has a more limited view on CSR focused on philanthropy.

4.5 Red Puentes

4.5.1 Fundación Vamos and the Red Puentes proposal

Fundación Vamos [Vamos Foundation] is one of the three current members of the Mexican National Reference Group of the international Red Puentes and the official leader behind the Red Puentes proposal. This proposal is a plan of action for the years 2003 to 2005 supported by a grant from the

Dutch Ministry for Development Cooperation under the so-called thematic co-financing programme (Red Puentes 2002). The CSR agenda of Fundación Vamos and Red Puentes are nearly the same.

The NGO Fundación Vamos was founded in 1996 by 60 leaders of civil society organizations to raise funds and provide other support to all kinds of development initiatives in Mexico. Since the year 2000 it has build partnerships with over 30 MNEs that expressed their interest in social issues and contribute to the organization's Business Social Investment programme. These MNEs include many large ones like Nokia, Microsoft, Canon and Intel and the Mexican MNE Bimbo that is renowned for its ethical business conduct, but no Dutch enterprises. The investment programme fits with strategic contributions and mainstream involvement, the second and third stages of Heap's four-stage model of NGO-MNE relations on page 40.

Fundación Vamos wants to contribute to the creation of a new social responsibility culture in Mexico and Latin America by changing the relationships between business, government and social groups and supporting the exchange of information about CSR within civil society (Fundación Vamos 2003, Red Puentes 2002). Vamos is in favour of a cooperative approach to deal with MNEs (Barranco 2003) and because of its many relations with civil society groups and NGOs like CEMEFI, universities such as the UNAM and ITESM, MNEs and government organizations, Fundación Vamos could help to establish cooperation between different sectors of society.

Red Puentes took its current form in June 2002, during a week of activities called 'A glance at CSR in Mexico' after the preceding research project by Espiral (Red Puentes 2002). Its aims to build 'bridges' between Mexican civil society organizations and MNEs from the Netherlands and other European countries. The network has specifically been created to spread the broad European perspective on CSR and to replicate European CSR policies in Latin America, thus it explicitly aims to contribute to the rise of a new CSR perspective in Mexico. The proposal also explicitly mentions a cooperative approach and a positive role of MNEs as it argues that 'the cumulative impact of improved practices will utilize wealth, power and potential of the private sector as a source of positive social change' (Red Puentes 2002 p24). Fundación Vamos and Red Puentes emphasize the creation of a civil agenda for CSR and the contributions of CSR to sustainable development (Barranco 2003, Fundación Vamos 2003, Red Puentes 2002). They search the engagement of the Dutch government in a policy dialogue, but do not focus exclusively on Dutch MNEs. The proposed activities include an evaluation of the relevance and effectiveness of international instruments to promote CSR like the OECD guidelines and the NCPs connected to it and should result in a book about CSR in Mexico at the end of the year 2005 (Red Puentes 2002).

4.5.2 Espiral

Espiral is a consultancy NGO that conducts research and provides institutional support for civil society organizations and is a member of the Mexican National Reference Group. From August 2001 to January 2002 Espiral conducted the research 'A glance at CSR in Mexico' for Novib. The organization is fully aware of the differences between the narrow, philanthropic CSR concept from the USA the broader European concept which it supports. If CSR would be put on the national agenda by 2005, the consultants of Espiral would be very satisfied. In this context the programme of CEMEFI, although apparently focused on philanthropy, is still helpful to put the issue on the agenda of enterprises.

However, Espiral perceives that the government and other key actors look at CSR from a business point of view only and that there is very little attention for the subject from universities. After 71 years of PRI rule the country is heavily polarized and social awareness is lacking. There seems to exist little in between anti-neoliberalism and collaboration with the private sector. Espiral consultants therefore see three challenges ahead. Firstly, to build alliances with the academic world and to convince them that CSR should be mainstreamed in their careers and research programmes; secondly, to create a dialogue and define CSR in a practical way from a civil society point of view and thirdly, to engage consumers in CSR.

They search to broaden the National Reference Group to include more civil society groups, enterprises that are leading in CSR, media, academics and government organizations. Like the CILAS, Espiral prefers to build their own network of civil society organizations first, and after that engage in a dialogue with the private sector and present their own consensus. Activities that were already foreseen for the second half of 2003 include a working session of the reference group to agree on the use of the

CSR concept, workshops with civil society organizations about CSR, two research projects to define a civil agenda on CSR and explore ways to approach the private sector and the collection of more data about consumer attitudes in Mexico.

With regard to the OECD complaints mechanism, Espiral consultants told that they tried to contact the Mexican NCP by telephone in 2001 and again in 2002 without result. The OECD guidelines might not prove very helpful for reference because they are too far from reality in Mexico. It would be better to start with a CSR standard that originates in Mexico. According to Espiral, the OECD guidelines do provide legitimacy for demands of organizations like the FAT, but otherwise they do not serve.

4.5.3 Vivian Blair & Asociados

Vivian Blair & Asociados (VBA) is an NGO that provides CSR, marketing and communications services at low cost to private, non-profit and public organizations. In 1998 the organization conducted its first consumer research in Mexico about cause-related marketing. It produced the eye-opening result that consumers of different income classes do care about enterprise behaviour (ITESM e. a. 2000). The subject of the research fitted well into the traditional North-American perspective on CSR. Director Blair remarked that access to information about CSR from Europe was limited at that time and that she found out afterwards that philanthropy and cause-related marketing are only a few forms of CSR. The organization has now adopted the broader European CSR concept. In 2003 the research was repeated using the same questionnaire, so the results could be compared to the results of the 1998 research, and showed that more consumers believe now that the solution of social problems is not only the task of the government (Blair & López-Taymani 2003). Two more investigations were running in 2003. These would be conducted among directors and employees of a hundred enterprises in Mexico and focused on CSR inside the enterprise.

In interviews that VBA realized last year it turned out that MNEs state CSR policies in their countries of origin that are not applied in Mexico. The conclusion of the interviews was that there is no will to take CSR initiatives in Mexico. VBA believes that the conditions for CSR are currently not present. The government and business associations seem to be interested in attracting foreign investment only and not in social development. However, according to VBA the lack of CSR in Mexico is not just a crisis on the level of enterprises, civil society or the government. No specific sector of society is to blame for it. It is more an ethical crisis at the level of humanity, there is no congruence between the values of people and their behaviour. The lack of ethics in business practices would explain why European MNEs do not show CSR practices similar to those in their country of origin in Mexico.

The social problems of Mexico should be targeted at different levels using many different strategies. The director tends to attend the crises at the moral level, and wants to provoke with the research results produced by the organization. Red Puentes intends to identify all actors relevant for CSR and join their forces. VBA is in favour of a broad reference group with a variety of organizations, similar to the composition mentioned by Espiral, and stresses the inclusion of foreign embassies as well. The organization is in contact with the Royal Netherlands Embassy, which showed great interest in the subject. It will be difficult to make enterprises listen to civil society groups in Mexico, but VBA is convinced that it is possible to put CSR in its broad sense on the agenda of enterprises in the long term.

4.6 The COMPITE and AliaRSE networks

4.6.1 CEMEFI

The NGO *Centro Mexicano para la Filantropía* CEMEFI employs a highly cooperative strategy to promote CSR and works closely together with many MNEs. The organization considers raising awareness of enterprises and convincing them to take CSR initiatives the most appropriate strategies to stimulate CSR and is not interested in signalling irresponsible enterprise behaviour. As its name already suggests, CEMEFI first aimed to stimulate and structure philanthropic donations of enterprises only. Comparable to the Business Social Investment Programme of Fundación Vamos, it would take them to the second stage of strategic contributions in Heap's four-stage model. CEMEFI does not implement development projects itself, but advises enterprises on the funding of development projects.

In 1996 it started a programme for CSR next to its programme on philanthropy, which aims to take enterprises to the fourth stage of true CSR in Heap's model. The attitudes and strategies of the organization itself have also shifted from philanthropy towards CSR. Membership of the CSR programme grew from 6 enterprises in the first year to over 60 enterprises and 30 enterprise foundations in 2003, and CEMEFI is now a leading NGO for the promotion of CSR in Mexico. According to the person in charge of the CSR programme, all MNEs associated to CEMEFI for philanthropy only are interested in CSR as well.

CEMEFI developed its concept of CSR in cooperation with the enterprises in the programme and it is therefore highly accepted by the private sector. According to the vision of CEMEFI, philanthropy is needed to sustain sound community relations and is a necessary but not a sufficient condition for CSR. CSR is a process of continuous improvement present in all the activities of the enterprise. Next to community involvement, three more areas of CSR are distinguished: care for the environment, the quality of life inside the company and business ethics (CEMEFI 2003). The organization is careful to distinguish between philanthropy and CSR. Philanthropy is only in the interest of the community, whereas CSR is a win-win situation that balances the interests of the community and the enterprise. Although the first responsibility of an enterprise remains to deliver good products and services and generate profits and employment, CSR is necessary to be successful in business. There will always be enterprises that are not interested in CSR, but CEMEFI expects that they will become fewer over time. They will exclude themselves from the market and eventually CSR is expected to become an obligation.

CEMEFI consulted several international standards before it came up with its own working definition of CSR. The person in charge of the CSR programme believes that all CSR standards can help to diminish the disparity between CSR practices of a MNE in its home country and in other countries and more diffusion of OECD guidelines needed. However, enterprises will be more receptive for locally discussed and adapted standards. Generic international standards, such as the ILO conventions, are therefore most useful as a point of reference. More detailed standards like the OECD guidelines are too rigid to be used without adapting them to the local context and company focus. They are too much focused on the situation in Europe. Some norms are in conflict with the local enterprise culture in Mexico and they will not be applied. Furthermore, rigid and detailed CSR standards limit the creativity of enterprises and do not stimulate continuous improvement. CEMEFI is against fixed norms because they suggest that an enterprise has to comply with such norms only in order to be responsible.

According to CEMEFI, Mexican enterprises would have been more receptive for the OECD guidelines if the NCP had organized a focus group with enterprises about their application in the Mexican context. The same goes for the global CSR policies of MNEs. Many of these policies are good, but they should be adapted to the local context in cooperation with local stakeholders. Compared to the CSR programme of CEMEFI, the Guidelines for Social Responsibility and Integrity promoted by COMPITE are more concerned with issues internal to the enterprise, like business integrity. CEMEFI prefers to see CSR as an element of enterprise culture and management rather than the observance of such norms. Hence, COMPITE would not fit very well into AliaRSE and CEMEFI was an observer only in the process of writing the guidelines.

The members of the CSR programme receive support to include CSR policies in the management of the enterprise. The enterprises are enabled to follow the programme in their own pace and participate in agreement with their own interests and needs (CEMEFI 2003). CEMEFI searches to promote best practices, exchange experiences and build alliances to stimulate CSR in Mexico. Every two months CEMEFI organizes a large morning-seminar to exchange experiences and it distributes a free bulletin about CSR among 2000 enterprises. In addition, the organization builds an inventory of recognized CSR practices, which deliver benefits for the enterprise as well as for society and can be replicated in other enterprises. The AliaRSE network serves to agree and promote a common CSR perspective by the private sector. CEMEFI also cooperates with many international organizations to promote CSR, such as Business for Social Responsibility (BSR), the Prince of Wales Business Forum and the leading Brazilian CSR institute Ethos.

In contrast to alliances within the private sector and with foreign organizations, progress in national multisectoral alliances has been limited. CEMEFI organizes meetings about specific themes with participants from the public and private sectors and NGOs, mainly to stimulate interest in

common projects. It says the results are positive and awareness is increasing, although participants have to be selected with care and show some interest in cooperation already. However, no relationships have been established yet with other NGOs or trade unions for the promotion of CSR. The manager of CEMEFI's CSR programme says he is interested in the idea of a civil society network for CSR, similar to the AliaRSE network, but thinks that this would be very difficult in Mexico because of the hostility of many NGOs and trade unions towards the private sector. Such a network might not be willing to engage in a dialogue and prefer to campaign against irresponsible enterprises. The private sector is now ahead of civil society regarding CSR and he does not know any trade unions currently interested in CSR.

Since three years enterprises are also stimulated to apply for CEMEFI's *Empresa Socialmente Responsable* [Socially Responsible Enterprise] (ESR) award. Application and selection for the award is independent from membership of CEMEFI's CSR programme. The award is valid for one year and gives them the right to use a special ESR logo. At the moment auto-evaluation by the enterprise forms an important part of the application process and CEMEFI's advisory committee on CSR studies mainly enterprise policies, programmes and public commitments to decide which enterprises qualify for the ESR recognition. However, the amount of requested information is growing every year and in about five years the ESR programme should have evolved into a true verification and auditing process.

Continuous improvement is stressed and public recognition should stimulate CSR as an element of competition. In the case of the ESR award this seems to be working. After a large MNE applies for the award, it is often followed by one or more competing MNEs from the same economic sector. This was the case for example with the airlines Aeroméxico and Mexicana and the electric equipment industries General Electric and Philips Mexicana. In 2003 some 40 MNEs received the ESR award. The two Dutch MNEs among them are Philips Mexicana, which received it for the first time, and Shell México, which received it for the third year in a row. The enterprises that receive the ESR award figure also in the listings of the best enterprises to work for and the most admired enterprises in Mexico, which are published every year in the magazines *Expansión* and *Futura*.

In reaction to the CSR policy of Philips, the CSR programme manager of CEMEFI says that Philips has not communicated its CSR initiatives adequately inside the enterprise.³⁹ Perhaps they have not understood the value of their ESR award. In the case of Unilever, he noticed the disparity between the global commitments of the MNE and its low CSR profile in Mexico. Unilever de México and its philanthropic Fundación Unilever [Unilever Foundation] are members of CEMEFI's CSR programme, but the enterprise is still in the phase of exploring CSR policies.

Various Mexican civil society organizations criticise CEMEFI for its limited interpretation of CSR, with a continued focus on philanthropy, or its a-political use of the CSR concept. CEMEFI responded that organizations may have a distorted perception of their programme. The programme was first called 'business philanthropy' and centred on community involvement, before its name was changed to 'CSR' a few months later and a consensus about the four areas of CSR was reached. This may have caused some confusion. CEMEFI was not fully aware of this criticism and added that attempts to inform civil society organizations about the programme may have been insufficient.

Furthermore, some civil society organizations question the behaviour of ESR-qualified enterprises, which they suspect of having insufficient CSR policies or committing irresponsible practices. For example, the Mexican mining company Peñoles received the ESR award while it is being criticized for its mining practices in Chihuahua. Philips Mexicana received the award as well, while it is still accused of violating the rights of workers in its maquiladora plants. Critics therefore suspected that MNEs use the ESR as a public relations instrument without being really interested in CSR. CEMEFI responded that if an organization would contact CEMEFI and accuse one of the enterprises of irresponsible practices, CEMEFI would form a committee to solve the conflict and until it is solved the right to use the ESR logo would be suspended.

4.6.2 COMPITE and the congress about social responsibility and integrity

COMPITE is an organization for the private sector, supported by the Undersecretariat for Small and Medium Enterprises of the Ministry of Economic Affairs (SE/PYME). The organization was founded

³⁹ See pages 108 and 118 for more information on Philips' limited communication about CSR.

in 1997 and offers high-quality consultancy and training services to micro, small and medium enterprises in order to enhance productivity, quality management and social responsibility.

In 2001 COMPITE started its work on social responsibility and integrity, which is aimed at large enterprises as well. In the last year, the manager of this programme and two more consultants organized 60 conferences and gave lectures over the whole country. There is close cooperation with the Ministries of Economy (SE/PYME) and Labour (STPS), COPARMEX and the USEM for the diffusion of information about CSR. However, more diffusion and more support for CSR are still needed. At the time of the research the first participants were following COMPITE's training programme on CSR. These participants were several large Mexican enterprises, a medium-sized enterprise, a trade union and an NGO. Other enterprises showed their interest as well, but were more hesitant to join the programme. COMPITE did not work with MNEs because they are much more difficult to approach and do already have their own programmes.

The manager of the CSR programme perceived that CSR was virtually inexistent Mexico when the programme started in 2001, there was only philanthropy. Small and medium enterprises were more concerned about surviving than CSR and only interested in quality of production. Any community involvement was intended to show off the ethical character of the enterprise while enterprises were unaware the real problems in society. COMPITE is opposed to such a traditional CSR perspective and follows the European developments on CSR. It uses a stakeholder perspective to derive enterprise responsibilities and stresses the short-term and long-term business benefits of CSR. The organization shows all characteristics of a new CSR perspective and actively promotes this perspective, except for the emphasis on alternative compliance mechanisms.

According to the manager, CSR goes beyond legal obligations, but in Mexico many enterprises do not even observe the law. For example, more than 50% of small and medium enterprises fail to insure their workers at the *Instituto Mexicano de Seguridad Social* [Mexican Institute of Social Security] (IMSS) (Zuñiga 2003). As a result, CSR is different in Mexico compared to Europe. In Mexico there is a focus on labour rights, while in Europe these are already effectively protected by law. Business integrity, a new issue within CSR, is also an important problem in Mexico. Awareness of their responsibilities is low among enterprise managers and if CSR is not obliged, nothing will happen in Mexico. The programme manager thinks that CSR should preferably be supported by the people themselves instead of imposed upon them, but because of the culture in Mexico this is very difficult. The lectures about CSR also have to be adapted to the level of awareness of the audience.

COMPITE took the initiative to develop its own Guidelines for Social Responsibility and Integrity, adapted to the Mexican context, which were completed in May 2002. The guidelines are based on many international standards for CSR and quality management, Mexican laws and international treaties, and the OECD guidelines for MNEs were a major point of reference.⁴⁰ They were designed by a technical committee consisting of independent consultants and representatives of three ministries,⁴¹ six chamber of commerce confederations,⁴² the university Anáhuac, AVAL, USEM and several other organizations. The guidelines contain rather detailed minimum norms on labour,⁴³ community involvement, environment, anticorruption measures and profitability and responsibilities towards clients, providers, investors/stockholders, competitors and authorities.⁴⁴ The norms are clearly adapted to the specific situation the country. For example, they contain many norms of the LFT and explicitly state that the right of employees to affiliate themselves or not to any trade union or other association must be respected. In addition, the guidelines define requirements for the management system, divided into the definition of the system, planning, implementation and functioning, and control (COMPITE 2002).

It was planned to raise these guidelines from the level of the association to the national level by the end of 2003. Mexico would be the first country to have a national voluntary standard for CSR.

⁴⁰ Due to an error the OECD guidelines were not mentioned in the reference list of the first edition of COMPITE's Guidelines for Social Responsibility and Integrity (see COMPITE 2002).

⁴¹ Among them was the Ministry of Economic Affairs, but the NCP and the undersecretariat it belongs to were not involved.

⁴² FUNTEC participated in the committee for COMCAMIN.

⁴³ There is also a section called 'Human Rights' with four points similar to the basic labour norms of the ILO.

⁴⁴ For responsibilities towards employees, the document refers to the earlier sections on labour norms and Human Rights.

Convergence in norms is desired, but a national standard would function an important starting point and can afterwards be easily adapted to a future dominant standard, which is expected to be set by the ISO in few years. In order to reach the objective of a national standard, the technical committee was being changed and enlarged to 20 persons, including enterprises and ISO representatives. No NGOs participated in the process. The manager of COMPITE regretted that NGOs are little active in Mexico, although she also said that some people would oppose the participation of NGOs in the committee. Civil society involvement may also be limited because there is no contact between COMPITE and the FES network and Red Puentes. COMPITE did not know about the seminar about the OECD guidelines.

This was surprising, because the manager of COMPITE knows the OECD programme very well. She believes the OECD guidelines are an important base for CSR and the OECD programme is excellent, but the guidelines and their implementation procedures need much more diffusion. The problem about the Mexican NCP is that nobody knows it. Another problem is that the guidelines will have no effect in Mexico because they are voluntary.

COMPITE was the leading organization behind the prestigious First International Congress on Social Responsibility and Integrity in Mexico on the 18th of June 2003. Originally the subject of the congress was called Corporate Social Responsibility (*Responsabilidad Social Empresarial*) and these words were still in the logo of the congress. Yet its name was changed because CEMEFI had already organized an international congress about CSR in May 2002. COMPITE approached CEMEFI to contribute to the congress too, but they could not agree on terms for cooperation. Many enterprises and business-oriented organizations contributed to the congress or visited it. A few trade unions gave presentations as well. In general, the business-case for CSR and the ethical responsibilities of managers were emphasized during the congress. Best practices and several standards for CSR were presented and a stakeholder perspective was frequently used. So far the organizations in the COMPITE network seem to have adopted a new CSR perspective. However, some issues did not receive attention. Despite the presentations of trade unions, involvement of civil society organizations was hardly discussed and regulatory mechanisms, other than self-regulation by certification, were not mentioned at all.

The Minister of Labour and Social Security, Mr. Abascal Carranza, delivered a speech during at the congress. He distinguished two positions of enterprises that engage in CSR. Firstly, enterprise managers take CSR initiatives to obtain business benefits and secondly, managers are committed to CSR because of their ethical responsibilities. In fact this is an extremely simplified version of the discussion of CSR incentives in section 2.4. The second position, the minister said, is more profound and aimed at the longer term and he was convinced that this position was required. Thus, the minister proclaimed its support for CSR but at the same time presented a vision that was far from reality, given that most enterprises in Mexico are not even receptive for the first position. In line with the dominant view on CSR at the conference, this governmental view shows many characteristics of a new CSR perspective but lacks a role for civil society and a mechanism for regulation.

4.6.3 AVAL

The NGO *Administración por Valores* [Management by Values] (AVAL) was founded in 1999 and works exclusively in the area of CSR. The organization provides training, research and consultancy services and is the secretariat of the Caux Round Table (CRT) for Latin America. In 2002 AVAL organized the annual global congress of the CRT, which took place in Mexico and was visited by managers from the corporate headquarters of Philips in the Netherlands. AVAL cooperates closely with universities, chambers of commerce and large accountancy firms. Together with these firms, the director of AVAL invested seriously in a benchmarking system for CSR, but enterprises are not interested yet. More than before, the organization is now working directly with enterprises and advises 2 large MNEs. AVAL participated in the technical committee of COMPITE, which used the CRT Principles for Business as one of their references, and founded AliaRSE together with CEMEFI.

The director of AVAL perceives a shift in Latin America towards the European CSR approach. The CRT Principles for Business display a clear stakeholder perspective. AVAL seems to focus on business integrity and, being a provider of consultancy services, it stresses the business benefits of CSR. Thus AVAL is a typical example of business-oriented organizations and meets most

characteristics of a new CSR perspective, but pays little attention to the involvement of civil society organizations and regulatory mechanisms next to market forces.

4.6.4 The USEM

The NGO *Unión Social de Empresarios de México* [Social Union of Entrepreneurs of Mexico] (USEM) seeks to promote the social commitments of enterprise managers from a Christian social doctrine. It is affiliated to the International Christian Union of Business Executives (UNIAPAC). The organization is linked to the Mexican food-producing MNE Grupo Bimbo and its founder Don Lorenzo Servitje, who are both generally considered Mexican leaders on CSR. The current president Fox and Minister of Labour and Social Security Abascal have been members of the USEM too. The organization works closely together with COMPITE. Although it is a member of the AliaRSE, the training programme manager of USEM did not know the CSR programme of CEMEFI well.

The main strategy of the USEM is to create awareness among enterprise managers of their social responsibilities and to stimulate them to consider these responsibilities in the management of their enterprises. Hence, the organization has a focus on personal responsibilities and ethical incentives instead of enterprises and profitability. This makes it more difficult to work with foreign MNE, which often have foreign managers. Foreigners just follow corporate policies and are not interested in local initiatives, or less receptive for programmes that build on a Christian social doctrine. The USEM works primarily with leaders, but within enterprises the social doctrine should be transmitted to employees at all levels. The organisation does not provide a model to implement CSR, such as a normative standard or a set of requirements for the management system. Although the USEM has a manual for self-evaluation of the application of values in the enterprise, its main task is awareness raising. The responsibilities of enterprise managers are derived from values and principles rather than stakeholder relations, although it is also stressed that CSR goes beyond legal compliance. Due to the nature of its activities, the USEM does not work with NGOs and the USEM manager asserts that trade unions are no longer needed if an enterprise is run in a socially responsible way, because in Mexico trade unions serve mainly to control employees.

Next to ethical incentives, structural forces are expected to stimulate CSR. According to the USEM, international demands for compliance with certain CSR norms and certification are increasingly felt by exporting enterprises. The Mexican enterprises that are promoted as examples of CSR, like Grupo Bimbo and *Autobuses del Oriente* [Eastern Buscompany] (ADO), are very successful enterprises as well. The slogan of USEM calls for enterprises that are both highly productive and fully human. Furthermore, it is perceived that strong enterprises have more power than the government. Inequality could therefore be more effectively addressed by working with enterprise managers than by striving for enhanced government regulation. However, according to the USEM it remains difficult to promote CSR in a country with a strong philanthropy culture.

The CSR attitudes and strategies of the USEM are certainly not traditional, but do not show some important characteristics of a new CSR perspective either. Its focus on personal responsibilities and human values stand out as an alternative perspective. To some extent such an interpretation of CSR was also expressed by VBA and it is shared by the *Secretaría de la Función Pública* [Ministry of Public Function] (SFP), whose task is to fight corruption. The SFP, which works together with organizations like USEM and COMPITE, aims to achieve a change of culture and stresses ethical behaviour and personal responsibility in its campaigns. This alternative perspective describes CSR in terms of values instead of stakeholders relations and is more focused on ethical incentives. The desired shift towards more ethical behaviour can be described as an upward shift in the five-stage model of MNE behaviour on page 41. The perspective is characterized by 'soft' strategies with an emphasis on awareness raising. These strategies do not involve a regulatory mechanism, nor do they focus primarily on business benefits and yet they are potentially effective in the Mexican context.

4.6.5 Chambers of Commerce

Of all chamber of commerce confederations, the large *Confederación de Cámaras Industriales de los Estados Unidos Mexicanos* [Confederation of Industrial Chambers of the United States of Mexico] (CONCAMIN) is probably most committed to CSR. Since 2001 it has a Commission for Ethics and Values. Activities in this area existed already before in an uncoordinated matter, but were brought within a formal structure. For CONCAMIN, attention for business ethics and stakeholder management

is related to longer term developments in the business climate. It is a response to globalization processes and has been preceded by issues like total quality management.

The *Consejo Coordinador Empresarial* [Coordinating Business Council] (CCE), which coordinates the actions of all Mexican chamber of commerce confederations and is the main representative of the business community in Mexico, seems to share this view and mentions the instrumentation of social responsibility programmes as one of its priorities to enhance the efficiency of Mexican enterprises (CCE 2003). A stakeholder perspective on enterprise responsibilities was already present in its general ideas about business before (CCE 1999).

CONCAMIN created an annual prize for 'Ethics and values in industry'. In 2002 it was awarded for the first time to the winners in each of the five categories individual chambers of commerce, micro and small enterprises, medium enterprises, large Mexican enterprises and large MNEs. The three MNEs that received it were IBM de México, MAX-COM Telecomunicaciones and Merck, Sharp & Dohme de México (CONACMIN 2003). Similarly to the ESR award of CEMEFI, it requires enterprises or chambers of commerce to have an explicit CSR policy and self-evaluation forms an important part of the selection process. The focus of CONCAMIN's prize is very different, though. It is more integral, business integrity and transparency are central issues and community involvement is not a necessary condition.

Most CSR activities of CONCAMIN are carried out by its office for small and medium enterprises, the *Fundación Mexicana para la Innovación y Transferencia de Tecnología en la Pequeña y Mediana Empresa* [Mexican Foundation for Innovation and Transfer of Technology in Small and Medium Enterprises] (FUNTEC), which is also the secretary of the Commission for Ethics and Values. FUNTEC has a programme for Ethics and Competitiveness in Business to link enterprises with external CSR consultants such as AVAL. The organization stresses the business benefits of the ethics programme, including enhanced access to financial support. In Mexico, some governmental organizations and chambers of commerce offer special support to small and medium enterprises that have a code of ethics. Demand for the programme is still low but expected to grow. In the first half of 2003 some 15 small and medium enterprise were enrolled in the programme or considering it. The coordinator of the programme explained it is open to large enterprises as well, but they are not interested in it because they have their own programmes and do not need external support. According to the programme coordinator, each enterprise needs to develop its own programme of values-based management. Although international standards like the OECD guidelines are adequate in the Mexican context, they should therefore be used as a point of reference and not for literal implementation.

FUNTEC does not have direct relationships with NGOs or trade unions. The coordinator of the ethics and values programme had not heard of the seminar about the OECD guidelines, although the FES had approached the president of CONCAMIN to speak at the seminar. Because of the business-oriented nature of the organization, FUNTEC has relationships with business-oriented NGOs from the COMPITE group like USEM and FUNDES and it has close contacts with CMEFI too. The programme coordinator believes it is important that civil society participates in CSR. CSR should not only be looked at from an enterprise point of view, employees have a role in it too. Trade unions and enterprises have to respect each other and trade unions have the function to make employees comply with their responsibilities towards the enterprise. The programme coordinator perceives that there exist two extremes in Mexico that should be avoided: enterprises that intervene too much in the trade union and trade unions that demand too much of enterprises.

The ideas and strategies of CONCAMIN, FUNTEC and the CCE indicate that the rise of a new CSR perspective within the business community in Mexico is to a large extent quantitative. There have been no important shifts in ideas and attitudes about CSR, except perhaps for more recognition that enterprises should actively contribute to national development, but there has been an important increase in attention for CSR and promotional efforts over the past years.

The *Asociación Nacional de la Industria Química* [National Association of Chemical Industry] (ANIQ), a member organization of CONCAMIN, will be discussed in some more detail, because several chemical enterprises were included in the research and the ANIQ supports an international programme that covers some CSR issues. Enterprises affiliated to the ANIQ have to participate in the Responsible Care programme of the International Council of Chemical Associations (ICCA 2002 p52). Responsible Care is an initiative of the global chemical industry in which companies commit to work together to improve the health, safety and environmental performance of

their products and processes (ICCA 2002). It also includes measures for protection of the community. In contrast to most CSR initiatives in Mexico, the programme is aimed at management of the whole chain of production and distribution. The focus is on continuous improvement and the performance of enterprises may be evaluated by other enterprises affiliated to the ANIQ or ANIQ representatives, but there exists no enforcement mechanism. According to the representative of the ANIQ recommendations for improvement are always followed. Through benchmarking, the programme has an impact on business and the Responsible Care logo affects company image like the ISO logo.

The ANIQ representative, who participated in the technical committee of COMPITE, thought the gap between Responsible Care and CSR would diminish. He explained the economic aspect of CSR was merely implicit and the environmental aspect was already covered, but now the ANIQ wanted to address social issues too. Enterprises did not yet pay attention to Human Rights issues and associated CSR with philanthropic donations rather than production processes. Although responsibility for Human Rights may sound aggressive for enterprises, it would be helpful to explain that CSR is not the same as making donations. There should be a shift towards direct community involvement and investment, comparable to a shift from the first stage in Heap's model on page 40 of corporate philanthropy to the subsequent stages of strategic contributions and mainstream involvement. According to the ANIQ representative, this will benefit enterprises like Heap's model suggests. For Responsible Care, the first obstacle was a change of culture, but slowly enterprises started to recognize the business benefits of the programme. Ten years ago about 20 enterprises had committed themselves to the programme and in 2003 this number had risen to 120. Now this part of CSR was already in place, the representative expected that it should be much easier to add more issues to it.

4.7 The OECD guidelines and the National Contact Point

Mexico became a member of the OECD in 1994 and is currently the only developing country affiliated to it. As a member, Mexico has to implement all OECD agreements and participated in the negotiations about the revision of the OECD guidelines in 2000. Under the PRI there was considerable resistance to the new guidelines, but after the rightist *Partido de Acción Nacional* [National Action Party] (PAN) of the president Fox won the elections, a more positive position was taken. The Mexican NCP was installed in at the end of 2001 and at the time of the research the NCP had been functioning for one year only. It is hosted by the Undersecretariat for International Trade Negotiations of the Ministry of Economic Affairs. Officially the NCP consists of only one person, Mr. K. Smith. In practice Mr. Smith is the head of the NCP, but two more high staff members of the undersecretariat work for it. All three of them can only dedicate a limited amount of their time to the NCP as they have many more responsibilities. The financial resources available for the NCP are also limited. The main focus of the Mexican NCP is on fighting corruption.

4.7.1 Distribution of the OECD guidelines

The Mexican NCP made some efforts to make the OECD guidelines and its own existence known. One of the persons responsible for the NCP explained that they have the duty to distribute the OECD guidelines. To carry out this task, they informed other ministries, put information on the internet⁴⁵ and designed a leaflet about the guidelines for further distribution. The leaflet is titled *Líneas Directrices para las Empresas Multinacionales. Recomendaciones voluntarias para la buena conducta corporativa de las empresas multinacionales*. [Guidelines for Multinational Enterprises. Voluntary recommendations for good corporate conduct of multinational enterprises] and its primary objective is to inform about the existence of the NCP. The leaflet contains a short explanation the OECD guidelines and an overview of the eight CSR issues they deal with. It does not contain the full text of the guidelines or an explanation of the complaints mechanism. For more information the leaflet suggests to consult the website of the Ministry of Economic Affairs or to contact the NCP in Mexico of which it provides the contact address.

⁴⁵ The information of the NCP was put on website of the Ministry of Economic Affairs, <http://www.economia-nci.gob.mx>. In October 2003 it was to be found under *Inteligencia Comercial, Subsecretaría de Negociaciones Comerciales Internacionales → Organismos multilaterales, OCDE → Compromisos más relevantes para México*.

The NCP sent leaflets accompanied by letters to the Mexican chamber of commerce confederations, who were in turn asked to distribute them among their members. After they distributed the leaflets, the NCP received only positive reactions of chambers of commerce and enterprises. About ten times the NCP provided a talk to explain the guidelines, mainly to large Mexican MNEs such as Cemex, Telmex and Cifra that did already have codes of conduct. The enterprises were only interested to know about the sanctions for non-compliance with the guidelines, which do not exist. The NCP believed that large foreign MNEs had already incorporated the OECD guidelines into their practices, but they would be welcome for more information too. During the research it turned out that the OECD guidelines themselves are still barely known in Mexico, including to managers of enterprises belonging to Dutch corporations. The NCP responded that it was a problem that the chambers of commerce had not distributed the information as the NCP had requested.

The NCP sent the leaflet also to the CTM and the RMALC, being the most important trade union confederation and most active and best known network of Mexican NGOs. Like the chambers of commerce, these organizations were asked to further disseminate the information. However, the CSES of the CTM learned about the OECD guidelines through the TUAC and not through the NCP. The person of RMALC who was interviewed said that he had never seen the leaflet before and knew nothing about the letter of the NCP.⁴⁶ Apparently the NCP lacked the necessary relations with civil society to distribute the guidelines effectively. The NCP complained that they had only one communications channel, the CTM. According to the representative of the NCP, the CTM has a monopoly on unionism and the trade unions that exist outside the CTM are few and marginal. They did not know other trade unions like the FESEBS or NGOs like Red Puentes and the FES. The NCP also perceived that in Mexico NGOs are only preoccupied about the environment and free trade agreements.

None of the civil society organizations had seen the leaflets of the NCP before this research took place. The NCP had not sent leaflets to be distributed at the seminar about the OECD guidelines. In reaction to the leaflets, some organizations remarked that 'voluntary recommendations' had been a bad choice of words and just 'recommendations' would have been better. If it is stressed that the guidelines are voluntary, they feared, Mexican MNEs will not pay any attention to them. However, the NCP was of the opinion that it had to mention the voluntary nature of the OECD guidelines. They did not put forward the advantages of CSR standards for enterprises in the leaflet either because it was designed for a broad public and this would make the leaflet too large. Paradoxically, the leaflet states some advantages of FDI in Mexico, for instance, that it generates more and better remunerated jobs and contributes to economic development. In the talks with enterprises the NCP did emphasize the advantages of applying CSR norms for enterprises.

The NCP informed several other ministries and the governmental organization for the protection of consumers (Profeco) about the OECD guidelines. The Ministries of Finance (SCHF), Environment (SEMARNAT) and Labour and Social Security (STPS) all said they complied already with their obligations because the laws in the areas of taxation, environment and labour were in accordance with the guidelines. The STPS remarked that there could be no doubt about this as the OECD guidelines refer to ILO conventions, which are already observed in Mexico. However, Mexico has not ratified the ILO conventions 98 on collective bargaining, 138 on minimum age of employees, 148 on environmental conditions in the workplace and 174 on the prevention of industrial accidents and traditional labour relations in Mexico tend to violate ILO standards for representation of workers (Bueno Rodríguez 2001).

The NCP did not know about the congress initiated by COMPITE, nor did it participate in the technical committee of the Guidelines for Social Responsibility and Integrity published by COMPITE. Representatives of the NCP did attend some conferences, though; they were present at the Global Forum for International Investment in November 2001 where CSR was on the agenda and attended a conference in Chile sponsored by the Chilean NCP (OECD 2002 p13, 16). The previous head of the NCP, Mr. C. García Fernández, met also with lawyers and other specialists to discuss norms for company behaviour.

⁴⁶ It was not possible to determine what went wrong with the distribution of the information among these organizations within the time-span available for the research.

4.7.2 Limited interaction with civil society

Most Mexican civil society organizations did not know about the OECD guidelines before the seminar organized by the TUAC, FES, CTM and FESEBS. The NCP remarked that it was a problem that the CTM and the RMALC, like the chambers of commerce, had not distributed the information it had sent them, while they should have done so within their own organization as well as among other NGOs and trade unions. The few organizations that knew the OECD guidelines already did not know the implementation mechanism. Even after the seminar the RMALC said they did not know you can file a specific instance in any country where a MNE is present. Instead, they thought it always has to be at the NCP of a MNE's home country. The FAT, which attended the workshop about the use of the OECD guidelines in The Netherlands a couple of weeks before the seminar, was well-informed about the guidelines and the complaint mechanism but was unable to attend the seminar and share its knowledge.

Many organizations and several PRD politicians criticised the inactivity of the Mexican NCP. Some of them were of the opinion that the NCP had been installed to comply with international obligations only. It seemed to them that the Mexican government is interested in nothing else than attracting foreign investment. The NCP, which has to act in line with government policies, would therefore never actively promote CSR and serve to simulate government support for the OECD guidelines. The NCP did not read the articles that appeared in the newspapers after the seminar or learn about these opinions in another way and was therefore not aware of the criticism it had received. After receiving some of those articles, the representative of the NCP remarked that it might be very useful to contact the organizations that criticised them for a discussion. This would need to be authorized by the head of the NCP and the head of the undersecretariat it belongs to, but probably permission would be granted.

In reaction to the suggestion of a tripartite NCP, the representative said that the composition of an NCP is decided at the national level and it is not an obligation to have a tripartite NCP. However, it would be possible if a less radical and more cooperative civil society would emerge in Mexico. Although the NCP knows in fact few civil society organizations, it is perceived that the problem is about NGOs and not about trade unions. According to the representative the RMALC is completely radical, if only for its objective to oppose free trade, but the CTM is not.

The representative of the NCP said they had not yet organized a seminar about the OECD guidelines themselves for two reasons. Firstly, the NCP does not have the required economic resources and the procedures to obtain them are complicated. Secondly, it is still very early for such an initiative. The NCP has only just begun to inform chambers of commerce and they had not yet received any requests such events. If organizations would ask the NCP to organize a seminar, they would probably do so.

At the time of the research, no Mexican civil society organization had contacted the NCP and no specific instances had been presented.⁴⁷ The TUAC approached the Mexican NCP from Paris to ask for cooperation on the seminar about the OECD guidelines and Espiral tried to approach the NCP as well but was unable to contact it. However, the NCP stressed they had put information on the internet, including their contact address. If people would search information about the NCP or the OECD guidelines, they would find it there, they said, but the problem is that people in Mexico are not accustomed to search it that way. Regarding the absence of specific instances, the NCP admitted that publicity about the guidelines was still lacking and that they needed to make a greater effort to distribute them, although this would require more resources. It is clear that the Mexican NCP still lacked visibility and did not 'maintain relations with representatives of the business community, employee organizations and other interested parties', which it is supposed to do (OECD 2000).

4.7.3 The CSR perspective of the NCP

According to the NCP, it is very important for the Mexican government to comply with the obligations of the OECD and they have succeeded in this. However, despite this priority for the government the lack of resources is a problem for the NCPs of Mexico and some other countries. The creation of a fund for countries that cannot afford the expenses of an NCP may be a solution. Yet the Mexican NCP

⁴⁷ However, the report of the annual meeting of NCPs on the 23rd and 24th of June 2003 mentions one specific instance at the Mexican NCP (OECD 2003 p9-10), which was the case of Euzkadi. See also footnote 38.

sees its inability to oblige enterprises to observe the guidelines as the most important limitation. In the absence of official sanctions, the representative of the NCP believes the role of the NCP is insignificant for the promotion of CSR. They can contribute by solving conflicts, but they cannot prevent violations of the guidelines. As a result the guidelines do currently not have any impact on FDI. If the OECD guidelines would be obligatory, the representative does not know what would happen. Maybe a lot of enterprises would leave to non-OECD countries, but an analysis would be required to provide clarity about the consequences.

Prevention of violations is impossible because the NCP does not have the financial or human resources to monitor the conduct of MNEs and NGO activity is perceived to be still a very recent phenomenon in Mexico. Nonetheless, the existence of the NCP is considered beneficial for NGOs. For trade unions it is less important because the LFT already protects the interests of workers. The representative did not possess detailed knowledge about the LFT, though. The relation between the OECD guidelines and specific aspects of the Mexican legislation on which the guidelines might offer more protection, like the exclusion clause in a collective labour contract, could therefore not be clarified. If an organization would present a case to the NCP, the staff of the NCP would be simply facilitators to solve the conflict and cannot do anything else. They would write a report about the case and formulate recommendations to inform the OECD and the general public. This way the NCP can generate negative publicity about MNEs which may cause them to change their behaviour, but this is a delicate issue. According to the representative, the implementation procedure prescribes that subtle language has to be used in reports, but the process will depend also on the NCP itself and the pressure of civil society organizations. This pressure is increasing since Fox took office, but the NCP has to be careful to prevent that MNEs leave to other countries. Thus, the CSR perspective of the NCP itself appears to be very traditional so far.

In contrast to these considerations, the representative of the NCP also said that everything contained in the OECD guidelines is already included in national laws and international agreements, like the ILO conventions. For instance, the OECD guidelines include the issue of transfer of technology, while technical assistance and capacity building are already contained in many international trade agreements. Thus, if the OECD guidelines would not exist, nothing would happen. MNE will certainly not see the OECD guidelines as a burden, because they did already comply with them before and have to adapt themselves to comply with the laws in all the countries where they are present anyway. The representative of the NCP did not think that there exist many MNEs in Mexico that violate legal obligations. They are already subject to stricter vigilance, including in Mexico. Hence, in itself the guidelines have no impact on business.

On the other hand MNEs, Mexican and foreign alike, have to compete with each other in international markets. The NCP considered the application of high norms a competitive advantage in these markets and therefore expects structural profitability to be an incentive for CSR. For small and medium enterprises things are different, but in the future they too may have to adopt similar standards. To regard structural profitability as an incentive for CSR is a characteristic a new CSR perspective.

There are some contradictions in the CSR perspective of the NCP. Firstly, MNEs would already comply with the OECD guidelines while at the same time it would be a severe limitation for the NCP that it cannot oblige MNEs to observe them. Secondly, the impact of the OECD guidelines on business results would be neutral or positive, while legal obligations to comply with the same norms or critical judgements about the behaviour of MNEs in reports about specific instances might reduce FDI. One possible explanation for these contradictions is that CSR issues have been confused and that the contradicting statements were made with regard to different CSR issues. Another explanation could be uncertainty about that the degree of actual compliance with the OECD guidelines and the business implications of such compliance, which results in alternative explications or scenarios. The contradictions might also indicate that the NCP is afraid that its actions will deter foreign investors, but tries to defend its low activity by stressing its limited influence. This last explanation does not have to imply that the NCP is unwilling to stimulate CSR or does not understand the consequences of such efforts. It should be reminded that the performance of the NCP is also constrained by government policies, limited financial and human resources and unfamiliarity with civil society. Nonetheless, it seems that the CSR perspective of the NCP, in combination with the goal of the undersecretariat that hosts it to attract FDI, limits efforts for the promotion of CSR.

4.8 Other organizations

4.8.1 The Royal Netherlands Embassy

Although the Royal Netherlands Embassy (RNE) had no activities of its own to promote CSR, it supported the idea of CSR and was prepared to provide its cooperation to promote it. CSR should receive attention because it is important for the Dutch government and Dutch MNEs are large investors in Mexico. The embassy focuses on the OECD guidelines, which do not put Dutch MNEs at a disadvantage because of the international character of the guidelines. According to the embassy, more promotion of the OECD guidelines is desired. It recognizes the difference between the traditional Mexican perspective centred on philanthropy and the broader European perspective.

CSR is put forward on various occasions. In the communication with Dutch enterprises, the embassy mentions that they are expected to comply with the OECD guidelines. There was regular contact between the embassy and the larger Dutch enterprises, except for Unilever. Enterprises showed their interest in CSR, but it was perceived that not all of them followed an active CSR approach. The embassy also cooperated with the research project of Espiral in 2001 and contributed to the closing session of 'A glance at CSR in Mexico' in 2002.⁴⁸ Apart from Espiral there is little contact with civil society groups that seek to promote CSR.

4.8.2 The OECD Mexico Centre

The OECD Mexico Centre was established in 1996 to enhance the visibility of the OECD in Mexico and Latin America. With respect to the OECD guidelines, the only task of the centre is to distribute them. Nonetheless, CSR is one of the most important themes for the centre and it contributes for example to seminars about business integrity and to the promotion of corporate governance.

According to the director of the centre, the voluntary nature of the OECD guidelines is an important limitation. It could also be an advantage for awareness raising, but in Mexico nothing will happen as a result of voluntary recommendations only. Civil society pressure and examples of cases that cause a loss of company reputation are necessary to make the OECD guidelines more influential. Yet civil regulation might be difficult, because in contrast to Europe, in Mexico there exist no NGOs that are specialized in the monitoring of MNEs.

The director expects that the OECD guidelines will contribute to a change of culture. They serve as a point of reference and some practices that used to be widely practiced several decades ago, such as child labour, are now regarded as unacceptable. This is important, because if enterprises want to violate norms of behaviour they will do so, whether those norms are legal obligations or not. The OECD guidelines are not so well known in Mexico, although since the case of Euzkadi they get a little more attention. Diffusion of the guidelines is a vulnerable requirement for their functioning. In Mexico, the NCP had not become very active yet after Mr. Smith took office and diffusion was still far from sufficient. According to the director of the OECD Mexico Centre, the most important problem is probably not the attitude of the government but the lack of time to deal with the issue. In general, the attitude of the Fox government is fairly positive and there is some support for more promotion of norms for enterprise conduct.

4.9 Conclusions

4.9.1 The rise of a new CSR perspective in Mexico

There was hardly any interaction between civil society organizations and business-oriented organizations in Mexico. Within these sectors of society, interaction between Red Puentes and the FES network was also limited, whereas the COMPITE and AliaRSE networks were partly integrated.

In Red Puentes there had been an important and conscious shift from philanthropy and cause-related marketing to CSR in the broad, European sense of the concept. Positive attitudes towards cooperation with enterprises were already present and a win-win situation was sought. In the FES network many civil society organizations still had a traditional CSR perspective or their attitudes were only beginning to change. These organizations were exploring the use of alternative regulatory mechanisms next to legal regulation. Some other organizations had already developed more positive

⁴⁸ See Red Puentes, page 71.

attitudes towards cooperation. These indicated they would seek win-win situations and try to convince enterprise managers of the profitability and need of CSR initiatives first. Often attention for CSR was induced from Europe, for example in the case of the research for Novib by Espiral and VBA, the FNV monitoring programme of the CILAS, the international instructions of the FES and the communications between the TUAC and the CTM.

Most of the organizations with non-traditional attitudes were still defining their strategies to promote CSR and few activities to promote CSR had already been started. Civil society organizations had not yet formed a broad alliance to promote CSR Knowledge about alternative compliance mechanisms was still limited and they were rarely used. Apart from the ILO conventions, many organizations had first learned about an international CSR standard at the seminar about the OECD guidelines. Most organizations find such standards useful as a point of reference.

For business organizations, an important aspect of the rise of a new CSR perspective has been the increase in attention for CSR. COMPITE and many organizations of the COMPITE network showed most characteristics of a new CSR perspective. CEMEFI had been shifting from philanthropy towards a form of CSR that includes it and emphasizes continuous improvement. A few organizations, notably the USEM, had an alternative non-traditional CSR perspective that was centred on personal responsibilities and human values.

With respect to strategies and programmes, business-oriented organizations were clearly ahead of civil society in Mexico. Lead by COMPITE, they had already formed a broad alliance to promote CSR and reached a common set of guidelines for minimum CSR norms and operational requirements. International CSR standards have served as a point of reference for these guidelines. Several organizations had started comprehensive programmes to promote CSR between 2000 and 2003. Most business and employers organizations try to spread the idea that CSR is profitable and that CSR expenses are an investment, and some offer consultancy services. The alternative CSR perspective of the USEM and a few others is accompanied by slightly different strategies. Awareness raising is aimed at strengthening ethical incentives rather than enhancing receptivity for the business case for CSR. This perspective has not received much attention in CSR literature, probably because a lack of ethical incentives and of awareness about enterprise responsibilities are not considered major obstacles for more responsible enterprise behaviour in high income countries. However, in countries like Mexico where both legal and civil regulation mechanisms are weaker and social awareness is considerably lower, such 'soft' strategies may become much more important, at least as a complement to other strategies. A common element of the strategies of all business-oriented organizations is that they do not actively promote stakeholder engagement and do not pay attention to regulatory mechanisms. Despite the non-traditional characteristics of their CSR attitudes, the majority still opposed direct involvement with civil society.

The ideas and strategies of organizations in Mexico that seek to promote CSR indicate that there had been a rise of a new CSR perspective in Mexico, but that it had remained limited in several ways. Among many civil society organizations a traditional perspective still persisted and the new ideas had often not been translated yet into new activities to promote CSR. Among business-oriented organizations there was more attention for CSR and there were programmes to promote CSR already, but willingness to cooperate with civil society and attention for regulatory mechanisms were still lacking.

4.9.2 The use of international CSR standards by organizations in Mexico

Many civil society organizations had only recently learned about the OECD guidelines for multinational enterprises. Traditional norms like Human Rights and the ILO conventions were well-known, but recent international CSR standards other than the OECD guidelines were hardly known at all. It is therefore not surprising that civil society organizations did not use such standards to promote CSR at the time of the research.

A main criticism about international CSR standards like the OECD guidelines is that they were developed by actors from high-income countries and might therefore impose inappropriate norms on developing countries. Yet on the basis of the research results presented in the sections 4.4 and 4.5 it has to be concluded that the OECD guidelines are broadly supported by civil society organizations in Mexico. Hence, they are perfectly legitimate. In addition, in chapter 6 it will be argued that the adoption of such standards by MNEs did not have adverse impacts.

All civil society organizations welcomed the OECD guidelines as a point of reference. They considered the broad spectrum of CSR issues covered by the guidelines an advantage, because it offered a broad frame of reference. Some specific norms of conduct were already generally respected by MNEs or effectively covered by the law and were therefore not so relevant in the Mexican context. Some other norms were still quite far from reality in Mexico and these would be extremely difficult to achieve. Such norms were not considered illegitimate or unimportant, but they would lower the acceptance of the guidelines by MNEs. From a civil society point of view, probably the greatest shortcoming in the contents of the OECD guidelines is the lack of any norms about wage levels. It should be reminded that real wage levels have been falling for over 25 years in Mexico.

However, as described on page 67, most were sceptic about the functioning of the complaints mechanism of the OECD guidelines and the willingness of the government to promote them. Civil society organizations with traditional attitudes did not believe that enterprises would pay any attention to voluntary standards. On the other hand, organizations with non-traditional attitudes expected that enterprises would be more receptive for standards that were closer to reality and adapted to the Mexican context. Hence, neither traditional nor non-traditional organizations regarded the OECD guidelines as a key instrument to demand or promote CSR.

Most criticism of civil society organizations did not concern the contents of the OECD guidelines but the weakness of the implementation mechanism, that is, the Mexican NCP. Distribution was still far from sufficient at the time of the research. The Mexican NCP clearly lacked visibility and accessibility, two central criteria for the functioning of NCPs.⁴⁹ Furthermore, there was little confidence that the NCP would handle cases in a timely manner and facilitate the solution of conflicts. Although this may be a result of an inappropriate CSR perspective of the NCP, its performance is also constrained by a lack of resources and unfamiliarity with civil society. In Mexico, future use of the OECD guidelines for civil regulation would be difficult without improvements in the functioning of the NCP, as perceived by civil society organizations.

Business-oriented organizations from the COMPITE network knew the OECD guidelines and other international CSR standards and had used them as a reference to design their own CSR standard. This standard was in turn intended to serve as a point of reference for individual enterprises. Similarly, CEMEFI had consulted international CSR standards to formulate its own CSR criteria. This use of international standards reflects the general opinion of business-oriented organizations that they should be used as a basis for locally adapted standards. These standards are consistent with international norms, but agreed upon by local actors. Literal implementation of international CSR standards is either considered more difficult to achieve, because enterprises would be more receptive for locally adapted standards, or undesirable, because enterprises would need some degree of flexibility.

⁴⁹ See page 30.

5 CSR initiatives of Dutch MNEs in Mexico

5.1 Introduction

This chapter presents and analyses the research data about Dutch MNEs in Mexico. The recent CSR initiatives of the enterprises and the incentives for these initiatives are identified. In addition, the influence of the three recent CSR developments on CSR initiatives is determined.

First, section 5.2 will provide an overview of CSR initiatives in general, including recent as well as non-recent initiatives. The most important incentives for these CSR initiatives and the general business case for CSR initiatives is identified. Section 5.3 will focus on recent CSR initiatives only and answer to the research questions 1 and 2. It explains the differences and shifts in focus of CSR initiatives and in the relative importance of the five incentive categories. Next, section 5.4 links the incentives for recent CSR initiatives to recent CSR developments. Together, the sections 5.2 to 5.4 establish the general relations between recent CSR initiatives, CSR initiatives and recent CSR developments.

After that, the sections 5.5 to 5.9 will further analyse the effects of the different types of CSR incentives on enterprise behaviour. They describe the CSR practices and policies of Dutch MNEs in more detail. Each section is devoted to one category of CSR incentives and discusses the initiatives and operational aspects of CSR management that resulted from these incentives. Section 5.9 on the implementation and impact of corporate CSR policies is the most elaborate of these sections. After the description of CSR initiatives, subsection 5.9.2 discusses corporate business principles and other indicators for corporate CSR commitments, thereby answering research question 4.1. Next, two types of corporate CSR management are introduced, called 'new rules only' and 'new enterprise culture'. The operational aspects and impact of corporate CSR policies depend to a large extent on the corporate approach to CSR. The rest of section 5.9 deals with the common and contrasting operational aspects of the two approaches.

Section 5.10 analyses the influence of some general enterprise characteristics. These affect the incentives for CSR that are felt by an enterprise and have important implications for the possibilities and ambition levels for CSR initiatives. Section 5.11 provides a comment on enterprise data. There may be some biases in the research results due to minor flaws in the collection and analyses of the data which should be taken into account when interpreting the conclusions of this chapter.

Finally, section 5.12 contains the conclusions about the influence of recent CSR developments on enterprise behaviour. The four subsections of the conclusion answer the research questions 4, 3, 5 and 6 respectively.

5.2 CSR initiatives in general and CSR incentives

5.2.1 An overview of CSR issues and incentives

Before identifying the recent CSR initiatives of Dutch MNEs in Mexico and the incentives for these initiatives, an overview will be provided of CSR initiatives in general. Figure 4 shows the number of enterprise initiatives in general, including a large proportion of initiatives that are not recent. The figure also shows the importance of the different categories of incentives for each CSR issue. The purpose of figure 4 is to show which CSR issues get most attention at the moment and to demonstrate the general business rationale for different kinds of CSR initiatives.

Each row in the figure corresponds with a different CSR issue. Labour issues have been split into 'employee training', 'wages' and 'other labour issues', because the incentives for these three categories of labour issues differ considerably. 'Philanthropic donations' has been added as a separate issue and covers all initiatives that can be classified as private sector philanthropy or strategic contributions, according to the four-stage model of MNE-civil society relations on page 40. Although philanthropic donations are not a part of CSR as defined from either a stakeholder or a neoclassical perspective, they were included in the inventory to show the influence of the traditional CSR perspective in Mexico and the current shift away from it. The main characteristic of this kind of donations is that they take place outside the immediate environment of an enterprise. Unlike the model

suggests, they may also be in the form of enterprise products. Contributions that can be classified as mainstream involvement, the third stage of the model, are not philanthropy but social investments and fall under ‘community impacts’. In contrast to philanthropic donations, this kind of initiatives is directly related to the core-business of an enterprise, takes place in close cooperation with the community and/or involves the active participation of employees.

| | | Total CSR initiatives | Categories of CSR incentives | | | | |
|------------|-----------------------------|-----------------------|------------------------------|------------------------|--------------------------|--------------------|--------------------|
| | | | Ethical incentives | Internal profitability | Structural profitability | External pressures | Corporate policies |
| CSR issues | Employee training | 9 | 3 | 6 | 3 | | 6 |
| | Wages | 11 | 7 | 3 | 9 | 2 | 2 |
| | Other labour issues | 11 | 6 | 1 | 8 | 5 | 3 |
| | Health & Safety | 10 | 3 | 4 | 3 | | 8 |
| | Environment | 12 | 4 | 3 | 5 | 3 | 8 |
| | Philanthropic donations | 11 | 8 | 3 | | | 5 |
| | Community impacts | 8 | 7 | 3 | 1 | 4 | 3 |
| | Business integrity | 11 | 3 | 4 | 1 | | 6 |
| | Stimulation of host economy | 4 | 3 | 2 | | | 2 |
| | Competition | 2 | | | | | 2 |
| | Taxation | 2 | | | | | 2 |

Figure 4: CSR initiatives in general and CSR incentives.

The figures in the first column indicate the total number of enterprises that had taken initiatives on a CSR issue. Recalling the operationalization of CSR initiatives in section 2.2, in the absence of legal obligations only practices that follow from explicit enterprise policies classify as CSR initiatives. This criterion applies to the issues ‘philanthropic donations’, ‘stimulation of host economy’, social investment initiatives under ‘community impacts’ and the transfer pricing aspect of ‘taxation’. For the other issues that appear in figure 4 any enterprise practices that go beyond effective legal obligations classify as CSR initiatives. Recalling the information about the research on page 20, data was collected from a total of 14 individual enterprises and 3 national corporate offices. The corporate offices do not directly implement CSR initiatives related to production and in figure 4 the theoretical maximum score for most CSR issues is therefore 14. The issues ‘philanthropic donations’ and the

social investment component of 'community impacts' are exceptions and have a theoretical maximum score of 17, because corporate offices can directly run philanthropic or social investment programmes. All three divisions included in the research had one or more of these programmes. To make the figure easier to read, cells with higher numbers are darker.⁵⁰ Hence, in the first column a darker cell indicates a higher total number of enterprises that took CSR initiatives.

The total number of CSR initiatives in general is medium to high for all labour issues, HSE, philanthropic donations and community impacts. The number of enterprises that made special efforts for stimulation of the host economy was much lower. Aspects like employment creation, local economic linkages and the transfer of technology were largely regarded as implicit results of MNE operations and the majority of enterprises had no policies for enhancing this impact. Free competition and the local reporting of enterprise profits for taxation were not investigated in detail and not discussed in all interviews. CSR initiatives on these issues were only mentioned two times each.

The figures in the columns two to six indicate by how many enterprises each of the five categories of local CSR incentive was mentioned, either during interviews or in enterprise documents, as a reason for taking these initiatives. A darker cell indicates a higher influence of a certain category of CSR incentives. A blank cell means that no enterprise mentioned that type of incentives for a CSR issue. Frequently enterprises mentioned more than one incentive for the same initiative. For example, the director of Akzo Nobel Chemicals explained that the enterprise paid high wages both because it is just to do so and because it lowers the turnover of employees. The CSR practices of this enterprises on the issue 'wages' were accordingly classified as influenced by both ethical incentives and structural profitability, but were counted only once for the total number of CSR initiatives. Therefore the sum of the figures in the columns two to six is often higher than the total in column one. Because of such combinations of incentives, it sometimes turned out to be difficult or even impossible to determine the influence and importance of individual categories of CSR incentives. For example, a Shell manager said it would be impossible to separate labour market forces, productivity increases and ethical principles as reasons for providing additional training to employees. This should be taken into account when interpreting the figure. As a rule of thumb, a higher relative difference between the total initiatives in column one and the sum of the columns two to six indicates a higher level of complexity.⁵¹

The above analysis firmly confirms the assumption, introduced in section 2.2, that CSR is not a homogenous concept and that it is important to distinguish between the different issues that are part of CSR according to the stakeholder perspective. It proves that CSR issues are indeed developing unequally and to some extent independently from each other, because the incentives and opportunities for what is considered responsible company conduct are not the same across all issues. A more detailed analysis of the data in figure 4 will be provided in two parts. In section 5.2.2 the results are analysed per issue, and in section 5.2.3 they are analysed per incentive category.

5.2.2 Detailed analysis per CSR issue

Initiatives for employee training programmes differed considerably from other labour issues with respect to incentives. The internal profitability of training resulted from improvements in productivity, in quality standards or in motivation. Together with corporate standards, internal profitability was an important incentive for employee training. Structural profitability on the other hand, which for labour issues meant attracting employees and lowering staff turnover, was less important than for other labour issues. Ethical incentives were also less important and external pressures were not mentioned.

There is some similarity between wages and other labour issues, the latter of which includes worker benefits and labour relations. For both issues, structural profitability and ethical incentives were the most important categories of incentives. For wages, the next incentive is internal profitability,

⁵⁰ The categories for the darkness of the cells are as follows: 0 – 2 = white, 3 – 5 = light grey, 6 – 10 = medium grey, 11 or more = dark grey.

⁵¹ This rule does not always hold, because sometimes enterprises reported various CSR initiatives on the same issue. In many cases these included recent as well as non-recent initiatives (see also section 5.3). The incentives for the different initiatives were often not the same. Although enterprises are only counted once in the first column, different categories of incentives mentioned by the same enterprise do therefore not always refer to the same initiative. This did most often occur on the issues employee training, other labour issues and community impacts.

as some managers mentioned that offering higher wages increased employee commitment. For other labour issues, the next incentives are external pressures and corporate policies. In the case of labour issues in general, external pressures refer to the actions of trade unions and workers. A few enterprises were confronted with demands for better employment conditions, but more often enterprises sought to prevent such pressures and other problems. Because of the Mexican tradition of labour relations that was explained in section 4.2.2, enterprises also have a serious interest in securing stable and transparent labour relations to prevent extortion by trade unions. Therefore labour relations themselves, which fall under other labour issues, were the most important subject of external pressures.

The general incentives for health and safety and for environmental issues were very much alike, mainly because many MNEs had integrated corporate standards for HSE. These corporate standards were the most important reason for HSE initiatives, but ethical incentives, internal and structural profitability all played some role too. The nature of internal profitability was different for the two issues. Health and safety provisions helped to prevent accidents and thereby led to cost savings, whereas attention for environmental issues lead to more resource- and energy efficient production processes. The few external pressures for controlling environmental impacts come from communities in which enterprises were located.

Ethical incentives were the most important type of incentives for both community impacts and philanthropic donations. However, the incentives for enhancing community impacts were more diverse. Many of the initiatives on the issue community impacts were social investments projects. There were also a few initiatives for disaster preparedness and for controlling local environmental impacts. The last were counted both under environment and under community impacts, and the external pressures for community impacts include those mentioned already under environmental issues. The internal profitability of social investment in the community results form enterprise access to better local healthcare services and emergency facilities, and a more adequately schooled future work force. The internal profitability of philanthropic donations may seem a contradiction, and indeed such donations are not pure philanthropy. They consist of excess production and yield benefits for the enterprise because they are tax deductible. These donations were nonetheless classified as philanthropy, for the reasons explained above.

Measures to enhance business integrity are largely driven by global corporate policies, and to a lesser extent by ethical incentives and internal profitability. Anti-corruption measures are explained to be profitability in the medium term, because if an enterprise rejects to pay any bribes or facilitating payments and accepts the short term losses this entails, in the future it will not be asked to make such payments anymore. The low importance of ethical incentives for business integrity is perhaps not an entirely correct reflection of reality. It is possible that some enterprises that had to observe corporate standards for business integrity, did not mention ethical incentives because corporate standards were more important, even though ethical incentives continued to play an important role too.

Stimulation of the host economy was to a large extent considered an implicit result of MNE operations. Initiatives aimed at enhancing these implicit impacts were few, and ethical incentives were the most important reason for such initiatives.

Finally, in the few cases that free competition or the local reporting of enterprise profits were mentioned, these issues were regulated by corporate standards. The very low number of initiatives to safeguard free competition is a little strange, because this issue is included in the corporate business principles of four of the ten MNEs in the research. Enterprise managers did not always associate CSR with free competition and perhaps a few enterprises that had to observe corporate norms on competition are missing in the figure. For the local reporting of enterprise profits for taxation, on the other hand, it can safely be assumed that the low number of initiatives is correct. Corporate guidelines on internal pricing that prevent the transfer of local enterprise profits are usually deliberate policies aimed at stimulation of the host economy. Enterprise managers would therefore readily have recognized such policies as CSR initiatives and mentioned their existence. In a few cases, price levels for internal transfers, determined at unit or corporate level, were also reported to be different from market prices in such a way that local profits were artificially lowered.

The analysis above explained per CSR issue which incentives were most important. Below, the results are analysed per incentive category, which will reveal some more interesting patterns.

5.2.3 Detailed analysis per incentive category

Ethical incentives were present for a broad range of CSR issues. They were often mentioned for wages and other labour issues, philanthropic donations and community impacts. This indicates that, apart from the traditional notion of CSR as corporate philanthropy, ethical responsibility is most strongly felt towards employees and the local community. However, except for philanthropic donations, ethical incentives were hardly ever the only reason for CSR initiatives. This is not directly visible in the aggregated data in figure 4, but can be deduced from the data from the individual enterprises. Often awareness of business benefits went together with the acknowledgement of ethical responsibilities. Although ethical principles were sometimes explained to be the first and most important reason, they were often mentioned in combination with local business incentives, corporate policies or a combination of these. Sometimes enterprise managers even found it difficult to distinguish between ethical incentives and one or more types of business incentives. For example, a manager of Shell México said all different incentives were becoming increasingly integrated and the influence of individual incentives could therefore no longer be determined.

Two alternative explanations would be possible for the finding that enterprise managers hardly ever mentioned ethical incentives as the only reason for CSR initiatives. Either ethical incentives alone were usually insufficient, or in general CSR initiatives undertaken for ethical reasons were recognized to yield business benefits as well. The research data supports the second conclusion best. Hence, next to ethical incentives, there usually existed a business case for local CSR initiatives. Recalling Graafland's argument that ethical responsibility would assign a value in itself to responsible company conduct (Graafland 2001),⁵² this also suggests that the value of ethics for enterprise managers was either limited or not realized, because ethical responsibilities did usually not cause enterprises to increase CSR standards beyond the point where this ceased to be profitable. However, even when CSR initiatives do not go beyond this point, the results show that ethical incentives did already play an important role.

The three categories internal profitability, structural profitability and external pressures demonstrate this general business case for CSR. External pressures are clearly the weakest category of the three and provided incentives for a very limited range of CSR issues only. Few actual and potential pressures from local stakeholders were present. In some cases enterprises followed a pro-active approach and took into account the concerns of local communities with respect to pollution or other community impacts. In addition, for a limited number of enterprises, the maintenance of good relations with trade unions and employees was important to prevent problems. Potential pressures from other stakeholders, such as NGOs or consumers, were completely absent. Internal and structural profitability have more influence on CSR initiatives. Structural profitability was mostly confined to labour issues and HSE. This means that high labour and HSE standards were subject to competition or expected of enterprises by the market, but market forces did not stimulate CSR initiatives on other issues. Internal profitability, on the other hand, was mentioned for a broad range of issues.

Together, the three categories of business incentives provide a strong general business case for all labour issues and HSE. There also exists a business case for managing community impacts, although the different categories of incentives relate to different kinds of community impacts. Internal profitability is present for social investment and stimulates the maximization of positive contributions to the neighbourhood, whereas external pressures stimulate the mitigation of negative community impacts. For business integrity the business case is less recognized or weaker, while philanthropic donations by definition yield business benefits only if donations consist of excess production. For stimulation of host economy, taxation and free competition, a local business case is largely absent.

Corporate policies had a greater coverage than any of the other incentive categories and were present for all CSR issues. Corporate commitments were strongest on the issues employee training, HSE and business integrity. Often there existed global corporate standards for these issues. Less frequently, corporate policies led to CSR initiatives on labour issues other than training or wages, community impacts and philanthropic donations. The research data showed a very low number of corporate policies for wage levels. Wages and benefits are usually considered local issues. Corporate policies for stimulation of the host economy, free competition and the local reporting of profits for taxation were also mentioned in a few cases only.

⁵² See page 34.

In section 1.2 it was stated that corporate CSR commitments may directly translate into CSR initiatives, or may alternatively enhance the perception of CSR incentives at the local level. The research findings show that corporate CSR commitments usually consist of CSR standards that are to be observed by the management at the local level and, if they are effectively implemented, directly translate into CSR initiatives. Often, however, they do not leave local incentives for CSR unchanged. As a part of corporate policies, the space to manoeuvre for the local management was sometimes enlarged. For example, the corporate board of Akzo Nobel announced it would accept all losses that result from the rejection of local management to pay bribes. In addition, some of the MNEs explained and discussed their new corporate CSR policies rather than simply imposing them. This enhanced the perception of the business benefits of CSR by the local management and raised their support for the corporate CSR policies. In some cases, though certainly not all, it also set in motion a change of enterprise culture and transmitted a new CSR perspective and awareness of enterprise responsibilities to the local level. The type of corporate CSR policies that stimulate this kind of developments at the local level will be discussed in section 5.9.

It can be deduced from figure 4 that corporate policies and ethical incentives are largely complementary. For issues on where corporate standards have a strong influence, ethical incentives are weaker, and vice versa. It turns out that corporate policies are more important for global issues and ethical incentives are more important for issues that are usually considered as local. This pattern is very consistent. Global training standards or commitments to employee development, HSE norms and business integrity standards were already mentioned above. In addition, competition and transfer pricing policies are typically global issues. The remaining group of CSR issues, which are usually considered as local, consists of wages and other labour issues, philanthropic donations, community impacts and stimulation of the host economy. Enterprise managers sometimes stressed that there exists a difference between environmental issues on the one hand and social and economic issues on the other. Environmental standards had to be exactly the same regardless of the location of an enterprise, whereas the economic and social components of CSR depend on the local context and take different forms in each country. Most interview partners were of the opinion that corporate governance and financial standards, like environmental standards, did not depend on the local context. It should be realized that this division into local and global issues reflects the general perception of MNEs. Many civil society organizations in Mexico preferred wages to be treated as a global issue and stressed local wage levels fell under the responsibility of corporate boards.

Although a complementary pattern as outlined above can result from the crowding out of intrinsic motivation by corporate standards, the research data indicates exactly the opposite. One might suspect that high CSR norms set at the corporate level render local incentives for CSR initiatives rather irrelevant. In some cases newly introduced global standards were indeed more ambitious than CSR initiatives that already existed at the local level. Yet for the reasons explained above, corporate CSR policies often raised local awareness of both enterprise responsibilities and potential business benefits of CSR, and sometimes enlarged the space to manoeuvre for local CSR initiatives as well. Corporate CSR standards are therefore largely supported by local managements, even if these standards are much higher than, for example, legal obligations or the common practices of smaller enterprises in the same locality. As has already been remarked before, the low importance of ethical incentives for business integrity is perhaps not completely correct, given the especially strong support that was expressed for anti-corruption policies.

An analysis of the data of individual enterprises, which is again not visible in figure 4, shows that despite the complementary pattern, a relatively high number of enterprises that with corporate policies mentioned ethical incentives as well. For eight out of the eleven issues in figure 4, the proportion of enterprises with corporate policies that mention ethical incentives is greater than the proportion of enterprises without corporate policies that do so. This result provides further support for the conclusion that corporate CSR commitments do not reduce ethical incentives.

The selection of enterprises in the research includes five enterprises of Akzo Nobel and this causes a small bias in figure 4. Although all these enterprises fall under different business units and may have considerable autonomy in some areas, not surprisingly the corporate policies that applied to them remained similar to some extent. Three enterprises of Akzo Nobel reported corporate policies for employee training, four reported corporate HSE standards and four reported corporate business integrity norms. Thus, for the issues in the figure where corporate policies scored highest, about half

of these scores came from Akzo Nobel enterprises. Corporate policies on other issues were mentioned by a maximum of two enterprises of the same MNE, which means there was no bias towards the policies of one large MNE. There was also more difference among the Akzo Nobel enterprises on other issues. If each of the 10 MNEs would be counted only once in the last column the figure, corporate policies would seem much less important for CSR and they would appear to be less focused on a few issues such as HSE. The highest score would become 5 for environmental standards and health and safety standards. For each of the other issues, corporate policies were mentioned by enterprises belonging to no more than 4 different MNEs.⁵³

5.3 Recent CSR initiatives and CSR incentives

The previous sections presented an overview and more detailed analysis of CSR initiatives in general. It showed which incentives were most important and demonstrated the general business case for different kinds of CSR initiatives. Many of these initiatives, however, were not recent. This section provides an overview of recent CSR initiatives. It explains the differences and shifts in focus of CSR initiatives and in the relative importance of the five incentive categories.

In principle all CSR initiatives that were initiated no more than six years ago qualified as recent. A period of six years was chosen because recent CSR developments gained momentum by 1997 and, as some estimate it, reached a critical mass through 1999 and 2000 (Elkington 2001 p149). The publication of Elkington's book "Cannibals with forks: the Triple Bottom Line of 21st century business" (Elkington 1997) and Shell's formulation of CSR strategies (Shell 1997, Shell 1998) marked a change in the thinking about CSR. Shell was also one of the first large MNEs to adopt such strategies. Furthermore, the inventory of important international CSR standards on page 29 shows that many of these standards appeared in or after 1997. Thus, the year 1997 more or less marked the beginning of the recent CSR developments investigated in this research.

Some additional explanation is necessary on the qualification procedure of recent CSR initiatives. If CSR practices were enhanced during the last six years, these classified as recent too, but if only official CSR policies were enhanced without an accompanying change in practices, these did not qualify. The enterprises Akzo Nobel Industrial Coatings and Cogent Power Monterrey were founded less than six years ago. As a consequence, all CSR initiatives of these enterprises automatically qualified as recent. Four other enterprises were founded longer ago, but were recently incorporated into the actual Dutch MNEs. During the last six years, Philips acquired Philips Lightning Electronics México and Lumisistemas, Nutreco took a majority stake in Trouw Nutrition and DSM took over the Fersinsa Gist-Brocades plants in Coahuila. In addition, Intervet expanded through the acquisition of the enterprise Höchst Roussel Vet. The takeovers were often followed by profound changes in the enterprises. The CSR initiatives of these enterprises that were already in place before the takeovers did not qualify as recent. CSR initiatives that followed the takeovers, on the other hand, qualified as recent, whether the corporate policies from which they followed were recent or not. These criteria are not so strict and easily allow CSR initiatives to be qualified as recent.

An overview of recent CSR initiatives is provided in figure 5. It is based on figure 4 in the previous section, but shows the recent CSR initiatives only. The differences between the two figures are striking. Although the criteria above are not so strict, many initiatives turn out not to qualify as recent.

Sometimes an enterprise supported recent as well as non-recent CSR initiatives on the same issue. In that case the enterprise is counted in the total numbers of CSR initiatives in both figure 4. and figure 5, even though not all CSR initiatives on the issue are recent. The incentives for recent initiatives were often different from the incentives for non-recent initiatives of the same enterprise and on the same issue. Figure 5 only shows the incentives that were present for recent CSR initiatives.⁵⁴ For example, Fersinsa GB had adopted progressive health and safety measures for a combination of reasons, including ethical incentives and internal profitability, before the enterprise was acquired by DSM. After the takeover, corporate policies of DSM enhanced the already existing health and safety

⁵³ See also figure 7 on page 112.

⁵⁴ This explains why the total number of CSR initiatives on community impacts is the same in figure 4 and figure 5, while the numbers for the different incentive categories issue on this issue are lower in figure 5.

standards of the enterprise. In figure 5, corporate policies are the only incentive category that is marked for the health and safety standards of Fersinsa GB.

| | | Total CSR initiatives | Categories of CSR incentives | | | | |
|------------|-----------------------------|-----------------------|------------------------------|------------------------|--------------------------|--------------------|--------------------|
| | | | Ethical incentives | Internal profitability | Structural profitability | External pressures | Corporate policies |
| CSR issues | Employee training | 6 | | 2 | | | 5 |
| | Wages | 3 | 2 | 1 | 1 | | 1 |
| | Other labour issues | 7 | 2 | | 3 | 2 | 3 |
| | Health & Safety | 10 | 1 | 2 | 1 | | 8 |
| | Environment | 10 | 2 | | 5 | 2 | 8 |
| | Philanthropic donations | 4 | 1 | | | | 4 |
| | Community impacts | 8 | 4 | 2 | 1 | 3 | 3 |
| | Business integrity | 6 | | 2 | | | 6 |
| | Stimulation of host economy | 4 | 3 | | | | 2 |
| | Competition | 2 | | | | | 2 |
| | Taxation | 2 | | | | | 2 |

Figure 5: Recent CSR initiatives and CSR incentives.

There exist some major differences between the total numbers of CSR initiatives in figure 4 and figure 5. These numbers are much lower on the issues wages and philanthropic donations if only recent initiatives are considered. Hence, the CSR practices on these issues are often nothing new. An important part of the CSR initiatives on employee training, other labour issues and business integrity are not recent either, although the differences are not as large as for wages and philanthropic donations. In contrast, most of the HSE measures were recent or recently enhanced. Although the total numbers of initiatives are sometimes very low, most initiatives on the issues community impacts, stimulation of the host economy, free competition and taxation were recent as well. This reflects that attention for these issues is largely new.

Comparing the categories of CSR incentives in figure 4 and figure 5, again there appear to be some striking differences. In the columns two to five of figure 5, most numbers are much lower. Most of the influence of ethical incentives and local business incentives was already present before recent

CSR developments took off. In contrast, the numbers in column six are virtually the same in both figures. This means that virtually all corporate CSR policies were recently introduced or enhanced.

It can be concluded that in general there exists a strong business case for several types of CSR initiatives, but responding to this business case is little else than business as usual. This should not be a large surprise and indicates that at least to a certain degree markets are functioning correctly. Especially the strong market incentive for setting wage levels above the legal minimum turns out to be business as usual. Similarly, most enterprises that recognized the general local business case for HSE measures did already do so before 1997. The structural profitability of environmental standards, however, was often mentioned for recent initiatives. This aspect of the diverse business case for HSE had become more important, because the demands and expectations of business clients had increased over the past six years. Certification of environmental performance had sometimes become a requirement, especially for exports to high-income countries. The prevention of external pressures from trade unions or neighbourhoods was in new in some cases only. Hence, even potential pressures from local stakeholders had very little influence on recent CSR initiatives.

Although the influence of ethical incentives turns out to be by no means a recent phenomenon, it can be deduced from figure 5 that ethical incentives did play an important role for recent initiatives on two specific issues. These two issues were community involvement and stimulation of the host economy, two of the issues for which attention is largely new. These are also local issues, so that ethical incentives are relatively important compared to corporate policies.

The recent nature of corporate CSR policies should be no surprise, because the corporate CSR commitments have risen quickly since 1997. Even though many MNEs already had global standards for employee development and HSE, in the case of the MNEs in the research these were often raised or better implemented during the last six years. Corporate policies were by far the most important type of incentives for recent CSR initiatives.

Again the number of Akzo Nobel enterprises in the selection of enterprises causes a bias in the figure. This time the bias is of more concern, because it not only affects the four cells with the highest scores in the last column, but also four of the cells with the highest scores of all incentive categories. Thus, if each of the 10 MNEs would be counted only once in the last column in figure 5, the highest score for any category of incentives would drop to 5 for corporate environmental policies, corporate health and safety policies and structural profitability of environmental measures.⁵⁵

This section provided an answer to the questions which are the recent CSR initiatives of Dutch industrial MNE in Mexico and which are the incentives at the local level for these CSR initiatives. Most recent CSR initiatives of the enterprises in the research concerned improvements in HSE standards, followed by initiatives on community impacts, business integrity, employee training and other labour issues (excluding wages). Although different incentives at the local level were reported by the various enterprises and across the various CSR issues, corporate policies were by far the most important type of incentives, while external pressures by local stakeholders had virtually no influence at all.

5.4 Recent CSR initiatives, CSR incentives and recent CSR developments

The previous section identified the recent CSR initiatives of Dutch MNEs in Mexico and the incentives for these initiatives. This section builds on the previous analysis and links the incentives for recent CSR initiatives to recent CSR developments.

In chapter 1 three recent CSR developments were identified: the rise of a new CSR perspective, the rise of corporate CSR commitments and the rise of international CSR standards. These developments were further discussed in chapter 2. For the following analysis, the rise of a new CSR perspective will be split into two parts. The first part will be called 'enterprise perspective' and is limited to the changes in the attitudes and strategies of enterprise managements. These changes take place inside the enterprises at the local level and include any changes in the perception of the business environment and of business opportunities. The second part will be called 'enterprise context' and refers to the rise of a new CSR perspective outside the enterprises themselves. It covers both the structural changes in the foreign and domestic markets in which enterprises were operating and the

⁵⁵ See also figure 7 on page 112.

changes in the actual and potential pressures exercised by local enterprise stakeholders. Chapter 4 dealt with these changes already. In the following analysis, then, CSR incentives are linked to developments in enterprise perspective, enterprise context, corporate CSR commitments and the use of international CSR standards. The changes in enterprise perspective refer to changes in MNEs at the local level in Mexico, while corporate CSR commitments refer to changes inside MNEs at the corporate level. Changes in enterprise context refer to changes in the business environment that directly affect the enterprises in the research. These can take place at any level. The rise of a new CSR perspective inside enterprises and in the environment in which they operate and the rise of corporate CSR commitments all stimulated recent CSR initiatives. The use of international CSR standards is different in nature, because it does not in itself lead to initiatives for CSR, as was already explained in chapter 1. It is merely an operational aspect of CSR initiatives and may result from any of the other three recent CSR developments

The relations between the five categories of CSR incentives and the first three recent CSR developments can easily be derived. Ethical incentives and internal profitability are concerned with changes in ideas, attitudes and the perception of business opportunities within enterprises. These result by definition from changes in enterprise perspective. Structural profitability can be an incentive for CSR because enterprises perceive actual changes in the markets in which enterprises are operating. Alternatively, it may lead to CSR initiatives because of changes in the perception of business opportunities, without actual changes in the business environment. Similarly, changes in stakeholder behaviour may raise external pressures, but the enhanced perception of potential external pressures alone can be a sufficient incentive for CSR. In the first case, the incentive of structural profitability or external pressures result in the first place from changes in enterprise context. In the second case they result from changes in enterprise perspective only.⁵⁶ The fifth category of CSR incentives, corporate policies, is by definition linked to a rise in corporate CSR commitments.

Figure 6 facilitates the analysis of the relations between different kinds of recent CSR initiatives, the incentives for these initiatives and recent CSR developments. It reproduces figure 5, but is extended with four columns on recent CSR developments. For each recent CSR initiative, it links the different incentives to one or more of the first three recent CSR developments, as described above. The sum of the numbers in the columns 'enterprise perspective', 'enterprise context' and 'corporate commitments' may therefore be higher than the total number of CSR initiatives. The column of corporate commitments is equal to the column of corporate policies because of the direct link mentioned above. In addition, the last column shows how many enterprises reported that their CSR initiatives had been directly influenced by international standards. This number of enterprises is shown individually for each type of international standard.⁵⁷ In the last four columns, a darker colour indicates a higher influence of a recent CSR development on the corresponding type of CSR initiatives.

Figure 6 is helpful to identify which recent CSR developments have been spread fastest among Dutch MNEs in Mexico and have been most influential. The rise of corporate CSR commitments turns out to be the most important development that lead to recent CSR initiatives and extended to all CSR issues. This is not surprising, as corporate policies, which are directly related to corporate CSR commitments, were already identified as the most important CSR incentive. The focus and bias in focus are also the same as those of corporate policies explained on pages 91 and 94.

Changes in enterprise perspective followed in order of importance and occurred on a broad spectrum of CSR issues as well. Recent changes in enterprise perspective strongly raised attention for community impacts, while they had less influence on philanthropic donations. Linked to this, ethical responsibility led to a relatively high number of recent CSR initiatives on the issue community impacts, while it did not on the issue philanthropic donations. While it can be concluded from figure 6 that enterprises used to be more concerned about making philanthropic donations than about managing

⁵⁶ One could also argue that in the first case the incentives result from a combination of changes in enterprise perspective and enterprise context, but this would make the following analysis unnecessarily complicated. Only in one exception the changes inside and outside the enterprise were equally important and marked both in figure 6.

⁵⁷ Quality standards such as ISO 9000 and current Good Manufacturing Practices (cGMP) are not mentioned, because consumer interests fall outside the scope of this research.

community impacts, the number of recent CSR initiatives was much higher for community impacts. This suggests that the rise of a new CSR perspective in Mexico induced a shift from philanthropic donations to community involvement, which is one aspect of an upward shift towards the stage of mainstream involvement in Heap's model on page 40. Rising attention for the environment is in part linked to the attention for impacts on the local community.

| | | Total CSR initiatives | Categories of CSR incentives | | | | | Recent CSR developments | | | |
|------------|-----------------------------|-----------------------|------------------------------|------------------------|--------------------------|--------------------|--------------------|-------------------------|--------------------|-----------------------|---|
| | | | Ethical incentives | Internal profitability | Structural profitability | External pressures | Corporate policies | Enterprise perspective | Enterprise context | Corporate commitments | International standards with direct influence |
| CSR issues | Labour issues: training | 6 | | 2 | | | 5 | 2 | | 5 | |
| | Labour issues: wages | 3 | 2 | 1 | 1 | | 1 | 2 | | 1 | 2 Hay Group model |
| | Labour issues: other | 7 | 2 | | 3 | 2 | 3 | 4 | 2 | 3 | 1 SA8000 |
| | Health & Safety | 10 | 1 | 2 | 1 | | 8 | 2 | 1 | 8 | 1 SA8000 3 Resp. Care |
| | Environment | 10 | 2 | | 5 | 2 | 8 | 4 | 4 | 8 | 3 ISO 14000 |
| | Philanthropic donations | 4 | 1 | | | | 4 | 1 | | 4 | |
| | Community impacts | 8 | 4 | 2 | 1 | 3 | 3 | 7 | 1 | 3 | |
| | Business integrity | 6 | | 2 | | | 6 | 2 | | 6 | |
| | Stimulation of host economy | 4 | 3 | | | | 2 | 3 | | 2 | |
| | Competition | 2 | | | | | 2 | | | 2 | |
| | Taxation | 2 | | | | | 2 | | | 2 | 1 OECD guidelines |

Figure 6: Recent CSR initiatives, CSR incentives and recent CSR developments.

Changes in enterprise context were the least important development that lead to CSR initiatives and affected a small number of CSR issues only. This means that changes in the perception of ethical responsibilities and business opportunities were often more important than actual changes in the business environment. In section 5.3 it was found that responding to this business case is little else than business as usual, which indicated that at least to a certain degree markets are functioning correctly. Yet the increased perception of business opportunities that were already present also lead to CSR initiatives. This indicates that market failures did and probably still do occur as well, because in some cases profitable opportunities for CSR initiatives were only recently recognized.

Hence, it has to be concluded that even where there exists a good business case for CSR, external market forces or entrepreneurial spirit in itself will not automatically raise CSR standards. A

lack of knowledge about the business benefits of CSR may cause enterprises to offer less training than would be optimal from a business point of view, for instance. This is in accordance with past experiences about attention for environmental impacts. Many enterprises had been causing heavy environmental pollution for decades, before discovering that limiting environmental impacts was in fact profitable because environmental process improvements yielded considerable cost savings (Elkington 1997; Meadows, Randers & Meadows 1992).

The experience of experts from several organizations in Mexico supports this conclusion. The director of VBA, for example, explained the lack of interest for social problems among the Mexican private sector as a lack of awareness. It should be recalled that research by VBA had shown that Mexican consumers of different income classes cared about enterprise behaviour and that cause-related marketing made good business sense. The number of Mexican enterprises that cared about their social reputation turned out to be quite small, though. A coordinator of the CTM was convinced that Mexican enterprises did not perceive the benefits of CSR, but only the costs of it. He therefore believed that a change of business culture was necessary. Similarly, a high representative of the Dutch embassy confirmed that there did not exist a tradition of CSR in Mexico yet and enterprises did not recognize the potential returns of it. Requirements on suppliers like ISO 9000 certification were only just emerging in Mexico and CSR would be yet a step further. In addition, MNEs that had already experienced the business benefits of CSR often failed to communicate about this with business partners and other enterprises. He therefore thought that it would take a long time for Mexican enterprises to realize that CSR initiatives yield profits. The relation between CSR and business success will be further discussed in section 5.11.

Only in a few cases CSR incentives resulted from structural changes in the markets in which enterprises were operating. All structural changes concerned increasing HSE requirements of foreign and domestic business costumers. Not all of these changes resulted from recent CSR developments, though. Attention for environmental impacts emerged long before recent CSR developments took off and the increases in environmental requirements often took place already at the beginning of the six-year period for recent CSR initiatives. Hence, these probably resulted from earlier developments that later became integrated into CSR. Changes in the actual and potential pressures exercised by local enterprise stakeholders occurred in still fewer cases than structural changes in markets. Enterprises that took into account the concerns of local stakeholders usually followed a pro-active approach.

The direct influence of international CSR standards on CSR initiatives turns out to be quite limited too. Gelcaps adopted the SA8000 standard a few years ago after the MNE Avon, one of its large clients, started to demand this of all its suppliers. This led to some improvements in health and safety standards and other labour conditions in the enterprise. The Philips Lighting plant in Tijuana had already obtained ISO 14001 certification to meet market requirements certification before it was acquired by Philips in 1999. Lumisistemas had already planned ISO 14001 certification before its more recent takeover for the same reason. Thus, the adoption of international CSR standards is sometimes motivated by structural profitability. On page 78 it was explained that the international Responsible Care standard for health and safety in the chemical industry is promoted by ANIQ, the national association of chemical industry. Participation in this standard was usually motivated by ethical as well as business incentives. In the remaining cases international CSR standards were adopted because of corporate policies.

Many international CSR standards were not mentioned, because they were not directly implemented or not even known by local enterprise managements. This contrasts with the common use of a broad range of international standards as a point of reference by corporate managements and Mexican private sector organizations. The few CSR standards that were mentioned at the local level, notably SA8000, Responsible Care and the ISO 14000 series, have two typical characteristics. Firstly, they are very specific and secondly, they require audits, certification or at least some form of self-evaluation. These characteristics enable and even require them to be directly managed at the local level.

The general relations between recent CSR initiatives, CSR initiatives and recent CSR developments have now been established. The following sections will further analyse the effects of the different types of CSR incentives on enterprise behaviour and describe the CSR practices and policies of Dutch MNEs in more detail.

5.5 Ethical incentives

The first part of this section will describe the CSR initiatives that were driven by ethical incentives in more detail. It discusses, among other things, the influence of the traditional CSR perspective in Mexico and the traditional Mexican system of protective labour relations. Some of the theoretic models that were introduced in chapter 2 will be used to analyse enterprise behaviour. The second part of this section will discuss the common operational aspects of these initiatives.

5.5.1 Initiatives

A few enterprises offered more training to their employees than required by the LFT for ethical reasons as well as for the convenience of the enterprise. Lumisistemas, a large enterprise that belongs to Philips, even offered their employees the opportunity to follow or complete secondary education. At the time of the research, about a dozen of workers followed lessons before or after their shift, which were given by an external teacher hired by the enterprise.

Several enterprises mentioned that offering good working conditions and just wages and benefits were important values supported by the enterprise. Some also mentioned stable employment, sound labour relations and medical services for their employees. As one enterprise director expressed it, offering good employment conditions is something fundamentally human. Although most of the CSR practices that resulted from these ethical incentives were not recent, a few enterprises had improved labour conditions during the last years. One enterprise had refused to reduce its work force despite declining sales levels. This had of course been costly for the enterprise, but next to ethical incentives, this decision was also influenced by business considerations. It made sense to retain employees from a business point of view too because quick responses to future production orders were necessary and future sales were highly unpredictable.

With respect to labour relations, the case of Cogent Power is interesting. When the enterprise was established in Monterrey in 2002, its lawyers chose a trade union that belongs to the *Federación Nacional de Sindicatos Independientes* [National Federation of Independent Trade unions] (FNSI). The sad tradition of protective unionism in Mexico, which was explained in section 4.2.2, motivated the choice for an independent trade union. A delegate of the trade union was allowed free access to the management and other employees. According to a manager of Cogent Power, the enterprise had not experienced any inconveniences because of the independent character of its trade union. On the contrary, the relation between the enterprise and the trade union had been excellent. The absence of any conflicts about labour issues had also been beneficial for the enterprise itself.

Ethical incentives alone were sometimes a sufficient reason for enterprises to reduce environmental impacts. For example, one enterprise director stated that MNEs should not commit abuses in poor countries and therefore supported high HSE standards. Fersinsa GB had recently obtained *Industria limpia* [Clean Industry] certification, a national standard of excellence in environmental care. Audits and certification for *Industria Limpia* are carried out by the *Procuradería Federal de Protección al Ambiente* [Federal Solicitorship for Environmental Protection] (Profepa), a decentralized organ of SEMARNAT, the Mexican Ministry of Environment. In addition, ISO 14001 certification was planned and in 2002 a waste-recycling programme had been started in cooperation with the state government. The revenues of this project are used to help handicapped people. The human resources manager of Fersinsa GB explained that the enterprise had to be sustainable, as defined in the Brundtland report (WCED 1987). According to the manager, not damaging the environment was very important. Care for the environment was part of good corporate citizenship and a form of returning something to the community to which the enterprise belongs. The recent environmental initiatives of Fersinsa GB were strongly stimulated and supported by DSM, which acquired the enterprise in 1998, and the vision expressed by the human resources manager seems to be strongly influenced by the corporate ethics of DSM as well.

Environmental initiatives often coincided with a pro-active approach towards community interests. Gelcaps installed equipment to remove fat from its wastewater in 2003. Contaminated water effluents were the main environmental impact of Gelcaps' production processes. Before the fat was removed from wastewater, it accumulated in the drainage and caused smells in the neighbourhood. The director of Gelcaps was convinced that the enterprise should no longer contaminate the water. Sometimes ethical incentives also coincided with business interests. For example, the Shell lubricants plant recycled lubricants both for economic and environmental reasons.

Traditionally, in Mexico ethical responsibility is closely linked to private sector philanthropy. Zuid de México provides a typical example of classical private sector philanthropy, the first stage in Heap's model on page 40. The director of Zuid participated in the Rotary Club, so that the enterprise itself only supported philanthropic initiatives indirectly. Yet most enterprises made more direct and strategic contributions, often in some way related to enterprise operations, which is the second stage in Heap's model. A few examples include Organon's support to medical congresses and public healthcare services, Philips Mexicana's long tradition of philanthropic projects in cooperation with local NGOs and Trouw Nutrition's donations to the food bank Caritas and advisory support to another organization for child nutrition. In the cases of Philips Lighting, Akzo Nobel Coatings and Unilever de México, enterprise products are donated. Such donations may have fiscal advantages for the enterprises involved. However, most enterprises claimed that philanthropic programmes do not have an impact on business other than the required expenses, and that the programmes are completely separated from the core-business. The director of Trouw Nutrition even said that it was against his principles to obtain business benefits, such as a better company image, from these donations.

At the local level, the national divisions of Philips and Unilever run probably the largest philanthropic programmes of all enterprises. Both corporations chose the themes education & culture, health and environment for their programmes. Unilever even created its own foundation to manage its philanthropic programmes, called Fundación Unilever. According to the external relations manager, employees of Unilever ask to be involved in philanthropic activities and regularly donate 20 pesos of their wage to the programmes. The enterprises of Akzo Nobel, which belong to different business units and do not have a common corporate office in Mexico, had one common philanthropy project and put together annual donations to an orphanage. Shell Foundation, which was founded in 2000 and operates at the international level, granted considerable financial support for a project to improve city transport and decrease air pollution in Mexico City. In its first year the foundation also supported a project in five Mexican communities with the dual aim to stimulate the use of renewable sources of energy and to develop sustainable micro-enterprises (Shell 2003c). There were also several social investment projects of Shell at the national level. Yet unlike Philips and Unilever, Shell has shifted its CSR focus much more away from corporate philanthropy towards social investment and ultimately managing total enterprise performance. Recalling Heap's model again, the behaviour of Shell México provides a textbook example of a shift from stage two of strategic contributions to stage three of mainstream involvement and on to stage four of true CSR.

Beyond philanthropy, many enterprises were engaged in activities of the mainstream involvement type as well. For example, Química Esteroidal responded to requests of the local community San Juan Ixhuatepec and had supported for a primary school, provided uniforms for the fire brigade and installed street lights on the central square, among other things. Cogent Power sought active engagement of the community and made small donations to a local Red Cross department, of which the services were also used by the employees of the enterprise. Fersinsa GB builds new schools in the community, which are visited by children of enterprise employees. This has a distant benefit for the enterprise too, because some of the children in the neighbourhood will themselves become enterprise employees in the future. Like care for the environment, this kind of initiatives is considered part of the social commitment of the enterprise and is probably inspired by corporate ethics. In the of the Shell plant, community investment is also motivated by ethical responsibilities. As a manager of Shell explained it, an enterprise should search to minimize its negative impacts and maximize its positive impacts. In the case of the small Shell lubricants plant negative externalities were already fairly limited, but positive contributions may still be improved.

At the national level, since 1998 Shell provides support to orphanages on an annual 'Day of the community'. The idea behind this day is to provide support to a specific community and at the same time sensitise employees for social problems in Mexico (Shell 2003b). In addition, there is a General Statement of Business Principles (GSBP) week. During this week employees of Shell volunteer in various organizations in activities related to the conservation of nature and reforestation, community support, support for elderly people and adult literacy. Unilever has similar mainstream involvement activities. In 2002, 100 volunteers of Unilever Bestfoods rebuilt a rural school at Galindo community, Querétaro, together with 100 village residents. A manager of Unilever stressed the advantages for both parties: it fostered the self-reliance of the village while it developed team

motivation and commitment among Unilever employees. He was sure the Unilever Bestfoods team had benefitted as much as the Galindo people (Unilever 2003).

Ethical values also caused enterprise managers to reject corruption and facilitating payments. The director of Organon, for instance, stressed that business has to be conducted in a legitimate manner and therefore sought to fight involvement in corruption. Some enterprise representatives claimed their enterprises had never been involved in corruptive practices, while others were convinced such practices had been eradicated years ago. Still others said they were in a process of banning it, but in these current processes ethical incentives played a supportive role only and not a decisive one.

Finally, ethical values cause enterprise managers to favour local purchases and employment. There is an important difference with the previous issue, though. The initiatives to stimulate the host economy were always recent, whereas concerns about business integrity were not. As for stimulation of the host economy, the external relations manager of Shell said local procurement and employment are goals in itself for the enterprise. These goals were probably based on corporate ethics and policies. Except for Shell, no enterprises had explicit policies for stimulation of the host economy and many had never given thought to such kind of initiatives. A representative of an Akzo Nobel enterprise said he would favour local purchases on his own initiative, within the flexibility offered by the corporate headquarters, but doubted whether such commitments should be stated explicitly because they were no official policies.

In all cases where local purchases were favoured, enterprises stressed that quality requirements came in the first place and, although sometimes offset by logistic advantages, price differences were also taken into account. Thus, local suppliers would only be preferred if this would be realistic, that is, if they met all minimum requirements and their bids were at or close to a competitive level. The same goes for local employment. Still, changes proved to be possible. For example, ten years ago the Shell plant in León imported all the cans for its lubricants from the USA, whereas they are now purchased from a domestic supplier. Similarly, all 12 managers at Shell México's corporate offices used to be foreign, but as a result of policies based on ethical principles, Shell had 5 Mexican managers at the time of the research.

Graafland's model, which was shortly introduced on page 34, is useful to analyse special efforts for stimulation of the host economy. In this model, a value is assigned to responsible company conduct itself, so progressively increasing standards of responsible conduct can offset for decreasing profitability to form iso-value curves of different combinations that are of equal value to a company manager (Graafland 2001). A balance must be sought, then, between the profitability of lower input prices and the responsibility of stimulating the local economy. The weight that is assigned to ethical responsibility and border conditions such as minimum profitability levels will determine which available combination maximizes the value for an enterprise manager. This optimal combination reflects the CSR ambition level of an enterprise on this issue. Put more simply, enterprise managers that do not feel responsible for the effects of their enterprise's operations on the host economy will always choose for the lowest price. If they do attach some value to such impacts, they will at least favour local suppliers if prices and conditions are comparable. When enterprise managers increasingly value their contribution to the local economy, increasing price differences will become acceptable. Yet the research results indicate that even the most ambitious MNEs will only accept small differences in prices. Thus, either the value attached to enterprise impacts remains limited, or initiatives remained limited because of minimum profitability constraints. The results best support the latter explanation of the interplay between the various factors that determine the ambition level of CSR initiatives.

5.5.2 Operational aspects

Ethical incentives are conducive to CSR practices that are not accompanied by explicit policies or written CSR standards. Because intrinsic motivation for these CSR practices is already present, in general enterprise managers do not feel a need to create formal management structures or control mechanisms. If ethical incentives are not accompanied by external driving forces for CSR, communication about CSR remains often very limited or does not happen at all. These findings are in agreement with the findings of other research about CSR in developing countries (SMO 2003 p20, 23). For example, Zuid de México had no written document with business principles. There existed only interior rules for the relation between the enterprise and its employees. The vision and mission of the enterprise included social commitments like just remuneration, but these were only occasionally

mentioned to business partners. For the same reason, ethical incentives are not conducive to monitoring, auditing or certification processes or supply chain management. Only in a few cases enterprises demanded from the enterprises they subcontracted for cleaning and security services to demonstrate that their employees were affiliated to the IMSS and above the minimum age. Ethical managers usually take CSR initiatives according to their own judgement and do not seek the guidance of CSR standards. Fersinsa GB did seek certification for national and international environmental standards, but improvements in its environmental performance were not driven by ethical incentives alone.

When taking CSR initiatives for ethical reasons, most enterprises did not feel a need to consult stakeholders. Cooperation with stakeholders was largely confined to community involvement. Except for trade unions and local communities, usually enterprise stakeholders did not approach the enterprises to become engaged either. Even favourable employment conditions were frequently determined without the active involvement of employees. Various enterprise managers perceived that for civil society organizations there were more acute problems to be addressed in Mexico than the lack of CSR. In addition, if civil society organizations wanted to improve the enterprise behaviour, they had more to gain by approaching other, less responsible enterprises.

Defining a just wage was perceived to be a complicated issue, because it is difficult to compare wage levels between countries. Many interview partners were of the opinion that a minimum wage was not sufficient. One human resources manager explained that to him just remuneration meant demonstrating that wages are at a competitive level. In many branches and industrial zones annual surveys are carried out, which enable a comparison with the wages and benefits offered by other enterprises. This type of surveys will be discussed in section 5.7.2. Two enterprises in the research, Trouw Nutrition and Fersinsa GB, based themselves on a remuneration system of the Hay Group. This is a generic method to define just and competitive remuneration levels based on indicators such as geographical location and education and experience required for a job. Yet the director of Trouw Nutrition was of the opinion that even with such a system it remained difficult to determine just wages, because of personal factors such as differences in the commitment and motivation of employees. At Trouw Nutrition, the lowest wage for production workers was almost three times the local minimum wage and even cleaning personnel, which was contracted directly by the enterprise, earned two times the official minimum.

Sometimes ethical considerations caused enterprise managers to reject the traditional type of Mexican labour relations. Both trade unions and employees themselves were allowed more freedom to defend worker interests and more constructive relations with trade unions were established. The choice of Cogent Power to have an independent trade union is a good example. The relations between managements and workers tended to be closer and better as well and it can therefore be concluded that ethical incentives may increase the engagement of two important enterprise stakeholders, employees and trade unions. Ethical incentives also caused enterprises to respond to requests from the local community. The engagement of other stakeholders did not occur.

Regarding labour relations, it turned out that engaging a democratic trade union was not to the only way of avoiding protectionist practices. One of the enterprises had a trade union to fulfil formal requirements only and offered good wages, benefits and other working conditions on its own initiative. Similar to the protectionist system, employees were not affiliated to the trade union and were not acquainted to it, the trade union had no real influence and its expenses were paid directly by the enterprise. Yet in contrast to the traditional system, employees were satisfied because of the favourable labour conditions and they had direct access to the management in the case of problems. The absence of an active trade union was therefore not a problem to anyone, and the director added the employees would be free to unionize themselves if they wanted to. Managers and workers alike stressed that trade unions in Mexico do not always defend worker interests. They feared that a trade union would abuse its power, to the harm of both the enterprise and its employees. This solution is contradictory to any international labour standard, but is perfectly understandable in the Mexican context. In the case described above, it seemed to be functioning well and was more or less equivalent to the representation of workers by a democratic trade union. Similar practices and explanations were found in another research project among Dutch MNEs in Mexico (De Wit 2004).

In section 5.2 it was already mentioned that ethical incentives were hardly ever the only reason for CSR initiatives except for philanthropic donations. Many CSR initiatives in which ethical

incentives played a role therefore turned out to be profitable as well. Paradoxically it is the most traditional interpretation of ethical responsibility in Mexico, philanthropic donations, that does not yield enterprise benefits, except for fiscal advantages. While social investment in the local community did in general yield business benefits, these were often not in proportion to the investments and did not accrue exclusively to the enterprises that made these investments.

The support of enterprises for community development, either in the form of strategic philanthropic contributions or mainstream involvement, raises questions about the effects on government incentives. The contributions of MNEs to schools, health care and other public facilities may well reduce pressures on the local government to improve these services. It seemed that many enterprise managers had never given thought to this possibility. One of the few interview partners that recognized the problem about the role of the private sector was a Shell manager. She was of the opinion that enterprises should focus on managing their performance and refrain from assuming the responsibility of the state. The compensation of negative externalities of MNE operations approached the border with government responsibilities, though. A manager of another enterprise argued that donations did not reduce incentives for the government, because public services were still falling short. The local government regulated and supervised private sector contributions in this area. Although this kind of coordination was regarded necessary, the fast allocation of funds was most important. The enterprise could respond quickly to requests from the local community. The manager also explained that the enterprise wanted to know where its money went. He therefore preferred to make direct contributions to the local community instead of paying higher taxes or making contributions to large NGOs. If the support was not directly given to projects in the neighbourhood, he feared that contributions would be lost in bureaucracy. The director of VBA, one of the organizations of Red Puentes, confirmed that there exists a culture of low trust in Mexico. In general Mexican enterprises therefore prefer to invest in local health and education services themselves rather than trusting the government to provide such services, which enables them to directly control their social contributions.

Some interview partners remarked that assuming ethical responsibility is not always easy in Mexico because of the dirty politics. For example, after one of the enterprises had made a donation to a public facility in the neighbourhood, it was accused by a local politician of having bribed local authorities with this donations to avoid a fine for some violation. Another enterprise found populist politicians campaigning against presumed negative effects of its operations to in search for public support.

Finally, many enterprise representatives expected that raising awareness of ethical responsibilities was required to further CSR practices in Mexico. They mentioned that increasing legal obligations for CSR would have no effect without increasing awareness among business leaders, given the lack of verification and enforcement of compliance with existing standards. The same would go for international CSR standards. If for example the OECD guidelines would become obligatory, most enterprises in Mexico would simply violate them. In the Mexican context, ethical incentives therefore tend to be more important than legal obligations. However, as ethical incentives alone are not very conducive to communication about CSR, awareness of ethical responsibilities does not easily spread by itself.

5.6 Internal profitability

Analogous to the previous section, the first part of this section will describe the CSR initiatives that were driven by internal profitability in more detail. It first deals with commonplace profitable investments in HSE measures and employee development. Next, it also discusses the business case for anti-corruption measures and describes a local R&D programme. The second part of this section will shortly discuss the operational aspects of these initiatives, which are almost similar to those of initiatives driven by ethical incentives.

5.6.1 Initiatives

Apart from ethical incentives, many enterprises strongly invested in employee training because this was convenient for the enterprise. Apart from productivity concerns, training was often required to achieve quality, production or health and safety standards. Intervet, for example, recently started a continuous technical training programme. Each week several departments receive a training from

internal and sometimes external instructors. The main objective of this programme is to comply with an international operating standard, called current Good Manufacturing Practices (cGMP).⁵⁸ The programme also included training about occupational health and safety, which contributed to prevent accidents. For Cogent Power, training was closely linked to quality standards. The enterprise has a simple production process, so that an initial instruction of half a day for new employees used to be sufficient. The enterprise wanted to achieve ISO 9000 certification and as a part of the requirements for this standard, the introductory course was of very good quality. Yet the enterprise would also need some form of continuous training, which it was planning at the time of the research. The case of Trouw Nutrition provides a good example of investment in administration skills. Speaking English had become a necessity for conducting business and all staff of the administration department had to learn English. In addition, the enterprise enabled them to achieve bachelor and master degrees and attend international seminars. The director of Trouw Nutrition assured that this kind of expenses was definitively an investment and not a burden for the enterprise.

Investments in training were dependent on employee turnover. In general, enterprises with a low rate of employee turnover invested more in employee training, because the returns for the enterprise were accordingly higher. Akzo Nobel Chemicals for instance now offers much more training to its workers than it used to do in the past. Some fifteen years ago, the rate of employee turnover used to be up to 40% per year and at that time it was not feasible to provide better training. The other way around, investments in training sometimes had an influence on employee turnover as well, which will be discussed in the next section.

Apart from employee training, a few enterprises mentioned that offering attractive wages and other labour conditions increased operational efficiency. At Fersinsa GB, good relations between the workers and the enterprise, favourable remuneration and employee training had all contributed to high employee commitment and motivation. The enterprise also offered medical services to its employees. As a result of this combination of factors, absenteeism was reported to be as low as 0,4%.

Health and safety standards were profitable for various reasons. In the examples above, it was already mentioned that Intervet sought to prevent accidents and that Fersinsa GB had achieved very low illness rates. Since Intervet had its own doctor, absenteeism at this enterprise had also greatly diminished, which was recognized to be an important benefit. In addition, Intervet obtained *Industria Segura* [Safe Industry] certification in 2002. *Industria Segura* is a national standard of excellence in industrial safety, audited and certified by the Mexican Ministry of Labour. It is similar to the *Industria Limpia* certification mentioned on page 98 and allows the enterprise to pay reduced fees for employee insurances because of the associated lower risk profile for working accidents. Cogent Power and Akzo Nobel Chemicals stressed the business benefits of preventing accidents as well. Akzo Nobel Chemicals, which employs several hundreds of workers, claimed the enterprise had been accident-free for almost ten years. The business case for the chemical industry 's Responsible Care programme, explained on page 78, is more or less similar.

The business rationale for environmental care consisted of classical cost savings. The Shell plant in Leon recycled lubricants, Philips Lighting saved on electricity consumption and Zuid sold some of its organic wastes that could still be used by other companies.

The main benefits of donations of excess production and mainstream involvement in social activities were already described on page 89. Often enterprises experience some benefit from community support as well. Intervet, for instance, actively participates in an association of enterprises of the Santiago Tianguistenco industrial park. This association recently made contributions for a fire-station in the municipality and for a new ambulance and the municipality acknowledged that these and other forms of local enterprise support had been valuable. As for Intervet, a manager explained that it is a benefit for all enterprises to have a local fire-station and ambulance service in the case of accidents. Likewise, a manager of Química Esteroidal, which had made donations to the local Red Cross department, mentioned that it was a benefit when the Red Cross had good equipment in cases of emergency.

⁵⁸ Not to be confused with 'Global Manufacturing Principles'. Compliance with cGMP is a requirement of the United States Food and Drug Administration (FDA) for exports to the USA. See for more information <http://www.cgmp.com/resources.htm>.

Some enterprises refrained from involvement in corruption because this would not be in the long-term interest of the enterprise. A manager of Hunter Douglas, for example, said that no corrupt payments were made in order to avoid legal problems in the future. Several managers of Akzo Nobel enterprises were convinced that the tightened corporate business integrity policies would also in the middle or long term turn out to be beneficial. Regarding corruption among enterprises, a representative of another enterprise had experienced that once corruptive payments from suppliers had been rejected, such payments were no longer offered either. As for bribes, some enterprise representatives believed that bribes were not necessary if an enterprise complied with all official requirements, so that there would be no troubles with the government to be solved. Yet one representative provided examples in which government officials simply had invented violations that had never occurred, or threatened to impose extraordinary penalties for minor violations. They then offered to arrange some solution if the enterprise was prepared to pay a bribe. Enterprises that refused to pay bribes generally believed that their reputation would discourage corrupt authorities to ask for bribes in the future.

Finally, a few policies that contributed to the stimulation the host economy were in part motivated by internal profitability. One of the newer enterprise reported that it had at present a Dutch director, because it was a corporate policy to appoint a Dutch director during the first years. After that, probably a Mexican director would be appointed. A manager explained that the employment of local staff had an important impact on competitiveness, because it yielded high savings on more expensive foreign staff. Intervet requires to proof, among other things, that its veterinary medicines are harmless for consumers. Tests of the medicines are carried out by the UNAM, the largest university in Mexico City. This continuous project is beneficial for both parties. The enterprise obtains the required proof from an external organization and the UNAM obtains funds, equipment and technology from Intervet. A representative of the faculty of veterinary sciences explained that close relation with the private sector above all enabled the university to gain access to the experience and technology of the industry. The most important benefit was therefore qualitative. The financial contribution, on the other hand, was less important because of the large size of the faculty, which had about 2500 students. In this respect it is also worth mentioning that Intervet and a few more enterprises in the research received relatively large numbers of trainees, when compared average enterprises in the same zones. Enterprise managers considered these traineeships as mutually beneficial CSR initiatives as well.

5.6.2 Operational aspects

Like ethical incentives, internal profitability is in general not conducive to explicit CSR policies or written CSR standards. Health and safety instructions for employees and formal training needs assessments are two exceptions. As an example of the latter, personal evaluations for schooling needs are carried out for all employees of Trouw Nutrition, including production workers. However, as the main driving force for CSR practices is operational efficiency, an internal concern, external communication about CSR remains limited. One manager claimed that the business advantages of CSR, like the prevention of accidents and a better working environment, were explained to partners of the enterprise. However, there were some doubts about whether this communication really occurred. For the same reason internal profitability alone is not conducive to monitoring, auditing or certification processes. Usually managers did not seek the guidance of CSR standards. In this respect, the Responsible Care programme and the *Industria Segura* certification of Intervet are exceptions. Supply chain management was largely confined to quality audits, although these sometimes involved related issues such as employee qualifications, operating licenses and security standards as well.

5.7 Structural profitability

Structural profitability was almost exclusively an incentive for labour and HSE standards. This section will focus on these two groups of issues and link them to market forces. Again, the first part of the section will describe the initiatives of Dutch MNEs in more detail and the second part will discuss the common operational aspects of these initiatives. It will turn out that the difference between output and labour markets results in different operational aspects for initiatives on labour conditions and HSE standards, respectively.

5.7.1 Initiatives

Many of the investigated enterprises sustained CSR practices on various kinds of labour issues as a response to regular labour market forces. For example, a manager of Hunter Douglas mentioned that the enterprise offered wages and benefits above the legal minimum to attract the best productive and administrative staff. Thus, even while unregistered unemployment is huge in Mexico, labour market forces sometimes cause enterprises to offer more favourable labour conditions than the legal minimum. This is especially true for jobs that require three years or more of secondary education. Some of the enterprises were located in a competitive area, close to large MNEs that offered favourable working conditions, and therefore experienced a stronger need to offer favourable terms of employment as well in order to attract and withhold skilled workers. In the industrial zone of Lumisistemas, for instance, all enterprises pay wages above the legal minimum because of competition for production workers. As a consequence, CSR standards were sometimes explained as an element of competition.

In the previous section on internal profitability, it was found that investments in training depended on employee turnover: enterprises with a low rate of employee turnover were able to invest more in employee training. The other way around, for enterprises which had to make high investments in technical training of workers, it was also more important to keep the rate of turnover low. The production processes at Química Esteroidal, for example, require all production workers to receive special training which may take up to two years. Hence, the instruction of new employees is expensive for the enterprise. In 2002 employee turnover at Química Esteroidal was around 8%, which is relatively low for Mexican standards. According to the human resources manager of the enterprise, favourable employment conditions had contributed to this low rate, although the ongoing recession had also lowered it. Gelcaps also preferred a stable work force because of the high amount of training required for its production processes. Its turnover rate was about the double of Química Esteroidal's. High investments in human capital did not only increase the necessity to reduce employee turnover, these investments were themselves also a factor that contributed to attract and retain employees, for example in the cases of Trouw Nutrition and Lumisistemas.⁵⁹ Conversely, because of its limited training requirements Cogent Power could manage a turnover rate of 10-12% per month.

In some cases, past improvements in labour conditions had strongly reduced employee turnover in the course of time. More than a decade ago, Akzo Nobel Chemicals used to offer lower wages and benefits. Related to this, the enterprise provided less training, which was already described in the previous section. Employee turnover used to be 30 - 40% per year. Over the years real wages had tripled, employee turnover diminished and investment in training increased. A stable work force had emerged and in 2002 the turnover rate was below 1%, a very low rate by any standard.

Fersinsa GB reported a similar low rate. According to the human resources manager of the enterprise, employee satisfaction was high due to the favourable employment conditions, including sound labour relations⁶⁰ and good remuneration⁶¹ and training. For some of these labour issues a combination of structural profitability and ethical incentives or external pressures was mentioned. In addition, there existed an annual programme of visits to schools in the neighbourhood to provide information about the enterprise. Fersinsa GB is a chemical enterprise which was built out of town, but because of urban sprawl it is now located in the centre of a town with some 60 thousand inhabitants. The manager said that for this reason it was important to create a positive enterprise reputation. If the local community knew that Fersinsa GB was not a dangerous enterprise and controlled environmental pollution, this would also help to attract and motivate employees. A positive enterprise reputation helped to prevent external pressures from neighbourhood residents as well.

Like Fersinsa GB, Akzo Nobel Industrial Coatings reported that sound labour relations were a competitive advantage for the enterprise because they contributed to a more stable work force. The enterprise had an active trade union and communication between workers and the management was strong. Furthermore, Industrial Coatings provided remuneration in kind for employees as well as their families, next to financial incentives, to increase employee motivation.

⁵⁹ See pages 98 and 102 for more information about the support of Lumistemas and Trouw Nutrition for employee development.

⁶⁰ See page 108 for more information about the relation between Fersinsa GB and its trade union.

⁶¹ See page 101 for more information about the remuneration system of Fersinsa GB.

More recently, improvements in labour relations decreased the turnover of production workers at Intervet from 8 - 9% to 1% per month. At the same time, these improvements also reduced the accumulating risk of external pressures that could have culminated in a labour conflict. The human resources manager explained that a study of the working climate, conducted a couple of years ago, revealed serious problems. There used to be no trade union delegates in the plant and workers did not feel represented by the trade union, which belongs to the CTM. A certain leftist trade union, that would have been tough to deal with for the enterprise, appealed more to the workers. The outcomes of the study were an important warning sign for the management. In 1999 the human resource manager trained two trade union delegates, who were elected by the workers, and established weekly meetings with these delegates. Another problem that remained to be solved was the lack of fixed job descriptions and wage categories. Workers that performed the same tasks earned a range of different wages and this enabled production supervisors to influence the wages of individual workers.⁶² After negotiations and worker consultations, job descriptions, wage categories and criteria for wage increases were attached to the collective labour contract. These measures improved the labour climate and calmed the work force, and no further problems occurred.

Apart from labour market forces, two other structural incentives for labour issues were mentioned. The director of Zuid explained that good employment conditions, like just remuneration and providing sufficient training to employees, contributed to the prestige of the enterprise. In contrast to its *Industria Limpia* certification for environmental care, which will be addressed below, certification for labour standards was not necessary. Clients would simply note that employees were treated well when they visited the enterprise.

CSR requirements or recognition of CSR initiatives in output market were more common for health and safety and especially environmental standards. As was mentioned on page 97, Gelcaps adopted the SA8000 standard a few years ago after one of its large clients had requested of all its suppliers that they adopted this standard. Avon sent the independent verification agency Veritas to audit labour conditions at Gelcaps and the enterprise will now be audited every year. This type of production requirements was new for Gelcaps and the director was not very familiar with standards like SA8000. More generally speaking, it is quite unusual for Mexican enterprises that they are requested to comply with comprehensive labour standards to qualify for supplier relationships. At the time of the research Gelcaps had been certified, but continued to improve health and safety conditions and general working conditions. The enterprise was not interested in certification for environmental standards, although according to the director only minor changes would be required to achieve, for example, *Industria Limpia* certification. Enterprises that exported drugs to the USA, such as Fersinsa GB and Intervet, had to observe the cGMP standard of the FDA. Although focused on product safety, this standard also includes norms on health and safety measures and the facilities that should be available to employees.⁶³

Zuid de México had sought *Industria Limpia* certification by Profepa.⁶⁴ The main environmental impact of the enterprise was the use of water in the tanning process. The wastewater of the enterprise was treated to prevent contamination and special equipment has been installed to reduce emission of smoke and small particles. According to the director of Zuid, the achievement of high environmental norms involved extra costs, but was advantageous because it contributed to the prestige of the enterprise. Zuid requested its suppliers of animal skins to comply with certain environmental norms too and actively communicates about its *Industria Limpia* certification to clients. The director explained that 90% of production is exported to the USA and to Europe, where environmental awareness is higher than in Mexico. Certification by a national environmental standard was sufficient, though. Similarly, Industrial Coatings was pursuing ISO 14000 certification to comply with client demands and the representatives of Akzo Nobel Chemicals and Philips Lighting even noted that their ISO 14000 certification had become a market prerequisite for exports to the USA and the European Union. Intervet strived for *Industria Limpia* certification, next to *Industria Segura* and in addition to corporate HSE standards. The HSE manager of Intervet perceived that environmental excellence would become a competitive advantage in the future and a requirement to continue exports.

⁶² See also Bueno Rodríguez 2002 p85-91.

⁶³ See also note 58.

⁶⁴ For more information about *Industria Limpia*, see page 98.

Structural profitability was hardly ever mentioned as a CSR incentive on other issues than HSE and labour standards. However, a Shell manager remarked that the rejection of corruption would enhance enterprise identity. Although it was very difficult to do business in Mexico this way, it would show that Shell was a trustworthy business partner.

5.7.2 Operational aspects

Structural profitability is more conducive to explicit CSR policies than ethical incentives or internal profitability. Although local market forces do not stimulate enterprises to adopt broad statements of business principles or codes of conduct, HSE norms are usually described in detail. Many enterprises operated in accordance with official national or international environmental standards such as *Industria Limpia* or the ISO 14000 series, which involve external auditing and certification. Certification of labour standards was far less common. A few enterprises regularly evaluated employee satisfaction, yet more often enterprises compared their labour conditions to those offered by other enterprises.

The contrast between HSE and labour issues results from the differences between output and labour markets. In output markets, common standards are frequently demanded by business clients or foreign authorities and become market requirements, or if this is not the case, they are readily recognized and therefore enhance enterprise reputation. In labour markets, on the other hand, what matters most is that an enterprise offers relatively good conditions compared to a limited group of other enterprises operating in the same branch or located in the same area. Common standards are not helpful to attract employees. In section 5.2 it was also found that HSE standards may be considered global issues, and these were required by the international output markets many enterprises operated in. Labour standards, in contrast, were identified as local issues, and these were mainly influenced by local labour markets. If comprehensive labour standards were requested in output markets, which happened in the case of Gelcaps, these requests could involve audits and certification, just like for HSE standards. Such requirements were quite uncommon in Mexico, though.

Wages, benefits and other labour conditions, such as the number of vacation days, are often compared to those of other enterprises using annual surveys of enterprises in the same branch or industrial zone. These surveys provide an anonymous ranking of the conditions offered by the respondents. On the basis of such a survey, Cogent Power knew for example that it was not among the enterprises that paid relatively highest wages, but that it did not pay bottom-level wages either. As for Organon, a survey among some 70 enterprises in the same branch showed that about ten enterprises offered far better conditions, but Organon was certainly above the average. Many enterprises wanted to be ranked above average or even at the top. Intervet had recently become market leader in Mexico, but was not in the top five of veterinary enterprises, and therefore a manager of the enterprise was of the opinion that Intervet lagged behind. An other example is provided by Industrial Coatings, which was located outside town. The enterprise set its wages a certain percentage above the average of enterprises in the nearest industrial park and complemented them by an incentives programme and other additional benefits.

External communication about CSR standards was sometimes still lacking and the perceived reputation benefits of CSR were sometimes exaggerated. For Cogent Power, enterprise reputation was important only to attract employees and the enterprise did not inform clients about its CSR standards. The director of Trouw Nutrition believed that the communication of its CSR standards to clients generated trust and therefore enhanced enterprise reputation. However, from other interviews it had to be concluded that the good labour conditions of Trouw Nutrition were not communicated explicitly. According to the director, CSR is also an indication of how well an enterprise it managed. If enterprises treat their customers badly, do not have the necessary permits to operate or do not pay IMSS fees for their employees, these are clear signs that they run their business badly. However, Trouw Nutrition audited its own suppliers mainly about quality and related issues. The director of Gelcaps explained that its SA8000 certification was a benefit for the enterprise, because it could be used for marketing reasons. There were plans to communicate about it, but at the time of the research it had not yet been used for general marketing purposes. At Intervet, the production and sales departments operated largely separated. The area of sales did not pay attention to the recent improvements labour and HSE standards and as a consequence, information about CSR achievements remained very much inside the enterprise. Several managers of other enterprises regretted the lack of

external communication about their CSR standards as well. Even internal communication was weak in some cases. In chapter 4 it was mentioned that Philips Mexicana, the national division of Philips in Mexico, had received an ESR award of CEMEFI. A corporate manager explained that Philips wanted to be seen as an ethical enterprise. However, managers of Lumisistemas and Philips Lighting did not know about the ESR award.

Several managers indicated that domestic business and consumer markets offered limited rewards for CSR initiatives. A manager of Shell remarked that its operations in Mexico affect the reputation of the corporation. She explained CSR as a response to global forces and demanded by society at large, which included consumers all over the world, rather than a necessity to meet expectations at the local level. While the director of Trouw Nutrition believed that CSR was a disadvantage in the long term, he also admitted that in Mexico did not exist a culture of demanding suppliers to comply with high standards for quality, labour conditions or other CSR issues. Most clients of the enterprise were not so interested in the high standards of Nutreco, including in its ISO 9002 certification. Only large plants that had themselves ISO 9002 certification were more interested. The certification had been more important for Nutreco than for Mexican clients. Similarly, a manager of Organon reported that customers of the enterprise did not ask labour relations.

Lumisistemas perceived Philips' code of ethical conduct as competitive advantage, even though little had changed in actual enterprise practices. The code was said to enhance enterprise image, increase respect and strengthen trust among all enterprise stakeholders. This statement seemed to be a little exaggerated, though, as sales representatives did not communicate about CSR with clients. A Mexican distributor of Lumisistemas' products did not care about CSR and was unaware of the CSR standards of Lumisistemas. The distributor did not even request quality standards, although it knew that Lumisistemas possessed ISO 9001 and other quality certificates. The code of ethical conduct was considered an internal affair only. The representatives of Lumisistemas and its client did not see the added value of communicating about CSR, because according to them CSR did not affect the trust in an enterprise.

Finally, one of the investigated enterprises mentioned the lack of safety as an obstacle to share its positive experiences with CSR. There had been several kidnappings in the area and for the safety of all employees, the successes of the enterprise had been kept silent.

5.8 External pressures

This section will be short because few actual and potential pressures from local stakeholders were identified. It will first provide a description of the initiatives and then discuss the distinct operational concerns stimulated by external pressures.

5.8.1 Initiatives

In the case of Intervet, which was described on page 106, there had been real pressures from workers for improvements in employment conditions and the action of the enterprise had been reactive. In other cases, enterprises sought to prevent pressures from trade unions and labour conflicts and followed defensive or proactive instead of reactive approaches, according to the classification introduced in chapter 2. Shell's proactive approach towards stakeholder engagement was concerned with pressures at the corporate rather than the local level. Some enterprises, including Fersinsa GB and Lumisistemas, had democratic trade unions, which according to enterprise managers were more demanding than other types of trade unions with respects to labour conditions. The advantage of such trade unions was that they offered more stable and transparent labour relations. There was no danger that they would try to extort the enterprises, which is not uncommon in the traditional system of Mexican labour relations. Organon and Akzo Nobel Industrial Coatings also mentioned the need to avoid trade unions that still operate according to this system (De Wit 2004).

Potential pressures from local communities stimulated a few enterprises to manage community impacts. Two chemical enterprises, Química Esteroidal and Fersinsa GB, were originally established outside urban areas, but as urban populations grew they became located in the middle of a neighbourhood. These enterprises were especially keen to take measures for disaster prevention and pollution control, including the prevention of smells, and to inform the local community about these measures. The community engagement of Fersinsa GB, described on page 105, supported the acceptance of the enterprise by the neighbourhood. The neighbourhood of Química Esteroidal had an

unusually powerful *Protección Civil* [Civil Protection], a municipality institution whose main goal is to ensure the safety of the neighbourhood. The community was able to put considerable pressure on enterprises by complaining at the *Protección Civil* about actual or suspected violations of HSE regulations. A large enterprise in the same area had invited residents of the neighbourhood to visit the enterprise installations in an effort to show its high HSE standards and enhance community relations. However, after that, the neighbourhood was able to force the enterprise to open a community health centre by invoking the *Protección Civil*. On the other hand, until it caused a fire, it had remained unnoticed that a smaller and less conspicuous enterprise in the area did not even have the most basic safety provisions. While the external pressures were exceptionally strong in this case, the example shows that extortion of more responsible enterprises by local stakeholders can be a real risk. As a consequence, *Química Esteroidal* had a policy of sustaining good community relations, but tried to avoid exposing the enterprise to possible excessive pressures.

5.8.2 Operational aspects

Compared to the other three categories of local incentives, external pressures lead to CSR initiatives that are different in many respects. Almost by definition, external pressures are much more conducive to active stakeholder engagement and cause enterprises to actively manage their relations with certain stakeholders. To prevent external pressures, the perception of enterprise conduct as least as important as the conduct itself. CSR initiatives are therefore often accompanied by strong efforts for external communication and transparency about enterprise operations. In the case of *Fersinsa GB*, for example, there existed an annual programme of visits to schools in the neighbourhood to provide information about the enterprise.

As most enterprises that mentioned external pressures as a reason for CSR initiatives sought to prevent them rather than to respond to them, it remains difficult to assess the actual profitability of such incentives. While in some cases it was clear that CSR initiatives had reduced the risks for external pressures, in the absence of CSR initiatives no pressures might have emerged either. Although external pressures were less conducive to auditing and certification processes than output market forces, measures for the prevention of accidents were sometimes inspected by the *Protección Civil*.

5.9 Corporate policies

This section analyses the implementation and impact of corporate CSR policies. First the CSR initiatives that resulted from corporate CSR policies are described in more detail. After that, corporate business principles and other indicators for corporate CSR commitments are discussed and the relation between corporate CSR commitments and the initiatives described in the first part is analysed. International CSR standards, which function as a point of reference for corporate business principles, are also further discussed. In the third part of this section two types of corporate CSR management are introduced, called 'new rules only' and 'new enterprise culture'. The operational aspects and impact of corporate CSR policies depend to a large extent on the corporate approach to CSR. The fourth part describes the common operational aspects of the two approaches. The last two parts of this section deal with the contrasting features of the first and the second type of corporate CSR management, respectively.

5.9.1 Initiatives

Various MNE had global training standards or guidelines for employee development. The effects of such standards were especially apparent after recent takeovers by Dutch MNEs. Since *Lumisistemas* was incorporated into *Philips*, for example, employees were more stimulated to develop themselves and slightly more training was provided. *Fersinsa GB*, which was acquired by *DSM* 1998, was five years later still addressing the enormous lack of training, including computational skills and English, to meet corporate standards. Hence, corporate policies sometimes enhanced employee training.

In some cases there was a positive influence on other labour conditions too. Workers of *Lumisistemas* confirmed that the introduction of *Philips'* code of ethics for employee behaviour and a 'hotline' to declare violations had had some influence in the enterprise. Verbal abuse of female workers and other forms of insolent behaviour on the work floor ceased to be a problem. Apparently the preventative effect of the code had been sufficient. *Shell Mexico* implements corporate commitments to promote employee diversity and after the takeover by *DSM*, *Fersinsa GB* started to

provide medical services to its employees. Furthermore, Trouw Nutrition and Fersinsa GB implemented corporate remuneration systems based on the Hay Group model, which was explained on page 101. In general, however, many enterprises had considerable autonomy to decide about production and labour issues. Labour relations, labour conditions and wages were usually considered themes that should be dealt with at the local level and adapted to local standards. According to some managers, corporate CSR commitments were merely guidelines that should be locally interpreted and adapted. It would depend on the local context what constitutes an attractive working environment or a just wage, for instance.

In contrast to the local character of labour norms, most MNEs had global norms for HSE and these received often high priority. Local enterprise managers recognized the importance of corporate HSE standards, which tend to be well above national legal obligations. An HSE manager of Shell mentioned that HSE and CSR were largely integrated in the enterprise. The director of Akzo Nobel Chemicals was of the opinion that corporate HSE standards and Responsible Care complemented each other, because corporate standards were more concerned with internal processes and Responsible Care was more concerned with precautions for the surrounding community. Fersinsa GB recently started a corporate safety training programme and all employees, suppliers and contractors received this course. Only one enterprise believed that the relatively high corporate environmental standards might be a competitive disadvantage because of the higher costs involved to meet them.

Even though attention for environmental impacts is all but new for large MNEs, many enterprises reported recent corporate initiatives for environmental improvements. For example, corporate initiatives resulted in a new environmental management system at Organon and the installation of a dust recollection system at Trouw Nutrition. Substantial environmental improvements, enabled by corporate investments, were attained at Fersinsa GB. Heavy oil was replaced by natural gas as a fuel for boilers, a new wastewater treatment plant was installed, a product safety analysis was carried out, the enterprise obtained *Industria Limpia* certification and planned for ISO 14001 certification as well (DSM 2002b, 2001 & 2000).

As for business integrity, some MNEs had strict corporate policies. Akzo Nobel recently strengthened its anti-corruption policy and Akzo Nobel enterprises had tightened their supervision systems. As a part of this corporate policy, the MNE accepts all costs incurred by the rejection of facilitating and corrupt payments. Managers of various enterprises, from Akzo Nobel as well as from other MNEs, stressed such corporate support was helpful to fight corruption. At least in the short term the rejection of corruption may lead to high costs and other competitive disadvantages, for example when licenses are delayed if no facilitating payments are made. Enterprises also reported they had dismissed employees, lost clients or tenders or even broken up joint-ventures as a consequence of anti-corruption policies.

Despite the high short term costs resulting from such policies, enterprise managers were convinced that the rejection of corruption was desirable. It would eventually be beneficial for the enterprise itself too, because it enhances corporate reputation and puts an end to requests for facilitating payments and other bribes. Some managers added that belonging to a MNE made it easier to reject or control corrupt practices. For example, it is much more difficult for government officials to refuse a license to a large MNE than to a small enterprise. Small enterprises will therefore be under greater pressure to make bribes to government officials. Cogent Power also mentioned that the corporation arranged high quality financial audits that other enterprises of the same size would not be able to afford. Finally, belonging to a MNE may also increase the potential risks of involvement in corruption. In certain cases, a MNE may be punished for such crimes in other countries, where sentences are far more difficult to escape by additional bribes and much higher than in Mexico.

Several MNEs had corporate policies for philanthropic donations and community investment. Different stages of involvement at the national and international level have already been described on page 99. In addition, some MNEs stimulated donations by individual enterprises. For example, Organon welcomed a corporate initiative to increase support for social projects and had reserved a larger budget for such contributions. DSM had set aside annual budgets for contributions to local communities at the corporate level, but also per business unit and individual production site. (DSM 2002a).

Two enterprises reported corporate policies to stimulate the host economy and integrate into the local economy. On page 100 it was explained that integration into the local economy depends,

apart from the commitment of MNEs, on the availability of local inputs of sufficient quality and at reasonably competitive prices. At the corporate level Shell had initiated a project for transfer of a new technology it had developed to produce construction blocks from recycled PET, the material soft-drink bottles are made of. In Mexico such bottles are not recycled. This activity did not belong to the core-business of Shell and the technology might be made available for use in Mexico. At the time of the research a feasibility study was being carried out in cooperation with Coca-Cola and Pretex, a large Mexican construction company.

Finally, two enterprises reported that corporate competition policies had been tightened and two other enterprises observed corporate taxation policies in line with CSR. Regarding taxation, in one case the MNE had a policy of not seeking fiscal advantages. The other case concerned a change in transfer pricing rules at Akzo Nobel Chemicals. The new rules specified that local profits should not be transferred and the corporation should charge commissions only. This change had important consequences for employee benefits too, because Mexican labour law requires enterprises to allocate at least 10% of taxed profits to a profit sharing scheme for employees. At Akzo Nobel Chemicals profit sharing now amounted to very substantial payments.

5.9.2 Corporate business principles

This section analyses corporate business principles and other indicators for corporate CSR commitments and their relation to the initiatives described above. International CSR standards, which function as a point of reference for corporate business principles, are also further discussed.

Explicit corporate CSR commitments of large MNEs are often expressed in statements of general business principles. These are sometimes referred to as codes of conduct, but MNEs themselves usually call them 'business principles' or 'values'.⁶⁵ Codes of conduct are not exactly the same as business principles and will be discussed later on. For the moment, it will be assumed that business principles are real commitments and not just window-dressing. Recent corporate CSR commitments will be identified using these statements.

In addition, it is assumed that all of these commitments have been recently adopted or enhanced. This assumption is not entirely correct, but its impact on the results is minimal. The latest version of Shell's business principles dates from 1997 and Akzo Nobel, Nutreco and DSM revised their business principles after 2000. For three more MNEs the year of the latest revision is not known, but given that Shell has been one of the leading large MNEs in the area of CSR, it is extremely likely that the corporate CSR commitments of all MNEs in the research have been recently enhanced. The amount of recent changes is unknown, however, so that the influence of recent corporate CSR commitments may be overestimated. On the other hand, a comparison between the figures 4 and 5 showed that virtually all local CSR initiatives which resulted from corporate policies had been recently started or enhanced. Thus, even while some part of corporate CSR commitments probably appeared in previous versions of business principles already and is therefore not recent, virtually all corporate CSR standards have at least been recently tightened or better implemented.

Seven of the ten MNE in the research had a statement of general business principles. Hunter Douglas, Zuid and Sobel, the parent company of Gelcaps, did not. In the case of Zuid, global business principles may be rather irrelevant because of the simple structure of the MNE. The Dutch MNE Zuid has only two locations: its corporate and sales division in The Netherlands and its production site in Mexico. The corporate structures of Hunter Douglas and Sobel, on the other hand, are comparable with those of other MNEs in the research. Philips and Akzo Nobel indicate that their business principles are minimum requirements of behaviour and leave country managements free to specify further local rules of business conduct (Akzo Nobel 2003, Philips 2002). None of the managements of the investigated enterprises had specified such additions.

Reporting about environmental and social issues is also an indicator of explicit corporate CSR commitments. The three MNE without business principles are also the only three MNEs that do not report about CSR. DSM, Philips and Shell publish combined financial, environmental and social reports and Nutreco has an environmental and social report. In addition, Akzo Nobel publishes an

⁶⁵ Nutreco is an exception among the enterprises in the research and has a corporate 'code of ethical conduct'. However, this code is similar to the statements of business principles of other MNE and should not be confused with the local type of codes of conduct discussed later on.

HSE review, Unilever has environmental reports and social reviews and Corus published an environmental report once in 2000. The number of business principles and environmental and social reports is summarize in figure 8. The reporting practices confirm that corporate attention for environmental issues is more established than that for other CSR issues.

| | | Corporate policies | Business principles ^{a)} |
|------------|-----------------------------|--------------------|-----------------------------------|
| CSR issues | Employee training | 4 | 5 |
| | Wages | 2 | 3 |
| | Other labour issues | 3 | 7 |
| | Health & Safety | 5 | 7 |
| | Environment | 5 | 7 |
| | Philanthropic donations | 4 | 1 |
| | Community impacts | 3 | 3 |
| | Business integrity | 3 | 7 |
| | Stimulation of host economy | 2 | 0 |
| | Competition | 1 | 4 |
| | Taxation | 2 | 0 |

| | | MNEs |
|---|----------------------|---------------------|
| Indicators | Business Principles | 7 |
| | Environmental report | 7 ^{a)} |
| | Social report | 4 ^{a), b)} |
| References to international CSR standards | OECD guidelines | 4 |
| | Human Rights | 3 |
| | ILO conventions | 3 |
| | UN Global Compact | 2 |
| | Sullivan Principles | 1 |
| | GRI | 1 |
| | SA8000 | 1 |
| | Responsible Care | 1 |

Figure 7: The contents of business principles and corporate CSR policies.

^{a)} For Nutreco, contents are not complete.

Figure 8: Indicators of corporate CSR commitments and references to international CSR standards.

^{a)} Includes 3 combined reports.

^{b)} Excludes HSE section of Akzo Nobel and social review of Unilever.

Figure 7 shows the relation between corporate business principles and CSR initiatives at the local level. The first column indicates for how many MNEs corporate policies were mentioned as an incentive for CSR initiatives in general.⁶⁶ It resembles the last column of figure 5, but here each MNE is counted only once. The second column indicates for each CSR issue how many MNEs included the

⁶⁶ In the cases of Philips and Akzo Nobel, by at least one of the enterprises that belong to the MNE.

issue their business principles. The maximum score in both columns is therefore always 10. Although there are some major exceptions, a higher score on business principles is often accompanied by a higher score on corporate policies. For the issues employee training, wages, HSE and community impacts, most MNEs had translated CSR commitments expressed in corporate business principles into local CSR practices. This suggests a positive but not a perfect relation between corporate business principles and local CSR initiatives. A more detailed analysis of the data reveals that if the issues philanthropic donations, stimulation of the host economy and taxation are excluded, only in two cases corporate policies were reported on an issue that did not appear in the business principles of a MNE.⁶⁷ This means that, in general, corporate policies were a drive for local CSR initiatives only in those cases where explicit corporate CSR commitments were present and only on those issues that were included in these commitments. Figure 7 does not show a regular pattern, though, and some findings require further explanation.

Not every single corporate CSR commitment was included in business principles. For example, Cogent Power reported that Corus also stresses active community involvement, an issue that does not appear in Corus' Core Values. Stimulation of the host economy and transfer pricing standards were not included in any statement of business principles and only one MNE had included philanthropic donations. However, the CSR initiatives of a few enterprises on these three issues had been influenced by corporate policies. In the latest Shell report local employment and procurement figured as explicit goals and performance on these issues had been measured (Shell 2003a p36). Stimulation of host economies and transfer pricing standards are new issues within CSR and perhaps attention for these issues increased after MNEs had written the most recent version of their business principles. Alternatively, MNEs may be reluctant to publicly and explicitly express some of their CSR commitments. The latter could be an explanation for the omission of philanthropic donations in business principles as well.

On some issues there existed a considerable gap between corporate CSR commitments and corporate influence on local enterprise practices. This gap was greatest for free competition, business integrity measures and labour issues other than training or wages. On page 89 it was already remarked that the very low number of initiatives to safeguard free competition is perhaps not correct. The gap between corporate CSR commitments to free competition and local competitive practices may therefore be smaller than the data suggest. There is little doubt that the implementation gaps for other labour issues and business integrity are valid results. Other labour issues are a very broad category. Principles about labour relations appeared in five of the seven sets of business principles. Other topics appeared in all seven and often included basic human rights, such as non-discrimination and the prohibition of child labour and forced labour.

Partly as a result of the broad range of issues in this category, there are two explanations for the implementation gap. Firstly, the norms expressed in corporate business principles do not go beyond commonly observed legal obligations that are already contained in the LFT. Child labour, for example, is widespread in Mexico's huge informal sector, but in MNEs minimum ages are reasonably enforced and child labour is exceptional. Corporate policies would therefore have no influence on local enterprise practices. Secondly, corporate policies may not be implemented. Especially the freedom of workers to organize themselves and their right to meaningful collective negotiations are likely to be violated in Mexico. In 2000, one of the enterprises even fired employees under the exclusion clause⁶⁸ after a conflict between *charro* trade unions. The cases investigated in the research, as well as secondary information (Bueno Rodríguez 2002, De Wit 2004), support a combination of both explanations. A few enterprise had always acted in accordance with some of the labour norms stated in the corporate business principles, while they failed to implement others. A similar dual explanation is likely for the implementation gap in business integrity measures. There may be continued involvement in corruption in some enterprises, while in other enterprises policies against corruption were already in place.

⁶⁷ To be precisely, one each on the issues wages and community impacts.

⁶⁸ See page 101.

Smaller implementation gaps are present in the more regular pattern on the issues employee training, wages, HSE and community impacts.⁶⁹ The limited results of the top-down implementation of corporate CSR commitments of Unilever and Corus was largely debit to these minor gaps. The limited approach of these MNEs will be discussed and compared to another, stronger approach in the next section. This section will continue with an analysis of the use of international CSR standards in corporate CSR commitments.

Figure 8 provides an overview of the references to international standards in business principles and CSR reports (Nutreco 2003, Shell 2001). At the start of 2003 the number of enterprises that had endorsed the UN Global Compact was around 600 (UN Global Compact 2003). The only Dutch corporations among them were Océ, Rabobank, Shell and Unilever. The Global Sullivan Principles had been endorsed by some 200 companies plus a number of local governments, education institutes and non-profit organizations (Global Sullivan Principles 2003). Some large corporations like General Motors figured on the list of endorsers, but the number of manufacturing and industrial MNEs remained limited to some 40, with Shell as the only Dutch one. Although MNE endorsement has not been a primary goal and is not officially being registered, some corporations have also declared their support of the OECD guidelines. Among the Dutch ones are Ahold and again Shell. Unilever and Akzo Nobel state they have taken them into account when (re)writing their own business principles and Philips says it 'welcomes the Guidelines, has distributed them at executive/compliance level throughout the organization, and sees them as an important aid to further the implementation of its General Business Principles' (Philips 2002). Hence, support for an international standard or a reference to it does not necessarily imply that a MNE intends to implement it literally.

As enterprise managers at the local level were often unfamiliar with the standards that the MNE supported at the corporate level, it was impossible to determine to what extent international standards have shaped corporate CSR commitments and policies. Other research concluded that large MNEs had often first developed an internal code and subsequently adjusted it to international CSR standards under the influence of external pressures (SMO 2003 p22). In this research, only in a few cases certainty about the influence of international standards could be obtained. The director of Akzo Nobel Chemicals knew that pricing rules for internal transfers had been altered to comply with the OECD guidelines. In another case an enterprise director could explain that corporate business principles had been tightened in part as a reaction to tightened anti-trust laws in the United Kingdom. One Akzo Nobel business unit had suffered a negative HSE reputation about 15 years ago and as a reaction it now has a proactive HSE policy. These examples are exceptions, though. On the basis of the collected data, it can only be concluded that the influence of international standards on corporate CSR policies is often indirect and difficult to determine, but probably it is much larger than the direct or proven influence mentioned in figure 6.

For the same reason enterprise managers were usually unable to form a detailed opinion about international CSR standards. Nonetheless, most of them acknowledged that, generally spoken, all issues addressed in the OECD guidelines for MNEs, one of the most comprehensive international CSR standards (OECD 2001c), were important. However, some added that allowing workers the freedom to organize themselves might be a problem in the Mexican context. Under the LFT, they may be prohibited to found a new trade union or to join another trade union than the contracting party of the collective labour contract.

Production workers and trade union delegates were of the opinion that the OECD guidelines included some very important labour norms, which were often violated in Mexico. Among these were the right to be represented by a trade union and the provision of sufficient information to worker representatives for negotiations about employment conditions, which was often mentioned in relation to profit sharing schemes. The primary concern of most employees was the stability of employment. In this respect, the timely announcement of reorganizations or downsizing and not threatening to move the enterprise to another country were considered highly relevant. Wages and benefits were important issue as well, but a reference to a living wage is lacking in the OECD guidelines. Finally, some trade

⁶⁹ The implementation gap for community impacts is not directly visible in figure 7, but one of the MNE that had given corporate instructions about community impacts did not have this issue included in its business principles and vice versa. See also note 67.

union delegates stressed other aspects of CSR that supported higher labour standards, especially compliance with legal obligations, no involvement in corruption and transparency.

5.9.3 Operational aspects and corporate CSR management

Unlike the four local categories of CSR incentives described above, corporate policies were not conducive to a homogenous set of operational aspects, because the MNEs in the research followed different approaches to implement their corporate CSR policies. Two main types of corporate CSR management structures may be distinguished, each with their own set of operational aspects. In principle, both structures may lead to the successful implementation of corporate CSR policies at the local level, although for the second type this is more likely. The two types of corporate CSR management are theoretical models, of course. None of the MNEs in the research perfectly fits all characteristics of one type. However, these different types will serve to explain the differences among MNEs with regard to the operational aspects of corporate CSR policies and the effects of these policies.

The first type is characterized by the top-down implementation of corporate CSR rules without a change in local enterprise culture. Local managements implement these norms because the corporation requests them to do so and not because of their responsibility towards enterprise stakeholders or society at large. Instead, their responsibility is towards the corporation. Recalling the model on page 41, at the corporate level a MNE may show a responsive or emerging ethical attitude, but at the local level a legalistic attitude persists. A legalistic attitude refers here in the first place to compliance with corporate instructions, and after that with national legal obligations. As a result, at the local level internal and external communication about CSR and stakeholder involvement remain very limited. Normal employees do not know the corporate business principles. Instead, they observe a code of conduct that includes some CSR issues, but focuses on the obligations of employees towards the enterprise. Implementation of corporate CSR policies is sometimes incomplete, although not necessarily unsuccessful. What matters most is that the existence of corporate CSR policies is not known at lower levels or to business partners. CSR practices do therefore not spread easily outside the enterprise and some of the benefits of CSR practices may be forgone. Figure 9 schematically shows the operational characteristics of type 1 corporate CSR management.

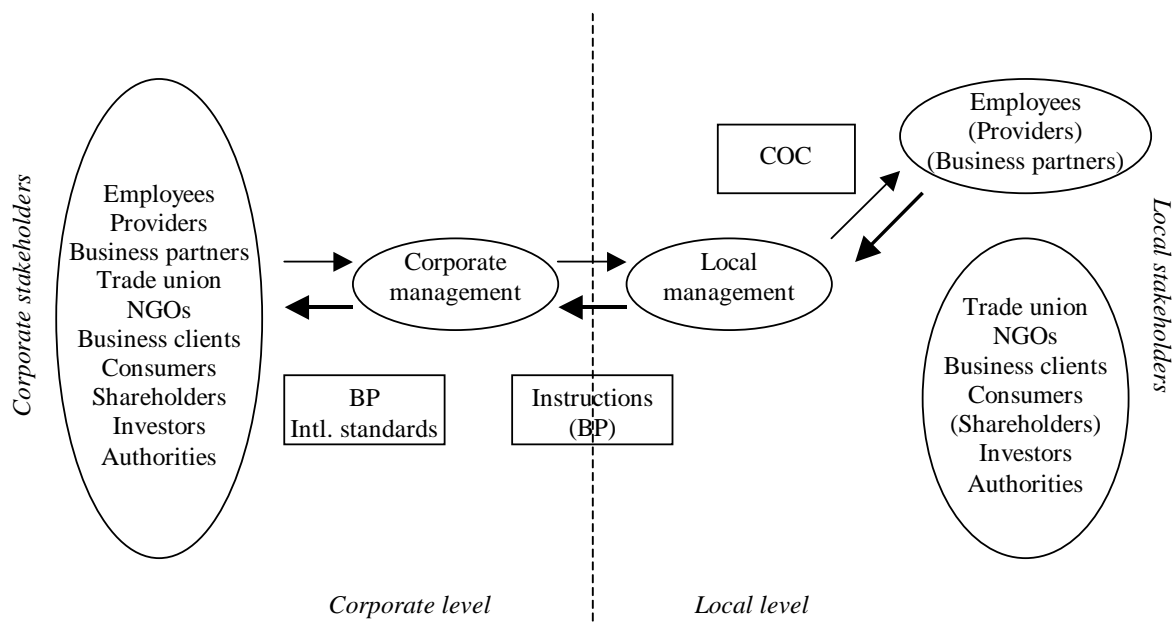


Figure 9: Operational aspects of type 1 corporate CSR management.

Thin arrows indicate demands and expectations, thick arrows indicate responsibility and reporting. BP = Business Principles, COC = Code of Conduct.

In figure 9, it is assumed that corporate CSR policies result from a combination of incentives that is conducive to stakeholder engagement, or at least to active communication about CSR. In addition, for

simplicity it is assumed that only two management levels exist, the corporate management and the local managements of individual enterprises. At the corporate level, then, the MNE responds to expectations and demands of stakeholders by assuming responsibility and reporting about its CSR performance. International standards are consulted and business principles are formulated. The corporate management instructs CSR policies to local managements, which in turn are responsible to the corporation and report back about CSR performance to the corporate level. At the local level, CSR rules are contained in a code of conduct. This code has to be observed by employees, and sometimes by providers or other business partners, which are responsible to the local management. A culture of CSR emerges at the corporate level, but not at the local level.

The second type of corporate CSR management goes beyond imposing new rules and involves the mainstreaming of CSR at all levels of the MNE. It is characterized by a change in local enterprise culture and the top-down transmission of a new CSR perspective along with corporate CSR rules. Thus, a responsive or emerging ethical attitude spreads from the corporate level to the whole MNE. In contrast to the first management type, internal communication about CSR and business principles does not only take place between local and corporate managements, but extends to all levels in the MNE. The implementation of corporate CSR standards is largely successful, although the change in enterprise culture may require considerable time. There exists active external communication and stakeholder engagement at the local level and supply chain management is sought. All benefits of CSR practices are exploited and the dissemination of a culture of CSR stimulates local CSR initiatives outside the MNE as well. Figure 10 schematically shows the operational characteristics of type 2 corporate CSR management.

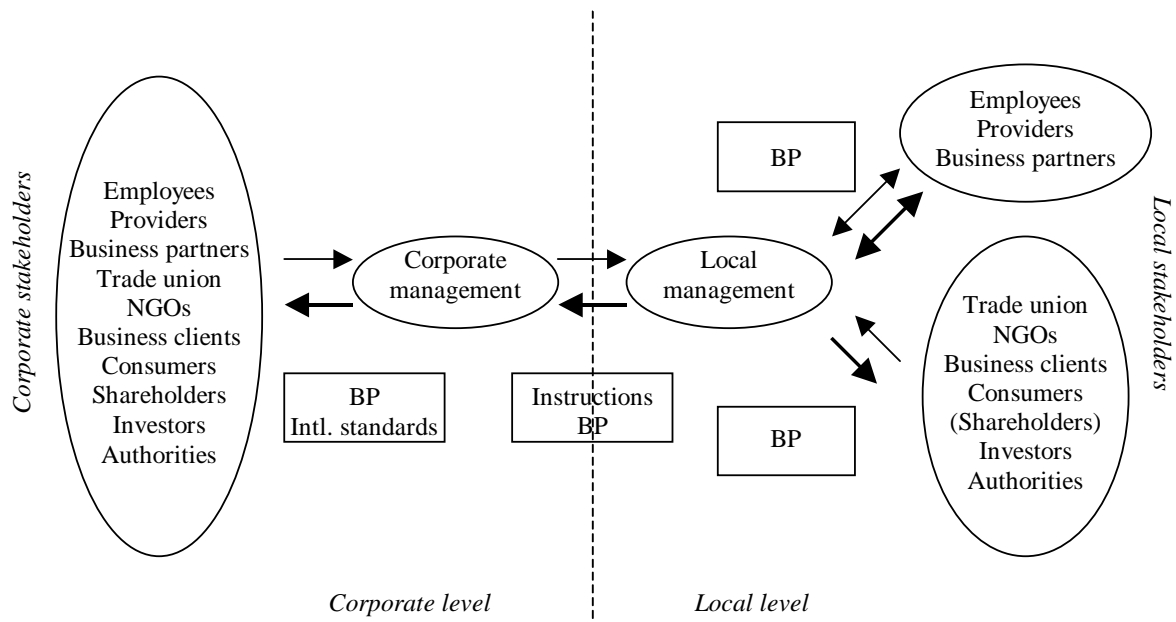


Figure 10: Operational aspects of type 2 corporate CSR management.

Thin arrows indicate demands and expectations, thick arrows indicate responsibility and reporting. BP = Business Principles.

In figure 10, the relations between the corporate management and corporate stakeholders are exactly the same as in figure 9 and the same assumptions apply. The corporate management instructs CSR policies to local managements, just like in figure 9, only this time the instructions are accompanied by the transmission of a new CSR perspective. The main difference between the figures lies at the local level. In figure 10, the local management is responsible to local stakeholders as well as to the corporation, and CSR performance is reported at the local level too. Corporate business principles are known throughout the organization and employees, providers and other business partners commit themselves to these principles. A mutual responsibility between the enterprise and its employees and business partners is recognized and a culture of CSR emerges at both the corporate and the local level. Components of such a culture are a general awareness about enterprise responsibilities and the need

for CSR, a commitment to achieve high CSR performance, accountability and transparency, a dialogue with stakeholders and awareness about business benefits.

Hunter Douglas, Sobel and Zuid had no corporate CSR policies, so the two models do not apply to these MNEs. Furthermore, in Mexico Unilever was only just beginning with CSR. Already existing initiatives at the national level, described on pages 74 and 99, showed a traditional focus on mainstream involvement and philanthropic donations. The external relations manager of Unilever de México explained that all information about CSR, including the idea of CSR itself, was coming from the corporate headquarters in Europe. International standards were still being studied and a CSR approach was to be designed during the second half of 2003. In reaction to the discrepancy between Unilever's high CSR profile at the international level and the local approach in Mexico that for a large part still had to be designed, a corporate manager explained that in the decentralised organization of Unilever social policies were a responsibility of the local management.⁷⁰ Hence, at the time of the research Unilever de México had not yet determined its CSR approach and there existed no real corporate CSR management structure that could be investigated. Although the initial concern of the local management to respond to corporate CSR instructions may be explained as a type 1 characteristic, it was clear at least that in Mexico the corporation did not show type 2 characteristics.

The approaches of the remaining six MNEs that were investigated can be classified as type 1, type 2 or somewhere in between. Shell and DSM had succeeded in communicating the corporate business principles throughout the enterprises and there had already been important changes in enterprise culture at the local level. These MNEs provide good examples of a type 2 approach. The most striking operational aspects displayed by Corus and Philips enterprises, on the other hand, is that communication about CSR remained limited. These MNEs showed many characteristics of a type 1 approach. Finally, the Mexican locations of Akzo Nobel and Nutreco showed characteristics of type 1 CSR management as well, but were clearly in the process of mainstreaming CSR and shifting to type 2. When taking into account this classification, it is striking that in figure 7 the initiatives related to wage levels, stimulation of the host economy, competition and taxation policies were all reported by MNEs that followed a type 2 approach or were shifting towards it. Thus, type 2 corporate policies also tend to be broader, in the sense that they cover a broader range of CSR issues.

The following part of this section describes a few common operational aspects of the two approaches. The contrasting features of the first and the second type of corporate CSR management will be further discussed in the last two parts of this section.

5.9.4 Common operational aspects

Despite the contrasting characteristics, the two types of management structures have also two important operational aspects in common. The first is that CSR practices are formalized. Corporate CSR policies are usually turned into official internal regulations. At the local management level, these are included in contracts and performance standards of individual directors and managers and described in general guidelines, codes and detailed manuals. In the previous sections it was explained that ethical incentives and internal profitability are conducive to CSR initiatives without explicit policies, formal management structures or control mechanisms. Corporate CSR policies cause all CSR practices which already existed at the local level to be formalized, even though the practices themselves sometimes remain unchanged.

For example, Nutreco's code of ethical conduct⁷¹ was new for Trouw Nutrition. It did not cause big changes in enterprise practices, but just clarified how business is done. Since the beginning of 2000 Nutreco requested much more information from the enterprise about areas such as administration, HSE and quality. The director of Trouw Nutrition concluded that everything is insitutionalized now and does not depend on the personal initiatives of enterprise managers anymore. This may also be illustrated by the personal evaluations of schooling needs that are conducted for all employees, in production as well as in administration. These formal evaluations started in 2001 after Nutreco took control of the enterprise. Similarly, the director of Akzo Nobel Chemicals noted that before the recent changes in Akzo Nobel, CSR standards were more dependent on persons in the

⁷⁰ This information was obtained by M. de Wit, who investigated CSR practices of Dutch MNEs in Mexico as well, during an interview at the headquarters of Unilever in The Netherlands.

⁷¹ This code is similar to statements of business principles of other MNE. See also note 65.

organization. There is more control now and initiatives are better structured. With respect to issues like labour relations, wages and working conditions, practices did not change because conditions were already good. A corporate manager of Philips Mexicana also mentioned that a more integral structure for social involvement and CSR had been created, whereas the enterprise used to make philanthropic donations only.

The human resources manager of Lumisistemas, a large Philips enterprises, explained that the corporate code of ethics was something new for the enterprise. However, apart from the diminishing of insolent behaviour on the work floor, there had only been marginal changes in employment conditions. The manager explained that Lumisistemas had always respected the laws of the country. In addition, the enterprise did already have a democratic trade union and offer wages and benefits above the official minimum. Everything that was contained in Philips' code of ethics was also covered in some way or another by national legislation. For example, the LFT already contained clauses that prohibit the contracting of minors and oblige employers to provide training to their work force. Although the manager assured that the new code of ethics did not go beyond legal obligations in Mexico, it had strengthened CSR policies and already existing practices had been formalized.

The second operational aspect that the two types of corporate CSR management have in common is that international standards are often used as a point of reference for corporate policies, but remain unknown to local enterprise managements. Local managements tend to receive instructions about the application of already developed corporate CSR policies only. This was already addressed on page 97. Various director of Akzo Nobel enterprises, for example, did not know that the OECD guidelines, which had been used as a point of reference for the MNE's Business Principles and further corporate CSR policies. The director of Akzo Nobel Chemicals is an exception and possessed detailed knowledge about the OECD guidelines. The corporate CSR policies of Nutreco were based on the SA8000 standard and ILO conventions, but the staff of Trouw Nutrition did not know these standards. Similarly, Shell explicitly supports a broad range of international standards, but did not inform local managements about them. In contrast to the statement of Philips that it has distributed the OECD guidelines throughout the organization (Philips 2002), they were not known to managers of Philips Lighting and Lumisistemas.

5.9.5 Type 1 corporate CSR management: new rules only

One of the characteristics of the first type of corporate CSR management is limited internal communication about CSR and especially a limited diffusion of a new CSR perspective. However, local managements may receive detailed instructions about new CSR rules. As an extreme example, a manager of Cogent Power apparently did not even know the Core Values of Corus. The enterprise did have a detailed ethics manual of Corus about business integrity, though. There was a manual with strict corporate health and safety norms as well.

At the national level, the management of Philips was proud to have received an ESR award from CEMEFI. The event was described and commented by the director general of Philips Mexicana in an internal magazine of Philips (Philips México 2003), but remained unknown to the staff of Philips enterprises. On page 74 it was mentioned that various interview partners from organizations in Mexico questioned the commitment to CSR of individual Philips enterprises in Mexico. The varying degrees of attention for CSR at different levels of the corporation may also be illustrated by the annual global congress of the Caux Round Table. In 2002 this congress was organized by AVAL and took place in Mexico. Philips, which is one of the founders of the CRT, attended the congress. However, it sent representatives from the corporate headquarters in The Netherlands only and not from Philips Mexicana.

There was considerable variation among the different MNEs in monitoring and control mechanisms for the implementation of corporate CSR policies. Philips Lighting reported that there was no follow-up mechanism in place for the code of conduct and corporate business principles. Directors of the Akzo Nobel enterprises had to sign a so-called letter of representation every three months, in which they confirmed compliance with the corporate business principles. A planning for compliance with the business principles was made for each management area. However, one director commented that formal instruments to measure CSR performance in areas of such as labour relations and business integrity and more elaborate formal reporting about this performance were still lacking. Corporate control mechanisms were probably stronger in the case of Corus, which had audited Cogent

Power on business integrity in 2001. A manager of an Akzo Nobel enterprise commented there were strict corporate norms of transparency and possible sanctions in the case of non-compliance included dismissal.

Another characteristic of type 1 corporate CSR management is that the corporate business principles are not known throughout the whole MNE. Normal employees usually have to observe a code of conduct, which exists next to the business principles. Akzo Nobel Chemicals, for example, had code of conduct that specified the obligations of employees towards the enterprise. In the case of Philips, the business principles and a code of ethical conduct were both communicated to employees. At the corporate level Philips has special codes of conduct for specific departments, such as finance and purchases. All employees of Philips in Mexico know the code of ethics and they have to sign that they will observe it when they enter the enterprise. At Lumisistemas employees received a course about the code and ethical behaviour, and the contents of the code are shortly introduced in a welcome manual of the enterprise for production workers. Codes of conduct may be effective instruments to ensure compliance with corporate CSR policies at the local level, but when they are not accompanied by efforts to raise awareness about CSR, they tend to stimulate a legalistic attitude rather than a culture of CSR.

As a result, stakeholder engagement and external reporting about CSR performance are much stronger at the corporate level. At the level of Corus, for example, CSR was more important for the reputation of the MNE and the attraction employees than it was at the local level. Similarly, Akzo Nobel was very much concerned about its corporate image and had many contacts with stakeholders at the international level. In Mexico the individual enterprises of Akzo Nobel were less active. There was no external social or environmental reporting yet and some other enterprises did not feel a the need to engage stakeholders in discussions about CSR. Intervet was more concerned about stakeholder relations, but was still in the process of defining who its stakeholders are, how important they are to them and how they should be treated or engaged. As the director of Intervet remarked, compared to Europe things are still in a very early phase in Mexico. Only the management of Lumisistemas had made some efforts for external communication about their new CSR policies. The positive experiences with the code of ethical conduct were discussed with neighbouring enterprises, who turned out to be very interested and some had replicated the initiative.

Because of the lack of external communication, CSR practices did not enhance enterprise reputation. Hence, enterprises failed to reap the full benefit of their CSR initiatives at the local level. It would not make much sense to assess the profitability of type 1 corporate CSR policies at the local level, though. The business and ethical incentives for these policies are in the first place to be found at the corporate level. The most important business benefits, such as a better reputation and the prevention of stakeholder pressures, will therefore probably also be produced at the corporate level. Although there may not always be local benefits, enterprise managers did usually not perceive corporate CSR policies as a burden either. It can therefore be concluded that type 1 corporate CSR policies did at least not produce any considerable competitive disadvantages at the local level.

At the time of the research, Trouw Nutrition and especially Akzo Nobel were trying to shift from the 'new rules only' type of corporate CSR management to the 'new culture' type. Trouw Nutrition did not structurally communicate the business principles of Nutreco, although it was the intention of the enterprise to make them known to all employees. In the offices of the enterprise the corporate principles and credo were already hanging on the walls, but production workers did not know them yet. Akzo Nobel enterprises were making serious efforts to mainstream the corporate business principles and CSR perspective or planning to do so. The corporate board had organized several conferences for local enterprise directors to explain that CSR is vital for the future of the MNE and to transmit a new CSR perspective. The next step would be to communicate and explain the business principles from the local managements to all employees. Akzo Nobel had also instructed the enterprises to spend more time on discussions about business integrity. The director of Organon told he now talked with new employees about the business principles and business integrity when they entered the enterprise. There exists a booklet which introduces the business principles of Akzo Nobel and at present it is available in Spanish as well, but at the time of the research there was still an English version only.

The change of culture at the local level may require considerable time. It was expected that it would take several years before the top-down approach of Akzo Nobel would be fully implemented.

For example, the director of one of the enterprises explained that a tightened policy against corruption existed already at the highest levels of the corporation, but still had to pass through to the local level. The most difficult part of this process remained to control all transactions at the local level, especially in the area of purchases, and to eradicate all small facilitating payments that formed part of the Mexican business culture. One of the directors stressed that the enterprise did not want to see the whole process as something imposed from above, that made them all of a sudden behave responsibly. They preferred to see it as a process from within the enterprise. Yet it took a long time to raise awareness and change the local business culture.

For example, Akzo Nobel stresses that there always exists a grey area between practices that are clearly corrupt and practices that are clearly not. The most important thing, then, is to ensure transparency and to discuss things in case of doubt. Employees found such discussions about principles and ethics very difficult. Because of the Mexican culture, they were not used to come up with their own judgements or criticize the vision of their superiors. One of the enterprise also reported a policy of allowing employees to bring up existing practices that might be considered as corrupt without punishment. However, it was impossible to admit all errors that had been made in the past and those that were still being made from one day to the next.

5.9.6 Type 2 corporate CSR management: new enterprise culture

One of the characteristics of the second type of corporate CSR management is the communication of corporate business principles throughout the whole MNE. Fersinsa GB explained the DSM Values to its employees in special meetings and employees had to sign their commitment to them. According to a manager of the enterprise, the employees appreciated the DSM Values because they offered guidance about how to act responsibly, inside the enterprise as well as outside it. The DSM values were firmly supported by Fersinse GB.

Of all investigated MNEs, Shell made the greatest efforts to mainstream corporate CSR policies. New employees of Shell receive a course about the General Statement of Business Principles (SGBP) of a couple of hours. The application of the principles in the local context is discussed on three levels: the employee and his or her family, Shell México and Mexico as a country. Introducing the principles this way stimulated the receptivity and support of employees for the principles. Once a year there is a SGBP week with the entire enterprise. During this week extra attention is paid to the business principles and each day there is workshop. The workshops range from a 15 minute discussion about the application of the principles in the Mexican context or playing games about the principles to workshops of one and a half hours to discuss the challenges ahead and inconsistencies in the application of the principles. On the whole Saturday of the SGBP week there are activities outside the enterprise with all employees and their families. Furthermore, there are four general employee meetings each year about the business principles. Complaints about non-compliance can be reported anonymously, per email or hotline, but the national management may also be directly contacted. The external relations manager of Shell receives people to talk about business principles every day. Several organizations in Mexico that sought to promote CSR mentioned Shell México as an example of a responsible MNE.

At the time of the research, Shell was almost unknown among the general public in Mexico and the lubricants plant was its largest production site, although some very large projects were being prepared. As a consequence, Shell had no negative reputation that had to be restored and no large operations or complex management structures that had to be changed, like in other countries. This had been an important advantage for the introduction of corporate CSR policies, which facilitated a change in local enterprise culture and a shift from philanthropy to social investment and on to managing total performance. This might explain why the implementation of Shell's CSR policies was relatively successful in Mexico, while in other countries, including Nigeria and South Africa, Shell's corporate CSR commitments have not yet resulted in responsible enterprise behaviour (Christian Aid 2004).

The second approach towards corporate CSR management, then, goes beyond imposing new rules and procedures on local enterprises and raises awareness about CSR. In section 5.2.3 it was pointed out that corporate CSR policies often do not leave local CSR incentives unchanged. It can now be stated more precisely that MNEs with type 2 CSR management, and those that were shifting towards it, influenced local CSR incentives by raising awareness about CSR, whereas MNEs with type 1 corporate CSR management did not. For Shell, the business principles were becoming more and

more part of the normal business. They were being integrated into all processes. As a result, CSR was becoming part of the business culture of the enterprise, and the local management sought continuous development of CSR performance. Similarly, a manager of an Akzo Nobel enterprise explained that community involvement had originally been stimulated by the corporate business principles, but had become a part of enterprise culture. The director of Intervet noted that the tightened business principles of Akzo Nobel had caused a change in thinking, and made people realize that ‘when in Rome, do as the Romans do’ is not valid for global MNEs.

Type 2 corporate CSR management is more conducive to transparency and communication with business partners about CSR. As CSR becomes part of enterprise culture, it has an influence on all business relations as well. Especially Shell and Akzo Nobel Chemicals stressed that transparency was high. Several managers of Akzo Nobel praised the corporate policy that employees were allowed to approach managers at higher levels in the MNE when they perceived that their immediate superior acted irresponsibly. Suppliers of Shell have to comply with the corporate business principles too, and a clause that legally obliges them to do so was included in each new contract. Workshops were organized to inform distributors, suppliers and joint-venture partners about the policies of Shell. Shell wanted to share its CSR instruments and accounting standards with its business partners and offered help and training to implement the business principles. However, Shell did not want its partners to see the principles as a burden, but preferred to convince them of the importance of CSR. Thus, Shell seeks to pass on a new CSR perspective to its business partners as well. Eventually complete supply chain management was envisaged, but at the time of the research Shell México was still working its direct suppliers only. Fersinsa placed more limited demands on its contractors. They had to comply with a the HSE norms of the enterprise and demonstrate that their employees were affiliated to the IMSS.

As the second type of corporate CSR management involves deeper changes in business conduct, it becomes also more difficult to assess the profitability of corporate CSR initiatives. Reporting requirements and the accompanying burden on local managements and enterprise administration had sometimes strongly increased. One enterprise even reported that several employees had left because they could not meet the increasing demands. The costs of broken relationships with partners because of corporate business principles were also very high. On the other hand, the diffusion of a new CSR perspective culture enabled enterprises to better translate their CSR performance into improvements in enterprise reputation and reductions in operational risks at the local level. Similar to the first type of corporate CSR management, the most important business benefits are still to be expected at the corporate level. However, the net effect of type 2 corporate CSR policies on enterprise competitiveness at the local level could not be determined.

5.10 Relevant enterprise characteristics

Related to incentives, some general enterprise characteristics have important implications for the possibilities and ambition levels for CSR initiatives. This section analyses the influence of these characteristics.

With respect to CSR initiatives, the technology used by an enterprise, the inputs it requires and the labour intensity of its production processes are very important. These related characteristics were more or less fixed and themselves not influenced by CSR initiatives. Other characteristics that influenced CSR initiatives were exports as a share of total production, market position and enterprise size, and enterprise location. The total number of investigated enterprises is too low to make general statements about the influence of all these variables, but the detailed interview data may nonetheless explain why these characteristics should be taken into account and what kind of influence may in general be expected.

Firstly, a difference should be made between market-seeking and efficiency-seeking enterprises. These characteristics are closely related to the reasons for establishment in Mexico explained in the previous section. Market-seeking MNEs in the first place invest in a country because they want to serve domestic consumer or business markets. These enterprises export a small share of total production only and they do not easily leave to other countries, so stability of employment is relatively high. Although one might expect market-seeking MNEs to adapt the technology they use to local factor prices, no evidence was found for such adjustments. Examples of market-seeking enterprises that sell 85% to 100% of their output in domestic markets are Hunter Douglas, Organon,

Trouw Nutrition and Gelcaps. Efficiency-seeking MNEs, on the other hand, invest in a country because it offers the most attractive combination of available resources, factors prices, external market access, economic and political stability, investment regulations, legal protection, fiscal advantages, etcetera. In general, these enterprises export a large share of their production. Until recently Mexico has attracted much efficiency-seeking FDI because of its low labour costs and preferential access to many foreign markets. However, since a few years increasing numbers of efficiency-seeking MNEs have relocated their manufacturing plants from Mexico to Asia or Central America in search of lower production costs (UNCTAD 2003 p54). Intervet, Philips Lighting, Lumisistemas and Zuid are typical examples of efficiency-seeking enterprises that export 60% to 100% of their production.

As efficiency-seeking MNEs are often attracted by the low costs of labour, they may be more concerned about keeping labour costs low. One of the enterprises in the research offered decent wages but hesitated to take further measures against the heat and noise in the workplace, which would increase its expenses on labour conditions. On the other hand, export-oriented enterprises are more exposed to pressures for higher HSE standards that originate in foreign markets. Zuid de México, for example, exports 90% of its production to the USA and Europe and the higher environmental awareness in these markets stimulated the enterprise to obtain *Industria Limpia* certification. Managers of Intervet also thought that in case the enterprise would produce for the Mexican market only, operating standards might have been lower.

The market share of an enterprise is also a relevant characteristic. Various enterprise managers believed that more prestigious and well-known enterprises had higher HSE and labour standards, had more often certifications such as ISO 14000 and made larger contributions to social projects. While there is little doubt about a positive relation between a leading market position and CSR initiatives, the market leader argument is complicated. Being a market leader may increase the incentives for an enterprise to take CSR initiatives, but on the other hand CSR initiatives may also be a factor that contributes to business success and is required to obtain or consolidate a leading market position. Alternatively, belonging to a foreign MNE may provide local enterprises with competitive advantages and at the same time stimulate them to take CSR initiatives. Probably there is some truth in all of these relations, but it is difficult to say which one is more important.

Market leader may experience stronger incentives for CSR because of their higher visibility and public profile. This causes them to be more vulnerable while they care more about their reputation than average enterprises, so that CSR becomes more profitable. As a result, they are more often criticized or approached by stakeholders that want to be engaged in CSR initiatives or receive support from the enterprise ("Living with the enemy" 2003). To illustrate this, Intervet became market leader in Mexico after the takeover of Höchst Roussell and is therefore more often approached by universities to support projects. Shell lubricants had a share of 6% of the Mexican market only, but a manager explained that the operations of the enterprise affected the reputation of the entire corporation.

Several enterprise managers said that CSR initiatives contributed to the prestige of the enterprise and therefore strengthened its market position. Next to favourable labour conditions, a positive enterprise identity will also help to attract the best employees and better training programmes will result in better quality and service. As one director expressed it, leading enterprises have to do something extra and therefore you need commitment of the whole enterprise, which requires higher standards with regard to human resources. A human resource manager, who was convinced that CSR initiatives yielded business benefits, could not explain why many other enterprises did not pay attention to CSR. According to the manager, leading and successful enterprises always had CSR policies, which may also explain part of their business success. In contrast to this support for CSR as an ingredient for business success, it was concluded in section 5.7 that as far as local output markets are concerned the structural profitability of CSR in general is often exaggerated.

Apart from market position, enterprise size may have an influence on CSR initiatives of itself. On page 110 it was already mentioned that support from a MNE can strengthen the position of an enterprise to reject corruption and ensure business integrity. Furthermore, for small enterprises it is much more difficult to afford the costs of developing a CSR policy and management instruments. The Shell lubricants plant and Cogent Power, two relatively little enterprises, reported that the availability of CSR instruments developed by the MNE had provided them with an adequate infrastructure for the implementation of CSR. Thus, there exist economies of scale for CSR.

The technology and labour intensity of an enterprise also have important implications for employment conditions. Some of the enterprises have high-technology and capital-intensive production processes. As a result, training requirements for workers are high, but labour costs make up a relatively small share of total production costs. These enterprises usually have no policies to keep wages low and also less constrained to further improve employment conditions. On the contrary, to be competitive they have to offer high wages and benefits, which reduce employee turnover. As mentioned on page 103, a low rate of turnover was most important for enterprises that need to make high investments in the training of new employees, such as Química Esteroidal and Gelcaps. Related to this, the production processes of enterprises may require inputs that cannot be delivered by local suppliers, thus inhibiting local procurement.

Finally, the location of an enterprise influences the preference for philanthropic donations or mainstream community involvement. Enterprises in industrial parks tend to have less direct contact with local communities and prefer to make philanthropic donations, often to large foundations or national NGOs. Contacts with neighbouring communities often take place through an association of enterprises of the industrial park. Enterprises located in the middle of a neighbourhood, on the other hand, prefer direct community involvement. For such enterprises the management of community relations is much more important and proximity to a community stimulates mainstream involvement.

5.11 Comments on enterprise data

Before moving on to the conclusions about the CSR initiatives of Dutch MNEs in Mexico, a few comments should be made on enterprise data. There may be some biases in the research results due to minor flaws in the collected data and simplified selection criteria for recent CSR initiatives. These should be taken into account when interpreting the results about the influence of recent CSR developments on enterprise behaviour.

The data from the investigated enterprises is not representative for all Dutch industrial MNEs in Mexico. As explained in section 1.3.1, it would have been impossible to establish a representative sample because a complete and correct overview of all Dutch MNEs in Mexico did not exist. Some smaller and less conspicuous enterprises may have been overlooked in the selection for the research. Furthermore, from some enterprises that met the selection criteria no data could be obtained. Within Mexico there has also been a geographical bias towards Mexico City and the states surrounding it. It is likely that all these factors have contributed to a relatively high number of more responsible enterprises in the research, when compared to the average Dutch MNEs in Mexico. The total numbers of CSR initiatives reported by the enterprises in the research may therefore be relatively high. This should be taken into account when interpreting the research results, but it does not affect the internal validity of the results.

The data from a few investigated enterprises were incomplete. It should be recalled from section 1.3 on methodology that the different cases ranged considerably in size, from a one-hour telephone interview to more than a dozen of interviews after repeated visits and large amounts of additional enterprise information. As a result, in a few cases data was incomplete due to the limited time available for interviews. In some cases the amount of detailed information that could be provided or disclosed by an enterprise was limited too. In section 5.2.2 two possible flaws resulting from incomplete enterprise data were already identified. Firstly, the low importance of ethical incentives for business integrity may not be entirely correct, and secondly, some initiatives to safeguard free competition may have been overlooked. It should be recalled from section 1.3.2 that the issues free competition and taxation received less attention than other issues and were not included in all interviews. Thus, data about competition and transfer pricing policies was not available from all enterprises. Initiatives for stimulation of the host economy were occasionally not specifically addressed in enterprise interviews either. The two returned questionnaires were not completely filled, but contained sufficient data to obtain an overview of CSR initiatives and a good impression of CSR strategies. Although enterprise data was sometimes incomplete, this may have had a minor influence only on the overall research results.

In some cases direct verification of CSR practices was not possible. For those enterprises that cooperated by means of telephone interviews or questionnaires, this applies to all issues. Enterprise visits often enabled to verify some CSR initiatives and operational aspects of CSR management, but

never all of them. For many of the visited enterprises, interviews with production workers or trade union delegates provided a second source of information about labour conditions and general enterprise policies. A few enterprises even provided a copy of their most recent collective labour contract. Regarding HSE issues, the majority of enterprises had some kind of certification that could easily be checked. Verification of CSR initiatives on other issues was sometimes possible through interviews with enterprise stakeholders, or occasionally through secondary information such as other research reports or detailed corporate CSR information about CSR performance. Only competition and taxation practices were never confirmed by alternative sources. Interviews with different people from the same enterprise or enterprise stakeholders often enabled to check operational aspects of CSR initiatives. Although only part of enterprise practices were verified, the chance that enterprises exaggerated their CSR initiatives is quite small. In general, the enterprises that cooperated with the research openly admitted when they had not taken CSR initiatives on an issue. In a few cases enterprises indicated they could not disclose some of the requested information, for example about their trade union or about precise wages and employment conditions. Yet there were no indications that any of the enterprises tried to provide false information.

The selection criteria for recent CSR initiatives were not very strict. As a result, the influence of recent CSR developments may have been overestimated. Some CSR initiatives qualified as recent because the enterprises that implemented them were themselves new. However, some of these initiatives may have been responses to regular market forces. The perception of business opportunities or enterprise responsibilities by managers of these new enterprises need not be related to recent CSR development either. Furthermore, some CSR initiatives were counted as recent because they were started after the recent takeover by a Dutch MNE. At least part of the improvements in CSR performance following the takeovers resulted from the upgrading of previous local enterprise standards to corporate standards. Yet the CSR policies of the MNE in question need not always be recently adopted or enhanced.

Regarding enterprises that were not newly founded or acquired, alternative explications for recent improvements in CSR performance are possible as well. The raise in CSR standards of local enterprises may result from endogenous changes within MNEs rather than changes in the CSR perspective of a MNE or changes in the context in which a MNE operates. For example, insights in human resources policies that favour more investment in employee development and more attractive employment conditions may spread within a MNE. One could even argue that such a spread is typical for a certain stage of MNE expansion or economic globalization. Furthermore, in the previous section it was suggested that larger enterprise sizes and market shares had a positive influence on CSR. The growth and maturing of local enterprises in the course of time could therefore have been one of the driving forces of recent CSR improvements. Again, these need not be related to recent CSR developments.

The influence of the selection criteria for recent CSR initiatives on the analysis of enterprise data is probably the most important source of biases in the research results. It may cause the numbers of recent CSR initiatives and the influence of recent CSR developments to be somewhat overestimated. As it would have been impossible to control for all additional factors and alternative explications mentioned above, the selection criteria were intentionally not formulated very strict. This way it can be safely concluded that the influence of recent CSR developments has been very weak on some issues.

5.12 Conclusions

5.12.1 The influence of corporate CSR commitments

Statements of general business principles are useful indicators of corporate CSR commitments. Seven of the investigated MNEs had formulated such a statement, whereas three other MNEs did not explicitly pay attention to CSR at the corporate level. Since 1997 there has been a strong rise in the corporate CSR commitments of the investigated MNEs. By comparing business principles with corporate CSR policies implemented at the local level, it turned out that corporate commitments did not always influence local practices. In part, this can be explained by the low ambition level of corporate CSR commitments. Many norms expressed in corporate business principles did not go beyond legal obligations that are commonly observed in Mexico. Yet in some cases there also existed

a gap between corporate CSR commitments and local practices because the implementation of corporate policies failed. This was probably a result of seriously flawed top-down instructions, limited internal communication about CSR policies and a lack of awareness about CSR among local managements.

However, in many cases corporate CSR policies did raise CSR performance at the local level. In virtually all cases corporate CSR standards had been recently adopted or enhanced. The influence of corporate CSR policies was present on all issues, but it was most frequently reported for HSE, employee training and business integrity. Together with competition and taxation policies, enterprise managers generally regarded these as global issues for which uniform corporate standards are most appropriate, regardless of the local context. The remaining issues, such as wages levels and stimulation of the host economy, were generally considered responsibilities of the local management and highly context dependent. For these local issues and for competition and transfer pricing rules, the number of corporate CSR initiatives was lower. Combining all issues, the rise of corporate CSR commitments lead to more CSR initiatives than other recent CSR developments.

The influence of corporate CSR commitments depends to a large extent on the type of corporate CSR management. Two types were distinguished in this chapter. The first type of corporate CSR management involves the definition of new rules only to make local managements comply with CSR standards set at the corporate level. Thus, corporate CSR policies directly influence CSR initiatives at the local level only. The second type goes beyond imposing new rules and involves the diffusion of a culture of CSR throughout the MNE. Corporate policies therefore affect initiatives as well as incentives at the local level. Although both types may lead to the successful implementation of corporate CSR standards, this is more likely for the second type. Furthermore, the second type of CSR management is both broader and deeper: it typically covers a broader range of CSR issues and causes deeper changes in enterprise behaviour. In contrast to the first type, it stimulates external communication about CSR, awareness for enterprise responsibilities and business benefits of CSR, stakeholder consultation and ultimately the creation of a culture of CSR at the local level. The influence of corporate policies is therefore more likely to extend beyond changes in the enterprise itself.

5.12.2 The influence of a new CSR perspective

The rise of a new CSR perspective influenced local CSR initiatives in two ways. Firstly, some changes occurred in the context in which enterprises operate. These changes may again be subdivided into changes in market forces and changes in external pressures on enterprises. As for external pressures, these had hardly increased in Mexico over the past years and remained an unimportant incentive for CSR at the local level. Regular market forces, on the other hand, were an important incentive for labour and HSE standards. HSE requirements had recently increased, especially in export markets.

The second way a new CSR perspective influenced CSR initiatives was through changes in enterprise perspective. These changes refer to the enhanced perception of enterprise responsibilities or profitable opportunities for CSR initiatives by enterprise managers, regardless of actual changes in enterprise context. Recent changes in enterprise perspective had a larger influence on CSR initiatives than changes in enterprise context.

Ethical incentives had always been important, especially for local issues, although they were hardly ever mentioned as the only type of incentives for a CSR initiative. In recent years, awareness of ethical responsibilities has increased among local managers and resulted in more attention for community impacts and stimulation of the host economy. More specifically, there has been a recent shift away from the traditional notion of CSR in Mexico, centred on philanthropic donations, towards direct community involvement and a broader interpretation of CSR, more related to the core-business of an enterprise.

The enhanced perception of business opportunities resulted in several new or reinforced CSR initiatives, even though the compelling general business case for many types of CSR initiatives is not new. These initiatives covered a broad range of CSR issues, but most often they concerned improvements in general employment conditions, environmental standards and community impacts. This indicates that market failures did and probably still do occur, because in some cases already existing profitable opportunities for CSR initiatives were only recently recognized. Hence, it has to be

concluded that even if there exists a good business case for CSR, external market forces or entrepreneurial spirit in itself will not automatically raise CSR standards.

It needs to be stressed that the organizations at the local level discussed in chapter 4 did hardly play a role in the recent CSR initiatives of Dutch MNE in Mexico. Civil society organizations and other enterprise stakeholders did hardly ever exert real pressures on the enterprises covered in the research. Furthermore, large MNEs usually develop their own CSR strategies instead of consulting local civil society organizations or hiring the services of Mexican business-oriented organizations with CSR expertise. CEMEFI may have acted as a catalyst for the recent transition of Unilever and Philips towards more strategic philanthropic contributions and mainstream social involvement. The promotion of the Responsible Care programme by the ANIQ, the national association of chemical industry, may also have contributed to the diffusion of a new CSR perspective among the chemical enterprises in the research. However, in most cases the rise of a new CSR perspective is induced by the second type of corporate CSR management described above or largely endogenous. Either way it was not directly influenced by the efforts of organizations in Mexico to promote awareness about enterprise responsibilities or the business CSR benefits of CSR.

5.12.3 The influence of international CSR standards

The direct influence of international CSR standards on CSR initiatives at the local level was small. Corporate CSR policies and market requirements for HSE standards were most conducive to the use of international CSR standards. In contrast, enterprise managers that took CSR initiatives because of ethical incentives, internal profitability or a response to labour market forces did usually not seek the guidance of international standards. The international Responsible Care standard for safety in the chemical industry, which was generally supported for a combination ethical and business incentives, is an important exception. In chapter 4 it was explained that international CSR standards were not well-known among civil society organizations, and they had not been used by enterprise stakeholders to support their demands in the few cases where external pressures were present.

International CSR standards were frequently used as a point of reference for corporate CSR policies and business principles. As some or all norms of international standard are incorporated into corporate policies, but the standards themselves not used for direct implementation, managers at the local level hardly ever know the international standards on which corporate CSR policies are based. Only in a few cases a MNE requested the local management to strive for ISO 14000 certification or to implement a generic remuneration model of the Hay Group. As a result, the influence of international standards on corporate CSR policies, and therefore their indirect influence on local CSR initiatives, could not be determined.

Market requirements for HSE standards usually involved certification by an international standard. In all cases, the certification process lead to improvements in CSR performance. One enterprise had obtained SA8000 certification after this had been requested by a large client and several enterprises had ISO 14000 certification, or had planned to obtain it, because of environmental requirements in export markets. Other enterprises were certified by national standards for excellence in environmental care or industrial safety for similar reasons. However, in Mexico there does not exist a culture of asking suppliers to meet HSE standards or even quality requirements. Certification by national or international standards was therefore more important for exporting enterprises.

5.12.4 Profitability of CSR initiatives at the local level

The profitability of CSR initiatives at enterprise level depends on the incentives behind these initiatives. It will be no surprise that CSR initiatives driven by internal and structural profitability reasons in general improved enterprise results. However, the perceived reputation benefits of CSR were sometimes exaggerated because external communication about CSR performance was often lacking at the local level.

Ethical incentives were hardly ever the only reason for CSR initiatives, except for philanthropic donations. Many CSR initiatives in which ethical incentives played a role therefore turned out to be profitable as well, except for philanthropic donations and social investment. Philanthropic donations, the most traditional interpretation of ethical responsibility in Mexico, did by definition not yield other benefits than fiscal advantages. While social investment in the local

community did in general yield returns, these were often not in proportion to the investments and did not accrue exclusively to the enterprises that made these investments.

The profitability of CSR initiatives related to external pressures could not always be determined. Enterprises were hardly ever confronted with actual pressures and more often they sought to prevent these. While in some cases it was clear that CSR initiatives had reduced the risks for external pressures, sometimes in the absence of CSR initiatives no pressures might have emerged either.

The total profitability of corporate CSR policies could not be assessed, because the most important business benefits are to be expected at the corporate level. At the local level, the impact on enterprise results depends on the type of corporate CSR management. For the first type, it can be concluded that corporate CSR policies yielded limited benefits only, mainly because of a lack of external communication, but they did not produce any considerable competitive disadvantages either. As the second type of corporate CSR management involves deeper changes in business conduct, both the burden of CSR management and the potential benefits at the local level were higher and the net effect on enterprise competitiveness at the local level could not always be determined.

6 Impacts on economic development

6.1 Introduction

In the previous chapter the relations between recent CSR developments, CSR incentives and CSR initiatives were analysed. This chapter analyses the influence of recent CSR initiatives on MNEs' contributions to economic development, applying the theoretical framework that was developed in chapter 3. Section 6.2 explains why CSR initiatives had little influence on the development relevance of MNE investment. It discusses the influence of initiatives to improve transfer pricing practices and local procurement and identifies a few areas where CSR initiatives were completely lacking. Section 6.3 analyses the influence of most other recent CSR initiatives and shows that all of these contributed to improved market outcomes. It argues that the initiatives, which could be managed by individual MNEs, were both appropriate and addressing market failures. Section 6.4 examines additional development initiatives, which include philanthropic donations. Only a small part of the initiatives discussed in this section fall under CSR. It will turn out that initiatives related to the core-business of an enterprise contribute more to economic development than philanthropic donations. The conclusion of this chapter summarizes the results of the analysis and answers research question 7. It stresses the importance of distinguishing between the development relevance, social responsibility and social engagement of a MNE.

6.2 Development relevance and CSR

In the previous chapter it was found that there had been very few CSR initiatives on the two issues stimulation of the host economy and taxation. Most enterprise managers considered direct employment generation, the creation of backward and forward linkages, tax revenues and transfer of technology implicit effects of MNE operations and their establishment in Mexico. They had not made any additional efforts to increase this kind of contributions to local economic development, and usually they had not given thought to the possibility to make such efforts either. In addition, the technology used by the investigated enterprises, the inputs they required and the labour intensity of their production processes were more or less fixed.

This suggests that CSR has very little influence on the development relevance of foreign MNE investment, at least in the industrial sector. The development relevance of FDI depends to a large extent on the amount and the type of employment a MNE creates, the inputs it requires and the linkages it establishes, the technology it uses, its local investment in R&D and the local profits and tax revenues it generates. In contrast, CSR initiatives are most often concerned with the treatment of employees, HSE standards, business integrity and community involvement or, more traditionally, with philanthropic donations. Thus, in practice CSR and development relevance are two quite different things and they need not always be linked. For example, takeovers of domestic enterprises by foreign MNEs, which have a relatively low development relevance because they do not create additional employment, may have a strong positive effect on CSR standards. Inversely, when a MNE has a traditional CSR perspective centred on philanthropy, MNE investment with a high development relevance may not be accompanied by high corporate social performance. In section 5.10 it was explained that some of the enterprise characteristics that determine the development relevance of MNE investment, such as the technology that is used, also influence CSR initiatives. The development relevance and CSR initiatives of MNE investment are therefore not completely unrelated.

The amount of direct employment creation and the stability of employment were usually not subject to CSR initiatives. It should be recalled from page 114 that these issues were of highest importance to employees. Some enterprises apparently used adapted technology, but not to create more employment. For example, Intervet used more labour intensive technology in its plant in Santiago Tianguistenco than in The Netherlands. However, this was related to smaller batch sizes and higher flexibility requirements at the Mexican plant and had nothing to do with CSR. According to a manager of the enterprise, it would be impossible to create more employment without growth of the actual production or diversification into other products. On page 98 it was mentioned that one enterprise had kept its work force constant despite declining sales levels. This decision was also

influenced by business reasons, though. Similarly, Química Esteroidal sought to keep employment for technicians constant for as long as possible for business reasons only. The production process of this enterprise is highly specialized and the training programmes for employees are expensive (Bueno Rodríguez 2002).

In the industrial sector, efficiency-seeking global MNEs are highly mobile and locate their production processes in countries that offer the lowest production costs for a given combination of required factor inputs, rather than adapting technology to given factor prices. One should expect market-seeking MNEs to be somewhat more flexible in their factor inputs and technology levels than efficiency-seeking MNEs. However, no such flexibility was found among the industrial MNEs in the research. Results for other sectors are likely to be different. MNE investments in the primary sector, for example, are usually resource-seeking rather than efficiency- or market-seeking. As a consequence, the locations of these investments are in the first place determined by the availability of natural resources, and the technology applied in production is therefore more likely to be adjusted to local factor endowments.

Some enterprises that experienced considerable variation in work load or sales levels sought to increase the flexibility of their work force rather than its stability. At one enterprise, for instance, 22% of production workers had a temporal contract, which is just below the maximum of 25% that is legally allowed in Mexico. In addition, there used to be much obligatory overtime in periods of high demand, sometimes over 9 hours per week. This was often announced shortly in advance. Production workers were glad to work overtime, as they get paid double for the extra hours and welcomed the opportunity to increase their weekly earnings. The LFT specifies that overtime hours exceeding 9 per week have to be paid triple. The absence of demand for overtime work was a sign that sales were declining and that the enterprise was not doing very well, which was less welcomed by the workers.

Research by the *Centro de Estudios Económicos del Sector Privado* [Centre for Economic Studies of the Private Sector] (CEESP) showed there existed a general tendency in Mexico of replacing permanent jobs by temporary ones (Bueno Rodríguez 2003). Enterprises sought to increase flexibility as a response to economic uncertainty. According to IMSS data, in the first two months of 2003 on balance 83 thousand permanent jobs were lost while 24 thousand temporal jobs were created. The employment conditions for temporal jobs, which constituted 13% of formal employment, are usually inferior to those for permanent jobs. The need for stable or flexible employment depends also on enterprise characteristics.

In chapter 3 the influence of MNE investment on dualistic development was identified as an important issue in relation to economic development. There had been no CSR initiatives to change influences on dualistic development. The enterprises in the research mentioned the following main reasons for their establishment in Mexico and at present locations: historical reasons, operational efficiency and domestic demand for enterprise products. Akzo Nobel Industrial Coatings, for instance, originally established its plant close to Monterrey to attend one large client. Philips Lighting was located in Tijuana, close to the border with the USA, to benefit from the maquila programme. Cogent Power established a plant in Mexico, because the country is an interesting potential future market. The plant is located in Monterrey for efficiency reasons. Apart from its geographical location close to the USA, which enables it to serve clients in the southern states of the USA as well, it was attracted by the good industrial infrastructure and transport connections of the industrial city. Furthermore, Monterrey had the advantage of a schooled and motivated labour force. Thus, efficiency reasons may cause MNE investments to reinforce dualistic development and CSR is highly unlikely to change this pattern.

Transfer of technology was usually considered an implicit result of enterprise operations. Transfers do not only involve production technology, but also accounting and administration systems, for example. Apart from the cooperation between Intervet and Mexican universities and the corporate project of Shell,⁷² no special initiatives to increase transfer of technology were identified. Most of the MNEs had concentrated their R&D operations in The Netherlands or other developed countries for obvious reasons such as the availability of knowledge and facilities and economies of scale. Some of the enterprises were engaged in research, but this had again nothing to do with CSR. Some enterprises tested already developed products in Mexico, for instance. Intervet had R&D facilities in countries like India too, but these were established because of local expertise that was not available in Europe.

⁷² See pages 104 and 111 for more a description of these initiatives.

Industrial Coatings was considering to start a R&D centre in Mexico because of the peculiarities of the Mexican market.

Although a few enterprises tried to increase local purchases within certain limits, most enterprises did not have a local procurement policy. Enterprises used local suppliers because they were cheaper, to avoid exchange rate volatility risks and for logistic advantages. Some enterprises had no choice but to import their main inputs because they were not produced in Mexico or far cheaper from foreign suppliers. Hence, the possibilities for local procurement depend also on enterprise characteristics. After Nutreco acquired a majority stake in Trouw Nutrition, the amount of local purchases decreased, because purchases were negotiated at corporate level and imported from Trouw Nutrition in the USA.

Not surprisingly, efforts to increase local tax revenues, for example through the local reporting of enterprise profits, were also limited. On page 89 it was already mentioned that price levels for internal transfers were sometimes reported to be different from market prices in such a way that local profits were artificially lowered. One enterprise reported that profits are for a large part transferred back to the MNE and not reinvested in Mexico. In addition, several enterprises participated in a government programme called *Programa de Importación Temporal para Producir Artículos de Exportación* [Programme of Temporary Import for the Production of Export articles] (PITEX). This programme, resembling the maquiladora zone programme, allows enterprises to import and process inputs for the production of export goods with an exemption of import duties and value added tax.⁷³ Such government policies influence the development relevance of MNE investment and are unlikely to be disregarded because of CSR initiatives.

In section 3.3 the question was raised where to draw the border between MNE responsibilities and FDI impacts that are beyond the influence of individual MNEs. This question can now be partly answered on the basis of the empirical analysis above. FDI impacts on dualistic development clearly go beyond the responsibility of individual MNEs. In addition, little can be expected of MNEs with respect to the amount of direct employment creation, the stability of employment or special efforts for transfer of technology. Initiatives to increase local procurement, on the other hand, are subject to a number of important constraints, but could reasonably be considered a responsibility of individual MNEs within the flexibility they have. Similarly, initiatives to curb the artificial lowering of locally reported profits through transfer pricing practices had been limited, but these can nonetheless be perfectly managed by individual MNEs. This is illustrated by the recent corporate initiative of Akzo Nobel Chemicals, which was described on page 111.

Although the influence of CSR on development relevance had been very limited, it is clear that the few impacts on the issues international income flows and indirect employment generation had been positive. In chapter 3 it was already concluded that any CSR initiatives on the issue taxation would enhance a MNE's contributions to economic development. Initiatives to increase local contents had no or minimal adverse effects on enterprise results, as these initiatives were subject to strict business constraints. Initiatives to favour local procurement and employment did therefore not distort markets and made positive contributions to local economic development. Although it was concluded in chapter 3 that such initiatives do not automatically fall under the social responsibility of enterprises, on the basis of these results it can be concluded that it was not inappropriate for MNEs to take these initiatives.

6.3 Improved market outcomes

In section 3.5 a distinction was made between CSR initiatives that protect market functioning and initiatives that correct market failures. Business integrity and free competition were identified as the most relevant CSR issues with respect to the protection of market functioning. CSR initiatives on these issues are likely to enhance contributions to economic development, regardless of the profitability of such initiatives.

Corruption is a major obstacle to economic development in Mexico. It inhibits the efficient functioning of markets and places a relatively large burden on small enterprises. The World Bank estimates that the costs of corruption amount to approximately 9% of Mexico's GNP (Transparency

⁷³ For more information about PITEX, see <http://www.economia.gob.mx/?P=336>.

International 2003 p95-6). Several MNEs had tightened their anti-corruption policies and improved business integrity measures. Given the particularly harmful effects of corruption and its high incidence in Mexico, the positive impact of these initiatives is beyond doubt. The fight against corruption is one of the priorities of the Fox administration and many interview partners also believed that this issue should receive high priority. Probably the initiatives to eradicate corruption contribute more to economic development than any other type of CSR initiatives. Although it was mentioned in chapter 5 that some enterprises had incurred high short-term costs by rejecting corrupt practices, managers expected that in the longer term such policies would be beneficial for the enterprise itself too. As not all enterprises had taken equally strong measures against bribes, facilitating payments and other forms of corruption, this suggests that there still exists a potential for more and stronger anti-corruption initiatives in the future.

Competition policies were not investigated in detail, but the research data suggest that the number of initiatives to prevent limitations to free competition has been limited. In chapter 3 it was explained that such initiatives can be expected to stimulate economic development because they improve the functioning of markets. However, the positive impact on this issue is likely to be small due to the low number of initiatives.

In section 3.5 it was recognized that initiatives on other issues, especially labour standards, did not automatically improve market outcomes and could also produce adverse impacts. Yet contrary to the concerns raised by neoclassical economists, initiatives to improve employment conditions did not significantly reduce the demand for labour. There were several reasons for this.

Firstly, the analysis in chapter 5 showed that CSR initiatives on the issues wages and other labour conditions were in part driven by business incentives. Ethical incentives played a role too, but these were frequently mentioned in combination with business incentives. The profitability of CSR initiatives indicates that in some cases they corrected suboptimal market outcomes.

Secondly, at the local level external pressures for higher CSR performance remained largely absent so the possibility of unjustified or counterproductive stakeholder demands was rather irrelevant. In addition, because of the traditional system of protective labour relations in Mexico explained in chapter 4, it can be an advantage for enterprises to have a democratic and therefore more demanding trade union. Offering attractive employment conditions and allowing employees direct access to the management can make the existence of an active trade union unnecessary and is an alternative way of avoiding protectionist practices. Either way, enterprises are prepared to offer better employment conditions and this helps them to reduce the risk of extortion by protectionist trade unions. Although in these cases external threats are present, the initiatives of enterprises will have positive effects only, because enterprises prevent unjustified and illegal demands instead of giving in to them.

Thirdly, enterprise characteristics influence CSR initiatives on labour issues. This means that in practice these initiatives are constrained by business concerns and will usually not produce competitive disadvantages. At the same time these enterprise characteristics and business concerns impose limitations on the CSR performance that can reasonably be expected from MNEs. In a highly competitive environment, enterprises that depend on low-cost labour may be unable to raise labour expenses, whereas other types of enterprises may have considerable space to manoeuvre.

Finally, as MNEs often consider wages and other labour conditions to be local issues, corporate policies had not been a major drive for CSR initiatives. Thus, concerns about inappropriate global labour standards that are imposed on enterprises in developing countries seem to be exaggerated. In several cases, corporate norms on labour conditions did not go beyond Mexican labour laws, which indicates that they are not inappropriate. Even if corporate norms were higher, in general local managers supported them and did not perceive them as a competitive disadvantage. This research shows that at present other concerns are more realistic, especially the concerns of civil society groups that corporate managements do not assume responsibility for labour conditions and wage levels in their production sites abroad.

It can be concluded that recent CSR initiatives had a positive impact on employment conditions. However, the number of recent initiatives on wage levels had been quite low, so the impact on income distribution had been very small. The limited influence of recent CSR developments may be related to the finding that the business case for favourable labour standards is largely business as usual, yet the profitability of recent CSR initiatives may indicate that there exists a future potential for further improvements in wages and employment conditions of production workers.

Health and safety standards are closely related to labour issues and have an influence on employment conditions as well. In contrast to wages and other labour issues, health and safety standards were often regarded as global issues and subject to corporate policies. As it was concluded in section 3.5 that a strong welfare argument exists for the prevention of health and safety risks, there is little doubt about the positive impact of these initiatives. Furthermore, in section 5.9 it was mentioned that local enterprise managers recognized the importance of high corporate standards and supported them. Because of the cost-savings that result from the prevention of working accidents, high health and safety standards were usually considered a competitive advantage, not a disadvantage. General research about the business case for CSR confirms that favourable workplace conditions have a positive impact on operational efficiency and revenue (SustainAbility n.d.). As corporate norms had often recently been raised or better implemented, this positive influence on employment conditions has been relatively important, compared to other labour issues.

The rise of corporate CSR commitments has also had a positive impact on the transfer, or more correctly formulated the development, of local knowledge and skills. Like health and safety standards, training standards were usually considered global issues. Recent corporate commitments to employee development often enhanced the initiatives that already existed at the local level and the training and education of employees was generally perceived as a sound investment. Similar to wages and other employment conditions, enterprise characteristics influence initiatives for employee development. More specifically, employee turnover directly affects the returns of investment in employee training and enterprises adjust training programmes to this. Thus, initiatives for employee development are also constrained by business concerns and it is therefore unlikely that they produce competitive disadvantages.

The internalization of negative externalities is another issue that has been stimulated by recent CSR developments. These externalities mainly consist of environmental pollution, sometimes in combination with the risks of industrial accidents for surrounding neighbourhoods. Although environmental issues are not new on the corporate agenda, several MNEs had recently tightened their corporate environmental policies and mandated improvements in environmental performance. Equally important were the rising demands for compliance with international environmental standards, or more specifically for ISO 14000 certification. In all cases these requirements came from other foreign MNEs or clients in high income countries.

In theory the standards for environmental performance and industrial safety required by clients or imposed by corporate headquarters could be inappropriate because they are too high and generate negative marginal social benefits. However, the results suggest that this is not the case. Environmental improvements typically involved the reduction of air pollution, the treatment of water effluents and the recollection of other wastes. Although these initiatives are often profitable, they do probably lower enterprise results when compared to a situation without market requirements and external pressures for high environmental performance. The social benefits generated by these initiatives should not be underestimated, though, as environmental problems cause very high social costs in Mexico. In many urban areas air pollution is severe and a major cause of disease, for example. Enterprise managers themselves were also convinced that environmental standards were by no means exaggerated. This supports the assumption that in practice the internalization of externalities does improve market outcomes and makes a positive contribution to economic development.

Sometimes CSR initiatives had a wider influence that went beyond changes inside the MNEs themselves. This influence depended largely on the types of corporate CSR management. The 'new rules only' approach to CSR management was not conducive to such wider impacts. The 'new enterprise culture' approach, on the other hand, involved the diffusion of a new CSR perspective to all levels of a MNE and beyond to enterprise partners. This stimulated or even required CSR initiatives outside the MNEs as well, for example by joint-venture partners or direct contractors. Attempts for supply chain management were still rare and either limited to a few CSR issues or in an early phase. However, this only applies to services such as cleaning and security, which are commonly contracted to local enterprises, and to those MNEs that use local inputs. It should be reminded that most MNEs in the research import a large share or all of their inputs from abroad, sometimes from another production site of the same corporation. Increasing local contents may therefore be a more important aspect of CSR in Mexico than supply chain management.

Section 3.5 identified some broader adverse effects of increasing attention for CSR and the adoption of international CSR standards by MNEs. No such effects were found in the research and they are unlikely to occur at this early stage of CSR in Mexico. In chapter 4 it was already concluded that there is little evidence that international standards like the OECD guidelines do not reflect the needs of civil society organizations in Mexico. On the basis of the results about the influence of CSR on economic development, it can now be added that the adoption of international CSR standards does not have adverse effects either. Local suppliers, if they are used at all, cannot be squeezed because of CSR demands while supply chain management is hardly practised. On average, MNEs already observed much higher standards than local small and medium enterprises before recent CSR developments took off. The recent adoption of international CSR standards by MNEs reinforced this difference, but did not add substantially to the distortion of markets because of the already existing discrepancies between enterprise standards. In addition, CSR was not prominently on the government agenda so it did not divert attention from legal regulation. As many civil society organizations in Mexico were only beginning to explore CSR strategies, CSR did not encroach on their operational capacity for other activities. Moreover, the massive protests against the proposed labour law reform, including from NGO's and trade unions that were most advanced with regard to the promotion of CSR, showed that CSR did certainly not reduce pressures for improved legislation.

6.4 Additional initiatives

A wide range of philanthropic donations and social investment initiatives were identified in the research. This confirms that MNEs are well able to afford and manage such initiatives. Although this is in general at the expense of enterprise profits, charitable donations are often relatively small compared to total profits or enterprise turnover. In chapter 3 it was argued that philanthropy or social engagement may be intended as a compensation for negative externalities that cannot be avoided. In this case such initiatives are more appropriate and can compensate for market failures, which makes them also more desirable from a welfare point of view. Yet philanthropic donations, which are still the dominant mode of social contributions in Mexico, were never explained as a compensation for negative externalities. Donations were typically a minor burden on enterprise results so market distortions should not be overestimated. However, the impact of philanthropic donations depends also on the development impact of the supported projects, which need not necessarily be positive. Moreover, even if projects contribute to development it should be asked whether enterprise contributions could not be better employed by the government or other beneficiaries. The relevance, effectiveness and efficiency of the supported projects were not investigated in this research. The appropriateness of philanthropic donations is therefore insufficiently supported and their impact on economic development remains indecisive.

For community investment and mainstream social engagement the picture is quite different. Often such initiatives yielded some business benefits, although the impact on enterprise results varied among initiatives from net profitability in the short term to distant returns that would never compensate for the expenses. These initiatives are more appropriate than philanthropic donations for two reasons. Firstly, they tend to be closer related to the core-business of enterprises and sometimes involved the use of enterprise resources. As argued in chapter 3, the use of specific enterprise resources increases the legitimacy of social engagement. Secondly, unlike philanthropic donations, direct community involvement was frequently explained as giving something back to the local community. This implies that enterprise contributions were perceived as a compensation for negative externalities, which has a positive influence on both the appropriateness and the welfare impact of these initiatives. The profitability of direct community investment and mainstream engagement, which was not present for philanthropy, also enhances welfare impacts.

In order to conclude that social investment enhances the contributions of MNEs to economic development, one important question still remains to be answered: would these initiatives not better be left to local governments? The research findings suggest that the answer is probably negative. Often there is close coordination between enterprises and local governments with respect to community engagement. Enterprise contributions are usually made on request, thus they are largely demand driven. As a consequence, these initiatives provide additional resources for community development, but enterprises do not assume the role of local governments because they do not themselves decide

what kind of development initiatives are needed. Furthermore, enterprises prefer to make direct contributions to the local community in order to increase the effectiveness of their donations. It is feared, not without reason, that a considerable part of financial resources intended for community support would be lost in bureaucracy and corruption if they were not directly made available to the community.

This leads to the conclusion that direct community support and mainstream social engagement have a positive influence on MNEs' contributions to economic development. Such initiatives are more appropriate and more likely to enhance market outcomes than philanthropic donations. The shift towards core-business issues, from private sector philanthropy to mainstream involvement, should therefore be welcomed. Similarly, the diffusion of a new CSR perspective, which might eventually replace the traditional CSR perspective in Mexico, will contribute to economic development.

6.5 Conclusion

Table 8 summarizes the results of the analysis in this chapter. The first column mentions all areas of FDI impact that were related to CSR issues covered in the research.. These impacts of MNE operations and their relation to CSR issues were explained in sections 3.2 and 3.3. In the table below, some areas of FDI impact are divided into two or three aspects, because the influence of recent CSR initiatives differs between these aspects. The next column lists which related CSR issues were investigated. For each of these issues, the table shows the conclusions about the influence of recent CSR initiatives on MNEs' contributions to economic development. This influence was estimated on basis of the number of initiatives and their effects as discussed in this chapter. The last column mentions which recent CSR development were relevant to the various CSR issues. The results about the relation between recent CSR developments and CSR initiatives were already described in more detail in section 5.4.

The main conclusion of this chapter is that the influence of CSR initiatives on MNEs' contributions to economic development is positive, but not equally strong on all issues. In addition, the analysis showed that it is important to distinguish between the development relevance, social responsibility and social engagement of a MNE.

The development relevance of FDI in the industrial sector depends on the technology a MNE employs in production and the inputs it requires. These enterprise characteristics largely determine the effect of MNE operations on international capital movements, the amount of direct and indirect employment generation, the transfer of technology and dualistic development. CSR initiatives did not affect these enterprise characteristics and had a weak influence on local tax revenues and the creation of backward linkages only. Initiatives to enhance the transfer of technology were incidental. Any initiatives to increase the amount of indirect employment generation remained strictly constrained by business concerns. In theory, there exists considerable scope for increases in the amount of locally reported profits, but in practice not all MNEs are eager to take such initiatives because changes in transfer pricing policies are often not in the interest of MNEs themselves. Given this very weak influence of CSR on the development relevance of MNE investment, CSR can never replace government regulation or other national strategies to enhance the contribution of FDI to the economic development of the host country.

Although there does not exist a clear border between CSR and social engagement, these two should be distinguished whenever possible. In table 8, all forms of social engagement fall under the area 'additional development initiatives'. An important conclusion that can be drawn from the analysis in this chapter is that the closer the initiatives of a MNE are related to its core-business, the more legitimate they are and the more beneficial they will be for the host country as well as for the MNE itself. Most social engagement initiatives that were closely related to the core-business of an enterprise and intended to benefit its stakeholders can be regarded as a part of CSR. In this research the impact of philanthropic donations could not be determined. The impact might have been either weakly positive or weakly to moderately negative, depending on the projects that were supported. Whatever it may be, it is clear that mainstream involvement and direct community investment have a more positive influence than philanthropic donations and contribute to economic development. Confusing CSR with corporate philanthropy, which happens very often in Mexico, is therefore detrimental to economic development.

| Area of FDI impact | | Investigated CSR issues | Influence of CSR | Relevant developments ^{a)} |
|---|-------------------------------|---------------------------------------|--------------------|-------------------------------------|
| International capital movements and income flows | | Taxation, Stimulation of host economy | Weak positive | Corp. & Persp. |
| Direct employment generation | Amount of direct employment | Stimulation of host economy | None | - |
| | Wages | Wages | Weak positive | Persp. |
| | Other employment conditions | Other labour issues, Health & safety | Moderate positive | Corp. & Persp. |
| Indirect employment generation and external effects | Amount of indirect employment | Stimulation of host economy | Weak positive | Persp. |
| | Negative externalities | Environment, Community impacts | Strong positive | Corp., Persp., Cont. & Stand. |
| Market functioning | Corruption | Business integrity | Strong positive | Corp. |
| | Competition | Free competition | Weak positive | Corp. |
| Knowledge and technology transfer | Knowledge | Employee training | Moderate positive | Corp. |
| | Technology | Stimulation of host economy | Very weak positive | - |
| Additional development initiatives | | Philanthropic donations | Indecisive | Corp. |
| | | Community impacts | Moderate positive | Persp. & Corp. |
| Distribution of impacts | Income distribution | Wages, Other labour issues | Weak positive | Persp. |
| | Dualistic development | Stimulation of host economy | None | - |
| Enterprise sustainability | | Profitability of all CSR initiatives | Moderate positive | Persp. & Cont. |

Table 8: The influence of CSR on the contribution of Dutch MNEs to economic development.

Two areas of FDI impact, 'Delivery of goods and services' and 'Political influence', have been omitted in the table, because no CSR issues corresponding to these areas have been investigated.

^{a)} Corp. = Rise of corporate CSR commitments, Persp. = Changes enterprise perspective, Cont. = Changes in enterprise context, Stand. = International CSR standards.

The influence of CSR initiatives on the remaining aspects of FDI impact was moderately to strongly positive, except for wages and income distribution. These two aspects are of course closely related, and they were only weakly influenced by recent CSR developments because the number of recent initiatives on wage levels had been quite low. Chapter 5 already explained why there had been relatively few initiatives on this issue: corporate CSR policies are the main driving force behind CSR initiatives, but wage levels are usually considered a local, context-dependent issue. As a consequence, global CSR standards adopted at the corporate level do usually not deal with wages and other employee benefits. The last column of table 5 shows that all types of CSR initiatives with a moderate or strong positive influence on the impact of MNE operations at least partly resulted from the rise of corporate CSR commitments.

In Mexico, the most important effect of recent CSR developments is probably the reinforced effort of MNEs to fight corruption. As corruption is a major obstacle to economic development in Mexico, the improved corporate measures to safeguard or enhance business integrity make a valuable contribution to the host economy. The positive influence of initiatives to improve environmental performance is also relatively strong. Although care for the environment is not new on the corporate agenda, recent CSR developments have resulted in higher corporate environmental standards.

In chapter 5 it was explained that the wider influence of CSR initiatives, beyond the effect of the changes that take place inside MNEs, depends on the type of corporate CSR management. This wider influence on economic development was still very limited. Finally, possible broader adverse effects of increasing attention for CSR and the adoption of international CSR standards by MNEs were briefly discussed in this chapter. No such effects were found in the research and they are unlikely to occur at this early stage of CSR in Mexico.

7 Conclusions and recommendations

7.1 CSR perspectives in Mexico

CSR is still in an early phase in Mexico. Although for a large part traditional attitudes still persist, a slow culture change has set off among enterprises and other relevant actors. The research showed that interaction between Mexican civil society and business-oriented organizations remained still very limited, though. Within civil society, some organizations had already adopted a new CSR perspective, but most of them were still exploring CSR strategies. Business-oriented organizations were clearly ahead of civil society in taking up the theme of CSR. They had formed a broad network to promote CSR and most of them emphasize the business case. The promotion of CSR through business networks and exchange of experiences is important, because even when CSR initiatives can be profitable investments, not all enterprises will automatically recognize this.

A few organizations displayed an alternative non-traditional CSR perspective that is centred on personal responsibilities and human values instead of stakeholders relations. It focuses on ethical rather than business incentives and is characterized by 'soft' strategies, with an emphasis on awareness raising. This perspective has not received much attention in CSR literature, probably because a lack of ethical incentives and of awareness about enterprise responsibilities are not considered major obstacles for more responsible enterprise behaviour in high income countries. However, in countries like Mexico where both legal and civil regulation mechanisms are weaker and social awareness is considerably lower, such 'soft' strategies may become much more important, at least as a complement to other strategies.

A common element of the strategies of all business-oriented organizations is that they do not actively promote stakeholder engagement and do not pay attention to regulatory mechanisms. Despite the non-traditional characteristics of their CSR attitudes, the majority still opposed direct involvement with civil society.

With respect to Dutch MNEs, a new CSR perspective was sometimes transmitted from the corporate headquarters in the Netherlands down to the local level. In general foreign MNEs were hardly influenced by CSR developments at the local level, but independently developed their own corporate CSR programmes. The promotion of CSR through business networks and exchange of experiences is therefore more important for domestic enterprises. Whether corporate CSR commitments contributed to a change of enterprise culture at the local level strongly depended on the type of corporate CSR management. Two main types were identified in the research. The first type is characterized by a focus on the top-down implementation of corporate CSR rules alone. At the local level awareness about enterprise responsibilities and the business case for CSR remains largely unchanged. The second type goes beyond imposing new rules and involves a change in local enterprise culture. This contributes to the dissemination of a new CSR perspective outside the MNE as well. A change in enterprise culture may require considerable time, though.

7.2 CSR does not affect all impacts of MNE operations

Recent CSR developments did not affect all investigated aspects of the impact of MNEs on the host economy. They had very little influence on the development relevance of MNE operations. These impacts are largely determined by fixed enterprise characteristics. Recent CSR developments had a weak influence on local tax revenues and the creation of backward linkages only. Hence, CSR can never replace government regulation or other national strategies to enhance the contribution of FDI to the economic development of the host country.

The same enterprise characteristics also have important implications for CSR initiatives. For example, favourable terms of employment are an element of competition to attract and retain skilled workers for MNEs with high-technology and capital-intensive production processes. In contrast, efficiency-seeking MNEs that established in Mexico because of low labour costs are severely constrained to improve labour standards by business incentives. This effectively inverts the social contract: MNEs try to meet expectations of society within constraints of profitability. For some CSR issues like favouring local procurement, inversion of the social contract is appropriate, but for other

issues like core labour standards it is certainly not. Regarding other enterprise characteristics, a leading market position often increases CSR incentives. At the same time, CSR may also be a factor that contributes to business success, thus there exists a two-way relationship. Furthermore, belonging to a large MNE is usually an advantage for the implementation of CSR policies, so there exist economies of scale for CSR.

7.3 A new CSR perspective causes a positive shift towards core-business issues

The rise of a new CSR perspective influenced enterprise behaviour in two ways. Firstly, some changes occurred in the context in which enterprises operate. These changes may again be subdivided into changes in market forces and changes in external pressures on enterprises. As for external pressures, these had hardly increased in Mexico over the past years and remained an unimportant incentive for CSR at the local level. Regular market forces, on the other hand, were an important incentive and HSE requirements had recently increased, especially in export markets. This change in enterprise context is one of the factors that contributed to recent improvements in environmental performance, which had a positive and relatively strong impact on economic development.

Secondly, a new CSR perspective influenced enterprise behaviour through changes in enterprise perspective. These had a larger influence on enterprise behaviour than changes in enterprise context. They consist of the enhanced perception of enterprise responsibilities and of profitable opportunities for CSR initiatives by enterprise managers, which often went together. As a consequence, in some cases different kinds of incentives were becoming increasingly integrated and the influence of individual incentives could therefore no longer be determined.

Ethical incentives were hardly ever mentioned as the only type of incentives for a CSR initiative. In recent years, increased awareness about ethical responsibilities has resulted in more attention for community impacts, wage levels and stimulation of the host economy. However, the positive influence of recent CSR initiatives on indirect employment generation and wages and benefits remained weak. Any initiatives on these issues were strictly constrained by business concerns. Regarding attention for community impacts, there has been a recent shift away from the traditional notion of CSR in Mexico, centred on philanthropic donations, towards direct community involvement and a broader interpretation of CSR, more related to the core-business of an enterprise. This shift should be welcomed, because community support and other forms of mainstream social engagement are more appropriate and more likely to enhance market outcomes than philanthropic donations.

The enhanced perception of business opportunities led to several new or reinforced CSR initiatives, even though the compelling general business case for many types of CSR initiatives is not new. These initiatives covered a broad range of CSR issues, but most often they concerned improvements in general employment conditions, environmental standards and community impacts. They were beneficial for economic development as well as for the MNEs themselves. These recent initiatives indicate that even if there exists a good business case for CSR, external market forces or entrepreneurial spirit in itself will not automatically raise CSR standards.

It can be concluded that the diffusion of a new CSR perspective causes a shift towards core-business issues and has a positive influence on MNEs' contributions to economic development. This influence is strongest for environmental impacts and local issues. The influence on enterprise profitability is also positive.

7.4 Corporate CSR commitments cause important positive changes, but differences between MNEs are large

The rise of corporate CSR commitments had an important influence on enterprise behaviour, which was larger than the influence of recent changes in enterprise context and enterprise perspective explained above. Yet recent changes in corporate CSR standards did not always influence local practices. Apart from implementation failures, this was because of the low ambition level of these standards. Most corporate CSR commitments are expressed in corporate statements of general business principles or core values. These should not be confused with local codes of conduct or codes of ethics. Some MNEs have both business principles and codes of conduct. In such cases the former

provide guidance to corporate and sometimes local managers, whereas the latter are more detailed codes for employees and may stress their obligations instead of their rights.

The research revealed large differences between MNEs with respect to corporate CSR policies and their implementation. At one end of the spectrum are MNEs that did not have any explicit corporate CSR policies, like Hunter Douglas. Somewhere in the middle are MNEs with the first type of corporate CSR management, such as Philips. These usually have corporate business principles as well as local codes of conduct and have some success in implementing corporate CSR norms, but fail to create a corresponding CSR attitude. At the other end of the spectrum are MNEs with the second type, for example Shell, which in Mexico had more or less succeeded in mainstreaming CSR throughout all its operations.

The influence of corporate CSR policies was present on all investigated issues, but was strongest for HSE, employee training and business integrity. The research indicates that crowding out of intrinsic motivation by corporate standards did not occur. On the contrary, the diffusion of a new CSR perspective along with corporate standards could raise local awareness of both enterprise responsibilities and potential business benefits of CSR.

The reinforced efforts of MNEs to fight corruption are therefore probably the largest contribution to economic development that result from recent CSR developments. The positive influence of improvements in environmental performance was also relatively strong. In addition, corporate CSR commitments had a moderate positive influence on employee development and employment conditions, but not on wages. The positive influence of enhanced competition and transfer pricing policies was limited due to the low number of corporate initiatives on these issues.

The total profitability of corporate CSR policies could not be assessed, because the most important business benefits are to be expected at the corporate level. At the local level, the impact on enterprise results depends on the type of corporate CSR management. For the first type, positive as well as negative impacts were limited. As the second type involves deeper changes in business conduct, both the burden of CSR management and the potential benefits at the local level were higher. The net effect on enterprise competitiveness at the local level could not always be determined.

It can be concluded that the rise of corporate CSR commitments has an important positive influence on MNEs' contributions to economic development, but the differences between MNEs are large. The strongest positive impact probably results from anti-corruption measures.

7.5 International CSR standards are mainly used at the corporate level

The direct use of international CSR standards at the local level was limited. Corporate CSR policies and market requirements for HSE standards were most conducive to the use of international CSR standards. In contrast, enterprise managers that took CSR initiatives because of ethical incentives, internal profitability or a response to labour market forces, did usually not seek the guidance of international standards. International CSR standards were not well-known among civil society organizations, and they had not been used by enterprise stakeholders to support their demands in the few cases where external pressures were present.

Market requirements for HSE standards, which were more important for exporting enterprises, usually involved certification by an international standard. In all cases, the certification process had a positive influence on the economic impact of MNE operations. International CSR standards were frequently used as a point of reference for corporate CSR policies and business principles. However, managers at the local level hardly ever know the international standards on which corporate CSR policies are based. Due to the limitations of the research data, it can only be concluded that the influence of international CSR norms mainly results from their incorporation into corporate CSR standards. The total influence of the rise of international CSR standards on enterprise behaviour could not be determined.

7.6 International CSR standards are not inappropriate or illegitimate

The research shows that international CSR standards like the OECD guidelines for MNEs are not illegitimate and did not produce adverse impacts, although they may be of limited value to local civil society for the promotion of CSR.

As for legitimacy, the OECD guidelines are broadly supported in Mexico by civil society and business-oriented organizations as well as managers, trade union delegates and employees of the investigated enterprises. From a civil society point of view, the greatest shortcoming in the contents of the OECD guidelines is probably the lack of any norms about wage levels. The norms about labour relations, which are frequently violated in Mexico, were mostly valued. Yet because of the Mexican tradition of protective labour relations, some enterprises may prefer not to involve an active trade union in order to avoid protectionist practices that would actually harm its employees. Although this option violates international standards, is perfectly understandable in the Mexican context and may function more or less equivalent to the representation of workers by a democratic trade union.

Regarding the use of the OECD guidelines, they were welcomed as a point of reference, but neither traditional nor non-traditional civil society organizations regarded them as a key instrument to promote CSR. Most were sceptic about the functioning of the complaints mechanism and the willingness of the government to promote them. Distribution was still far from sufficient at the time of the research and the Mexican NCP clearly lacked visibility and accessibility, two central criteria for the functioning of NCPs. Furthermore, civil society and business-oriented organizations alike expected that enterprises would be more receptive for standards that were closer to reality and adapted to the Mexican context. Business-oriented organizations had used international CSR standards as a reference to design their own CSR standards and often emphasized that enterprises would need some degree of flexibility in the implementation of CSR.

International CSR standards did not have any adverse effects. As MNEs generally consider wages and many other labour issues to be local issues, concerns about inappropriate global labour standards that are imposed on enterprises in developing countries are exaggerated. The research shows that contrary concerns about corporate managements not assuming responsibility for labour conditions in their production sites abroad are closer to reality. Global HSE standards were not exaggerated either and had a positive influence on the impact of MNE operations. Possible broader adverse effects of increasing attention for CSR and the adoption of international CSR standards by MNEs are unlikely to occur at this early stage of CSR in Mexico. No evidence of such effects was found in this research.

7.7 Discussion

The central research question has now been answered: although the influence of recent CSR developments on the behaviour of Dutch MNEs differs strongly among CSR issues, it enhances their contributions to economic development. Although these conclusions may sound very positive, they should be put in the right perspective. A number of limitations and qualifications apply.

Firstly, to some extent the results are context-specific. As for the national context, FDI in the industrial sector in Mexico has a few special characteristics, such as a lack of local supply chains. It is therefore not comparable to FDI in many other countries. The special Mexican tradition of protective unionism also causes some findings to be very country-specific. Furthermore, the numbers of CSR initiatives that were found in this research are not representative and apply to the selection of enterprises for this research only. Dutch MNEs might be more focused on core-business issues and less on philanthropy when compared to, for example, MNEs from the USA. It can be assumed that the initial selection of Dutch MNEs included all well-known and more conspicuous enterprises and market leaders, but some low profile and less responsible enterprises might have been overlooked. The research also included a large proportion of capital-intensive enterprises and was focused on central Mexico. All these factors might have contributed to relatively high numbers of CSR initiatives. The qualitative results of this study, on the other hand, are likely to have some wider validity. There is little reason to expect that the way recent CSR developments influence enterprise behaviour and the way changes in enterprise behaviour influence economic development are different for the enterprises covered in this research than for other industrial MNEs in Mexico.

Secondly, the research did not measure how much recent CSR developments enhanced the contributions of MNEs to economic development. Only the nature of the influence was determined and its relative strength was estimated for different aspects of the impact of MNE operations. The influence of recent CSR developments may be relatively small compared to the influence of fixed enterprise characteristics. If this would be true, in principle a MNE with poor CSR performance but a high development relevance could contribute more to economic development than a MNE with

outstanding CSR performance but low development relevance. However, this example seems unlikely because the same enterprise characteristics that have a positive influence on development relevance also weaken business constraints on CSR initiatives. As a more realistic example, a MNE that requires skilled workers but has a relatively low CSR performance, compared to other enterprises in the same branch, could still contribute more to economic development than a MNE that depends solely on cheap unskilled labour inputs but has a relatively high CSR performance. The influence of recent CSR developments should therefore not be overestimated.

Thirdly, the conclusions do not imply a statement about the total impact of MNE operations on economic development. It would be very difficult to estimate total impacts, as this would involve value judgements about the relative importance of different aspects of the impact of MNE operations. More importantly, even when the influence of recent CSR developments on the investigated issues would be relatively strong, the total impact of MNE operations may still be largely determined by issues that were not investigated. Probably by far the largest impact of MNE behaviour results from their influence on national and international regulations and policy formulation. This issue receives surprisingly little attention in recent CSR developments, perhaps because it is not as exposed as other issues. In contrast to almost any other CSR issue, transparency and reporting about corporate lobbying is still near zero. It should be therefore reminded that the research covered local, production-related aspects of MNEs' impact on the host economy only.

Fourthly, it does not follow from the conclusions that all efforts for the promotion of CSR should be welcomed. Not only may CSR initiatives have a small influence on the total impacts of MNE behaviour, the promotion of CSR is not necessarily an efficient way of stimulating economic development. Regarding the behaviour of enterprises, the decline of state power does not automatically imply that civil regulation is a better option for civil society organizations than pressing for improved domestic regulation and enforcement. Although fostering a culture of CSR may be important, targeting individual MNEs is likely to have limited impacts only. There may be other more efficient alternatives to domestic regulation too, such as striving for international regulation of MNE operations. Civil society organizations could also influence MNE behaviour at a higher level by targeting international trade and investment agreements. Furthermore, CSR alone will not bring about sustainable economic development. Although FDI flows may be large compared to aid flows, they typically affect only a small part of the population of a country in a direct way. This is true even in Mexico, where MNEs account for 10-15% of total employment. NGOs, governments and intergovernmental organizations therefore need to strike a good balance between the promotion of CSR and other development initiatives. As was mentioned already on page 101, Mexican NGOs may be more concerned about acute poverty problems than about improvements in the behaviour of MNEs that do already perform relatively well.

Finally, the conclusions might inevitably lead to new questions and sources of debate between proponents and critics of CSR. CSR initiatives were often constrained by business incentives. Should MNE be encouraged or obliged to take stronger CSR initiatives? Similarly, at present many MNEs regard wages and benefits as local issues. Should corporate managements assume responsibility about these issues as well and guarantee living wages? Such developments could enhance the contributions of MNEs to economic development, but they would also increase the risk of adverse impacts. CSR is still in an early phase in Mexico and so far the influence of recent CSR developments is clearly positive. Yet will adverse impacts also remain absent if CSR is further stimulated? This research does not provide an answer to such questions, and of course much will depend on the nature of future CSR developments. The research does provide a useful framework to address such questions, though. It demonstrated the importance of distinguishing clearly between different aspects of CSR and between different types of CSR incentives. In addition, it showed the need to address legitimate concerns about the appropriateness and impact of CSR initiatives.

7.8 Recommendations

On the basis of the research results, the following recommendations can be made.

- For MNEs: with a focus on new CSR rules only, some benefits of CSR may not be realized. These include a better enterprise reputation at the local level, a reduction in operational risks

and a higher motivation of employees. Strong internal and external communication about CSR, including at local enterprise level, will increase the business benefits of CSR and increase the credibility of CSR initiatives.

- For organizations in Mexico: more cooperation on CSR within civil society and between different sectors of society could improve efforts for the promotion of CSR and enhance the impact of CSR initiatives.
- For NGOs and trade unions: corporate policies are the main driving force behind CSR initiatives, so approaching the corporate headquarters of a MNE may be the most effective way to change MNE behaviour. For local organizations, this requires international alliances. To stimulate a culture of CSR at the local level and to ensure the legitimacy of NGO expectations, the engagement of local stakeholders should also be emphasized. Organizations should not focus on all CSR issues, as improvements are more likely on some issues than on others. Corporate lobbying should receive a more prominent place on the CSR agenda. Finally, it should be reminded that the promotion of CSR may not always be an efficient way to stimulate economic development.
- For policy makers: no crowding out of intrinsic motivation was found within MNEs, which suggests that binding norms do not limit the ambition level of CSR initiatives or enterprise creativity. Instead, these depend on efforts for awareness raising and for the promotion of CSR. Given its very weak influence on the development relevance of MNE investment, it should be realized that CSR can never replace government regulation or other national strategies to enhance the contribution of FDI to the economic development of the host country.
- For the National Contact Point for the OECD guidelines: it would enhance its functioning by improving its accessibility and visibility and the distribution of the guidelines. More promotion of the business case for the OECD guidelines and the establishment of regular contacts with civil society would also contribute to a better performance.

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Appendix 1: Selection of enterprises

| a) | Enterprise ^{b)} | MNE ^{c)} | Neighbourhood and city | State | Products | Empl. |
|----|--|---|--|-----------------------------|----------------------------|-----------|
| V | Organon Mexicana (1960s) | Akzo Nobel (Organon) | Col. San Salvador Xochimanca, Del. Azcapotzalco | Distrito Federal | Human pharmaceuticals | 160 |
| V | Akzo Nobel Chemicals (2 locations) | Akzo Nobel (since 1990) | Col. Pueblo Tecamachalco, Los reyes la paz | Estado de México | Chemicals | 370 |
| V | Intervet Mexico (3 locations) | Akzo Nobel | Col Parque industrial, Santiago Tianguistenco; Col. Huixquilucán, Huixquilucán; Col. Sta. Clara Coatitla, Ecatepec | Estado de México | Veterinary pharmaceuticals | 400 |
| V | Química Esteroidal (1950s) | Akzo Nobel (Diosynth) | Col. San Juan Ixhuatepec, Tlalnepantla | Estado de México | Chemicals | 200 |
| T | Akzo Nobel Industrial Coatings Mexico (1998) | Akzo Nobel | Col. García, Monterrey | Nuevo León | Car coatings | 70 |
| T | Cogent Power Inc. (2002) | Corus | Col. Parque Industrial, Apodaca | Nuevo León | Transformer cores | 50 |
| T | Fersinsa Gist-Brocades (1970s, 2 locations) Eptec | DSM (since 1998) Granaria Holding (Eagle Picher) | Col. Ejido Jaguey de Ferniza, Ramoz Arizpe Col. Zona industrial San Luís Potosí, San Luís Potosí | Coahuila San Luís Potosí | Penicillin Car parts | 600 50 |
| Q | Hunter Douglas | Hunter Douglas | Col. San Andrés Atoto, Naucalpán | Estado de México | Window coverings | 80 |
| | Ispat Mexicana | Ispat International | Col. L. Carday, Lázaro Cárdenas | Michoacán | Steel | 1300 |
| V | Trouw Nutrition | Nutreco (since 2000) | Col. Parque industrial Belenes Norte, Zapopan | Jalisco | Animal nutrition premixes | 60 |
| V | Philips corporate offices | Philips | Col. San Fernando, Huixquilucán | Estado de México | (Corporate office) | |
| Q | Philips Lighting Electronics México (1991) | Philips (since 1999) | Col. Guaycura 1a Sección, Tijuana | Baja California | Lighting components | 2000 |
| V | Lumisistemas (1963) | Philips (since 2001) | Col. Parque Industrial, Naucalpán | Estado de México | Lighting components | 900 |
| | Advance Transformer Compañia | Philips | Col. Independencia, Cd. Juárez; Col. Infonavit tecnológico, Cd. Juárez | Chihuahua | Electric car systems | |
| | High Tech Plastics Juárez | Philips | Cd. Juárez | Chihuahua | Plastic products | |
| | Philips Componentes Eléctricos de Lámparas | Philips | Col. Parque industrial Juárez, Cd. Juárez | Chihuahua | Lighting components | |

Selection of enterprises (ctd.)

| a) | Enterprise ^{b)} | MNE ^{c)} | Neighbourhood and city | State | Products | Empl. |
|----|--|--|---|------------------|--------------------------|-------|
| | Philips Consumer Electronic Products (various locations) | Philips | Various localities, Cd. Juárez | Chihuahua | Electric equipment | 1000 |
| | Philips Autopartes | Philips | Col. Parque omega magnaplex, Cd. Juárez | Chihuahua | Car parts | |
| | LG Philips Displays | Philips | Col. Zona industrial y secciones, Gómez Palacio | Durango | Computer Displays | 210 |
| | Philips Lighting, Planta Iluminación | Philips | Monterrey | Nuevo León | | 2000 |
| | Construlita de Querétaro (2 locations) | Philips | Col. Parque industrial Benito Juárez, Querétaro | Querétaro | Illumination equipment | 800 |
| T | Shell Mexico | Shell | Col. Industrial Sta. Julia, León | Guanajuato | Lubricants | 70 |
| V | Shell Mexico | Shell | Col. Lomas de Chapultepec, Del. Miguel Hidalgo | Distrito Federal | (Corporate office) | |
| V | Gelcaps Exportadora (1965) | Sobel (Banner Pharmacaps) (since 1989) | Col. Fracción industrial Alce Blanco, Naucalpán | Estado de México | Soft gelatin capsules | 350 |
| V | Unilever de México | Unilever | Col María Insurgentes, Del. Cuauhtémoc | Distrito Federal | (Corporate office) | |
| | Vege de México | Vege | Col. Industrial, General Escobedo | Nuevo León | Remanufactured car parts | 430 |
| V | Zuid México (1989) | Zuid | Col. Parque Industrial 5 de Mayo, Puebla | Puebla | Leather | 190 |

Selection of enterprises. The overview does not include individual Unilever enterprises and may be incomplete. For more information about the selection of enterprises, see section 1.3.1.

^{a)} Inclusion in the research by various means. V = Visit, T = Telephone, Q = Questionnaire.

^{b)} Years refer to the foundation of the enterprise.

^{c)} Years refer to the integration of the enterprise into the actual Dutch MNEs.

Appendix 2: Address information of organizations

Asociación Nacional de la Industria Química (ANIQ)
Angel Urzaa 505, Col. Del Valle
CP 03100, México DF
tel (55) 52305100
aniq@aniq.org.mx
<http://www.aniq.org.mx>

Administración por Valores (AVAL)
Circuito Pintores 193, Col. Ciudad Satélite
CP 53100, Naucalpan, Estado de México
tel (55) 55726551 / 55628528
yhaval@prodigy.net.mx

Centro de Investigación Laboral y Asesoría Sindical (CILAS)
Tabasco 262-402, Col. Roma Sur
CP 06700, México DF
tel/fax (55) 52074147, tel (55) 55147675
cilas@laneta.apc.org
<http://www.laneta.apc.org/cilas>

Centro de la OCDE en México para América Latina
Presidente Masaryk 526, piso 1, Col. Polanco
CP 11560, México DF
tel (55) 52813810, fax (55) 52800480
mexico.contact@oecd.org
<http://rtn.net.mx/ocde>

Centro Mexicano para la Filantropía (CEMEFI)
Programa de Responsabilidad Social Empresarial
Cerrado de San Alvarado 7, Col. Escondón
CP 11800, México DF
tel (55) 52776111, fax (55) 55155448
cemefi@cemefi.org
www.cemefi.org.mx

Centro Sindical de Estudios Superiores de la Confederación de Trabajadores de México (CTM)
Vallarta 8, piso 7, Col. Tabacalera
CP 06300, México DF
tel (55) 57051091 / 57050966
<http://www.ctm.org.mx>

Comité Nacional de Productividad e Innovación Tecnológica (COMPITE)
Programa de Responsabilidad Social e Integridad
Insurgentes Sur 1971, Torre 3, Piso 3, Col. Guadalupe Inn
CP 01020, México DF
tel (55) 53220731
www.compite.org.mx

Consejo Coordinador Empresarial (CCE)
Lancaster 15, Col. Juárez
06600 México, DF
tel (55) 52291100
<http://www.cce.org.mx>

Embajada del Reino de los Países Bajos en México
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tel (55) 52589921, fax (55) 52588138
nlgovmex@nlgovmex.com
<http://www.paisesbajos.com.mx>

Espiral Consultora
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<http://www.espiral.org.mx>

Frente Auténtico de Trabajo (FAT)
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Friedrich Ebert Stiftung (FES)
Yautepec 55, Col. Condesa
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fesmex@laneta.apc.org
www.fesmex.org

Fundación Mexicana para la Innovación y Transferencia de Tecnología en la Pequeña y Mediana Empresa (FUNTEC)
Programa de ética y competitividad en los negocios
Manuel María Contreras 133, piso 1, Col. San Rafael
CP 06597, México DF
tel (55) 55910091
<http://www.funtec.org>

Fundación Vamos
Alfonso Esperanza Oteo 63, Col. Guadalupe Inn
CP 01020, México DF
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<http://www.vamos.org>

Red Mexicana de Acción frente al Libre Comercio (RMALC)
Godard 20, Col. Gpe. Victoria
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Punto de Contacto Nacional (PCN)
Dirección General de Análisis y Seguimiento a Tratados Comerciales Internacionales
Secretaría de Economía
Alfonso Reyes 30, piso 18, Col. Hipódromo Condesa
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<http://www.economia-snci.gob.mx> (Inteligencia Comercial, Subsecretaría de Negociaciones Comerciales Internacionales → Organismos multilaterales, OCDE → Compromisos más relevantes para México)

Unión Social de Empresarios de México (USEM)
Eugenia 13-401, Col. Nápoles
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Vivian Blair y asociados
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Appendix 3: Overview of strategies and uses of international CSR standards

| Type of CSR incentives | Actors | Strategies | Local use of international CSR standards | |
|--------------------------|--|--|---|--------------------------------------|
| Ethical incentives | Company managers | Guidance by international standards | For reference only | |
| | | Guidance by stakeholder dialogue or personal ideas | - | |
| | (religious) NGOs, business organizations | Strengthen personal values of company managers and stimulate application | - | |
| Internal profitability | Company managers | Identification of possibilities for cost savings and productivity gain | - | |
| | Stakeholders (NGOs, trade unions) | Dialogue to convince company managers of business benefits | For reference only | |
| | Business organizations | Dissemination of best practices | - | |
| Structural profitability | Company managers | Anticipation of legislation | For reference or endorsement, but harmonization of standards is desired (Utting 2000 p36) | |
| | | Standard setting | Endorsement, instead of own standard, is an option | |
| | | Increase of market access | Compliance when required | |
| | | Access to supplier and other business relations or government support | Compliance when required | |
| | | Creation of positive identity (at local level), possibly with stakeholder engagement for verification of practices | Endorsement of broadly recognized standards can be helpful (Aaronson and Reeves 2002) | |
| | | Stakeholder engagement for organizational learning and risk decrease | - | |
| | | Management of business relations | For reference or required from partners as selection instrument | |
| | | Cause-related marketing | - | |
| | | Stakeholders (NGOs, trade unions) | Dialogue to convince company managers of business benefits | For reference or promotion |
| | | | Business organizations | Promotion of international standards |
| | | Promotion of own standard | | For reference only |
| | | Dissemination of best practices | | - |
| | Clients and business partners | Management of business relations | For reference or required from partners as selection instrument | |

Strategies and uses of international CSR standards (ctd.)

| Type of CSR incentives | Actors | Strategies | Local use of international CSR standards | |
|----------------------------|--------------------|--|---|--|
| (Structural profitability) | Governments | Public procurement and granting of subsidies for international trade promotion, investment and export credit insurance | Possible as official requirement (Cie 2002) | |
| External pressures | Company managers | Anticipation of pressures by adoption of a company standard | For reference, endorsement or as minimum standard (Cie 2002), but harmonization of standards is desired (Utting 2000 p36) | |
| | | Anticipation of pressures by stakeholder engagement | - | |
| | | Response to stakeholder demands | Implementation when necessary to satisfy stakeholders | |
| | Consumers | Response to negative publicity | - | |
| | | Affected local stakeholders (communities, employees and trade unions, NGOs) | Watchdog role and reporting of undesired company behaviour (Murphy & Bendell 1999 p54) | For reference only |
| | | Dialogue to change company behaviour | For reference and to support legitimacy of demands, NCP can help to establish dialogue | |
| | | Campaigning to raise consumer pressure and influence other stakeholders | To support legitimacy of demands, statement of NCP can provide further support | |
| | Corporate policies | Governments, OECD, UN | Direct action and strike | To support legitimacy of demands, statement of NCP can provide further support |
| | | | Pressure to change individual company conduct | For reference and to support legitimacy of demands |
| | | | Corporate managers | Direct implementation of international CSR standard |
| | | (Partial) incorporation of international CSR standard in corporate standard | (Partly) implemented from corporate standard, but original CSR standard not necessarily known at local level | |
| | | Distribution of international CSR standard for reference | Known at local level, but not necessarily implemented | |
| | | Transmission of new CSR perspective only | - | |

Strategies and uses of international CSR standards. For more information on the uses of international CSR standards, see section 2.6.

