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Change and opportunity: corporate social responsibility as a source of competitiveness in small and medium enterprises in Latin America and the Caribbean

María Emilia Correa

Bernhardus Van Hoof

Georgina Núñez, Coordinator

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Contents

Abstract 5

Introduction 7

I. The problem: the ineffectiveness of existing tools to promote social responsibility 11

II. The proposal: looking at CSR in MSMEs in a different way 15
- A. Social responsibility is a process of change and not all the firms are ready to change... 15
- B. Recognizing MSMEs: a heterogeneous universe 17
  1. Leadership 18
  2. Internal processes: management maturity and management systems 18
  3. External relations and innovation..................................... 19
  4. Relations with clients 19
  5. Learning and growth: relations with employees 19

III. The first tool: how to identify companies that are willing to change? 21

IV. The second tool: social responsibility as a competitive advantage ... 25
A. Social responsibility and competitiveness ... 25
B. A process to increase the value of the business ... 26
1. Identifying social and environmental risks ... 26
2. Defining and communicating a route: vision, strategy, and values ... 27
C. Measurement of social and environmental responsibility ... 29
1. Key performance indicators (KPI) in the critical areas of business ... 30

V. Implications for public policies ... 33

VI. Reflection: public-private partnerships and social responsibility ... 35

VII. Conclusions ... 39

Bibliography ... 41

Annexes ... 45
Annex 1 Tools for measuring MSMES's willingness to change towards sustainability ... 47
Annex 2 List of the MSME's experts and entrepreneurs that were interviewed ... 52
Annex 3 Attendees to the Workshop in Mexico - 29 July 2009 ... 53

Studies and perspectives series, Washington Office: issues published ... 55

Tables

TABLE II.1 STAGES IN THE LEARNING CURVE OF A STRATEGY FOR CORPORATE RESPONSABILITY ... 17
TABLE II.2 MSME CLASIFICATION USED IN THE DOCUMENT ... 17
TABLE IV.1 INDICATORS OF CRITICAL AREAS ... 30

Figures

FIGURE 1 THE METHODOLOGICAL PROCESS ... 9
FIGURE III.1 STRUCTURE OF THE TOOL THAT IDENTIFIES MSMES' WILLINGNESS TO CHANGE TO A RESPONSIBLE MANAGEMENT ... 22
FIGURE IV.1 CRITICAL AREAS IN THE BUSINESS THAT AFFECT THE INTEGRATION OF SOCIAL AND ENVIRONMENTAL RESPONSIBILITY ... 29
FIGURE VI.1 CORPORATE SOCIAL RESPONSIBILITY UNDER A PUBLIC-PRIVATE PARTNERSHIPS MODEL ... 36

Abstract

This study is part of the OAS-ECLAC-YABT project, "Promoting Corporate Social Responsibility in Small and Medium Enterprises in Latin America and the Caribbean." The aim of the project is to define the critical areas of business and design a management tool with a set of sustainable performance indicators to incorporate the triple bottom line (economic-financial, environmental, and social) in the firm, which would promote responsible social and environmental practices and improve the competitiveness of micro, small and medium enterprises –MSMEs– in Latin America and the Caribbean

Several tools and management indicators have been developed to promote responsible business practices. A general characteristic of these tools is their focus on the technical aspects of corporate social responsibility (CSR). These tools don't emphasize the technical aspects of the business in particular, the management capacity, or the the firm's potential to change towards responsible practices. Their ability to perceive the reality and heterogeneity of the management capacities among the diverse enterprises of the MSMEs sector is limited.

The proposed methodology aims to help those enterprises that have a greater disposition towards change to find business opportunities from actions of social responsibility. Using a "grounded theory" methodology, this study explores the characteristics of successful MSMEs that have initiated a shift towards a responsible management, and aims to introduce a new look, a paradigm change, in the promotion of social and environmental responsibility.

Introduction

Micro, small and medium enterprises –MSMEs– are essential to development in Latin America, due not only to their significant contribution to employment generation and economic growth potential, but to their considerable impact on the environment. Over 95% of the companies in the region are MSMEs, and even though they contribute less than 50% to the region's Gross Domestic Product, they are the source of 60 to 70% of employment in the different countries.[1]

Because of the importance of this business segment, various technical assistance efforts have been developed in the past decade. These include research and studies to demonstrate the benefits of a more responsible corporate management in environmental and social terms, such as improvements in work, health and safety conditions, and a reduction of environmental impacts. Along the same line, the OAS-ECLAC-YABT project, "Promoting Corporate Social Responsibility in Small and Medium Enterprises in Latin America and the Caribbean", was developed, and ECLAC has made various efforts to develop indicators and management tools to measure firms' environmental and social performance. This project is part of such efforts

A. Main objective

According to the terms of reference, the main objective is "to define the critical areas of business and design a management tool with a set of sustainable performance indicators that integrate the triple bottom line

1 FUNDES, document in publication. FUNDES International, June 2009.

(economic-financial, environmental, and social) in the firm, which would promote responsible social and environmental practices and improve competitiveness in small and medium enterprises in Latin America and the Caribbean."

The project aimed to identify factors that explain the shift towards social responsibility in successful MSMEs, to use them as a reference for designing strategies oriented towards accountability.

B. Research Methodology

The methodology developed for this study was based on "grounded theory", a research methodology that constructs new explanations instead of elaborating on established ideas. "Grounded theory" methodology does not validate a hypothesis for the researcher; it develops valid hypotheses based on knowledge of stakeholders who have practical experience. This qualitative research methodology, proposed by Glaser and Strauss in the 1960s, allows categories to emerge from the data, i.e. generates explanations stemming from the experience of the stakeholders themselves.[2]

In the development of this methodology, open interviews were conducted with experts and entrepreneurs around the question: *"Do you know of any examples of MSMEs that have successfully initiated and maintained a process of change towards a more responsible social and environmental management?"*

We chose to interview two types of stakeholders: experts and entrepreneurs, in the six countries as defined in the terms of reference: Mexico, Costa Rica, St. Lucia, Panama, Colombia, and Chile. We deeply appreciate their collaboration. The list of experts and entrepreneurs consulted can be found in Annex 3.

We interviewed MSMEs entrepreneurs in order to understand their perspectives, needs, and business realities regarding social and environmental responsibility, and we interviewed experts with extensive experience in the field to identify trends and new paradigms. This stakeholder approach is essential for the emergence of new themes, given that the entrepreneurs themselves have benefited from external sources to assume new perspectives.

The geographical coverage was determined by the indications of OAS and ECLAC, and the location of the identified companies. We searched for cases of companies that had begun a shift towards more responsible management rather than a representative sample of a particular sector or geography; consequently, we have references of a variety of industries and geographic sectors. The common themes were the existence of a successful shift towards responsible management, their motivations, benefits and results, and the challenges and obstacles encountered.

The conversations were recorded, transcribed, and analyzed to identify the sections with relevant issues, distinguishing between an outcome variable and dependent variables, i.e. conditions relevant to fostering change in MSMEs. For this analysis, the process of "codification" was completed in order to build nodes of relevant topics and construct categories that allow for new conceptual elaborations.

Using this information, we constructed a proposal to be discussed at a workshop attended by experts and entrepreneurs in Mexico City, July 29th 2009. During the workshop we worked on the categories and variables, and we issued an opinion on their difficulty and complexity, in order to co-build proposals confirmed by the "practitioners" and experts. (Annex 3)

The proposed management tools and methodology to promote change in MSMEs in Latin America were consolidated at this workshop. We also offer some suggestions in terms of public policies, although the focus of this paper is to provide a methodology of change towards social responsibility in enterprises.

This micro level "open agenda" approach, rooted in the perspective of experts and entrepreneurs, enabled the emergence of a new view of these issues.

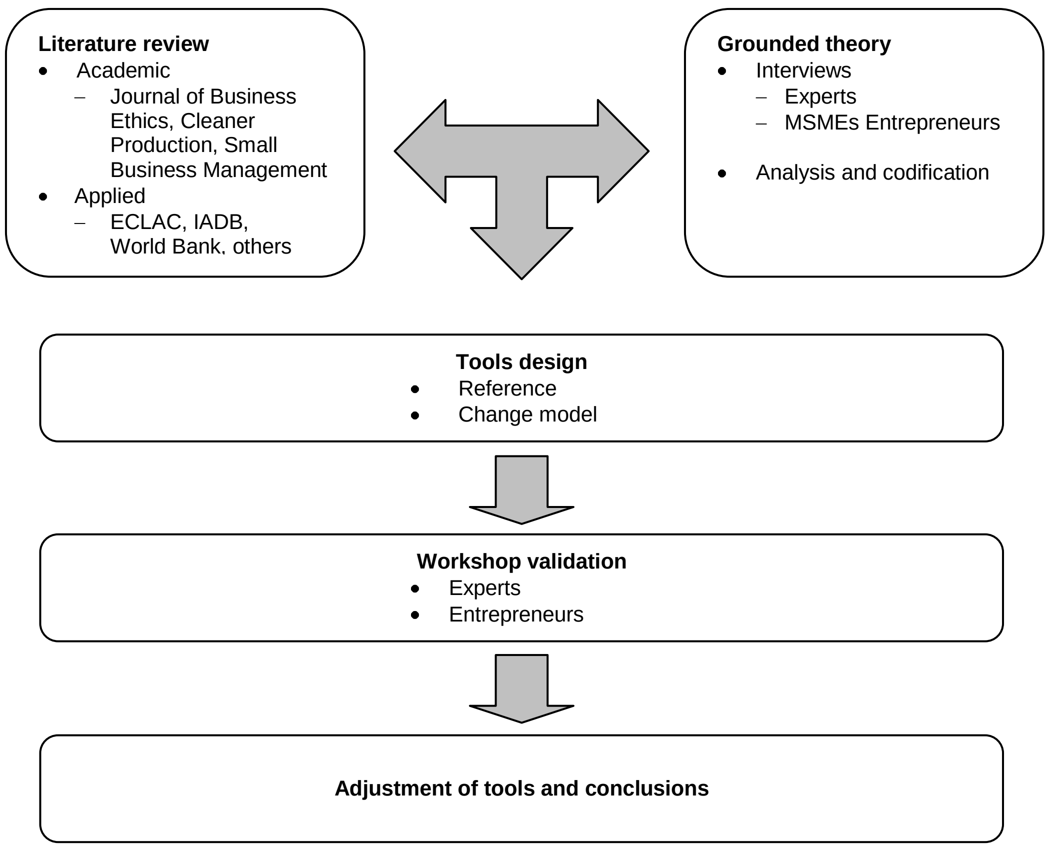
[2] There are numerous publications and references on this methodology. For a good summary, see Dick, 2005.

On the one hand, the experience of companies that have initiated a shift towards a responsible management provides key elements to turn these real life experiences into a methodology that can be used by other firms.

On the other hand, this process demonstrated the important role of external agents. Those involved in the daily operation of MSMEs are overwhelmed by the firm's own emergencies and are not always willing to seek improvements in nontraditional spaces. Entrepreneurs agreed that, in spite of many years in the profession, they were surprised by the savings opportunities found by experts who offered ideas for change. The social responsibility perspective is innovative and it brings social expectations to the company, revealing opportunities that usually go unnoticed.

The methodology used to develop the project can be seen on the following figure:

FIGURE 1
THE METHODOLOGICAL PROCESS



Source: Author, 2009.

This project was developed from research at the micro level and from the perspective of organizations that support and promote development, in particular ECLAC and OAS. Building on existing knowledge, this project points out ways to understand the processes of change in MSMEs and proposes methodologies to encourage such a change, rather than "reducing the size" of tools that have been successful in large enterprises.

I. The problem: the ineffectiveness of existing tools to promote social responsibility

In recent years there have been proposals and implementations of several tools and instruments to promote better social and environmental management in small and medium enterprises. We can mention, for example, the guidelines of the International Finance Corporation –IFC– to implement and evaluate accountability systems (http://www.ifc.org), the Guidelines for SMEs of the Global Reporting Initiative –GRI– (http://www.globalreporting.org), the IndicaRSE indicators system, developed by CentraRSE in Guatemala and now used in several countries in Central America (http://www.centrarse.org), the indicator tool created by CECODES and implemented in Colombia since 1995 (http://www.cecodes.org.co), and the systems proposed by Ethos and IARSE in Brazil and Argentina (http://www.iarse.org).

There are also industry-specific indicators, such as those proposed by the Forest Stewardship Council –FSC– for sustainable forest management (www.fsc.org), indicators of Sustainable Tourism by the World Tourism Organization –UNWTO– (http://pub.unwto.org), or the indicators of artisan mining Standard Zero for Fair Trade Artisanal Gold and Associated Silver and Platinum (http://communitymining.org/).[3]

A general characteristic of these tools is their focus towards the technical aspects of corporate social responsibility (CSR). They emphasize the “must be” of CSR, and the identification of critical points based on a pre-descriptive model. These ideal models are generally

[3] For a comprehensive look at the tools and indicators available, see Núñez, 2006.

developed from big companies and multinationals in developed economies. Sometimes they are "reduced" to the particular context of MSMEs. But they don't emphasize the technical aspects of the particular business, the management capacity, or the firms' potential for change. In this way, their ability to perceive the reality and heterogeneity of the management capacities among the diverse enterprises of the MSMEs sector is limited.

These limitations have been confirmed by various studies and by the experience of those working in the promotion of CSR in the region. The experience of the entrepreneurs themselves makes it possible to identify a number of questions regarding the effectiveness of these tools:

- The number of firms that effectively implement responsible practices is quite limited, and many enterprenuers do not understand the relationship between social and environmental management and benefits for their business (Campbell and Charles, 2009 & Vives, 2005).
- The various efforts and initiatives are successful in some cases, but the tools exhibit effectiveness and continuity only in some situations and in some contexts. Firms initiate changes in their management as a result of customer demands, criticism from the community, requirements from authorities, or through the support of external consultants and technical assistance. However, such changes are not maintained after the external support or pressure is over (Blackman, 2009).
- Environmental and social management systems are used in parallel and independently from businesses management; consequently they do not affect future decisions or change the management of the firm.
- Some companies initiate change but discover after some time that they do not have the systems or internal capabilities to continue improving their management.
- The difficulties of financing investments that have no direct and short-term impact on the business, as many of the environmental and industrial safety investments are, hinder progress in this regard.
- Some enterprises bring forward exclusively philanthropic actions but do not change their management; which does not reduce or improve their social and environmental impacts (Vives, 2005).
- Many counseling and technical assistance programs that introduce sustainable practices in MSMEs stem from the perspective of the limited capabilities of these companies compared to those of large enterprises. They do not aim, however, to identify and recognize the potential and the advantages of some MSMEs to advance in their triple bottom line.
- Most technical assistance programs only work based on external grants and subsidies, and there are no market mechanisms that drive the spread of processes of change in SMEs in a self-sustainable and efficient way.
- Work experience and discussions with experts and entrepreneurs show that the social responsibility agenda, and the language with which it is presented, are complex. The field has been developed strongly in recent years, proposing innovative themes and terms that are not commonly used in firms. The many conceptions of what we consider a socially and environmentally responsible enterprise cause confusion and complicate the decision on the change agenda.
- The field of social responsibility has been developed primarily for and by big firms, and people often apply the same concepts in small companies by "reducing the size" of tools and approaches to promote changes in small firms.

The aforementioned limitations show the perception that MSMEs are a problem due to their lack of interest in social and environmental issues and their unwillingness to change.

Specialized literature emphasizes the need to promote change in MSMEs to provide continuity and enhance their financial, social, and environmental impact, but the factors that promote or hinder this change, the exchange rate that is required, and the best ways to promote changes in these firms are not analyzed in depth (Jenkins, 2004, 2006).

There is little information on processes of change in MSMEs in the region and, as José Leal notes, "the knowledge about that economical agent (SMEs) is particularly weak, especially on a regional comparative level and even more in terms of their industrial organization, their environmental performance, as well as the policies that aim to improve that performance" (Leal, 2006).

This study is based on the notion that we must know more about the agent we want to change before trying to impose new ideas and values, and we must understand its motivations in order to propose effective tools for change. The diversity of MSMEs is enormous, and not all of them are willing or ready to change toward responsible management. In fact, there are internal and external obstacles that limit the willingness to change, but there are also strengths that enable a business to change toward better management. Therefore, there is no point in trying to promote change in firms just because they share a feature, such as their size or the industry in which they operate, without considering that the companies may be in very different situations.

Furthermore, social responsibility has been understood in a prescriptive manner rather than as a process of change. The tools are presented as a list of additional actions unrelated to the business, whose implementation requires a great deal of time and complex processes. The companies' response is that there is never enough time or resources to meet these demands: either the company is in crisis and cannot stop focusing on its business, or the business is growing and there is no time to comply with these requirements.

The previous argument supports the need to develop new focuses and tools that can upgrade the advances and the interiorization of the CSR in MSMEs. This study aims to contribute to this.

II. The proposal: looking at CSR in MSMEs in a different way

A. Social responsibility is a process of change and not all the firms are ready to change

This study proposes a vision of social responsibility as a process of change, integrated in the firm's management itself. This vision reflects the owner/manager's moral values, which are expressed differently by different companies, and the vision's aim is to **generate financial value from social and environmental considerations** increasingly valued by markets. To improve corporate responsibility is not to try to integrate complex concepts or install processes and measures that are unrelated to the firm, but to use common sense to find ways to improve the business using social and environmental considerations.

The introduction of social responsibility in a company requires changing the way in which tasks are performed, and above all, it requires changing the culture of the organization. It is not only about creating policies and processes. The measure of success of the introduction of social responsibility in a company is precisely that the company **changes** the ways in which it acts and makes decisions, and by definition, its contribution and relationship to the market and society that contains it. It is a great mistake to try to maintain the processes and actions and try to "add" actions to reduce impacts.

All companies are different and learn in a unique way. There are, however, some reflections in the literature about the process of change in companies that are in the path to accountability. Simon Zadek, in his article "The Path to Corporate Responsibility" (Zadek, 2005), proposes five stages in this path: companies move from the defensive position ("it is not our fault"), to the position of compliance ("we will only do what we have to"), through the management position ("it is a benefit for the business"), to the strategic position ("it gives us a competitive advantage"), and finally into the civil position ("we must ensure that everyone does this").

Companies treat social and environmental issues differently depending on the stage in which they are:

1. Companies in the defensive position ("it is not our fault") believe that the firm's sole responsibility is generating value for its owners, and social and environmental impacts are externalities that are not in the scope of the firm.

2. Companies in the position of compliance ("we will only do what we have to") focus on reducing risks for breaking rules, criticism from external stakeholders, or their clients' expectations. These companies follow the law and are responsible citizens, but oppose greater demands on social or environmental responsibility.

3. Companies in the management position ("it is a benefit for the business") recognize the potential savings and efficiency of better social and environmental practices. Tools such as eco-efficiency, industrial ecology (which helps a company's residue become another company's input), training, and others, are seen as investments that can be recovered in better quality, with lower employee turnover, and with a reduction of environmental and safety risks. At this stage social and environmental management is considered a rather technical issue for tracking processes.

4. Companies that consider the management of social and environmental issues a strategic advantage ("it gives us a competitive advantage") are usually distinguished by their ability to innovate. A competitive advantage is not attained when doing what was done in the past and adding some actions to reduce negative impacts: it is required that the company be able to innovate in products, services, people management, and production processes, to achieve a real advantage over its competitors. In this case, commitment to social responsibility can be a source of competitive advantage, i.e. the opportunity to achieve market differentiation, which results in a customer's purchasing decision.

5. Companies that have achieved an advantageous market position because of their efforts to become sustainable enterprises realize the importance of improving the operating conditions of the market ("we must ensure that everyone does this") and they strive to promote change in other companies and market structures. Their managers understand that there can be no sustainable business in failed societies, and they consider change towards more sustainable societies a strategic need.

The five stages described represent as a whole the learning curve during the process of organizational change towards sustainability. Table II.1 resumes it:

TABLE II.1
STAGES IN THE LEARNING CURVE OF A STRATEGY FOR CORPORATE RESPONSABILITY

Stage	What organizations do?	Why they do it?
Defensive	Unaware of responsibility and bad practices.	To defend from pressures and attacks to the reputation that may affect the results in the short term.
Compliance	Adopt policies and measures in compliance with current norms. Investments are considered as necessary costs to operate.	To control the risks of losing economic value in the medium term.
Management	Include elements of responsibility within the process and systems of management.	To control the risks of losing economic value in the medium term, taking advantage of the opportunities in the long term.
Strategy	Integrate social variables within the heart of the business strategies.	To create economic value in the longer term, generating leading advantages and promoting business innovation.
Integrative	Promote changes in societies that go further that the direct dominion of the enterprise.	To create economic value in the longer term, changing norms and generating benefits by collective action.

Source: Author, 2009.

This is a dynamic process that requires companies to be flexible and to continually adapt to or anticipate the expectations of their internal and external publics in the process that Zadek calls “civil learning”. It is not a steady progression that all companies must go through, but the continuity of the process has a greater chance of success when the social and environmental issues are part of the strategic project of value creation.

B. Recognizing MSMEs: a heterogeneous universe

We propose to “open the black box” of MSMEs to offer a view from inside that helps understand the reactions to the proposals of accountability and integrate social responsibility as part of the business.

The concept of micro, small, and medium enterprises –MSMEs– refers to a diverse group, with companies in all stages of development, in diverse sectors, industries and geographies. They have very diverse management and ownership structures, and they have different organizational cultures, operating in various social, economic and political settings.

The definition of a MSME varies from country to country, but quantitative variables are used in general, like number of employees, annual sales, and asset values, to classify the enterprises. The most generic classification is as follows:

TABLE II.2
MSME CLASIFICATION USED IN THE DOCUMENT

Kind of Enterprise	Criteria
Sole proprietorship	1 staff/owner
Micro enterprise	1-5 employees
Small enterprise	5-50 employees
Medium enterprise	50-200 employees

Source: Author, 2009.

One of the implications of this traditional and universally used approach is its ignorance of the essence of MSMEs and their management dynamics. The dynamics of corporate management, in large firms and MSMEs, is the result of the vision, the internal management and functional capabilities, and their interaction with external forces (Hitt et al, 2006).

Because of their scale and level of professionalism, corporate management in large companies follows institutionalized patterns (Scott, 1995). Managers in large firms are typically management specialists, and they count on professional, specialized staff. As a result, management systems are formalized to a greater or lesser extent.

This same degree of institutionalization of corporate management is not necessarily present in MSMEs. Because of their smaller scale, the influence of the manager/owner's vision is critical and therefore leads to greater heterogeneity between firms. In addition, given their limited bargaining power, dependency, and reaction capacity, MSMEs are more sensitive to changing forces in their surroundings, which generates particular implications for the firms' management and contributes to the heterogeneity of management dynamics (Gomez and Davila, 2008).

Based on the above, authors such as Jenkins (2004, 2006), argue that MSMEs are different from large enterprises, just as children are not small adults but different human beings. Their approach requires appropriate perspectives and tools, rather than mere "reductions" of designs envisioned for large enterprises.

Considering this perspective, we are looking to identify characteristics in the different dimensions that help recognize the company's essence in order to understand its potential for progress.

1. Leadership

The most common type of small businesses is one where the owner is the manager, so that ownership and management generally fall under one person. This element is very important because the firms' behavior often responds to the psychological characteristics of the owner/manager.

The type of leadership of the owner/manager defines the culture of the company and its options for change; under a leadership that is traditional, closed, non-transparent, or with little alignment with the enterprise, it is more difficult to promote change. More participatory managements, with better internal communication, can be more innovative and willing to improve their performance.

The possibility of change is different if he or she is an enterprising businessman or businesswoman, motivated to make the business grow, diversify, export, or if the company is only his or her job, a business for survival. Many employers may be satisfied with simply surviving and achieving some basic subsistence levels, and while the company manages to survive, they feel no need to change. The owner/manager's taste for or aversion to risk defines whether or not the company is willing to change.

There are, however, a significant number of small companies that have an important potential to contribute to the economic, social, and environmental development of the region. They also have strengths that enable them to find alternatives and make use of their potential so they can contribute to its sustainability.

2. Internal processes: management maturity and management systems

Enterprises are very different according to the maturity level of their management systems, i.e. if they have their business objectives and goals, both financial and otherwise, defined, written, and communicated to the staff. If they do not, they must first create them because without a culture of measurement there can be no change to more responsible management.

The management structure is also an important feature for differentiation. In small enterprises, the owner/manager and his or her employees perform several functions at once and have no formal administrative structures with specialized employees; under such circumstances, the affairs of everyday life can be overwhelming and can impede the identification of external issues. Due to these circumstances, however, the owner/manager's decisions have high internal legitimacy, which gives him or her great autonomy and flexibility to change.

3. External relations and innovation

MSMEs have a lower public profile, so they may be less responsive to external pressures. Unlike large firms, issues of reputation and accountability requirements are perhaps not the main drivers for change.

Nevertheless, it is interesting to see that there is a positive statistical relationship between successful exporting SMEs and innovation capacity; given that external market demands make exporting firms more flexible and more inclined to change. Generally, successful exporters find their source of innovation in customer relations and other external networks (FUNDES, 2008).

Traditionally, it is assumed that small entrepreneurs have a unique rationale, to maximize profits at any cost, with low sensitivity and minimum management and marketing skills. However, the entrepreneurs consulted on this project, and entrepreneurs found in the experience of the consulted experts and researchers, believe that their companies play a key role in building social capital given the conditions of employment they generate and their presence in the communities. They also express strong interest in learning about and improving their environmental impacts and their role in the community. They find that well managed these need not bring added cost and/or increased risk to the business, but that conversely, they can be a source of cost reduction and business opportunities. When the owner/manager is a person related to his or her community, with external networks, it is easier to encourage him or her to consider new ideas.

4. Relations with clients

As all firms, MSMEs favor their customer expectations: if the customer requests it, the company will do it. Companies that have a higher percentage of their accounts receivable in one or two clients have a dependency problem that affects their flexibility and their ability to change.

Programs of productive chaining, where a big company seeks to improve the operation of the small businesses that are part of its supply chain, can be a good strategy for working with groups of MSMEs. They offer scale and effectiveness opportunities given the small enterprenuer's interest to keep his or her client.

However, many large companies are motivated to be in these productive chaining programs only to improve their image and it is unclear that the programs bring benefits to the large firm. Therefore, there are continuity problems because if they run out of funding or external pressure, the program ends.

A problem that is worth examining in greater depth is the deadline for payment of large companies, of which MSMEs are suppliers. Some pay to 60, 90, even 180 days, and they work with the strategy of extracting more value from their suppliers, which makes MSMEs have cash flow difficulties and few possibilities for growth and investment. When cash flow is very limited, companies often adjust themselves with the workers' payment (wages and benefits), which leaves employees unprotected

5. Learning and growth: relations with employees

In MSMEs there is a greater proximity between the owner/manager and his or her employees, often depending on the employee's technical knowledge. Issues regarding employees, like motivation and retention, can greatly influence the decision to change.

The dependence of the owner/manager can have advantages in terms of decision-making on innovation and change. Additionally, the company's scale can facilitate decision-making on processes of change, which in large organizations have more complex implications. Another advantage is their potential for undertaking market niche, which are not interesting to larger companies because of their size.

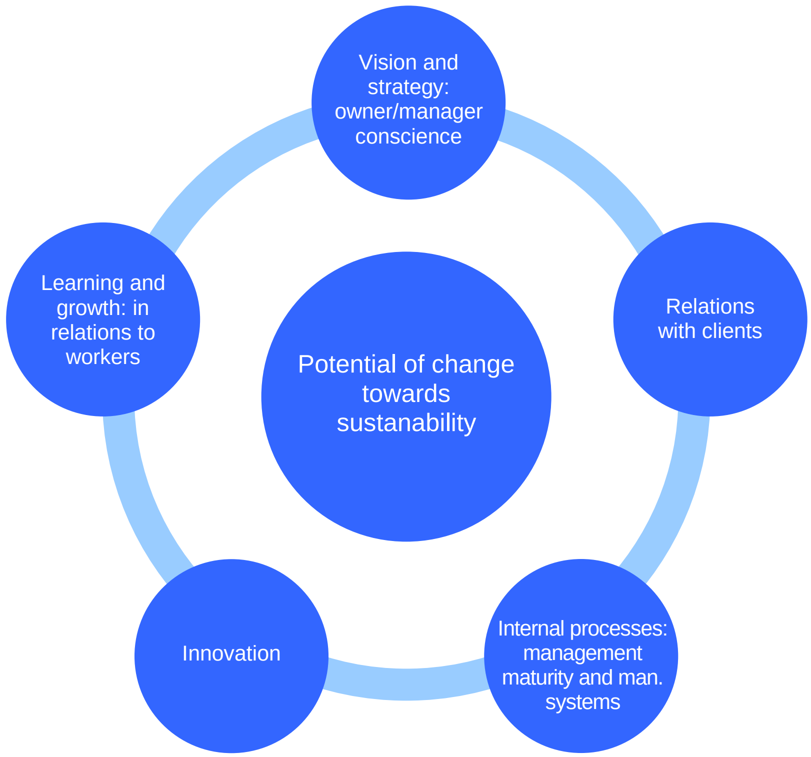
We propose that MSMEs can be more flexible than large firms to adjust their internal processes for changing market opportunities, taking advantage of market niche that promote social and environmentally responsible management.

III. The first tool: how to identify companies that are willing to change?

Based on the distinguishing features mentioned in the preceding section, we propose a qualitative tool for classifying the potential of MSMEs to change toward accountability. The tool identifies MSMEs that are willing to seize market opportunities of social and environmental trends, helping promotion agencies and other interested stakeholders design more effective programs and projects. Additionally, the tool will help owner/managers and employees to understand the relationship between responsible management practices, business competitiveness, and the internal capabilities required to improve it.

Each dimension of the model connects with key indicators for its measurement. As a whole, the different dimensions determine the potential of the enterprise to advance towards a new sustainable management. The following figure shows the dimensions evaluated in the proposed tool.

FIGURE III.1
STRUCTURE OF THE TOOL THAT IDENTIFIES MSMES' WILLINGNESS TO CHANGE TO A RESPONSIBLE MANAGEMENT



Source: Author, 2009.

The first dimension considers the vision of the owner/manager, that is the main "reason of being" of the firm, its capacity to manage crisis (slumps in sales, legal problems, personnel problems, problems with shareholders, among others), the way as strategic decisions are taken, and the relation between the enterprise and its environmental and social surroundings.

The second dimension analyzes *the relations between the enterprise and its clients*. This refers to the number of firm clients, the management of the payment terms of clients, the kind of communication that the enterprise maintains with its clients, and the duration of the relation with its clients.

The third dimension describes *the internal management* of the enterprise, which covers its administrative system, the type of technological changes that have occurred and the rotation of its personnel.

The fourth dimension related to the potential for changing towards sustainability is the *participative culture* in the firm. This dimension emphasizes the way that the personnel participate in the firm's management, the staff's level of professionalization and the hiring system.

The fifth dimension emphasizes *the relations with its surroundings*, which includes the company's relation with its competitors, with the authorities and with other firms in terms of exchange of information, collaboration, and representation, among others.

The tool's structure is detailed in Annex 1. For each dimension and related variables, the tool provides different levels of development that make it possible to classify and compare enterprises and sectors. The tool proposes five categories, A, B, C, D and E, where A relates to an obstacle for change, B-D to an intermediate condition, and E to a fortress that motivates a more responsible management.

This tool allows to classify companies according to their propensity to change: a firm with many variables between A and B may be resistant to change, so perhaps it is necessary to support its business management and the development of management skills **before** trying to include changes to its social and environmental management.

A company with more variables between B and C may have a medium development of its management skills and may be it is more open to consider the cause-effect relationship between improvements in its social and environmental management and the development of its business.

A company with a larger number of variables between D and E may have an adequate management development to look for business opportunities and competitive advantages in the market following the social and environmental trends.

This classification is related to the firm’s possibilities of growth, flexibility, and dynamism. Identifying strengths and weaknesses can lead to different outreach strategies and facilitate the decision on the allocation of support resources, favoring companies with a greater chance of success or allocating special resources to support those with greater difficulties.

IV. The second tool: social responsibility as a competitive advantage

A. Social responsibility and competitiveness

In this study, the concept of social responsibility is refered to the way in which firms manage business activities to produce a positive impact on society and the environment. This refers to companies' operations that reflect the preoccupation to counteract social and environmental impacts, through the adoption of voluntary actions **beyond the scope of law, looking for** a positive impact on their environment and their stakeholders.

A central driver for entrepreneurs is to improve the financial performance of its business, for that reason we believe that the best way to promote social responsibility is demonstrating the business advantages that arise from social and environmental considerations. The proposed methodology helps the company to improve its vision and strategy, the internal processes and culture, and the relations with its stakeholders –employees, customers, suppliers, communities, NGOs, and authorities–, **to generate financial value from social and environmental considerations**.

Companies pursue enhanced financial outcomes through profitability and growth, but they also want to build competitive advantages by developing innovative products or services, taking advantage of market nich, and innovating business models that improve their competitive position.

The classic definition of competitive advantage is that of Michael Porter, who originally introduced it as "the ability of companies to produce or market their goods or services at better quality conditions, timeliness, or cost than their competitors" (Porter, 1980 & Porter and Kramer, 2006). This ability is the result of several activities along a company's value chain that allows a relative cost position in order to differentiate the firm, which leads to a purchase decision or customer preference in the market. Porter identified three generic strategies that can be use, individually or together, to create a long term position that exceeds the performance of competitors in an industry: cost leadership, differentiation, and focus or specialization in a specific group of customers, in a segment of the product line or geographic market.

To build competitive advantage from non-traditional areas, such as social and environmental issues, Forrest Reinhardt (2000) proposes five strategic roads:

1. Development of new products or services that solve environmental or social problems, or that improve the social or environmental impacts of the products or services they substitute
2. New customer segments that emphasize the value aspects of their purchase
3. Differentiation by lower costs
4. Differentiation by complying with the law that their competitors cannot observe
5. Appropriate risk management

The contribution of this vision may be quite useful precisely in times of crisis, as shown in the case of a small company that transports refrigerated goods in Colombia. This company of 40 employees was the smallest refrigerated transportation provider for a large supermarket chain recently acquired by a European multinational. With operating margins getting lower and lower, it had no investment capacity to grow and be able to cover a larger number of routes, so it was losing ground to its competitors.

An analysis of its environmental impacts showed possibilities of cost reduction and efficiency improvements associated with the reduction of greenhouse gases caused by the consumption and nature of fossil fuels. With the implementation of eco-efficiency practices, the company managed to lower its operating costs to stay in business. Additionally, it managed to strengthen its relationship with its client by allowing it to become an example of reduction of greenhouse gas impacts in the value chain, a goal recently declared by the multinational.

B. A process to increase the value of the business

There is no one way of improving performance with a more responsible management because the appropriate actions depend on each firm's opportunities and challenges. What is important is that the managers of the companies themselves choose the issues they consider most relevant and do not try to impose an agenda that is not related to the business.

1. Identifying social and environmental risks

Companies may choose to focus on improving the efficiency of their processes to reduce environmental impacts, on redesigning their products to serve a new segment of customers who favor environmental issues, or on improving their internal culture. There is no established order for this process of change, but it is usually helpful to start with those items that represent a significant risk to the business.

Identifying environmental and social risks in the value chain, as well as financial risks, can help avoid unpleasant surprises, and it allows the firm to plan which ones to work on first without having to tend to emergencies and crises. Each company must decide the risk level that it considers it "can live with", and estimate the approximate cost of incurring the risk, or the market opportunity by not having that risk, because that is the top level of expenditure or investment it should undertake. It is desirable that employees and other stakeholders participate in this process in order to have a broad vision and ensure that all involved understand the importance of the issues.

One of the most common hazards of MSMEs is that of sanctions for breaking the law. Admittedly, in some countries legislation is complex and difficult to understand and access, but the company that manages to be current on its legal obligations not only avoids such sanctions but may stand out in front of customers, like multinationals, who do not want to take legal risks in their supply chain. This condition facilitates access to trade finance and makes the company more attractive to investors. Clearly, it is a very important requirement if the company's growth plan considers exports, and in some countries, like Colombia, there are tax benefits like the Environmental Leadership Award given by the environmental authorities in Bogotá, which reduces the tax burden for the winning companies.

Risk identification and law enforcement are two of the paths toward differentiation proposed by Reinhardt (2000).

2. Defining and communicating a route: vision, strategy, and values

Understanding the company's social and environmental impacts allows it to find new business opportunities, either by reducing costs or risks, opening new markets or products, or by differentiation due to working in an ethical way. To build these competitive advantages, the owner/manager has a key role in giving the company a direction and a way of operating that is motivating for employees, maintains the business's focus, and enables the company to differentiate itself from its competitors.

Building this difference in the market can attract new customers, investors, and employees, and it is very important that it be clearly communicated to current and potential customers and other stakeholders. It is convenient to work on this definition with employees, identifying with them both business opportunities and opportunities for improvement, while being consistent with the vision and values that have been proposed with the current reality in mind.

a) Knowing the Clients

Listening to customers is essential to understand their needs and expectations. Customers can be a source of ideas for improvements, and through dialogue customers get to know the company, its vision and culture.

In the environment of social responsibility, the design of new products or services answers the question: "What can I offer that is socially and environmentally responsible and makes business sense?" This question is the source of innovation that leads to new customer segments that want more products with a positive impact on the natural environment and society.

An interesting case is that of a small press in Santiago, Chile, which in 2001 offered its services to GrupoNueva, one of the first multinationals to publish sustainability reports in the region. GrupoNueva required that the press have the highest quality printing standards, but also that working conditions were adequate in the workplace, and that the company use FSC certified paper and soy-based inks. For the press, it took a tremendous effort to meet these requirements, but soon many companies started publishing sustainability reports and using "environmentally friendly" printing products. The press turned out to be the only one in Chile that could meet these expectations, so business grew significantly.

b) Employee relations

Businesses depend on their employees, and it is important to make them feel like part of the company's project. Their increased loyalty, commitment, and enthusiasm can be seen reflected in lower voluntary turnover, fewer days lost due to stress leave, and increased productivity. Employees can be a source of innovative ideas, problem solving, and improvements in overall business performance. This integration of employees requires special spaces meant for frequent dialogues, and a real space so that opportunities and challenges can be expressed.

Training and formation of employees can improve the firm's competitiveness and improved working conditions may reduce the risk of accidents and the time lost due to sickness or accidents.

A very interesting case to consider is the experience led by FUNDES with micro entrepreneur plumbers in Mexico (http://www.fundes.org/Mexico). A business management consultancy identified opportunities for cost reduction by replacing polluting products, which improved working conditions and reduced health impacts on workers. The micro enterprises increased their sales and their new status allowed them to offer services to the city's gas company.

c) Eco-efficiency: improvement of processes when reducing environmental impacts

Pollution is a measure of inefficiency of production processes, and decreasing it entails the reduction of costs, a more efficient use of resources, and increased readiness for compliance with the law. Reducing negative environmental impacts can improve the company's reputation and make it an attractive supplier for customers, who prefer environmentally friendly products, as well as for investors who want to invest in a manner consistent with their values. There are numerous references in the literature about the benefits of eco-efficiency, so we will not recount these experiences here again.

An interesting case to illustrate this theme is the Green Suppliers Program in Mexico (Van Hoof, 2009), where the Commission for Environmental Cooperation of North America has contributed to innovation strategies for "greening" MSMEs. Considered as a priority sector within the context of trade between the countries of North America, the pilot program has included a significant number of companies, it has contributed to the reduction of environmental pollution, and it has improved the competitiveness of production chains in the three countries. Its potential is shown in the adoption of the program by Semarnat and the Secretariat for Sustainable Development of the State of Queretaro, who together with national and multinational corporations have increased the work methodology and expanded the scope of their impact to the whole Mexican territory.

The new work mechanism integrates the concepts of strengthening the customer-provider relationship (external incentives), the optimization of business processes through eco-efficiency, and capacity development through empirical learning (internal incentives). The participanting companies create projects that help increase productivity and prevent pollution. This networking process encourages the formation of group projects that improve the interactions of the production chain and offer new business opportunities.

d) Relations with stakeholders as a source of innovation

Currently there are new market opportunities opened up by social and environmental considerations and the best way to identify and manage them properly is through dialogue with stakeholders: customers, neighboring communities, NGOs, technical assistance organisms, competitors, and employees. Unlike stakeholder management in large enterprises, in small firms it is not about having a generic process to understand the company's reputation, but about finding business opportunities in the expectations of customers, authorities, NGOs, etc.

The study by FUNDES (2008) on successful exporting SMEs is very relevant, because it shows that most of these firms have their own customers and other external actors as an important source of innovation. Another interesting case is that of hotels in Costa Rica and St Lucia, which have changed their practices to reduce their environmental impacts, attracting premium segments of customers who are willing to pay for a lodging experience that agrees with their environmental and social values.

e) Better relations with neighboring communities

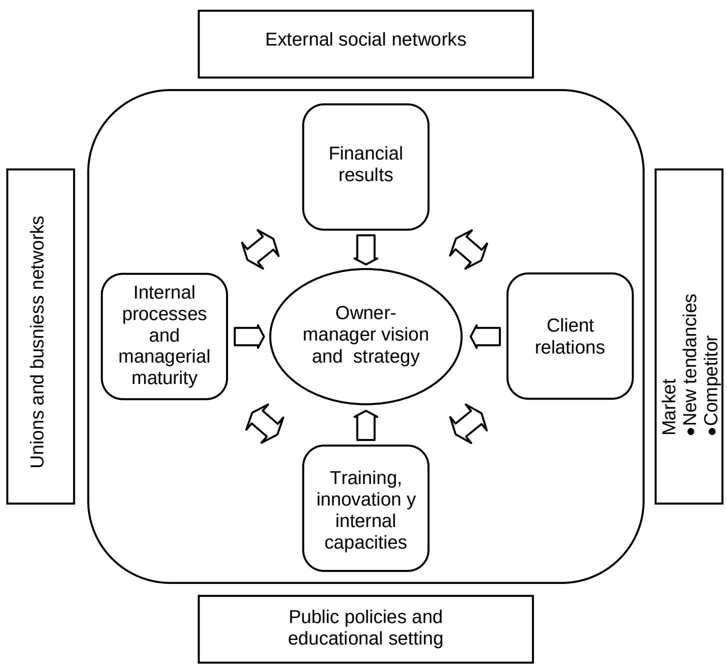
All businesses benefit from operating in safe and stable social environments. Meeting the neighbors and familiarizing them with the company can help foresee and manage risks, enhance reputation, and be a source of motivated employees and new business opportunities arising from the development of local suppliers.

C. Measurement of social and environmental responsibility

Measuring non-financial performance reveals the real value of the business. Customer and employee loyalty, reputation, and all the benefits mentioned in the preceding section, can be sources of value. Nonetheless, if they are not measured, they cannot be harvested. Monitoring performance through measurements makes it easier for companies to implement improvements in processes, reporting and accountability, assess progress according to objectives, identify activities that do not work, and allocate resources more efficiently to activities that are critical for success. Performance measurements and management systems provide a logical framework for establishing cause-effect relationships, exploring these relationships, and offering suggestions for improving the way in which each organization produces value.

In this study we propose a methodology, influenced by the Balanced Scorecard, to measure progress in social and environmental issues integrated into business management. We considered the basic dimensions of a business: the owner/manager's vision and strategy, customer relations, internal processes, financial results and the effects of the environment, and built a model to classify the identified variables, as shown in Figure IV.1.

FIGURE IV.1
CRITICAL AREAS IN THE BUSINESS THAT AFFECT THE INTEGRATION OF SOCIAL AND ENVIRONMENTAL RESPONSIBILITY



Source: Author, 2009.

The Balanced Scorecard (BSC) proposed by Kaplan and Norton in 1992, is a common framework for associating objectives and key strategies with performance and outcomes. It allows companies to identify objectives and goals in the critical dimensions of business: vision and mission, internal processes, learning and growth, customer relations, and financial results.

The Balanced Scorecard facilitates the implementation of business strategies, makes causal relationships between financial and non-financial activities evident, and identifies the impact of "soft" activities (those which have no direct relation to financial performance) in the realization of strategic objectives. It is therefore a useful tool for integrating social and environmental issues in the company, and for showing the causal relationships between social, environmental, and financial performance.

1. Key performance indicators (KPI) in the critical areas of business

Following the model proposed from the Balanced Scorecard, we propose a tool of key indicators (key performance indicators, KPIs) that assess critical success factors and should therefore be clearly aligned with company's mission. KPIs always reflect strategic value drivers. This tool incorporates the triple bottom line (economic-financial, environmental and social) in the critical areas of business to promote responsible social and environmental practices and improve competitiveness.

Given that, this process takes time and depends on each company’s attitude toward social responsibility, firms can define their own goals that would demonstrate progress in terms of accountability from the proposed KPIs. Each firm must decide which themes contribute significantly to its business and choose the indicators that are most useful, rather than trying to comply with the full list of social responsibility.

An example that may serve as a reference for the definition of indicators in critical areas is presented in Table IV.1:

TABLE IV.1
INDICATORS OF CRITICAL AREAS

Critical Areas	Elements	Indicators
1. Vision and Strategy	The company has integrated environmental and social elements as targets in its value proposition	▪ Number of new products ▪ $ lower costs ▪ Number of new clients ▪ $ less risk
	The owner/manager communicates his or her vision to employees, customers and other stakeholders	▪ Yes/No
	The company has identified the main risks associated with social and environmental issues	▪ Yes/No
2. Financial Results	Revenue from new products or services with lower environmental or social impact	▪ $ sales of new products
	Amount of risk avoided by appropriate compliance with the law or others	▪ $ from avoided risk/investment
	Savings from process efficiency: consumption reduction	▪ $ savings/m^3 water not consumed ▪ $ savings/kWh not consumed
3. Internal Processes	Process efficiency: reducing consumption of water, electricity, fossil fuels, waste, emissions of greenhouse gases and other air emissions, water effluents, substitution of toxic or hazardous materials	▪ % H20 m^3 reduction ▪ % kWh reduction ▪ % fuel l reduction ▪ % waste m^3 reduction ▪ % air emision reduction ▪ % effluent reduction ▪ Number of toxic inputs replaced
4. Relations with Clients	The company knows its custormers’ expectations with respect to products with lower social or environmental impact	▪ Number of clients that have been informed
	New customers who favor the relationship with companies with responsible management	▪ $ sales to new clients
	Customers who repeat their purchase	▪ % of clients that repeat their purchase

(continues)

Table IV.1 (conclusion)

Critical Areas	Elements	Indicators
5. Learning and Growth	Reduced absenteeism and stress leaves	▪ % reduction in absenteeism ▪ % reduction of days lost due to stress
	The company has formal spaces for dialogue and suggestions for employees	▪ Number of formal meetings
	Reduction in days lost due to occupational accidents and sickness	▪ % reduction of lost workdays
6. Relations with Stakeholders	The company participates in trade associations, community groups, social networking	▪ Yes/No
	Employees and/or providers who live in the area of influence	▪ % local employees or providers
	The company participates in activities to support its community	▪ Yes/No
	The company takes advantage of government benefits for MSMEs	▪ Yes/No
	Innovations from external sources (stakeholders)	▪ Number of new products ▪ Number of new processes ▪ Number of new customers

Source: Author, 2009.

V. Implications for public policies

The goal of this study is not to suggest changes in public policy. However, certain ideas came forward in discussions with experts and entrepreneurs that we believe may be relevant to promoting a shift towards responsible and successful companies in the region. Particularly, this section collects the considerations that emerged in the Mexico workshop (29 July 2009).

Promoting change in MSMEs in Latin America requires an institutional environment with serious public policies that define the course of economic development that each country wants to take, and that integrate social and environmental issues as competitive advantages, not as optional attachments. The discontinuities in current State action create uncertainty. Successive governments do not provide continuity in policies, and when there is constant uncertainty, firms will not have a long-term vision. Therefore, State policies are required, rather than government policies.

Governments in the region offer subsidies and other assistance to MSMEs in consultancy and support, internal capacity building, and financing for investment in technological changes. However, only a few well-directed, well-implemented, and well-targeted programs are necessary. This makes it easier to assess government support and reduces public spending. For example, in Mexico the Ministry of Economics[4] identified 151 programs focused on providing business development services to MSMEs, which entails a huge waste of resources with little consequence; in spite of the priority and the allocated subsidies, the services had neither the scope nor the relevance that MSMEs require. Therefore, perhaps what is lacking for MSMEs to develop and become socially responsible businesses is not the quantity of public services supplied, but the quality of these services.

4 Comment by Jorge Saggiante, OAS, about a study by Skertchly (2007).

There is also a great deal of bureaucracy, procedures, and difficulties. Trying to follow the law and to have all necessary permits and access to benefits requires huge effort. It is essential to facilitate MSMEs' access to State benefits and compliance with the law.

It is tremendously difficult for Latin American countries to implement and monitor the compliance of MSMEs with the law because of the large number of companies, their geographic dispersion, the differences between them, and the always scarce budgets. There is a high turnover of the authorities, an enormous amount of often conflicting rules, legal uncertainty that is expressed in unpredictable and sometimes arbitrary decisions, short-term vision, and some cases corruption or limited capacity of those in charge of monitoring companies. The firms that “allow themselves to be seen” by approaching the authorities turn out to be the only ones that the authorities follow and make demands to.

MSMEs cannot be subject to the same rules as big businesses as they need special time limits and conditions. For example, if one wants to reduce a very small amount of pollution, the cost is relatively significant, that is the case for many small businesses. The pollution control costs are also very important in the cash flow of small companies, so one must think about graduality and eco-efficiency productive processes rather than an “end of pipe” process.

A new challenge for social responsibility is that it is part of a global development strategy under a process of public-private partnerships. Social responsibility can be an asset that contributes to the competitiveness of countries by:

- Reconciling social responsibility practices with the provision of public goods underpinning national competitiveness.
- Aligning the promotion strategies of domestic investment with foreign investment.
- Converting the impacts of social responsibility by accessing foreign markets in a positive competitive advantage for the country.
- At the micro-economic level, socially responsible corporate governance (CG) can improve competitiveness, access to finance and capital cost reduction.

Adequate involvement and support from the public sector in promoting the social responsibility agenda, expressed through value chains and foreign investment policies, can act as a catalyst for development of micro, small and medium national enterprises, thus ensuring the sustainability of social responsibility agendas on the medium- and long-term.

Social responsibility can contribute to the design of innovative strategies that reduce the gaps in public sector capacity and its interaction with the private sector. It can also contribute substantively in partnerships by creating synergies between the complementary skills of public, private, and civil society sectors acting together in order to achieve the objectives of the public policies related to sustainable development.

Access to accurate and timely information helps design strategies and public policies towards the private sector, and it promotes transparency and accountability. This contributes to the spread of social responsibility based on a more solid public-private partnership with a stronger impact on society as a whole.

The message ECLAC wants to leave behind is that social responsibility is not a single sector's effort. Governments at all levels (national, regional, and local), parliaments, civil society, and businesses have an important role in the promotion of good practices, either by encouraging partnerships within or with the private sector, promoting active participation of the citizens or creating a regulatory framework that guarantees the proper functioning of markets, transparency, and access to information. In a global scenario, public-private partnerships become the functional structure that creates the incentive for the responsible management of the company and for better relations with the community, which forms the basis of a democratic society.

VI. Reflection: public-private partnerships and social responsibility[5]

The company has the responsibility to contribute to sustainable development by working with the various stakeholders (employees, shareholders, investors, government and civil society) in improving people's quality of life in a way that is convenient for businesses and for the development of countries.

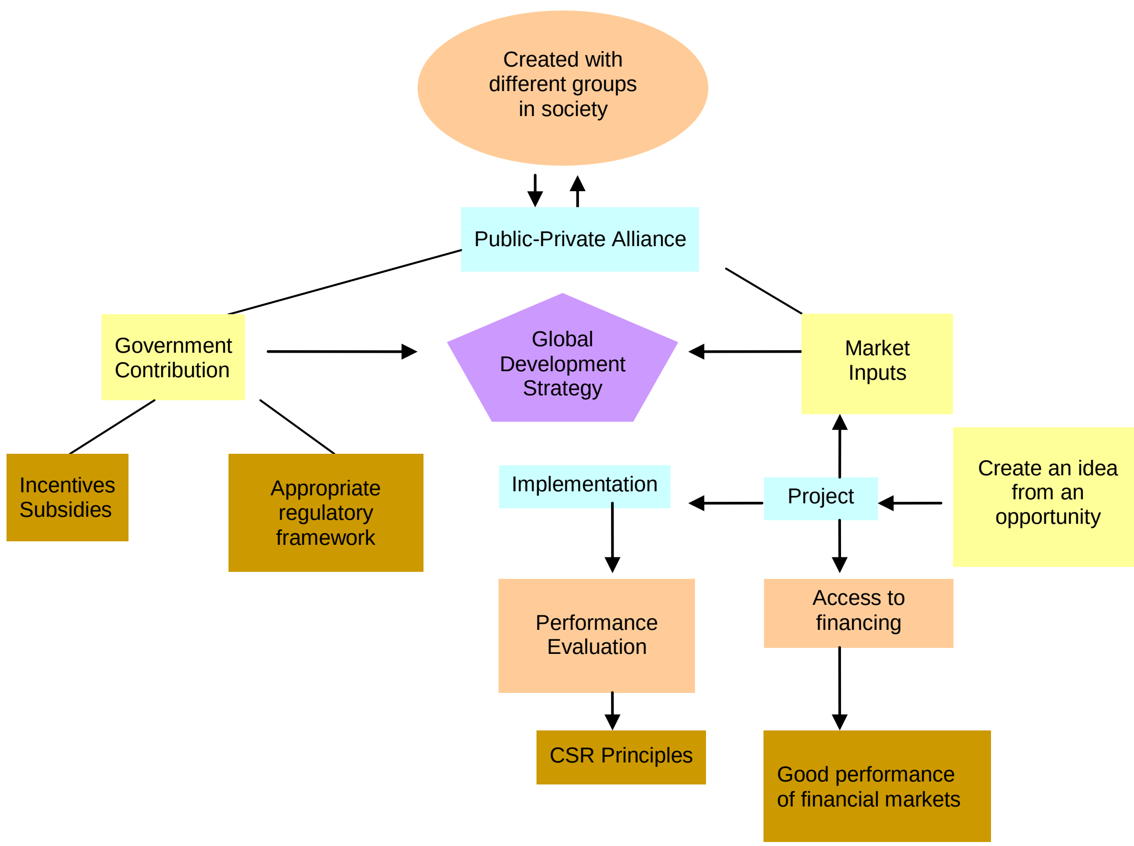
Social responsibility is an important component for the development and welfare of societies in the countries of the region. It is a cost-benefit management process of business activities for the related internal and external groups. This management plays an important role in the company itself, but another equally important role in public governance. An effective way to address the issue of social responsibility is through a structured framework of public-private partnerships, which leads to the construction of social consensuses. Therefore, the social responsibility agenda should conform to a public-private agenda for global, regional and/or local development. ECLAC has developed a framework for addressing global development (ECLAC, 2008). The study of the various edges of social responsibility contributes to the transverse and horizontal analysis of development issues. Public-private partnerships are also seen as the best strategy to create a more balanced situation between the role of the State and the role of the market.

[5] Reflection by Georgina Núñez, coordinator of the OAS-ECLAC project, from ECLAC Washington Office.

A social responsibility agenda must also reflect a concern for the content of the civil society agenda, as they affect each other[6]. The State has a key responsibility in promoting the participation of the different stakeholders of society. It also has a responsibility in building and strengthening an innovative and entrepreneurial culture in civil society that encourages the private sector to adopt a more active role, socially committed and more equitable, nationally and internationally. A new role of the State, as guarantor and engine of the main changes, must result from the associative exercise of State-private sector-civil society. The State is required to adapt and create clear rules, as well as to ensure an institutional and legal framework consistent with the development needs, which in turn strengthens governance, and guarantees the transparency of processes and accountability. The construction or existence of an institutional framework facilitates the process of integration of a broad social agenda. This institutional framework must include the mechanisms and modes of interaction that facilitate the eventual construction of consensuses and actions, which necessarily require political leadership. In this sense, each sector has its own peculiarities, and the importance assigned to each sector will depend on the role it plays in the overall development strategy of each country.

According to Figure VI.1, a comprehensive development strategy is created from opportunities that are presented in the form of projects of different nature that aim to improve the company's economic, social, and environmental performance.

FIGURE VI.1
CORPORATE SOCIAL RESPONSIBILITY UNDER A PUBLIC-PRIVATE PARTNERSHIPS MODEL



Source: Author, 2009.

[6] For an analysis of the role of stakeholders, see Cragg, Wesley "Corporate Responsibility and Accountability in the Global Marketplace" A Canadian Vision and Next-steps National Agenda, part of the project Ethics Codes: The Regulatory Norms of Globalized Society, Schulich School of Business, York University, 2003.

Management systems within companies (according to size and organizational structure) should also result from internal processes of dialogue, coordination, and commitment of the various areas that make it up, with a focus on the definition of business goals and the corresponding mechanisms of measurement. This necessarily requires knowing both the strengths and obstacles within the internal and external dimensions of the company.

The institutional environment in which the company operates, which also corresponds to the external dimensions that affect it, gives the company insight into its short-and long-term strategic plans. In this respect, there are three elements that define the effectiveness of institutionality and can be used to measure and evaluate its impacts. One is the continuity of public policies associated with the definition of the economic, social, and environmental development strategy of the country, integrating social and environmental aspects as a competitive advantage. The second refers to the availability and allocation of resources, subsidies, and financing, and also includes the combination of these with private resources. A dissemination policy of the different mechanisms of incentives and subsidies available to the public sector contributes to the development of companies, in particular MSMEs, in capacity building, technological improvements to production processes, etc. Finally, the third element refers to the legal and institutional environment. Clarity about the rules makes it easier for businesses to access state benefits and to comply with the law. The rules must be consistent with the companies' development policy objectives and known by all. Consequently, the public sector should support certain corporate social responsibility practices in the market, such as award schemes or non-governmental metrics, indicators, guidelines and standards, applied in different types of policies.

In countries or sectors where market drivers of social responsibility have the potential to support public policy objectives or at least are neutral in relation to establishing public policy objectives, government agencies may choose to have a laissez-faire approach, to accept the current trends, or to facilitate the emergence of voluntary approaches that are more directly aligned with public policy goals. But in the case where markets fail to send the right signals, or when a sector of the market does not respond to signals sent by the consumer or other private sectors, it is necessary to establish some form of public sector intervention to establish incentives that lead to the identification of clear overall development goals (Ward H., 2004).

Increasingly, governments in developing countries are beginning to view social responsibility practices as a relevant issue in public policy. It is a way to improve sustainable development strategies and a component of national competitiveness, which facilitates the attraction of foreign direct investment (FDI) and the global positioning of its exports. Moreover, it gives the problem of poverty an important place in public policy goals.

However, many times the link between governance and social responsibility is not so clear. Governance not only defines the nature and trend of social responsibility in different contexts, but it can also define the roles of the various stakeholders. The effectiveness of the tools of social responsibility (codes of conduct, principles, guidelines, certifications, etc.) can be strengthened by a greater involvement of various public sector agencies in private agendas.

VII. Conclusions

The results of this study give businesses and the community innovative tools that can be useful for promoting social responsibility in MSMEs in Latin America: the tool to evaluate the MSMEs's willingness to change, the methodology of the implementation of social responsibility as a competitive advantage, including key performance indicators –KPI– in critical business areas.

The proposed key indicators –KPI– to measure performance in responsible MSMEs diverge from the usual performance indicators of social responsibility, as they do not measure prescriptive issues, such as the number of training hours per employee or the processes implemented to control environmental and social impacts. This proposal aims to measure the business outcomes related to the value arising from exploiting opportunities in the new social and environmental markets. This approximation is aimed at the enterpreneur and society's interest, since we hope to hereby promote successful businesses that contribute effectively to the economic, social, and environmental development of the region.

The material exposed in this study arises from the process of co-construction of thought with experts and entrepreneurs, validated by research of academic literature. The application of grounded theory provides important information, showing that entrepreneurs and experts in MSMEs have a very valuable tacit knowledge that is not organized in a theory or model that explains the process of incorporating social responsibility in MSMEs. In this research, this knowledge proved to be the base for strong foundations, which processed with existing conceptual frameworks can advance the understanding and solution of a fundamental challenge to modern society.

As part of the iterative process of constructing knowledge, the next stage will be to apply the methodology and tools proposed for MSMEs in the region in order to assess their applicability and usefulness. The research phase presented in this paper is a construction based upon the participants' contributions of tacit knowledge. For the next phase, it is suggested to present these advances and developments to MSMEs' industry experts and entrepreneurs to use and once again help us refine the findings and progress in the development of knowledge in these areas.

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Annexes

Annex 1

Tools for measuring MSMES's willingness to change towards sustainability

The objective of this tool is to obtain information on the critical areas of business that influence the adaptation of improvement practices of the environmental and social performance in micro, small and medium enterprises in the region. This information will be useful to understand the potential of change of the enterprise towards the incorporation of sustainability practices in its management, and based on it, for the identification and design of tools for its promotion.

The tool consists of five parts: (i) owner/manager vision, (ii) relations with the clients, (iii) internal management, (iv) participative culture, and (v) relations with the environment. The tool contemplates 17 questions, the majority of which are multiple choice. To develop the tool, the owner/managers of the enterprises must indicate the answers that fit most with their opinions or realities. In the case of the open questions, the instructions guide its interpretation. Developing the tool takes around 30 minutes. In some cases it may be useful to verify the specific information with colleagues from the enterprise.

The tool is directed to representatives (managers and owners) of small and medium enterprises of the manufacturing and service sectors of the different countries of the Latin American and Caribbean region.

Section I. General characteristics of the firm

1. General characteristics of the firm

Please complete the following table using the most recent information available (since 2008) and according to the instructions in each section.

a. Name of the firm
b. Address of the firm (headquarters' town + country)
c. Year when the firm was founded
d. Name of the person answering the survey
e. Position of the person answering the survey
f. Number of years at this position
g. Owner/manager's gender (man / woman)
h. Number of employees at the moment of answering the survey (% men and % women)
i. Annual sales before tax (year 2008)

Section II. The firm's internal management dynamics

2. Owner/manager's vision

Mark the answer that matches best with your reality (only one answer per question).

a. What is the main "reason of being" of your firm?	A. With the firm I seek to provide for my family B. The firm gives me a job alternative in a difficult labor environment C. The firm allows me to develop my own business D. The firm allows me to expand my business vision E. The firm allows me to influence the development of my region
b. How have you managed crises in your firm? (slumps in sales, legal problems, problems with the employees, problems with the shareholders, etc.)	A. We have not faced any real crisis yet B. We are caught in an on-going crisis C. We have overcome a crisis D. We have overcome several crises in the firm E. We have contingency plans for eventual crises

(continues)

2. Owner/Manager's vision (conclusion)

c. How are decisions made in the firm?	A. The owner/manager makes the majority of decisions according to his/her criteria B. The owner/manager only delegates some of the decisions C. The owner/manager makes decisions in cooperation with other board members D. The owner/manager generally seeks advice from various employees in different levels at the firm E. The owner/manager seeks advice outside the firm (i.e. consultants)
d. What is the firm's relation with its social and environmental surrounding?	A. Environmental and social projects are not part of the firm's responsibility B. The owner/manager has not participated in projects to improve the environmental and social situation of the firm C. The owner/manager has an interest in projects to improve the environmental and social setting of the firm, but he/she is not personally involved D. The owner/manager knows about the firm's environmental impact and is involved in projects for their improvement E. Environmental and social projects are part of the firm's competitive advantages

3. Relations with clients

Mark the answer that matches best with your reality (only one answer per question).

a. How many clients does your firm have?	A. The firm has one client that represents more than 80% of its sales B. The firm has one client that represents more than 40% but less than 80% of its sales C. The firm has more than three clients that overall represent 80% of its sales D. The firm has more than 10 clients that overall represent 80% of its sales E. The firm has more than 10 clients in different regions and sectors that overall represent 80% of its sales
b. How do you manage the payment terms of your clients?	A. More than 80% of accounts receivable have a payment term longer than 60 days B. More than 80% of accounts receivable have a payment term longer than 30 days C. More than 50% of accounts receivable have a payment term of 30 days D. More than 80% of accounts receivable have a payment term shorter than 30 days E. Payments must always be received in advance
c. What type of communication do you keep with your clients?	A. Communication is solely based on commercial issues B. Communication is based on commercial and social issues C. Communication is based on technical adjustments of products and services D. Development of applications is a team effort E. Communication is about the firm's strategic planning
d. How long does the firm's relation with clients last?	A. More than 80% of clients have had commercial relations with the firm for less than 6 months B. More than 50% of clients have had commercial relations with the firm for less than one year C. 80% of clients have had commercial relations with the firm for more than one year but less than 3 years D. 50% of clients have had commercial relations with the firm for more than 3 years E. 80% of clients have had commercial relations with the firm for more than 3 years

4. Internal management

Mark the answer that matches best with your reality (only one answer per question).

a. How does the firm's administrative system work?	A. The firm's administrative system is mainly intuitive B. The firm's accounting system is systematized C. The firm has different information systems D. The firm has one nformation system that integrates different functions (accounting, commercial) E. The firm has an integrated information system for its management
b. What kind of technological changes has your firm experienced?	A. The firm has not implemented any significant technological changes in the last 3 years B. The firm has implemented small technological changes in the last 3 years C. The firm developed and implemented a significant technological innovation in the last 3 years D. The firm has innovated its products or services in the last year (2009) E. The firm has a technological research and development department.
c. What is the firm's employee turnover rate?	A. More than 80% of the employees has been with the firm for less than 6 months B. 80% of the employees has been with the firm for 1 to 3 years C. 50% of the employees has been with the firm for more than 3 years D. 80% of the employees has been with the firm for more than 3 years

5. Participative culture in the enterprise

Mark the answer that matches best with your reality (only one answer per question).

a. How does the staff participate in the management of the firm?	A. Employees are not familiar with the firm's outcomes and do not participate in the decision-making process B. Information about the firm is disclosed to a limited number of employees C. Employees are familiar with the firm's objectives and outcomes D. Employees have spaces to exchange opinions E. Employees participate in the firm's decision-making of strategies
b. What is the professional level obtained by your employees?	A. Most of the staff, including managers, has no formal education regarding their assigned job B. Some employees have formal training in the job area they perform C. Managers and some of the employees have formal training in the job area they perform D. Employees are qualified for each one of the job functions they perform and the firm has less than 3 hierarchical levels E. Employees are qualified for each one of the job functions they perform and the firm has more than 3 hierarchical levels
c. How do you hire your employees?	A. More than 80% of the employees receive their salary on a work day basis B. More than 80% of the employees have contracts lasting less than 6 months C. More than 50% of the employees have contracts lasting more than 1 year D. More than 50% of the employees have fixed contracts with benefits E. More than 80% of the employees have fixed contracts with benefits

Seccion III. The firm's relations and dynamics with its surroundings

6. Interaction with its surroundings

Mark the answer that matches best with your reality (only one answer per question).

a. What kind of relation does your firm have with its competitors?	A. We do not have (know) any direct competitors B. We only have few competitors that we do not know well C. We know our competitors and recognize some differences D. We are monitoring our competitors intensely E. We have a clear idea of our position in the market
b. What kind of relation does your firm have with the authorities?	A. We do not trust the authorities and we are not familiar with the legal requirements B. We have never had direct contact with state agencies C. We are familiar with the legal requirements D. We fulfill the legal requirements and receive visits from the authorities E. We have had positive experiences with the authorities in respect to fulfilling the legal requirements

(continues)

6. Interaction with its surroundings (conclusion)

c. Does your firm maintain relations (exchange of information, cooperation, and representation) with other firms in your sector or area?	A. We do not have any contact with other firms in the sector and we do not participate in networks B. We maintain social contacts with other firms in the sector and the neighborhood C. We are affiliated to trade unions and other business associations D. We participate actively in programs focused on exchanging information and joint business representation E. We lead the work in business associations and networks

7. Experiences in sustainable business management

Please complete the following table using the most recent information available (since 2008) and according to the instructions in each section.

a. Has your firm implemented a system of environmental management?	A. Yes, we have already implemented a certified program B. Yes, but the system has not been certified yet C. No, we do not have any system				
b. Does your firm have any experience with the implementation of environmental and/or social upgrading projects?	A. Yes, these projects are part of our system of continuous improvement B. Yes, we have already implemented some environmental and/or social upgrading projects C. No				
c. If you have environmental certifications, which ones do you have? (you can select more than one answer)	A. ISO 14000 B. Integral responsibility C. Others D. We do not have any environmental certifications				
d. Who is responsible for the environmental issues within your firm?	A. An authorized agent for environmental issues B. It is part of the responsibility of another staff member C. We do not have any person responsible for environmental issues D. Others				
e. Has your firm received any requirements or pressure regarding your environmental management?	Indicate the degree of influence/pressure; 1: no influence/pressure - 5: high influence/pressure				
	1	2	3	4	5
- requirements from the authority - requirements from clients - pressure from neighbors - requirements from activists/owners - others...					
f. Do you know if your competitors implemented any environmental or social upgrading project during the last year?	Yes			No	
g. Have you participated in projects with your clients and/or your suppliers? (you can select more than one answer)	A. Projects regarding certification issues B. Projects for joint training of staff members C. Projects for supply development D. Others E. No				
h. Which of the following statements applies to your firm?	Indicate the degree of coincidence; 1: no coincidence - 5: strong coincidence				
	1	2	3	4	5
- the firm has accomplished the established financial objectives over the past 3 years - we had rising revenues over the past 3 years - the firm's profit margin has been constant over the past 3 years - we increased the number of employees over the past 3 years - the salaries of our employees have increased over the past 3 years					

Seccion IV. Quantitative indicators

8. Quantitative indicators

Estimate the following values

a. Annual sales before taxes (year 2008)	- USD$ - Tons - Products				
b. Usage of raw materials (tons/year for 2008)	(summarize all raw materials used in tons/year in 2008)				
c. Energy usage (totals for 2008)	electricity (kWh/year)	natural gas (Mcf/year)	LPG (l/year)	diesel (l/year)	others
d. Water usage (total m3/year for 2008)					
e. Waste produced (totals tons/year for 2008)					

Annex 2

List of the MSME's experts and entrepreneurs that were interviewed

Country	Expert/Entrepreneur	Organization
Chile	Claudio del Campo	General Manager FUNDES Chile
	Luis Pérez	Sole proprietorship, Carpenter
	Felipe Urueta	Urueta Reparaciones (micro enterprise)
	Sergio Silva	Prodemac, Placacentro Masisa (medium enterprise)
Colombia	Carlos Herrera	Environmental Manager ANDI
	Marco Morales	Sole proprietorship, repairs
	Mauricio Jaramillo	JL maderas (small enterprise)
Panama	Teresa Moll de Alba Alfaro	Executive Director IntegraRSE
Costa Rica	Elfid Torres	Research and Strategic Alliances Manager FUNDES Internacional
Mexico	Alejandro Lorea	General Director CESPEDES
	Arturo Rodríguez	Advisor to the Secretary of Environment and Natural Resources
	Rocío Abud	Manager of Research and Special Studies FUNDES
	Luis Foncerrada	General Director, Center of Economic Studies of the Private Sector – CEESP
	Ing. Javier González García	Takasago de México, S.A. de C.V, Maintenance Manager (medium enterprise)
	Ing. Mariano Ojeda Laguna	Praxair México, Production Manager (large business with productive chain program)
St. Lucia	Amanda Charles	Organization of American States, Department of Trade and Tourism
	Richard Campbell	Head Tourism Section, OAS Department of Trade and Tourism
	Richard Matthias	Hotelier (large enterprise with productive chain program)
Latin America	Antonio Vives	Consulting Professor, Stanford University. Senior Partner of Cumpetere. Ex-Sustainable Development Manager of the Inter-American Development Bank.
	Irma Gutiérrez	Researcher, FUNDES International
	Cynthia Roberts	International Development and Technology Transfer Manager, FUNDES International

Annex 3

Attendees to the Workshop in Mexico - 29 July 2009

1. Rocío Abud, FUNDES
2. Pedro Córdova, entrepreneur
3. Claudio del Campo, FUNDES
4. Tomas Fisher, entrepreneur
5. Luis Foncerrada, Business Coordinating Council, Mexico
6. Héctor García, entrepreneur
7. Irma Gutiérrez, FUNDES
8. Carlos Herrera, ANDI Colombia
9. José Leal, ECLAC
10. Julie Lenox, ECLAC
11. Alejandro Lorea, CESPEDES
12. Raúl Luna, entrepreneur
13. Juan Carlos Ostolaza, FUNDES
14. Jorge Reyes, Anahuac University
15. Arturo Rodríguez, SEMARNAT
16. Jorge Saggiante, SEDI/OAS
17. Claudia Terzi, entrepreneur
18. Luis Viguria, YABT Washington
19. Amanda Charles, OAS, Washington
20. Claudia Schatán, ECLAC Mexico
21. Bruno Antunes, ECLAC Mexico
22. María Emilia Correa, consultant
23. Georgina Núñez, ECLAC

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