



University of Azuay

Faculty of Law
School of International Studies

**Analysis of Social Responsibility as a new business
management model and as a competitive advantage applied
to the Ecuadorian Agribusiness Sector**

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of Arts in International Studies and Foreign Trade

Author

María Elisa Pesántez Merchán

Director

Xavier Ortega Vásquez

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Abstract

This graduation thesis develops the concept and theme of Corporate Social Responsibility (CSR) with a focus on the reality of Ecuadorian Agribusiness. In recent years, this concept has been appearing more frequently in corporate and business agendas due to a number of social, environmental and economic conditions and pressures that exist in society today. Such conditions and pressures have demanded an active involvement and a greater commitment on the part of the actors in the business sector in order to create and promote a greater understanding of Corporate Social Responsibility.

Nowadays, companies must have a vision based on creating value for their stakeholders. They are furthermore called to consider the effects of their operations on society and the environment and modify their practices so as not to compromise the developing ability of future generations. Therefore, this thesis presents information and analyses of the benefits of corporate social responsibility in order to demonstrate this new trend's significant role in revising the model of corporate governance so that it reaps greater competitive advantage. More specifically, the analysis undertaken provides information about the powerful capacity of social responsibility to take companies to the next level, allowing them to differentiate themselves and occupy more competitive standings in the agribusiness national marketplace as well as in international markets.

Resumen

En el presente trabajo de graduación se desarrolla el concepto y temática de la Responsabilidad Social Empresarial (RSE) con un enfoque hacia la realidad agroindustrial Ecuatoriana, ya que desde hace varios años atrás, este concepto ha ido apareciendo con mayor frecuencia en las agendas del sector comercial debido a una serie de presiones sociales, medioambientales y económicas existentes en la sociedad, de ahí que ésta ha demandado un involucramiento activo así como un mayor compromiso de todos los actores presentes en el sector empresarial con la finalidad de potenciar la Responsabilidad Social.

Hoy en día, las empresas deben contar con una visión basada en crear valor para sus grupos de interés, y deben considerar los impactos de sus operaciones en la sociedad y en su entorno con el fin de que su accionar no comprometa la capacidad de desarrollo de las futuras generaciones. De ahí que el presente trabajo se fundamenta en el conocimiento y análisis de los beneficios que esta corriente de responsabilidad social posee como una estrategia para alcanzar un nuevo modelo de gestión empresarial y una mayor ventaja competitiva. A la vez que el análisis realizado permite conocer la importancia de la Responsabilidad Social como factor de competitividad y diferenciación de las empresas tanto en el mercado nacional agroindustrial como en los mercados internacionales.

INTRODUCTION

This graduating thesis conducts a thorough investigation and analysis of corporate social responsibility (CSR) that helps determine, firstly, how this trend led to a new model of corporate governance and, secondly, how it allows corporations to achieve greater competitive advantage in their respective marketplaces. CSR allows combining the ethical commitment that companies currently have to society and the environment that are closely related to their daily operations. This theme of social responsibility initially appears in the late nineteenth century, with the birth of the first modern labor laws in Germany. In the twentieth century, this concept was linked to charitable principles but it was in the decade of the 50s and 60s that Corporate Responsibility arose as a current ethical and moral obligation.

It is important to mention that even today the concept of corporate social responsibility is still linked with principles of corporate philanthropy. With this in mind the decision was made to analyze this topic and show that both the concept and the process of corporate responsibility are not only synonymous with charity that aims to help the needy sectors of a country, but also that the trend in question encompasses and applies to all the groups involved in the management of a company. Therefore, there are a great number of international and Ecuadorian policies and initiatives that promote the application and implementation of this new model of social corporate social responsibility as a competitiveness strategy that, when combined with the ethical commitment of a company, contribute to the development of society, especially in its most vulnerable sectors.

To conduct this research and meet the objectives, this thesis is divided as follows. Chapter 1 outlines and analyzes the theoretical framework for a better understanding of the concept of corporate social responsibility; its scope and definition; the importance of this new trend; its evolution; and the relationship between sustainability, ethics and corporate responsibility. Chapter 2 analyzes the international standard ISO 26000 regarding corporate social responsibility; how it becomes a guide for the implementation and application of this trend in different kind of organizations; and what main subjects are implicated in this norm.

Chapter 3 then presents a study and analysis of the institutions and policies that promote corporate social responsibility both in the international realm and in the Ecuadorian one. This chapter refers to the Global Compact initiative and the work of the International Labor Organization regarding the development of corporate social responsibility. It is also important to consider the initiatives of the European Commission and analyze how they have contributed to the development and improvement of corporate responsibility in Europe. When analyzing the Ecuadorian sphere, it is essential to study the Ecuadorian Consortium for Social Responsibility (RED CERES) which is composed mainly of public companies, private and corporate foundations and NGOs that seek to promote the concept and best practices of social responsibility in the country.

Chapter 4 puts forward an analysis of the Ecuadorian situation regarding the development and implementation of corporate social responsibility, particularly in the agribusiness sector where companies like PRONACA and La Fabril have already achieved great results. These companies have been successful in the implementation of CSR through specific actions in the environmental, educational and community spheres that have helped them involve each of the interest groups that are part of business management.

The final chapter of this thesis undertakes an examination of how social responsibility becomes a means to achieve a greater competitive advantage not only as a social strategy, but also as a tool to achieve a new model of economic activity. This new model seeks to create a link between the business itself and the commitment to create a sustainable society. For this reason, this chapter provides a framework of the different perspectives regarding CSR and also offers a comprehensive and objective analysis that allows a greater understanding of the concept of corporate social responsibility, not only internationally but also on the Ecuadorian reality.

CHAPTER 1: CORPORATE SOCIAL RESPONSIBILITY

To understand the context of corporate social responsibility, this chapter provides an analysis of the concept, history, and spheres of activity of corporate social responsibility (CSR) in order to define it in a formal way while developing a theoretical framework for understanding its definition and evolution more effectively. Also, this chapter explains the initiatives that have been developed for increased social responsibility, the facts and different agents that are involved in its implementation, and the importance that now exists to create a new model based on responsible business management. This has become increasingly important given that globalization has brought with it new social and economic pressures, which demand changes that must be reflected in new social and ethical obligations for modern businesses.

Along with this, the chapter provides an analysis of the dimensions covering CSR, its actions, dimensions, the benefits it provides, and its implementation in both the internal and external spheres of the company. Additionally, it explains in detail the subjects or issues that this new discipline of social responsibility covers. In this context, there is an analysis and explanation of the basic principles that govern the CSR and the importance they have for companies. Finally, this first chapter provides an analysis of the relationship between sustainability, ethics, values and corporate responsibility. This analysis allows understanding the need for all these aspects to be included in the process of creating a socially responsible business combined with corporate ethics. All these aspects have to become the guide for the operation of a company and for the development of its activities.

1.1. Historical Evolution of Corporate Social Responsibility.

1.1.1. Background and importance

Corporate Social Responsibility has undoubtedly become a requirement for today's world; this situation is the result of a series of changes in the environment and society. For example, the deterioration of the quality of life of the people, the

existence of corporate scandals that have arisen due to the lack of business ethics, and because of the rise of human rights violation and child labor (Casanova 2006, 1). The topic of Social Responsibility as such began to emerge through international relations, and this began to intensify with increasing globalization. Although now it seems corporate social responsibility is a theme that is just emerging, history shows that this has been an issue of growing concern, since the late nineteenth century when Bismarck implanted the first modern labor laws in the German Empire in 1881 and Leo XIII expressed concern about working conditions in the encyclical *Rerum Novarum*¹ (1891) (Gómez and Loyola 2004, 26).

Additionally in the early 1920s, the development of corporate philanthropy was related to the principle of charity and the actions of companies. Later in the 50s and 60s, this topic was seen and became a moral and ethical obligation. Since these decades the business organizations began to take responsibility for their actions and it was in the 60s that this discipline began to strengthen. The following argument began to emerge: if companies use the resources owned by a society for their operations, that use generates an ethical duty to return benefits to society. Companies have to be concerned with the welfare of the community in which they do business (Gómez and Loyola 2004, 27).

It is relevant to note that the importance and interest in CSR is not a new issue. Since the mid-twentieth century it was considered that firms should take into account the social consequences of their decisions. Hence, corporate social responsibility in the 60s ceased to be a purely philosophical discourse and became part of business management in the 70s (Portales and García 2012, 3). This led in the 80s to the development of a socially responsible environment based on a company's strategic management that was applied through the theory of stakeholders and interest groups.

¹ *Rerum Novarum* is an encyclical or a memorandum sent to the church members of the Roman Catholic Church by Pope Leo XIII. Released in 1891, this particular letter or circular emphasized the Roman Catholic Church's stand on a variety of social issues particularly those experienced by the working class. The main idea of the encyclical is to emphasize the protection of rights of individuals particularly in the employer-employee setup, and how labor conditions should be fair for everyone involved. The encyclical touches on old doctrines and relate them to present problems of the society, particularly the complaints and grievances of people that are classified under the "working class" group. It also emphasizes the Church's stand on people's rights to private ownership and its disagreements with Socialist theories.

These groups take an important role as they are linked to the organization and all its commercial activities (López Martínez 2010, 16).

In this sense, business organizations were committed to apply the concept of Corporate Social Responsibility. Among the first cases that can be recognized as an example of this commitment is the Conservative Committee for Economic Development of the United States, which emitted the report “Social Responsibility for Business Corporations” in 1971 (Gómez and Loyola 2004, 28). This report encouraged the acceptance of CSR in the business community and also promoted social movements. According to the Committee the companies have three levels of responsibility that must be correctly applied, among which are:

- Basic responsibilities which are related to the economic function: production, employment and economic growth.
- Attention to all changes in values and social priorities, environmental protection, labor relations and consumer information.
- Responsibilities for creating changes in the social environment regarding issues such as poverty or urban demands.

Within this context, it is crucial to note one of the major initiatives that give rise to the corporate social responsibility in a much more objective way and is known as the "Global Compact". This initiative was signed between the United Nations and the world of the free market. This Pact was proposed by the United Nations Secretary General, Mr. Kofi Annan at the World Economic Forum, which was held in Davos, Switzerland on January 31, 1999 (Rojas and Olaya 2010, 3).

The Pact contains a perspective based on the promotion of social dialogue in order to build a global corporate citizenship. This allows aligning the interests of companies, with the demands, needs and values of civil society, and in this specific case, with the UN projects, trade unions and NGO's. The Pact is based on 10 principles that combine the activities carried out by companies with essential values in 4 specific areas:

- Human Rights.
- Labor Standards.
- Environment.
- Fight against corruption.

The purpose of implementing the Global Compact is to provide to all the people in the world the opportunity to share and have access to the benefits of the globalization of the economy, and also to implement in the global free market the necessary values and practices to solve the socioeconomic needs of human beings. In this context, this document is an instrument of free membership for business, trade unions and civil society organizations that implement the ten principles into their strategies and daily operations.

According to Rojas and Olaya (2010), the approach of CSR involves that corporate actions are legitimized by society, and it measures the activity of companies based on the benefits it has provided to the community (5). Thus, corporate social responsibility defines a new paradigm whose foundation is civic ethics, which is the result of the relationship between several factors. The main benefits of CSR are the change in perception about the way in which wealth is created, the dignity of the human being, decent work and the general economic consciousness that certain groups have been acquiring. As these groups belong to the capitalist society, they have discovered the existence of a great number of mistakes in the free market system, especially in the company's actions regarding the community or interest groups with whom they are closely linked (Rojas and Olaya 2010, 6).

Today, it is essential to debate in depth the mentality and ethical behavior of natural and legal groups involved in trade and economic processes, namely figures such as the government, entrepreneurs, managers, trade unions, employees, consumers and stakeholders. Based on this, it is deduced that corporate social responsibility must maintain as a model strategic leadership, organizational culture and the study of its market. It also must demonstrate social and human sensitivity as part of its ethical role (Rojas and Olaya 2010, 6). Today, this new way of business behavior that is socially responsible, has taken precedence because there is evidence in society for

the need to achieve greater equity, a fairer distribution of wealth and an improvement in the quality of life for the groups that are part of the social context. The environment has also become a key player that companies have to protect (Domínguez 2005, 3).

From what has been described, it could be said that the scenario of social responsibility and business ethics should be viewed from an operational perspective. Following the Ten Universal Principles of the Global Compact allows companies to comply with the existing regulations regarding corporate responsibility and to adhere to essential values. From this perspective, appropriate corporate governance and a socially responsible company should consider the following scenarios:

- The Regulatory scenario.
- The Operational scenario.
- The Economic scenario.
- The Social scenario.
- The Environment.

This new management model proposed by the discipline of social responsibility has created a new role for businesses in today's changing society. Based on this, companies fulfill a double role: on the one hand, a preventive role and on the other one a restorative role (Gómez and Loyola 2004, 29). Within the context of the preventive role, companies have to apply in their daily operations corporate responsible actions with the main goal of using properly the material, social, environmental and human resources. Regarding the restorative role, it is necessary for companies to work towards generating effective solutions as the world today demands a lot of changes that would eliminate the problems within the social, human rights, and environmental spheres (Viteri Moya 2010, 99).

Therefore, major changes are required for a company in its internal scope. A company not only has to fulfill its established trade obligations (which are to generate profits and meet basic needs through its products and services), but also has to comply with its obligations and commitments to their communities. This ethical

commitment of companies has been a demand of society since the end of the twentieth century and the beginning of the XXI which marked the beginning of a new economic era. Today, governments of each country should be responsible for regulating this situation and ensuring that all these social and ethical values in the business world are fulfilled.

1.1.2. Evolution of Corporate Social Responsibility (CSR) in companies.

According to Macías Quintana (2008), there exist four major approaches from which the definition of corporate responsibility has been formed. These approaches can be classified as follows (4):

- **Liberal:** “CSR of a business means to increase its profits without trying to take on other obligations or liabilities that do not belong to it”. Milton Friedman
- **Social:** “CSR is not unique to the companies, but to all the institutions of the society, however the role of a business in this area is vital for its legitimacy”. Peter Drucker
- **Ethical:** “CSR must be assumed from a holistic approach which allows balancing the moral dimension with the economic criteria. This achieves the legitimacy or validity required by the company as a social institution”. Adela Cortina.
- **Modern:** “CSR is the voluntary integration made by companies of social and environmental perceptions in their business operations and in their interaction with their stakeholders”. Green Paper of the European Community.

Friedman, who is considered one of the founders regarding corporate responsibility, states that social responsibility of business means to increase profits and not solve social problems. Solving social problems is the role of the citizen. However, today that argument no longer coincides with the definition and dimension that covers

corporate social responsibility (López Martínez 2010, 24). Nevertheless, in the decade of 1980s, the perspective of corporate responsibility as a discipline began to change. It stipulates that companies must look after not only the shareholders' interests but the interests of all those affected by their activities. Therefore, CSR mainly integrates business ethics and new business management theories (López Martínez 2010, 25).

According to Gómez and Loyola (2004), over time, the difficulties of the social, economic, political and even environmental spheres have worsened. These difficulties have changed a company's position to have an increasing influential role in society. For this reason, they are currently being challenged to demonstrate socially responsible behavior (22). There are many factors driving the development and progress of the CSR. These include the social factors that influence investment and consumption decisions, since in modern society there is a much greater concern for the environment which has been greatly affected by economic and commercial activities.

In addition, there are many reasons for the increased interest in the social performance of companies. The first is of an economic nature. Companies that produce goods or provide services create social consequences which can be very harmful to society, for example pollution (Gómez and Loyola 2004, 28). The second motivation has a philosophical nature. It is related to the fact that a company has not been given an inalienable right to operate but rather because society has considered it useful to have companies operating inside it. The last motivation is based on the point of view of the administration or management of a company in how it allocates its resources, whether it is for or against the benefit of society (Gómez and Loyola 2004, 29).

Today, the ways for managing business strategy are changing. Companies are redefining their role in society and they no longer seek to achieve only economic or financial objectives. They also want to connect economic activity to the fulfillment of social obligations (Portales and García 2012, 8). In this way, companies and society understand that they have a mutual dependency that allows both of them to develop, thus sharing with the government a social welfare function (Ocón Oqueli

2009, 15). It is essential to determine that business activities have an impact on the characteristics of society and have a major role in the globalization of business. It is a phenomenon that creates more social, economic and political pressures and more ecological consciousness.

Companies have a social responsibility not only with their home countries, but also with the world. It is in this new scenario that international organizations have decided to take action in order to address the issue of CSR. Among these international initiatives we can name the International Labor Organization (ILO) that is trying to get companies from different countries to adopt a methodology called Social Report. This would help business owners to measure their actions for the benefit of their employees, customers, suppliers and all the human talent with which a company interacts every day (Gómez and Loyola 2004, 30). Also, as was mentioned earlier in this chapter, four years ago the UN launched a new CSR initiative under the name of Global Compact which has allowed social responsibility actions to be placed at the head of the strategies for a great number of companies and governments worldwide (Portales and García 2012, 9).

1.2. Definition and concepts of CSR

1.2.1. Stages of Social Responsibility

The concept of social responsibility has developed more since the 1960s. It is important to understand how the concept of corporate social responsibility has been shaped and then it is possible to understand the evolution of the concept allowing a better comprehension of the topic. The analysis of the various definitions of social responsibility that exist and the study of the current definition helps to create a better understanding of this new discipline. According to Ocón Oquelfí (2009), the evolution of CSR should be understood through several stages among which can be distinguished the following (21):

- The first stage is called “Business Era” which goes from 1890-1929. The issue of labor disputes and predatory practices appeared and therefore there is a strong concern by society and governments to solve these problems.

- The second stage of the evolution of CSR occurs in the famous “Great Depression” between 1929 and 1960. In this period, a reinstatement of the corporate philosophy because of the corporate crises and the high levels of unemployment that existed at that time takes place. This situation brought the creation of new laws for the welfare of society.
- A third stage is known as the “Era of Social Activism” which covers the years of 1960 through 1970. There appeared a greater concern for the social environment, and the foundation for sustainable development is created.
- Finally, the last stage is known as the “Contemporary Social Consciousness” which begins in the 1980s. This is a time where strong environmental and ecological movements emerged and also the adoption of global standards for ethical and social responsible behavior began. The international promoters of social responsibility take more importance and also there is a greater consciousness about the relationship between economic, social and environmental aspects.

It is essential to mention that in the early stages of the development of this concept, it began to appear in a somewhat implicit way. However, there are already signs that there was a change in the mentality of both the business sector and society. By the early 60s, in the United States there were the first demands of society for a greater business involvement in social issues (López Martínez 2010, 28). In this stage the relationship between the financial obligation of a company to provide benefits and its social obligation began to arise and this became part of the main objectives to be met by companies.

According to López Martínez (2010), between the 60s and 70s there appeared the first important definitions about corporate social responsibility written by various authors. Those definitions set the basis of social responsibility making clear three main aspects that are (29):

- The obligations of an organization are economic, legal and social.

- Each one of those obligations goes beyond the obligatory fulfillment of the business management to implement social actions.
- Social responsibility has a proactive nature for the company or organization, as it is their choice to take action for social improvement.

Considering the time when these definitions were set, they show changes in the mentality and perception of social responsibility. They also became a major contributor to the further development of social responsibility as an ethical discipline. However, it should be emphasized that the definition of CSR is still a concept that is under discussion between the regulatory field and the willingness of business to adopt it. Internationally, the debate of CSR includes the creation and development of alternative or complementary instruments related to fiscal matters, labor and environmental issues, all based on the respect and exercise of human rights.

1.2.2. Concepts and definitions of CSR.

It is important to mention the issues raised by Benítez and Carvallo (2009). They said that over time CSR as a concept has evolved considerably since the first proposals were made, especially those related to the U.S. model which was only linked to the notion of philanthropy or social investment. That definition was focused only on the volunteer help companies would give to certain social groups. This concept also released companies from all liability for their external actions on the community (29).

In Europe there was also a considerable development of corporate social responsibility. This European initiative set out what is known as the “Triple Bottom Line” (People, Planet and Profit). On the one hand, this concept refers to the social concern regarding the effect it can have the social and labor policies that companies adopt. In the ecological aspect, it refers to the concern about the environmental impact caused by the actions of company both inside the company and on the community. Finally, in the economic aspect, the “Triple Bottom Line” is related to

the economic objectives of a company and tries to make these objectives benefit society (Portales and García 2012, 8).

This discipline suggests the importance of achieving a dialogue between a company and the social sphere, namely with the various stakeholders involved. These include trade unions, communities and civil society organizations, in order to determine what are the specific needs and demands of each one. According to the European context, it is important to quote the formal definition of corporate social responsibility established by the Green Paper² of the European Commission, in which states: “Corporate social responsibility is the voluntary integration of the social and environmental concerns in their business operations and in their interaction with the stakeholders” (López Martínez 2009, 30).

This definition appeared in the Twenty-First century contributing a notion about corporate responsibility to the *stakeholders*, who are the public interest of the company. The stakeholders are mainly the government, shareholders, customers, suppliers, employees, the environment and the community and they are involved directly and indirectly in the activities of the company (Portales and García 2012, 7).

In the context of this concept provided in the Green Paper, it is mentioned the importance of communication, dialogue and the understanding of the concerns of the stakeholders. It also mentions the concern for the environment, showing that a company's interests include not only economic and legal issues but also social and environmental matters. In this way, CSR is part of a new business perception in which a company is not only designed to achieve profitable objectives, but also to operate in order to meet society's needs (Benítez and Carvallo 2009, 31).

From what was stated, it is determined that CSR requires the integration of social and environmental concerns in all the business operations of a company in order to create a favorable environment for its own development. Thus, social responsibility

² Green Paper: Promotes a European framework for corporate social responsibility, where it is shown the interest and concern of organizations over the issue of CSR. The commitment of the European Union (EU) in favor of CSR was ratified by the European Council in Lisbon on March 2000. At the summit, the heads of state and government of the UE made a special appeal to create more consciousness about corporate social responsibility

constitutes a comprehensive approach for the management of any organization or company. This discipline is not a disjointed action from the internal dynamics of a company and its environment. Its main objective is to achieve a greater employee commitment with the corporate goals and mission. The implementation of this discipline also creates a greater commitment and more responsible actions to benefit communities.

The dynamic nature of this concept makes it evolve over time along with the changes that occur in the interests and needs of society. However, it can be said that over time social responsibility is gradually adding new matters to its content, restoring its priorities and increasingly showing a greater concern for the problems that exist in society. This CSR approach allows renewing the perception of a company, giving it a new dimension and a broader and more inclusive vision. This includes not only the economic aspect but also what is known as the triple facet of sustainability: economic, social and environmental spheres (Casanova 2006, 4).

This new type of business management based on sustainable development stands as a goal to be achieved through the implementation of a socially responsible business model. Each of the different stakeholders or interest groups are the essential element for the development of a precise management. CSR appears as a form of voluntary commitment on the part of a company to its internal and external environment in order to achieve a sustainable and harmonious development of both aspects. These elements allow the development of useful and descriptive concept of CSR that can be explained like this:

“A set of responsible behaviors defined strategically by the management and voluntarily assumed through a code of conduct that achieves better financial results, sustainable economic growth with more and better jobs and greater social equity. CSR also seeks the following aspects:

- a) It does not generate negative impacts on the environment; it is based on the respect of established rules, and avoids corruption.
- b) It avoids harm to its stakeholders and society, and if possible generates benefits to both groups.

- c) It has internal and external communication processes based on transparent criteria and objective tools regarding a company's action" (Casanova 2006, 5).

We understand corporate social responsibility as the management based on social harmony and contribution to sustainable development. It involves a previous analysis of the socio-environmental sphere where a company operates, in order to achieve social, economic and environmental improvements. There are also certain conditions that companies must meet so they can effectively be called as socially responsible. Some of the conditions are the compliance with labor and environmental regulations, and good treatment (including incentive policies) to their own workers" (Mancera, 2013).

The CSR definitions that have been explained allow having a clearer idea of what CSR is. However, it should be noted that this discipline is a dynamic and evolving concept, so it is necessary to explain some key factors for a better understanding of its wide dimension (Benítez and Carvallo 2009, 32). In this sense we can say that CSR is:

- Comprehensive, as it covers a complex set of dimensions of a company.
- Gradual, since it is presented as a way of excellence to follow.
- Proportional, since the results of its application has a direct relationship to the size of the company and its level of power or ability to influence the market.

It can be observed that the implementation of CSR as part of corporate management is widespread within businesses. This is a result of the various pressures that companies receive from the social sphere with whom they are associated and because of the corporate consciousness that has taken place. This implementation process should not be limited to an operational level and must be integrated as part of the management strategies. This is an essential element to be considered to have a competitive advantage in the industry or marketplace where companies operate. This facilitates the achievement of a better strategic positioning.

Finally, we can synthesize the various concepts and elements of corporate social responsibility to form a final definition about this new trend and management model. In this sense CSR can be understood as follows:

“It is a voluntary commitment that organizations are taking towards the expectations that, in terms of human development, are generated among stakeholders. Based on the compliance with the law, CSR allows organizations to ensure economic growth, social development and ecological balance. This commitment becomes a social process that meets the basic needs of the population, protects present and future generations and thus facilitates the development of a society focused on human and sustainable development” (Vieira Salazar 2008, 12).

1.3. Dimensions of CSR-Performance areas.

1.3.1. Agents Involved: Stakeholders.

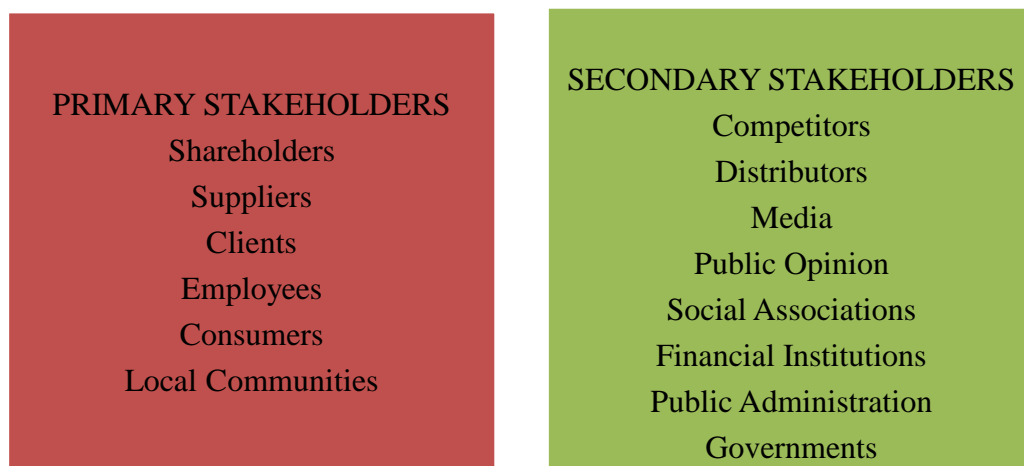
As explained above in the concept of social responsibility, the notion of stakeholders is the mainstay for the development of this discipline. For this reason the performance area of corporate responsibility is very broad especially when referring to the various activities that are designed for each interest group. In this sense, it is necessary to give a brief explanation of the agents involved and their role in corporate social responsibility (Casanova 2006, 2).

It is important to emphasize that companies must take into account the diversity of audiences that they interact with. In this sense, there is an intrinsic element of corporate social responsibility about who are the stakeholders. This term redefines the public of interest of companies, which are not only customers or shareholders, but also all the audiences that are affected by the actions and progress of a company (López Martínez 2010, 47). It is precisely the knowledge obtained by the company as a result of the interaction with its stakeholders that gives it a broader and clearer vision of the environment in which it is operating. Therefore, this allows a better understanding of the impact its business activities have.

Based on this, stakeholders are those who receive information and benefits from the company. They are interested in the activity of a company or organization that they want to work in order to promote the relationship between them (Cuba Baiocchi 2011, 8). Nowadays, there are laws, doctrines and associations that have been created with the aim of supporting and protecting both consumers and employees and even the social, environmental spheres and local communities. In this sense, there are environmental concerns such as water or air that companies are not allowed to contaminate or damage as a result of their commercial activity. For this reason, the society and the government require companies to include a model based on a socially responsible management (López Martínez 2010, 48).

Mainly, what should be considered about this concept of social responsibility is that the analysis and understanding of the stakeholders is essential for the future success of a company as its activities are subjected to a greater number of changes. Hence, there is a need to maintain a balance, and to achieve this, it is essential to know what the stakeholders expect from a company and how the organization can act for the benefit of these groups according to the decisions the management makes. The following graphic shows the primary and secondary stakeholders of a company.

Graphic 1: Stakeholders



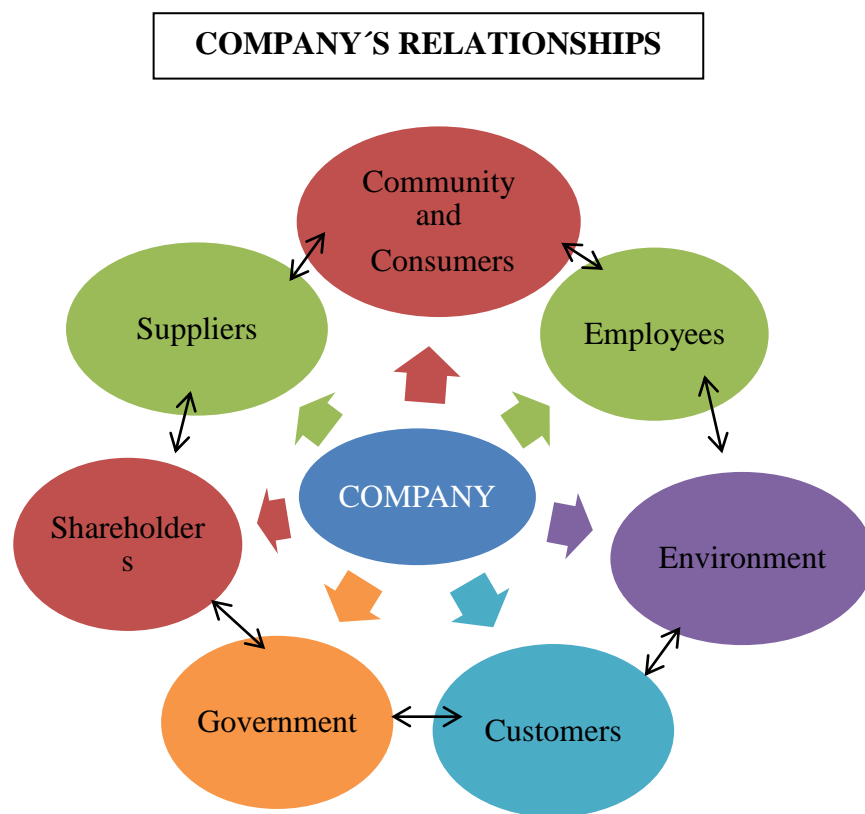
Source: López Martínez, Gema. *“La Realidad Española de la RSC a través de los informes de sostenibilidad de las empresas en el bienio 2006-2007”* Universidad complutense de Madrid. Facultad de Ciencias de la Información. Departamento de Comunicación Audiovisual y Publicidad I. Madrid 2010.

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The CSR process makes sense if it is part of the values of the company and if this discipline is linked to the development process of the company. This can be reflected in training standards, better working conditions and respect for human rights. Each of the processes of social responsibility management within a company must create relationships with all the stakeholders and report results in such a way that it creates dialogue between the company and its stakeholders.

According to Ocón Oqueli (2009) if CSR is seen only as a form of public relationships, eventually it will result in failure and lead to a loss of prestige (26). The following graphic summarizes each of the groups who are part of the management system of social responsibility within a company.

Graphic 2 CSR Groups



Source: OCÓN OQUELÍ, Yelka. Universidad de Chile. *Estado y Responsabilidad Social (RS): rol del estado en las prácticas de responsabilidad social en las pymes chilenas*. Santiago de Chile, December 2009.

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1.3.2 Dimensions of Corporate Social Responsibility

Having explained the scope of stakeholders, it is necessary to refer to the two major dimensions in which the social responsibility of a company operates. Each of them is composed of various elements that provides different benefits for corporate management, and can be explained as follows:

1.3.2.1 Internal Dimension

This dimension is mainly related to the social and human resources of a company. In this sense, it is important to explain that employees are one of the most valuable resources for businesses. They are often the ones who detect problems or difficulties inside a company and sometimes can give possible solutions before the manager can see or suggest them (Salgado Troya 2010, 42). Therefore, it is essential that those who are part of the human resource of a company clearly understand the values, philosophy and rules that exist in the institution. Also, the company must allow employees to contribute their ideas and suggestions in order to improve the production process, the customer relationships and thus properly manage the changes that are necessary to apply for the improvement of the company (López Martínez 2010, 49).

Among some of the specific actions that can be carried out within the company as part of the social responsibility process are:

- **Responsible actions towards employees and work environment:** This allows a balance between work and family life, promote opportunities for training, education and personal growth, respect religious and cultural differences, and provide healthy conditions and a pleasant labor environment. Companies should promote the principle of no discrimination and should hire minorities and people from vulnerable groups. All these aspects can improve the working conditions, reduce costs and avoid losses, by creating a greater sense of belonging to the company.

- **Responsible actions towards employee's families:** Companies should be concerned about employees having time to spend with their families and promote recreational spaces where the families can participate. These should be included in the company's training plans. Thus, this makes the family become an ally of the company and it minimizes family conflicts that may affect the employee's performance. It will also make the employee feel secure and confident in the work environment which will generate greater loyalty to the company.

The benefits that result from such changes within the company allow sustainable development, an appropriate management in the internal dimension of a company and a greater commitment to its stakeholders. From what was stated, it is possible to have more content for employees which will lead to the strengthening of their sense of pride. This will also increase the loyalty and longevity in the company. Similarly, the implementation of social responsibility generates improvements in the commitment of workers and employees. CSR also improves the employee's creativity, efficiency and productivity, and allows the existence of a greater level of cooperation on their part. It achieves better results that benefit the company and also benefit the learning process and experience of each employee (Gómez and Loyola 2004, 22).

1.3.2.2. External Dimension

Having described the internal dimension of corporate social responsibility, it is necessary to explain the second dimension which is the external one. This includes a number of factors that have to be considered in order to successfully implement the social responsibility of a company. The stakeholders who are part of this dimension are:

- **Local communities**

It is important to explain that the relationship between prosperous and profitable businesses and the welfare of the surrounding community is essential, since both

complement each other. It is precisely from these communities where companies get their employees and even their clients and consumers. It is important for companies' development that the community's environment is properly cared for (López Martínez 2009, 51). The fact that companies are actively involved with the closer community helps the company to identify new markets, customers, business opportunities and new needs that have to be addressed. All these would help to establish contacts with local authorities and facilitate the creation of new partnerships between the existing businesses in the community (Cuba Baiocchi 2011, 27).

In this context it is possible to quote some examples of how to apply social responsibility in the community sphere, among them are:

- Improve social integration, health care and education in the community.
- Contribute to a better quality of life and improve local infrastructure and safety of the community

According to Gómez and Loyola (2004), these improvements and benefits that companies provide through their corporate responsibility projects, create various advantages that would increase the reputation and image of a company significantly (23). It would also increase the ethical commitment of the company to create a greater confidence on the part of the stakeholders.

- **Human Resources-Stakeholders**

Companies are basically human organizations that develop a network of internal and external relationships which are vital for the success of the company. Human resources are part of it. The way in which each of these relationships are managed will be the key for achieving the company's objectives and also this will provide benefits for all groups involved. Among the actions that can be done to improve the relationship with the stakeholders are to share best business practices with suppliers, customers, companies engaged in related activities and local business organizations.

Supporting local suppliers and the timely payment of receipts are actions that are important to the company's social responsibility process. Offering products and

services of high quality and to protect consumer rights through fair prices and the application of ethics in advertising and marketing are complementary actions that help improve the CSR process (Salgado Troya 2010, 43). The most important aspect that has to be taken into consideration is the concern for labor and social conditions, the protection of human rights, taking care of workers and avoiding corruption. All these actions prevent child labor, workplace discrimination, forced labor, extortion, bribery and the prohibition of trade unions. All these are examples of a company's commitment to fulfill its social obligation (López Martínez 2009, 53).

- **Environment**

Finally, an issue that has now taken a leading role is the care of the environment. For this reason, many ecological movements have appeared and have created a much stronger environmental awareness. This is not only limited to individuals but also to companies, which have been guilty of much of the degradation of the ecosystem through the pollution caused by their industrial activities (Portales and García 2012, 9). Therefore, companies have to be committed to environmental protection, since the destruction of the environment is an issue of growing concern for modern society.

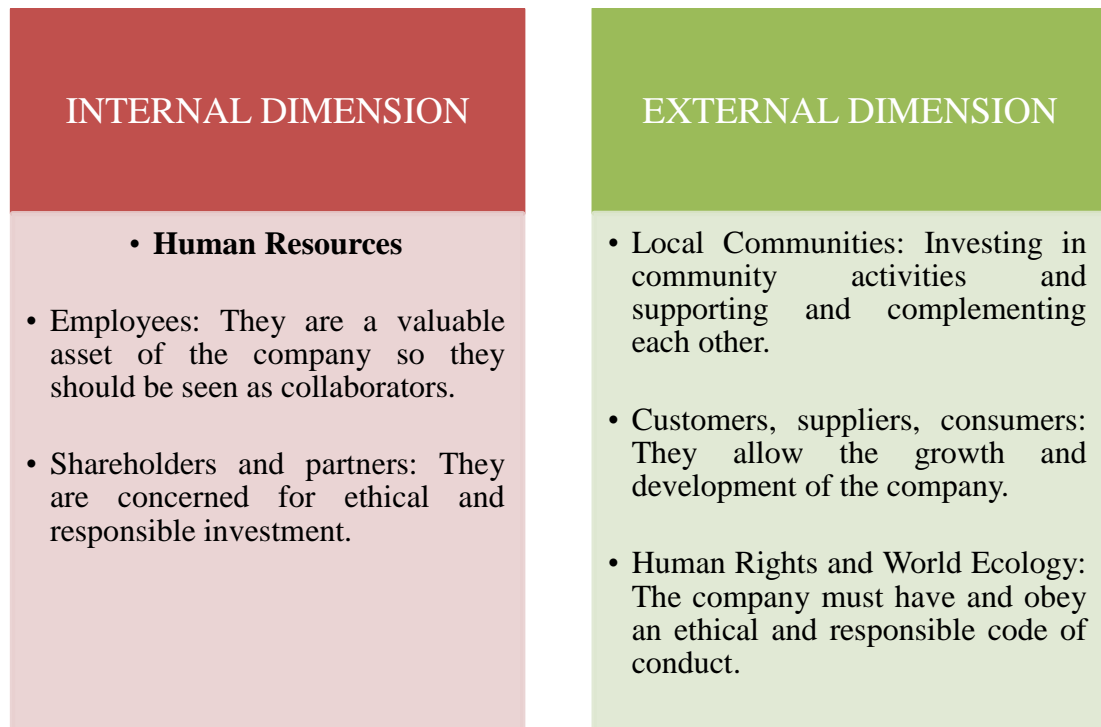
Furthermore, it should be mentioned that a company with responsible environmental behavior obeys the existing regulations for ecological protection. This improves the relationships with the local communities and achieves a higher level of loyalty and respect from their employees and customers (Gómez and Loyola 2004, 26). Among the examples of actions that companies with an environmentally responsible commitment should do and that are profitable are:

- Preservation of energy and water resources, and the reduction of water and air pollution.
- Reducing the use of toxic chemicals in order to maintain and protect biodiversity.

- Reduction of toxic waste and the promotion of recycling.

These external actions of companies provide significant benefits to all stakeholders involved in the daily operation of the company, including the environment. It also creates awareness for respecting and protecting the ecosystem, the suppliers, the community and all the stakeholders. If this is effectively implemented by the company it can give a company a position of prestige and credibility (Viteri 2010, 103). The following graphic shows the most important aspects included in each dimension of CSR:

Graphic 3 CSR Dimensions



Source: LOPÉZ MARTÍNEZ, Gema. Universidad Complutense de Madrid. Facultad de Ciencias de la Información. Departamento de Comunicación Audiovisual y Publicidad I. La realidad Española de la RSC a través de los informes de sostenibilidad de las empresas en el bienio 2006-2007. Madrid, 2009

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To summarize, the social responsibility a company carries out in its internal dimension is essential to achieve its survival within the industry in which it operates according to market requirements. As for the external dimension, corporate social

responsibility is primarily concerned with the interaction of a company with its external stakeholders. This interaction helps a company to achieve sustained economic growth, fight corruption, protect and preserve the environment and search for greater social equity.

1.4. Issues of Corporate Social Responsibility

The various issues of social responsibility should be noted as today society is demanding a much greater involvement on the part of companies. Many of those issues are covered in most countries by their national legislations and are even part of international agreements signed by countries. However, socially responsible organizations and companies should work to go beyond these legal compliances through the implementation of better corporate practices in their daily operations.

According to Ocón Oqueli (2009), the International Organization for Standardization ISO explains that, “All subjects are essential, but not all issues are relevant for each organization. The level of relevance and importance of the subjects will vary depending on the nature, size and location of the organization” (23) The following graphic shows the essential issues of social responsibility, which are generally described by the ISO as follows:

Graphic 4 Essential Issues of CSR



Source: OCÓN OQUELÍ, Yelka. Universidad de Chile. *Estado y Responsabilidad Social (RS): rol del estado en las prácticas de responsabilidad social en las pymes Chilenas*. Santiago de Chile. December, 2009

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According to Ocón Oqueli (2009) and the International Organization for Standardization ISO (2010), each of the subjects explained in the graphic above involve the following essential aspects:

- **Organizational Governance:** Refers to the system by which an organization makes decisions for achieving their goals. Effective governance should be based on the incorporation of principles and practices of accountability, transparency, ethical behavior and respect for each of the stakeholders involved. Regarding the transparency aspect, it is important to note there is a globally accepted standard for the development of sustainability reports and the transparency of the company. This is called the “Global Reporting

Initiative” (GRI) which standardizes each of the guidelines necessary for the development of social and environmental reports (Salgado Troya 2010, 26).

- **Human Rights:** On the issue of human rights there are two major categories. On one hand there are the civil and political rights, which include the right to life and freedom, equality before the law and freedom of expression. The second category includes the economic, social and cultural rights among which are the right to have a job, food, health, education and social security, among others. It should be noted that the Universal Declaration of Human Rights adopted by the General Assembly of the United Nations in 1948, states that all societal organizations should ensure these rights, with greater concern for the rights of vulnerable groups that include women, children, people with disabilities, indigenous people and immigrants.
- **Environment:** In this aspect it is essential that companies integrate in their operations the following practices:
 - a) **Life Cycle Management:** This process links the economic, social and environmental impacts of activities, products and services generated by the company during its entire life cycle. It begins from raw materials and energy generation, through the production process and use, until the recovery or elimination of waste at the end of its life cycle.
 - b) **Cleaner production and eco-efficiency:** This process involves using resources in a more efficient way and creating less pollution and waste. Cleaner production practices include the upgrade or purchase of new technologies, the reduction of energy and materials, the elimination of toxic materials and waste, and the improvement in designs of products and services.
 - c) **Sustainable Purchasing:** This aspect involves considering the social and environmental performance of the product or service being acquired over its entire life cycle. This means consuming on a smaller or equal proportion to its natural renewal rate.

- **Fair Operating Practices:** This component of social responsibility refers to the strengthening of corporate responsibility practices in the value chain³ of the company. This element mainly involves the application of practices of transparency, the fight against corruption and respect for property rights.
- **Consumers:** CSR practices included in the consumer context are: providing education and accurate information, using fair and transparent marketing, minimizing the risks of products or services through the correct design, manufacture and distribution. Thus, manufacturers are required to ensure that the interests, needs and demands of consumers are not harmed by the products or services offered.
- **Participation and Community Development:** The existence of a balanced relationship between companies and the communities in which they operate is essential. Companies have the ability to promote voluntary and collaborative leadership by allocating resources for the development of the community. According to the ISO, some of the areas of community development that a company can contribute through its social responsibility efforts include:
 - a) Extend educational programs and improve intellectual skills.
 - b) Promotion of health services.
 - c) Cultural Preservation.
 - d) Invest resources in infrastructure and other programs in order to improve social aspects of community life, such as health services, safe drinking water, housing and having enough food.
 - e) Creation of jobs through the expansion and diversification of economic activities and technological development.
 - f) Social investments for the creation of wealth and income through initiatives for local economic development.

³ The Value chain is understood as the series of processes or activities that allows an operator to manage their products from its production until its selling so that at each stage the company adds value to the product. This value added is greater than the sum of the value of each of the activities.

1.5 Principles of Social Responsibility

According to an economic-legal view of companies, it has been established that a company fulfills its primary role if it properly uses its resources and increases its profits under the rules and laws that regulate its actions. Under this approach, the only responsibility a company would have is just to respond to their shareholders and to comply with the current legal framework. This view makes a company use its resources to generate profits only from the economic point of view. Thus, as a means to balance the earlier view, the importance of establishing social responsibility principles emerges. Often economic progress is not always equivalent to social progress.

This new approach based on CSR principles states that the company has a social impact and therefore its business activities influence the interest groups involved and the welfare of society. According to Ocón Oqueli (2009) it can be said that:

“The so-called Social Responsibility is a term that is gaining increasing importance and it refers to the proactive and anticipatory attitude that a company must take regarding social demands. Beyond the creation of responsible products, the social responsibility refers to the processes and manner in which the company has to respond and even anticipate social demands by integrating social factors in its strategic planning” (22).

1.5.1. Definitions involved in CSR Principles

To explain each of the principles governing corporate social responsibility, it is necessary to explain some definitions that this discipline has and to understand the meaning of all of them. According to the information provided by the International Organization for Standardization ISO (2010) they are:

- **Social Responsibility:** It is the responsibility that an organization takes for the impacts of its decisions and activities on society and environment. By engaging in transparent and ethical behavior, this contributes to sustainable development, including health care and the welfare of society. It also takes

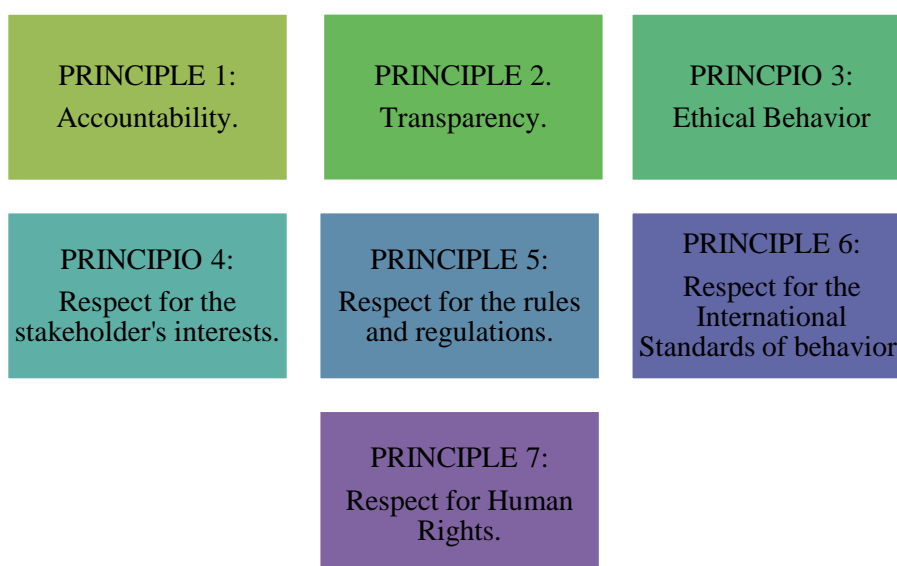
into account the expectations of the stakeholders, obeys the applicable laws and is consistent with the international rules of behavior.

- **Organization:** It is an entity or group of people and systems with established responsibilities, authorities and relationships and with clear goals.
- **Impact of an organization:** The positive or negative change that is generated in society, in the economy and in the environment. The consequences are a result of the past and present decisions and activities of an organization.
- **Environment:** Natural environment in which an organization operates, it includes air, water, soil, natural resources, flora, fauna, humans, ecosystems and their interrelationships.
- **Ethical behavior:** Behavior consistent with the principles of good conduct and with international norms of behavior.
- **Sustainable development:** Development that meets the needs of the present without compromising the ability of future generations to meet their needs.
- **Stakeholders:** An individual or group that has an interest in any decision or activity of the organization or company.
- **International standards of behavior:** Expectations of socially responsible organizational behavior derived from common international laws or intergovernmental agreements which are universally recognized.
- **Gender Equality:** Equal treatment for women and men.
- **Organizational Governance:** A system in which a company makes and implements decisions in order to achieve their objectives.
- **Transparency:** The openness of the decisions and activities that affect society, economy and environment, and the willingness to communicate them in a clear, accurate and timely manner.

- **Employee:** A person who performs a task, either as an employee of the company or someone who is contracted by the company and is self-employed.

Once some of the most important definitions have been explained, it is necessary to show the principles of social responsibility, where the ISO (2010) states that organizations must comply with at least the following seven principles described below:

Graphic 5 CSR Principles



Source: ROMERO, Miguel. Director de Global Standards Certification. NUEVA NORMA ISO 26000:2010 RESPONSABILIDAD SOCIAL “*Modelo que proporciona las guías para el desarrollo de la Responsabilidad Social en cualquier Organización*” 2010.

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1.5.2. Content of CSR Principles

According to Romero (2010), each of the principles of CSR involves a series of actions that all companies and organizations must implement. These principles are a requirement of the model of social responsibility (3). Those principles are:

- **Accountability:** Refers to a company's responsibility to explain their impact on society, the economy and the environment, as well as for the actions taken to prevent the occurrence of unforeseen negative impacts.
- **Transparency:** Refers to the fact that organizations must clearly disclose information about decisions, policies and activities that impact society and the environment, and that information should be available and accessible to all the stakeholders.
- **Ethical behavior:** This principle seeks that the behavior of an organization is primarily based on the values of honesty, fairness and integrity, with respect to people, animals and the environment. It also includes the commitment to assume the consequences of their activities and decisions.
- **Respect for stakeholder's interests:** Companies should respect, consider and respond to the interests of its stakeholders. There are many interest groups that have rights, claims and interests that must be taken into consideration by the company.
- **Respect for laws and regulations:** This principle refers to the supremacy of law and in particular to the idea that any individual or organization is not above the law. This implies that all companies must comply with all laws and regulations.
- **Respect for international standards of behavior:** Companies must respect international norms of behavior and should make an effort to respect these international standards even if the law or its implementation does not safeguard the environmental and social aspects.
- **Respect for human rights:** Every company must respect human rights and recognize both their importance and their universality. Organizations must respect and protect human rights.

1.6. Relationship amongst Sustainability, Ethics, values and CSR

Another important concept that should be considered for a better understanding of the aspects of social responsibility is sustainability. This term is understood from its relationship with globalization, a phenomenon that has made society be much more aware of the effects that our actions have whether they are individual or collective. The survival not only of human beings but of society itself depends on the sustainability of the environment and the natural resources that the ecosystem provides (López Martínez 2009, 57).

Sustainable development is the one that meets the needs of the present without compromising the ability of future generations to meet their own needs. Achieving the goal of sustainability is a very complex task since it affects all dimensions of both the social and economic life and the relationship with the environment (Nuñez 2006, 9). The survival of the life system that exists today depends on the balance between the maintenance of biological diversity, human health and air, water and soil quality. Therefore, to achieve this sustainability it has also to be achieved two key aspects:

- The fact that the rate at which resources are consumed should not exceed the natural capacity of systems to replenish them, and that the rate at which pollution and waste are produced does not exceed the capacity of the environment to absorb them.
- An improvement in social justice and democracy, and also to overcome current cultural patterns that relate quality of life with material possessions and the indiscriminate use of resources.

In this context, precisely the companies and the states are the ones with the ability to exercise a fundamental role to promote the protection and care for the environment, therefore an appropriate business management has as a main objective to ensure that sustainability which is essential for all (López Martínez 2009, 57). Nowadays, some initiatives and movements that have been created to support the practice of corporate social responsibility in all its dimensions exist. Some of them are:

- The Global Compact promoted by the UN.
- The proposal of the Triple Bottom Line (economic, social and environmental spheres) proposed the Global Reporting Initiative.
- The Green Paper of the European Commission.
- The Ethical Management System proposed by FORÉTICA.⁴

Being able to apply new ways of business management requires a lot of time, as it must be taken into account that this phenomenon of corporate responsibility is developing gradually. Although the assimilation process of this discipline still remains limited, CSR should be seen not only as an exceptional value but also as a differential one and will be for those first companies that implement it and evolve and develop this activity as part of their business philosophy. Hence, companies adopting this new social role, whose shared values with different audiences make a change in its form of consumption, are those that can generate a change in the management model and therefore can stay in the market and or industry by demonstrating a new socially responsible performance.

1.6.1. Sustainable Development and the “Triple Bottom Line”

According to a report made by ECLAC (2009), the impact of the industrial model on natural resources has been strengthened by the increased level of development, the acceleration of population growth and the ethical need to benefit all world populations. It is this globalization phenomenon that has caused the acceleration of this process (6). With this globalization comes the need to reduce resource use and waste production created by business activities. This requires companies to develop new skills and activities and to create a new management model that will make them more competitive.

The inclusion of sustainable development principles in the new business model influences how the company maintains its competitive advantages. Therefore, the application of a more dynamic and sustainable vision requires a series of changes in the activities, resources and capabilities of the company. These changes can produce

⁴ Non-profit association with offices in Spain and Latin America that is formed by professionals and organizations that works for the implementation of corporate social responsibility.

a greater permanency of the competitive advantages and, in exchange, it requires the fulfillment of certain requirements (ECLAC 2009, 8). The changes required by the sustainable approach in the activities, resources and capabilities of the company are:

- The need for new skills and activities to overcome the scarcity of natural resources and waste generation.
- There is a need to change the way companies' actions affect society. Companies have more influence over society and therefore have more responsibility to society.
- Companies must develop new capabilities in their interdependency with interest groups known as stakeholders: government, public opinion, media, NGOs, universities, scientific community and local communities, countries and societies which are affected by companies' operations.

In this sense, the new mission for a company is to find opportunities that are beneficial for the company and for society. Managers have to be in constant communication with the identified stakeholders, not just shareholders but with all of them. This allows the identification of any changes that might occur in the environment in which the company operates. According to Mancera (2013), CSR becomes an approach with great potential for the development of enterprises and their corresponding social environment. It also helps to ensure greater respect for labor rights and social and environmental issues, if implemented in an ethical way benefiting society rather than only the company.

Mancera (2013) explains the following about sustainable development and CSR:

“In this sense, the programs and projects that are implemented in the framework of CSR must be characterized as sustainable. This should be achieved through actions that create value so that the investments made in CSR will empower the surrounding communities. In addition, it is necessary to change the management style, the transparency information policy and to encourage long-term commitments”

In order for these changes to result in a sustainable competitive advantage for the company, it is necessary for them to be valued by society. Nowadays, society is increasingly demanding companies to operate on a model that supports sustainable development. Therefore, companies develop a new direction and introduce new values that are compatible with society. For this reason it is said that corporate social responsibility will become the main competitive quality for companies in the twenty-first century (ECLAC 2009, 8).

In this context, the role environment takes within the framework of social responsibility has to be mentioned. In this sense, Portales and García (2012) explain that in the late 1990s, as a result of environmental degradation and environmental crises caused by human actions, especially by companies, the environmental discourse was being included in the management theory (8). In this sense, given the environmental challenges that the world faces today, it is necessary to link the strategy and technology development with the concept of sustainability to create more competitive advantages.

This adds a new dimension to CSR together with the economic and social dimensions, the environmental aspect is also considered. The model known as the Triple Bottom Line⁵ (TBL) links these three dimensions, and also takes into account the interactions that result from them (Portales and García 2012, 9). In this approach and according to the business sphere, there is a need to generate profits taking into account the relationship and improvement of stakeholders combined with the reduction of environmental impacts. Thus, CSR begins to focus not only on the internal aspect of the company but also considers the internal and external stakeholders, such as suppliers, customers and community. It also begins to be concerned about the impacts generated by the entity on its surroundings, specifically on the environmental one. As a summary, the theoretical basis of CSR is:

⁵ The term “Triple Bottom Line” was first coined in 1994 by John Elkington, founder of a British consultancy called SustainAbility. This new argument consists of three Ps: profit, people and planet. Its objective is to measure the financial, social and environmental performance of a company during a period of time as a company that elaborates this kind of reports is taking into account the total costs involved in business.

- a) There has been a shift in the operational paradigm of the company, because it has changed from an exclusively economic performance, to an approach based on a triple objective (“Triple Bottom Line”), including the economic aspect, the social and environmental spheres.
- b) Interest groups are demanding a greater recognition and representation of their interests on the part of the companies as well as more benefits as they are directly involved in the operations and development of companies.
- c) As a result of the situations explained above, the strategy and business activity as well as the behavior of companies must meet sustainability requirements and maintain an appropriate relationship with the stakeholders.

The situations mentioned about the various changes that are generated in society, define the basis for companies to understand and feel convinced that social responsibility can have a direct economic value. Companies face the challenges of a changing environment, driven by globalization and market pressures, and for this reason, social responsibility appears as an indispensable investment to improve the business strategy, the management model and the way activities are carried out.

1.6.2 Ethics and values

It is important to explain that ethics and morality are usually talked about as synonymous concepts, but each one has different aspects so they require a brief explanation. López Martínez (2010) establishes the following about ethics and morality (59):

- Ethics is grounded in reason and depends on philosophy, while morality relies on habits and is formed by a set of regulatory elements that society accepts as valid.
- Ethics is based on individual judgment, while morality is based in society. While morality is defined by society and is permanent, ethical values may vary as they depend on oneself.

With the description of these characteristics, it can be understood that when talking about ethical value it is not the same as talking about moral values. However, companies must consider both aspects in their performance and their efforts while doing business. While moral principles must be assumed, ethical values start by being defined; this task is a very important internal issue for the company. This process also reflects how the company is going to act and be.

Defining the company will have an effect on all departments and business activities and it will become the action guide for the company. After this process, it is essential that ethical values are implemented and accepted by all departments and people associated with the organization, in order to be applied in each of its business activities (Méndez Picazo 2006, 3).

This process is a very important step in the internal communication a company must perform in order to adapt the ethical values to the existing needs. This would help achieve a successful implementation and assimilation process. The ethical value (for example integrity) focuses on business management objectives that include both economic aspects and reputation. The process of defining a company affects the internal and external environment, meaning all departments and business activities such as financial issues, human resources and marketing.

It is imperative to explain that in defining ethical values and more specifically, in the selection of them, companies must take into consideration those that are most appropriate for the organization. However, other variables also influence its definition and among them are the environment, moral principles and the trajectory of the company (Méndez Picazo 2006, 5). Ethical values are necessary to achieve an ethical and responsible management in a company, as it has a vital role for the development of society. For this reason, companies must maintain a good relationship with all their stakeholders (López Martínez 2010, 65).

In this context, ethical management is essential for stakeholders and for the development of society. Each of these groups is important for the company as they allow it to achieve success in their business activities and to stay in the market. This shows that a company is not only a lucrative organization, but it also works in favor

of society (ECLAC 2006, 10). This situation reflects a significant change in business management as it is introducing the issue of values. This requires a change in the way companies and organizations are seen and how their relationships with the environment, society and individuals are developed.

In some cases, companies may have ethical values in their action guide in order to improve their reputation, but they have not assimilated the concept. Therefore, it is necessary to achieve awareness of the need to go beyond ethical values as simple words but with good intentions but without action. Therefore, this path to a responsible and ethical management responds to the social need that demands social obligations for each of the companies. In order to explain the importance of the implementation and internal assimilation of ethical values, the company should make a more in depth analysis to decide and define the values that should guide their actions.

According to López Martínez (2010) business ethics can be defined as follows:

“Business ethics can be defined as a set of activities related to honesty and transparency within a context of good relationships based on respect and fulfillment of commitments among stakeholders. Business ethics must go beyond the guarantee of laws” (67)

This definition includes adjectives like honesty, transparency, respect and legality. These ethical values are part of the definition of business ethics and therefore define the way of being and acting of companies. Ethical values should be the main consideration of business plans and decisions that allow the proper functioning and achievement of the company objectives. It is important to note that those decisions and plans may vary according to the needs of the changing and dynamic market place. However, ethical values must be maintained and improved over time while they still remain consistent with corporate behavior.

The foundation of ethical values is based on reason and they become attributes and behaviors that are globally recognized and valued by humans. Although, its form of

application might be different from one country to another, these values continue to be recognized in each of these countries (Méndez Picazo 2006, 8). This characteristic of universality determines that such values are appropriate for socially responsible companies, especially in the current context where the phenomenon of globalization requires a series of changes, regulations and proper behavior. All these factors seek to improve the quality of life, not only of human beings but also of the environment. Companies have to consider the fact that each stakeholder can be affected by the lack of ethics and lack of responsible management (López Martínez 2010, 69).

Finally, Méndez Picazo (2006) writes that today there is great pressure generated by consumers and other stakeholders. The market is highly competitive and consumers prefer products or services that not only meet their material needs, but also their moral ones (4). Therefore, in business activities there is a growing interest in the demands of consumers, and this has led companies to create specific departments with trained personnel to address them.

Today, satisfying the expectations and demands of all stakeholders entails increasing difficulties for companies, who have to get into the “ethic game” to overcome those obstacles. It is precisely this ethical behavior in which corporate responsibility appears. From this point of view, productive organizations have a social character, as their economic activities result from a network of human relationships.

CHAPTER 2: ISO 26000 - Guidance on Social Responsibility

This chapter provides an analysis of the standard ISO 26000 set by the International Organization for Standardization (ISO) which has become the guide for the implementation of social responsibility. Although this standard has a voluntary character, it provides a basic framework that companies or organizations that want to include this new discipline can follow in order to implement corporate responsibility actions. It also includes a study of the concept and the various areas covered by this standard, the importance it has in the context of corporate social responsibility and how can it help to promote the knowledge and consciousness of this discipline.

This chapter also focuses on determining each of the topics that are included in the scope of ISO 26000 and how it helps to improve the operation of organizations. It also explains how the initiative appeared and the contributions this standard brings to organizations. All these provide a theoretical framework for a better understanding of the norm as an indispensable tool to integrate better practices and social responsibility strategies within organizations.

2.1. Concept and Importance of the Standard

To start with the explanation of the norm and to understand its importance and applicability, it is necessary to refer briefly to the organization responsible for its creation. On this basis it can be said that the ISO, International Organization for Standardization, has 163 members that create the standards. These members are from large and small industrialized, developing and transitional countries located in all regions of the world (ISO, 2010). The ISO has a portfolio of more than 18,400 standards that provide enterprises, government and society with practical tools for the three dimensions of sustainable development: economic, environmental and social spheres.

All these standards provided by the organization make a positive contribution to the world and the development of society since they facilitate trade, the dissemination of knowledge and technological advances, and they share good management practices.

The ISO standards provide solutions and benefits for almost all sectors, including agriculture, construction, mechanical engineering, manufacturing, distribution, transportation, medical devices, information and communication technologies, environment, energy, quality management and evaluation of services (ISO, 2010).

This process for the elaboration of the standards is carried out by experts, which come directly from the industrial, technical and business sectors who have identified the need to create a standard that should be implemented by organizations (Argandoña and Isea 2011, 7). These experts can work together with other people with relevant knowledge, such as representatives of government agencies, testing laboratories, consumer associations, academics and international governmental and nongovernmental organizations (NGOs) (Reis Cajazeira 2006, 8).

Today, public and private organizations have found it necessary to behave in a socially responsible way. This has become a requirement that is also shared by the stakeholder groups involved in the development of the ISO 26000, which are industry, government, workers, consumers, NGO's and other groups (ISO 2010). The ISO has selected the Swedish Standards Institute (SIS) and the Brazilian Technical Standards Association (BTSA) to provide joint leadership to the ISO Working Group on Social Responsibility (WG SR).

This group was assigned the task of developing the International Standard for Social Responsibility which was published in 2010 and named ISO 26000. This Working Group had the task to develop an International Standard to be the guide for Social Responsibility (SR). The aim of this group was to develop a guidance document, written in a simple language comprehensible and usable by non-specialists instead of a specification document intended for third-party certification.

The elaboration process of the standard intended to add value, not replace existing intergovernmental agreements that already have relevance to social responsibility, such as the Universal Declaration of Human Rights of the United Nations, and those adopted by the International Labor Organization (ILO) (Argandoña and Isea 2011, 8). The Organization for Standardization takes all measures in order to ensure that the standard is beneficial as it incorporates the participation of all those who have a

serious interest in social responsibility. According to Reis Cajazeira (2006), the development of the standard was carried out through a balanced representation in the Working Group of the six designated stakeholder categories among which are (4):

- Industry.
- Government.
- Workers.
- Consumers.
- Non-governmental organizations and others.

Additionally, designated as ISO 26000 a balance between gender and geographical origin was established. Once the working group was formed, the organization was responsible for establishing what the standard should include and provide for the various strategic sectors. According to the Working Group the new standard should be able to:

- Help organizations address their social responsibility process, while respecting the cultural, social, environmental, legal, and economic conditions.
- Provide a practical guidance to help social responsibility become operational and identify and engage stakeholders. It would also help to strengthen the credibility of SR reports.
- Place greater emphasis on performance results and work harder to improve them while increasing the confidence and satisfaction of customers and other stakeholders of organizations.
- Be consistent and not in conflict with existing documents, international treaties and conventions and other ISO standards.
- The standard should not be designed to reduce the authority of governments but to oversee the social responsibility process in organizations.

- It seeks to promote common terminology in the field of social responsibility and to increase the knowledge and consciousness of this discipline.

2.1.1. Background

It is important to note, that worldwide organizations and their stakeholders are increasingly aware of the necessity and benefits that a socially responsible behavior would provide which are mainly related to achieving sustainable development (Villaseñor 2011, 5). The performance of an organization in society and its impact on the environment has become a critical element when measuring their overall performance and ability to operate effectively (ISO, 2010).

This situation is a result of the need to ensure healthy ecosystems, social equity and better organizational governance. Therefore, the verification by stakeholders of an organization's action is more stringent because the performance of social responsibility issues can directly influence other key aspects of organizations. They include its reputation, its ability to attract and retain employees, to improve the perception of investors, owners, donors, sponsors and the financial community of the organization (Romero 2010, 2).

Also, it has to be taken into consideration that each organization has a different level of understanding and integration of social responsibility. Therefore, the purpose of this new international standard is to be used by those who are starting to adopt social responsibility and for those who already have more experience in the implementation of this discipline (ISO, 2010). This standard aims to be useful for any organization of the public, private and non-profit sectors, whether they are big or small or are operating in developed or developing countries (Villaseñor 2011, 7).

It is essential to explain that in 2005 the voting process on the proposal for a new work item in SR took place and ended with a large majority in favor of the development of a standard of social responsibility. In order to facilitate the participation of experts from stakeholder categories with limited resources, such as developing countries, NGOs, consumers and others, a specific Task Group (TG1) was created to deal specifically with those stakeholders (Reis Cajazeira 2006, 4).

This new international standard, ISO 26000, considered the guidance on social responsibility, provides overall guidance for organizations in the public and private sector. This standard is based on international consensus among expert representatives of the main stakeholders and encourages the worldwide application of better practices in social responsibility (Argandoña and Isea 2011, 10). The ISO 26000 not only adds value to the existing work on social responsibility but also extends the understanding and implementation of this discipline.

The ISO 26000 can be defined as an international standard that provides guidance on social responsibility and is designed to be used by organizations of all sizes, from the public and private sectors, in developed and developing countries. This standard was created to help organizations in their efforts to operate in a socially responsible manner, which is increasingly demanded by society today. This new standard ISO 26000 contains voluntary guidance, not requirements, and therefore is not used as a certification standard like ISO 9001:2008 for quality and ISO 14001:2004 about Environmental Management Systems.

2.1.2. Importance of the ISO 26000

Having explained the concept, scope and stakeholders involved in this social responsibility standard, which although is not certifiable, it is an important basis to be considered for the implementation of SR. It is necessary to explain that the importance of this standard relies on the fact that for organizations, the sustainability of the various businesses means not only to provide products and services that meet customer needs, it also involves operating in a socially responsible manner without endangering the environment (Bittán, 2011).

This pressure to reach socially responsible management comes from customers, consumers, governments, trade unions and other stakeholders. Similarly, organizational leaders recognize that the success of any company should be based on credible business practices and the prevention of certain activities, such as fraudulent accounting and labor exploitation (Bittán, 2011). Over the years there have been a great number of global projects regarding CSR principle and today there are also many programs and individual initiatives for the promotion of CSR. The main

challenge is how to implement these principles and how to apply an efficient social responsibility process. The challenge is “social responsibility” may vary from one program to another (ISO, 2010).

It is also important to note that some initiatives have focused only on “corporate social responsibility”, while the ISO 26000 provides guidance on social responsibility not only for business organizations, but also for all kinds of public sector organizations. Finally, it can be said that the ISO 26000 provides an overall understanding of what social responsibility is and what organizations must do to operate in a socially responsible way.

2.2. Contents of the standard’s clauses

In order to understand the content, dimensions and context of the standard, it is necessary to explain that social responsibility requires the existence of two main practices. Both of them are essential for organizations if they want to implement CSR within their management processes. The two main practices are:

- Recognition on the part of an organization of its social responsibility.
- Identification of the stakeholders and interest groups of an organization.

Thus, the standard provides guidance for organizations so they know how to implement and integrate social responsibility, and guides them on how to understand and communicate this discipline within the organization. All these SR processes should be reflected in the external surroundings of the organization through various actions (Reis Cajazeira 2006, 6). In this sense, all social responsibility actions should be communicated at all levels and departments in order to obtain the best results.

According to the ISO (2010), the factors involved in each of the clauses can be explained as follows:

2.2.1. Clause 1, Purpose and Scope: This clause explains that the International Standard aims to help organizations contribute to sustainable development. It encourages organizations to go beyond the

compliance of the law which is its fundamental obligation. It also promotes a deeper understanding of social responsibility that is complemented with other existing mechanisms and initiatives of this discipline (ISO: 26000 2010, 13).

In applying this standard, it is essential for any organization to take into account the social, environmental, legal, cultural, political and organizational diversity, as well as the differences in economic conditions in order to be consistent with the international norms of behavior. The main purpose of the standard is to provide guidance to organizations on social responsibility that can also be used as part of the strategies and public policies (Villaseñor 2011, 8).

However, this rule is not intended to set the basis for legal actions, complaints, arguments or other claims in any international or local process. It is not meant to be cited as evidence in the development of common international law and likewise not intended to impede the development of national standards that are more specific or more demanding.

2.2.2. Clause 2, Terms and Definitions: Identifies and provides the meaning of the key terms that are of fundamental importance for understanding social responsibility and the use of ISO 26000 (ISO 2010, 14). For the purpose of this standard the following terms and definitions are used:

- Accountability.
- Customer.
- Consumer.
- Due Diligence.
- Employee.
- Environment.
- Ethical Behavior.
- Gender Equality.
- Impact of an organization.

- Initiative.
- International Standards of behavior.
- Organization.
- Organizational Governance.
- Principle.
- Product.
- Service.
- Social Dialogue.
- Social Responsibility.
- Sphere of Influence.
- Stakeholders.
- Involvement of stakeholders.
- Supply Chain.
- Sustainable Development.
- Transparency.
- Value Chain.
- Vulnerability Group.
- Worker.

Chapter one provided an explanation of the main definitions that have to be taken into consideration when analyzing and implementing social responsibility. The relevance and importance of the other definitions are explained in the standard so that different kinds of organizations can apply them according to their situation and needs.

2.2.3. Clause 3, Understanding social responsibility: Describes the important factors and conditions that have influenced the development of social responsibility and continue to affect its nature and practices. It also describes the concept of social responsibility and how it can be applied in organizations (Argandoña and Isea 2011, 12). This clause provides some historical background where it is stated that social responsibility was first used in the early 70s. Some governments and

organizations have carried out some of the aspects considered as social responsibility since the late nineteenth century (ISO: 26000 2010, 17).

While in the past social responsibility was focused primarily in companies, the view that this discipline is applicable to all organizations emerged as different types of organizations, not just those in business, recognized their obligation and commitment to achieve sustainable development (ISO: 26000 2010, 17). Since then, a series of definitions of social responsibility began to develop. The first of them was related to philanthropic activities such as charity. Later, labor and fair operating practices emerged and other issues such as human rights, the environment, consumer protection and the fight against corruption became part of social responsibility. This occurred because society gave those aspects much more attention (Romero 2010, 8).

There are relevant issues that should be taken into consideration by all organizations since those issues go beyond the immediate geographical area in which each organization or company is located. The protection of the environment, health care, the recognition of global responsibility in the fight against poverty and the growing economic interdependence are issues of global concern that companies must include in their operations and strategies (ISO: 26000 2010, 18).

In this context it is essential to note that in recent decades, globalization has also led to an increase in the impact generated by different types of organizations. NGOs, those in the private sector, and governments influence directly the environment and the various communities where they operate (ISO: 26000, 2010, 18). Along with this, it is essential to explain that consumers, customers, investors, donors and owners influence organizations, whether financially or in the social responsibility aspect. The expectations that society has on the performance of each of the existing organizations continue to grow and each time has become more demanding.

Thus, in many countries the legislation regarding the right of communities to receive information allows people to have access to the decisions and activities carried out by organizations. Many of them communicate with their stakeholders through social responsibility reports developed in order to communicate to interest groups the organization's performance. These factors constitute the framework of social

responsibility and help promote the inclusion of this discipline in the operations of any organization. According to the International Organization for Standardization (2010), this clause also refers to the characteristics of social responsibility and explains that:

“The essential characteristic of social responsibility is the willingness of organizations to incorporate social and environmental considerations into their decision-making process. It is important to give explanations of the impacts of its decisions and activities on society and the environment. This involves a transparent and ethical behavior that contributes to sustainable development, complies with the applicable law and is consistent with international norms of behavior. It also makes sure that social responsibility is integrated throughout the organization, is practiced in their relationships, and it considers the interests of the parts involved” (19).

Similarly, it is stated that social responsibility involves understanding the expectations of society that vary depending on the country and culture. However, organizations should always follow the international norms of behavior such as the Declaration of Human Rights of the UN, the Johannesburg Declaration on Sustainable Development⁶ and other international documents.

Because social responsibility is linked to the current and potential impacts that the decisions and activities of the organizations would have, they must include the SR as part of its main strategy. This also involves an allocation of responsibilities and accountability on all existing levels within the organization in order to reflect their decision-making process. It also shows that the implementation and integration process of social responsibility is applied to all activities that are carried out by the organization (Salgado Troya 2010, 18).

⁶ The Johannesburg Declaration on Sustainable Development was adopted at the World Summit on Sustainable Development in Johannesburg, South Africa in 2002. It is based on the principles of universal human rights, and attempts to promote sustainable development in all areas such as economic, social and environmental, demonstrating that poverty reduction is possible through this sustainable development. The document also incorporates principles adopted at previous conferences of the Environment and Development in Rio de Janeiro and Stockholm.

2.2.4. Clause 4, Principles of social responsibility: Introduces and explains the principles of social responsibility on which the ISO 26000 is based. This clause provides guidance on the principles of social responsibility, as any organization that implements this discipline must have as a primary objective to contribute to sustainable development. Moreover, organizations have to support the norms, or standards of conduct that are consistent with these principles. These principles can be applied in each of the specific situations that an organization has to deal with (Salgado Troya 2010, 16).

Since each of the seven principles have already been explained in chapter one, they are only listed below.

- Accountability.
- Transparency.
- Ethical behavior.
- Respect of the stakeholders' interests.
- Respect for the rule of law.
- Respect for international norms of behavior.
- Respect for Human Rights.

In the content of the ISO 26000, the idea that an organization adopts socially responsible behavior arises from the need of their contribution to sustainable development. These seven basic principles of CSR are, according to the Standard, the principles that every organization should consider to maximize that contribution. Although they are not intended to be a definitive list of CSR principles, the ISO 26000 suggests adopting at least these seven, in order to facilitate the integration of SR throughout the organization. The importance of each of these principles is the same, none of them have priority over one another (Argandoña and Isea 2011, 16).

2.2.5. Clause 5, two fundamental practices of social responsibility: The two necessary practices of social responsibility are: Recognition by an organization of its social responsibility, and identification of its

stakeholders or interest groups. (Salgado Troya 2010, 16). This clause provides guidance on the relationship between the organizations, the stakeholders and society. It explains the fundamental issues and aspects of social responsibility in organizations.

First of all, this clause explains that the recognition of social responsibility involves identifying the issues that arise as a consequence of the impacts of the decisions and activities of the organizations. It also explains how these issues must be addressed so they can contribute to sustainable development. Similarly, the recognition of this discipline includes identifying and recognizing stakeholders of an organization. It should respect and consider the interests of its stakeholders as they are affected by the decisions and activities of an organization (ISO 2010: 26000 2010, 28).

According to Salgado Troya (2010), in order to address the issue of recognizing social responsibility, an organization must consider three specific relationships (19):

- 1. Between the organization and society:** An organization must be aware of the impact of its decisions and activities on society and the environment. It must also understand the expectations of responsible behavior that society has, based on the impacts created by the organizations.
- 2. Between the organization and its stakeholders:** An organization must be aware and must identify each of its stakeholders, meaning individuals or groups whose interests will be affected by the decisions and activities carried out by the organization.
- 3. Between the stakeholders and society:** It is essential that an organization understands the relationship between the interests of its stakeholders and the expectations society has regarding socially responsible behavior of an organization. Although stakeholders are part of society, their interests may not be consistent with the expectations of society. Each of these parts has a particular interest in relationship to the organization. These interests can be differentiated from the expectations that the whole society has over the social responsibility with which the organization must comply.

Regarding the second aspect covered by this clause, which is the involvement and identification of stakeholders, it is explained that this is a key element to be taken into consideration for the implementation of social responsibility. On the one hand, to identify stakeholders, it refers to individuals or groups whose interests are directly related to the activity of the organization and therefore will be affected by the various decisions taken. In this sense, according to ISO: 26000 (2010) it is determined that interests may be defined as follows:

“Interests refer to something that can be the basis for an actual or potential claim, for instance debts and individual rights. This claim does not necessarily imply a financial claim or legal rights, sometimes it refers simply to the right to be heard. The relevance or importance of interests is determined more clearly when it is considered the relationship to sustainable development” (30).

In this context, it is essential to explain that some of the stakeholders, as a member, employee or owner of the organization, are an integral part of it because they share a common interest with the objectives of the organization and its success. However, this does not mean that all their interests are always aligned with those of the organization. Therefore, it is essential to examine whether the groups that claim to speak on behalf of specific stakeholders or that support certain causes are credible groups and represent the stakeholders.

Regarding the involvement of the stakeholders, the standard explains that this process includes the dialogue between the organization and two or more of its interest groups. This creates a basis that will help the organization in the implementation of social responsibility and its decision making process (ISO: 26000, 2010, 31). This involvement can take many forms. For example, it can take place in informal and formal meetings, individual meetings, conferences, speeches, roundtable discussions, committees, collective negotiations and forums. This process should be interactive and aims to provide opportunities for interest groups to be heard (Salgado Troya 2010, 16).

In this context and according to the ISO: 26000 (2010), the involvement of stakeholders is essential to the process of social responsibility, and can be used to achieve the following purposes (32):

- Increase the understanding of the organization of the consequences that its decisions and actions can have on certain stakeholders.
- Determine the best way to increase the benefits generated by the decisions and activities of the organization and determine how to reduce any negative impact.
- Determine if the statements made by an organization about its social responsibility are perceived as credible. Help the organization to examine its performance in order to improve it.
- Reconcile conflicts involving the interests of the organization, of the stakeholders and the expectations of society.
- Increase the transparency and credibility of the information and the communication process on organizational performance. Also, an organization should develop partnerships to achieve mutually beneficial goals.

Finally, it can be said that it is more likely that the involvement of stakeholders has a greater effect when there is the presence of the following elements: there is a clear purpose for the engagement, the interests of the stakeholders have been identified and the relationship between the organization and the interest groups is direct and relevant. It also has to be taken into consideration that the interests of stakeholders are important and meaningful for sustainable development and these stakeholders have sufficient information to make decisions (ISO: 26000 2010, 33).

2.2.6. Clause 6, the core subjects of social responsibility: Defines the 7 core subjects covering social responsibility. For each of these subjects the clause provides information about its scope, its relationship with

social responsibility and with the principles. This clause also explains their relevant actions and expectations.

In this clause it is determined that in order to define the scope of social responsibility, organizations must identify and prioritize relevant issues. They should address the following subjects:

- Organizational Governance.
- Human Rights.
- Labor practices.
- Environment.
- Fair operating practices.
- Consumer issues.
- Active participation and community development.

Each of these main subjects were analyzed in chapter one, however, this clause would provide an explanation of new aspects that are included in each of these areas, and that are essential for businesses that want to apply an efficiently social responsibility process. In this sense, it is important to emphasize that an organization must analyze each of the subjects holistically, meaning that each must consider the aspects and issues involved and the interdependence between them, rather than focusing on a single issue.

Therefore, each organization must know that the specific improvements to be made should achieve positive results for each of the subjects as well as for the life cycle of products and services, for the stakeholders and for the value chain. The ISO 26000 recommends addressing the fundamental issues in a comprehensive way that would help recognize that all subjects are equally important and are interrelated (Argandoña and Isea 2011, 18). From this explanation it is important to refer to the various aspects included in the 7 subjects.

1. Organizational Governance

This issue refers to the system by which an organization makes and implements decisions to achieve their goals. It is a key element in making an organization responsible for the impacts caused by their decisions and actions. At the same time this process has to be integrated in the various departments of the organization and in the existing relationships with the stakeholders (ISO: 26000 2010, 35).

It is essential to note that effective governance should be based on the integration of each of the principles (discussed in section 4 of the Standard) by which social responsibility is governed. They are essential for the decision making process and for the implementation process too. In this context, leadership takes an important role to achieve good governance. It not only facilitates decision-making, but also motivates employees to practice social responsibility and to integrate this discipline into the culture of the organization.

Since governance is related to the decision-making process, it is subjected to a number of processes and structures that can be formal, like laws and regulations, or informal such as culture and values that an organization must respect (ISO: 26000 2010, 36). Thus, each of these processes should allow the organization to achieve the following actions:

- Develop strategies and objectives that reflect their commitment to social responsibility. This can be achieved by creating an organizational culture where the principles of social responsibility are practiced, such as promoting fair opportunities for minority or vulnerable groups (including women, racial and ethnic groups).
- Balance the needs of the organization and of the stakeholders, including immediate needs and those of future generations. It is important to establish processes for a multilateral communication with stakeholders, identifying areas of agreement and disagreement and negotiating to resolve conflicts.

- Promote the effective participation of employees at all levels and in the activities of the organization related to social responsibility. This should be achieved by creating a system of economic and non-economic incentives regarding social responsibility performance.

2. Human Rights

The recognition and respect of human rights are widely considered essential for the compliance with the law and concepts of social justice and equity. The respect and recognition of human rights are the basic foundation of most institutions in society (ISO: 26000 2010, 37). Just as states have the responsibility to protect, enforce and defend human rights, organizations are also responsible for enforcing these rights within their sphere of influence. In this sense it is important to refer to the main principles and considerations related to human rights (Argandoña and Isea 2011, 19).

In this context Argandoña and Isea (2011), expressed that human rights have very particular characteristics that make them unique and stand above any other rights (19). It is said that human rights are inherent, universal, inalienable, indivisible and interdependent.

- Inherent, because they belong to each person as a result of the condition of human beings.
- They are inalienable, because people cannot renounce them, nor be deprived of them by any institution or government.
- They are universal, as they are applicable to all the people regardless of their status.
- They are indivisible, since human rights can't be ignored selectively.
- They are interdependent, as the realization of one right contributes to the fulfillment of other rights.

From what has been explained, the ISO: 26000 (2010) provides some considerations on this fundamental matter of SR. It explains that while governments have the duty to protect individuals and groups against human rights abuse within their jurisdiction, also it is widely accepted that organizations can affect directly or indirectly human rights protection (39). Hence they have the responsibility to respect these rights regardless if the government is complying or not with its obligation to protect them.

This responsibility involves positive actions to prevent any organization from violating human rights and also to include the responsibility to exercise due diligence. This means to identify, prevent and address actual and potential impacts on human rights resulting from their activities or from the activities carried out by those groups with which the organization is closely related (ISO: 26000 2010, 39). Similarly, due diligence allows organizations to be alert to the behavior of other groups who could affect human rights. In this way, they can find an effective solution to this problem.

In this context, it is essential for an organization to consider providing human rights education in its external and internal dimensions. This would help promote awareness among individuals and those with the potential to have an impact on human rights. In addition, the ISO 26000 emphasizes the need to protect human rights of traditionally discriminated groups (women, children, disabled people, indigenous, ethnic minorities, etc.). It also explains the fact that organizations should guarantee the freedom to form unions, collective bargaining, equal opportunities and to prevent forced and child labor. All these aspects should be practiced not only within the organization, but in all those areas that are within its sphere of influence (Argandoña and Isea 2011, 19).

3. Labor Practices

The labor practices of an organization comprise all policies and practices relating to the work performed within, by or on behalf of the organization, including

outsourcing⁷ (Salgado Troya 2010, 16). These practices go beyond an organization's relationship with its own employees and involve taking effective actions towards workers' safety, health care and industrial hygiene. It also relates to the inclusion of policies to better labor conditions.

It is important to note that the creation of employment, wages and other compensations paid for the work that is done, are among the most important economic and social contributions of an organization. Productive work is an essential element for human development, employment insurance and compensation help to improve their standard of living (ISO: 26000 2010, 49). The absence of these aspects is one of the main causes of social problems. For this reason, labor practices that are socially responsible are essential for organizations, as they allow organizations to implement and promote social justice, stability and peace (Argandoña and Isea 2011, 20).

In this context it should be emphasized that a fundamental principle considered as the basis of labor practices is the Philadelphia Declaration of the ILO (1944)⁸. It states that the work itself is not a commodity. This means that workers should not be treated only as a factor of production nor be subjected to the same market forces that govern or apply to goods (ISO: 26000 2010, 50). The inherent vulnerability of workers and the need to protect their rights are reflected in basic documents as important as the Universal Declaration of Human Rights and the International Covenant on Economic, Social and Cultural Rights.

Each of the principals involved in these documents reflect the individual's right to earn or gain an income by working in a job chosen freely and under favorable conditions. According to Argandoña and Isea (2011), organizations should include in

⁷ Outsourcing is the contracting out of an internal business process to a third party organization. The practice of contracting a business process out to a third party rather than staffing it internally is common in the modern economy.

⁸The Declaration of Philadelphia is one of the essential instruments of the International Labor Organization, since it says that all human beings, without distinction, have the right to work and pursue their material and social development in conditions of freedom and dignity. This declaration proclaims that equality of opportunity must exist in any employment. It has four basic principles: 1) Work is not a good. 2) Freedom of expression and of association are essential. 3) Poverty anywhere constitutes a danger for prosperity. 4) The fight against poverty should be done with a lot of effort.

their management some key issues that reflect the incorporation of socially responsible labor practices (20). In this sense, certain actions can be included such as:

- Social protection must be provided to the groups that are closely related to the activity of the organization. These include legal and political guarantees to mitigate the reduction or loss of income in case of accident, sickness, and disability. This also involves providing aid during maternity, paternity or financial hardship. Organizations have an obligation to provide medical and family benefits. This social protection plays a key role in the preservation of human dignity and in the creation of fairness and social justice.
- Working conditions that are consistent with the laws of each country and with international labor standards. These conditions greatly affect the quality of life of workers and their families as well as the economic and social development of society.
- Social dialogue, meaning the exchange of information between representatives of the organization, employers and workers on issues of common interest. Also, they must communicate their social and economic concerns that relate to each of the interest groups.
- Health and safety, this means that organizations must promote and maintain a high level of physical, mental and social welfare of employees to prevent damage to health caused by working conditions. This aspect also means that the work environment should be adapted to the physiological and psychological needs of workers.

Finally, it can be said that organizations can create and implement policies and initiatives in the workplace for a greater human development. They should take into consideration social concerns such as fighting discrimination, balancing family responsibilities, promoting health care and welfare and improving the diversity of the personnel working within the organization. In addition, these initiatives and policies will increase the capacity and sense of belonging of individuals.

4. Environment

All decisions and actions taken by organizations create an impact on the environment. These effects may be associated with the use of resources, the location of the organization's operations, waste generation and the impact of the organization's action over natural habitats (Salgado Troya 2010, 19). In order to reduce such environmental damage, organizations must adopt an integrated approach that considers the direct and indirect implications and impacts of their decisions and activities.

Therefore, it is essential for organizations to identify options that will reduce and eliminate unsustainable patterns of production and consumption. They must implement an environmentally responsible process that would enable the survival and prosperity of human beings. This reflects the social responsibility process of an organization regarding environmental protection. In this context the ISO: 26000 (2010) explains the essential practices that companies should follow and implement for environmental protection.

- **Environmental Responsibility:** An organization must take responsibility for the environmental damage caused by their actions both in rural and urban areas and in the environment. An organization should consider its ecological limits in order to improve its own performance and the performance of other groups that are within its sphere of influence.
- **Precautionary Approach:** This principle comes from the Rio Declaration on Environment and Development⁹. It states that where there are threats of serious or irreversible damage to the environment or to human health, the lack of scientific certainty should not be used as a reason for postponing the application of effective measures to prevent environmental degradation or harm to human health.

⁹ The Rio Declaration on Environment and Development is a proposal of United Nations to promote sustainable development. It was adopted at the United Nations Conference on Environment and Development (UNCED), which took place in Rio de Janeiro from June 3rd to June 14th, 1992.

- **Environmental Risk Management:** An organization must implement programs with a sustainability perspective to prevent, reduce and mitigate risks and environmental impacts of its activities. Organizations must develop procedures to create awareness and to have an emergency response to reduce impacts on health and safety and even to provide information to local communities and authorities about environmental incidents.
- **Assume the cost of pollution:** An organization must assume the cost of pollution caused by their daily actions in accordance to the magnitude of the environmental impact that it has on society. They should quantify the economic and environmental benefits of preventing pollution.

Within this fundamental subject, it should be noted that strategies and approaches that organizations apply must be focused on achieving a socially responsible and effective management (Argandoña and Isea 2011, 21). All these strategies are intended to promote the sustainable use of resources making organizations use them in a much more responsible way. This means using electricity, fuels, raw materials, land and water in an environmentally friendly way. It is important to replace non-renewable resources with renewable resources.

5. Fair Operation Practices

These practices refer to the ethical behavior of an organization in either transactions or relationships with other organizations like government agencies, suppliers, customers, partners, competitors and other stakeholders (Salgado Troya 2011, 19). The issues included in fair operation practices are related to anti-corruption, fair competition, socially responsible behavior, relationships with other organizations and respect for property rights.

Regarding the area of fair operating practices, they refer to the way in which an organization uses its relationships with other organizations and groups to promote positive results. They are achieved through leadership and by promoting social responsibility more broadly within the sphere of influence of the organization (ISO: 26000 2010, 65). Having an ethical behavior allows establishing and maintaining

productive and legitimate relationships between organizations. For that reason, the observance and promotion of ethical standards within organizations is essential.

Regarding the subject of corruption, it must be determined that corruption is the abuse of power to obtain private benefits, of which bribery and fraud are some examples (Argandoña and Isea 2011, 21). Therefore, organizations must identify potential risks of corruption and extortion and implement policies to combat them. Organizations should support and involve employees and other stakeholders in their efforts to eradicate bribery and corruption, and provide incentives for further progress in this area (ISO: 26000 2010, 65).

Regarding the issue of fair competition, the implementation of this practice encourages innovation and efficiency and reduces production costs ensuring that all organizations have the same opportunities. It also encourages the development of new and better products and services and in the long term it improves economic growth and living standards. For this reason, organizations should support antitrust and antidumping¹⁰ practices and promote fair competition policies (Argandoña and Isea 2011, 22).

The issue related to the promotion of social responsibility explains that organizations can influence other organizations through their decisions, leadership and mentoring in the value chain. These would promote the adoption and support of the principles and practices of social responsibility. To do this, organizations must actively participate in the promotion of the principles and issues of social responsibility in order to implement them in the areas of influence of each of the organizations (ISO: 26000 2010, 67).

Finally, the last aspect that is included in fair operation practices is the respect for property rights. Those rights include both physical property and intellectual property. They also include interests over land and other physical assets and also copyright,

¹⁰ A penalty imposed on suspiciously low-priced imports, to increase their price in the importing country and so protect local industry from unfair competition. Anti-dumping duties are assessed generally in an amount equal to the difference between the importing country's FOB price of the goods and (at the time of their importation) the market value of similar goods in the exporting country or other countries.

protection, patents and moral rights (Argandoña and Isea 2011, 22). Hence, the recognition made by organizations of these rights encourages investment and economic security. This in turn allows the adequate use of property and helps prevent piracy and counterfeiting.

6. Consumer Affairs

Organizations that provide different products and services to a wide range of consumers have many responsibilities and obligations. They include providing accurate, useful and transparent information, promoting sustainable consumption and designing products and services that are accessible and that meet the needs of different types of consumers including vulnerable ones (Salgado Troya 2010, 19). Responsibilities of organizations also include minimizing risks in the use of products or services through the correct design, manufacturing, distribution and by providing information and support services.

Also, as organizations manage personal information from consumers, they are responsible for maintaining the security and privacy of that information. For this reason, organizations must limit the information they collect. The way it is obtained and stored must have strict systems that ensure the security of the information. In this sense, the ISO: 26000 (2010) explains that there are a number of actions that can be taken to achieve consumer protection while maintaining a socially responsible management (69). Among the main actions that can be taken are:

- **Fair marketing practices:** This aspect refers to the fact that organizations should provide objective and unbiased information about products and services in ways that can be understood by consumers. This allows them to make informed decisions regarding consumption and they can compare the characteristics of different products and services offered in the market. This responsible marketing also implies providing information on the social, economic and environmental impacts that occur during the life cycle and in the value chain of the product or service that is offered.

- **Protection of health and safety:** This aspect involves the provision of products and services that are safe and do not create a risk or harm when used or consumed. It also includes the provision of clear use instructions taking into consideration the different needs of consumers.
- **Sustainable consumption:** This refers to the consumption of products and resources at rates that are consistent with the level of sustainable development. This would help achieve a higher quality of life by reducing patterns of unsustainable consumption and production. Therefore, organizations should promote effective education that will enable consumers to understand the impact of their purchase decisions on their welfare and the environment. It can also help modify certain unnecessary consumption patterns.
- **Resolution of controversies, compensation and customer service:** They are mechanisms that organizations use to address the needs of customers once the product has been sold or the service has been provided. These mechanisms include the provision of warranties, technical support, refunds, maintenance and reparations. Therefore, to reduce the level of complaints and increase customer satisfaction, organizations must provide products of high quality and provide the necessary information and monitoring.

7. Active participation and community development

Active participation with the community made by an organization allows it to achieve higher levels of welfare for the community that is involved and which is impacted by each of the actions and decisions made by the organization, allowing also an improvement in the quality of life of its inhabitants (Argandoña and Isea 2011, 23). The contributions that an organization can provide for the development of these communities are related to job creation through the diversification and expansion of economic activities and technological development.

In the same way, organizations can contribute to the development of communities through social investments, local economic initiatives, expanding education and

skills development, promoting and preserving culture and arts, and health services for the community (ISO: 26000 2010, 78). The level of development reached allows the institutional strengthening of the community, its groups, their collective forums, their social, cultural and environmental programs and it also enables the development of local networks involving multiple institutions.

It should be noted that it is also necessary that communities make an effort to achieve decent living standards for its citizens and pursue equal rights since the socially responsible behavior of organizations is just an element that strengthens the entire development process of the community. Among some of the principles to be taken into consideration by organizations to achieve an active participation and efficient development are:

- Considering itself as part of the community and not as a separate part and to recognize and consider the rights of the citizens when making decisions about their community which would help achieve ways to maximize their opportunities.
- Recognize and consider the characteristics of the community such as culture, religion, traditions and history while interacting with it. Recognize the value of working in alliance with other organizations, supporting the exchange of experiences, resources and effort.

According to Argandoña and Isea (2011) for social responsibility to be fully developed, the ISO 26000 proposes the development of policies and processes that contribute to the political, economic and social development of communities that are within the sphere of influence of organizations (23). In this sense, it can be said that when an organization develops plans for active participation and community development, it seeks opportunities to engage all stakeholders and it is important to identify, consult and when possible, support vulnerable and marginalized groups (ISO: 26000 2010, 82).

2.2.7. Clause 7, Integrating SR within the organization: This clause provides guidance on how to implement social responsibility in an

organization. It includes guidelines relating to the understanding of the SR of an organization, the integration and communication of this discipline, and how the SR increases the credibility of the organization. It also includes the organization's performance and evaluation of their SR actions (Salgado Troya 2010, 17).

In this clause the ISO: 26000 (2010) explains the guidelines for integrating social responsibility in an organization and explains the necessity to identify the key features of the organization, among which are included (89):

- The type, purpose and the nature of the operations and the size of the organization.
- The locations in which it operates including:
 - a) The legal framework that regulates social responsibility activities.
 - b) Social, economic and environmental areas of operation.
- Information about the historical performance of the organization's social responsibility and characteristics of the workforce or employees of the organization.
- The mission, vision, values, principles and code of conduct of the organization, the structure for decision making in the organization and the value chain of the organization.

Furthermore, it is essential for an organization to know the level of commitment and understanding that its leaders have about social responsibility. A thorough understanding of the principles, core subjects and benefits of social responsibility will help integrate the discipline within the organization and in its sphere of influence (Villaseñor 2011, 10). In this context, it can be said that the practices that integrate social responsibility throughout the organization include:

- **Increasing awareness and creating abilities for social responsibility:** Incorporating social responsibility in every aspect of the organization involves understanding and commitment. The internalization of these issues should start in the highest levels of the organization. In order to integrate social responsibility effectively it requires changes in the decision-making process and governance, promoting greater freedom, authority and motivation to suggest new approaches and ideas (ISO: 26000 2010, 93).
- **Establishment of a new direction for the organization towards social responsibility:** The statements and actions of the leaders of the organization should reflect the goals, aspirations, values, ethics and strategies for the direction of the organization. To establish such a direction, social responsibility should become an integral part of social policies, culture, strategy, structure and operations of an organization (ISO: 26000 2010, 94).
- **Incorporation of social responsibility in governance, systems and procedures of an organization:** The values and culture existing within an organization have a significant effect on the rate and ease with which social responsibility can be integrated into an organization. Also, an organization must prove that each of the principles of social responsibility are applied in its governance and that are reflected in its structure and culture. This requires reviewing each of the procedures or processes being carried out in order to ensure they are taking into consideration the social responsibility process of the organization (Villaseñor 2011, 10).

According to ISO 26000 (2010), this clause also refers to the role of communication in social responsibility. In this sense, it is said that many of the social responsibility practices involve internal and external communication which is an essential process for many roles of social responsibility for instance (96):

- Increase awareness within and outside the organization about its strategies, plans, performance and social responsibility challenges.

- Demonstrate respect for the principles of social responsibility, allowing it to commit and to create dialogue with stakeholders.
- Show how the organization is meeting its social responsibility commitments and how it responds to the interests of stakeholders and society.
- Provide information on the impacts of activities, products and services provided by the organization which facilitates the comparison with other similar organizations. This can motivate improvements in the performance of social responsibility.
- Increase the reputation of an organization for its socially responsible actions, openness, integrity and accountability in order to strengthen the confidence of stakeholders in the organization.

In this communication process of social responsibility it is essential that all the information that is being provided both within the company and in areas outside its sphere of influence, has certain characteristics in order to be transparent and useful (Salgado Troya 2010, 35). These features include information that is complete, understandable and precise. It also has to be accessible and receptive, this means that the information must respond to the interests of stakeholders. Finally, it has to be balanced, meaning that it should not ignore the negative impacts of the activities of the organization.

Organizations should report at appropriate intervals to all their stakeholders their performance in terms of social responsibility. The use of such reports for stakeholders is one of the most common and used methods today. It includes a clear explanation of the objectives and performance regarding relevant subjects and issues of social responsibility (ISO: 26000 2010, 98). In these reports it is also explained and described how and when stakeholders have been involved in the implementation process of CSR.

When implementing this communication process, the organization is providing a complete and fair picture of its management. It reflects the achievements and the difficulties that have appeared and even the way how these problems will be solved. Finally, an essential element that social responsibility provides, once it has been integrated and communicated internally, is the credibility¹¹ for the organization (ISO: 26000 2010, 99). This credibility is achieved due to the involvement and communication with stakeholders. This in turn becomes a means to create greater trust and loyalty.

Organizations can increase their credibility by creating greater commitments relating to the impacts they cause, by carrying out appropriate actions, evaluating their performance and communicating progress regarding social responsibility and the shortcomings that still need improvement. The guidelines provided in each of the sections of the clauses is designed to be clear, understandable, objective and applicable to all types of organizations, including large, small and medium enterprises, governments and NGOs.

Also, the ISO 26000 is based on the best practices developed by existing initiatives of social responsibility in public and private sectors. Therefore it seeks to be consistent with and complement relevant declarations and conventions of the United Nations and its constituents, particularly with the International Labor Organization (ILO), with which the ISO has established a Memorandum of Understanding¹² to ensure consistency with ILO labor standards (Reis Cajazeira 2006, 3). The ISO has also signed memorandums of understanding with the Office of the Global Compact of the United Nations and the Organization for Economic Cooperation and

¹¹ Credibility refers to the objective and subjective components of the believability of a source or message. Traditionally, modern, credibility has two key components: trustworthiness and expertise, which both have objective and subjective components. Trustworthiness is based more on subjective factors, but can include objective measurements such as established reliability. Expertise can be similarly subjectively perceived, but also includes relatively objective characteristics of the source or message

¹² A memorandum of understanding (MOU) is a document describing a bilateral or multilateral agreement between parties. It expresses the willingness between the parts, indicating their intention to undertake a common course of action. It is often used in cases where the parties do not wish to undertake a legal commitment or in situations where the parties cannot create a legally binding agreement.

Development (OECD) to enhance their cooperation in the development of the ISO 26000.

From the analysis that has been done, it can be said that the ISO 26000 seeks to integrate the international experience of social responsibility, that is, what issues an organization needs to address in order to operate in a socially responsible way and which is the best practice in implementing CSR. Therefore, the ISO 26000 becomes an essential tool to help organizations move from only good intentions to good actions. There are a series of actions through which an organization can influence the activities and decision making process in order to maximize the positive effects and minimize the negative ones in order to achieve sustainable development.

2.3. Contributions of the Standard for organizations

Since ISO is an organization with international credibility, thanks to its series 9000 and 14000 (Quality Management Systems) which are widely recognized and used by organizations worldwide, it can be expected that understanding and using social responsibility would be expanded rapidly in the international arena (Salgado Troya 2010, 36). Similarly, there is a need for a standard of social responsibility that establishes common criteria on issues relating to the economic-financial, social and environmental dimensions. This facilitates organizations in developing countries to integrate best practices in their management and thus allows them to have access to global markets on equal terms.

The development of this Standard constituted the major convergence toward social responsibility that has existed, including more than 90 countries and nearly 50 international organizations. For that reason this Standard has achieved a high legitimacy (ISO: 26000 2010, 11). Furthermore, in the history of ISO it was the first time that allowed the participation of various categories of stakeholders and developing countries. Brazil was the leader of the committee and South Africa drafted the standard. This process, which has become the most important event in the development of social responsibility, allowed organizations of all sizes to have a standard that will allow them to incorporate social responsibility in all their operations (Salgado Troya 2010, 38).

2.3.1. Benefits of Implementing the ISO 26000

The most important benefits resulting from the implementation of this Standard are primarily concerned with the perception and performance of an organization's social responsibility. In this sense, the application of the standard may influence essential aspects as:

- The competitive advantage and reputation of an organization.
- The organization's ability to attract and retain employees, members of the organization, customers or clients, and maintaining the motivation, commitment and productivity of the employees.
- Improve the perception of investors, owners, donors, sponsors and the financial community of the organization, their relationships with companies, government, media, suppliers, similar organizations, customers, and the community in which it operates.

According to Mancera (2013), SR benefits organizations that implement this discipline through the prestige they acquire by showing a social concern beyond its lucrative objectives. This also facilitates companies or organizations access to credit and a better positioning in the market. However, many companies take advantage of this situation just to obtain these benefits without really applying socially responsible behavior. What has to be taken into consideration is how the SR benefits society. A correct social responsibility policy along with the implementation of different programs should benefit first the stakeholders. In this sense, the main objective and benefit for a company is being able to maintain a sustainable and harmonious link with the social environment in which it operates.

In this context the Peruvian magazine Stakeholders (2010) states that Petrobras, a Brazilian oil company, was the first company to formally communicate its commitment to adopt the ISO 26000. Petrobras and the Brazilian Association of Technical Standards participated in a seminar held at the headquarters of the Federation of Industries of Sao Paulo, and there both organizations launched the ISO

26000. The seminar emphasized Brazil's pioneering role in the process of social responsibility. The Brazilian delegation was very participative in the development process of the ISO 26000. It expanded the contribution of the various stakeholders to the international working group formed by industry, government, workers, consumers and civil society organizations. It's main objective is to encourage the implementation of the standard in the country.

Petrobras has developed 80 standards of excellence in social responsibility following the ten principles of the Global Compact. The company follows the standard (ISO 26000) and other international rules, such as the Global Reporting Initiative. Petrobras has developed actions for the implementation of the guidelines of ISO 26000, such as developing a specific course for their employees at the University of Petrobras. It also provides social responsibility training for suppliers in alliance with the Brazilian Service of Support to Small and Medium size Enterprises.

The first initiative carried out by the company is related to the issue of human development and training in the workplace, and the integration of social responsibility throughout the organization. The second initiative is aligned with the concept of a company's sphere of influence, also defined in the ISO 26000. In addition, Petrobras developed a series of seminars throughout Brazil to spread the application of the standard and develop a joint work with the Brazilian Service of Support to carry out a series of courses to train suppliers in CSR.

CHAPTER 3: INSTITUTIONS AND POLICIES PROMOTING SOCIAL RESPONSIBILITY IN THE INTERNATIONAL ARENA AND IN ECUADOR.

The third chapter of this thesis provides an analysis of the institutions and existing policies that promote social responsibility in Ecuador and also internationally. This chapter refers to the Global Compact launched by the United Nations. It is a voluntary initiative through which companies are committed to align their operations and strategies with ten universally accepted principles. This chapter also discusses the work of the International Labor Organization regarding responsible and sustainable practices at the enterprise level.

In this context, it is important to analyze the Ecuadorian institutions that are responsible for promoting the practices of social responsibility. This includes the Ecuadorian Consortium for Social Responsibility (CERES) which seeks to involve and sensitize companies to manage their business in a socially responsible way. Similarly, this chapter describes what the Global Reporting Initiative is and provides an analysis of Redunirse which is the Latin American Network of Universities for Social Responsibility. It is considered a network of private, public and semi-public universities of the region created to promote corporate social responsibility.

3.1. The Global Compact

Many terms have emerged in recent years to describe environmental and social responsibility, terms such as corporate responsibility, corporate sustainability, corporate citizenship, and corporate sustainability, to name a few (Ocón Oqueli 2009, 33). All these terms describe a rapidly expanding global movement, one that reflects the increasing alignment between the objectives of the international community and those of the private sector. Shared goals, such as building stable markets, combating corruption, safeguarding the environment and ensuring social inclusion, have resulted in an unprecedented rise in partnerships between business, civil society, governments and the United Nations (UN Business Organization, 2010).

In fact, throughout the United Nations, agencies, funds and programs are relying on business collaboration in one way or another to address critical issues, from humanitarian relief to the fight against HIV / AIDS. This new relationship is rooted in the notion that business must be part of the solution of global challenges (UN Business Organization, 2010). At the same time, the United Nations has repeatedly visited companies around the world to ensure that their strategies and operations are aligned with universal values so that the negative environmental and social impacts that businesses create are minimized.

This is the context in which the United Nations launched the Global Compact in July 2000. The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption. By doing so, business, as a primary driver of globalization, can help ensure that marketplaces, commerce, technology and finance evolve in ways that benefit economies and societies everywhere. Because of the number of participants, six thousand in over 135 countries, the Global Compact corporate citizenship initiative is considered the largest initiative in this subject around the world (United Nations Global Compact Organization, 2009).

This Compact is a framework for action aimed to create the social legitimization of corporations and markets. In this sense, those companies that adhere to the Global Compact share the conviction that business practices based on universal principles contribute to the creation of a more stable, equitable and inclusive global market that encourages more prosperous societies (Rojas and Olaya 2010, 3). According to the UN Business Organization (2010), it states that while companies, trade and investment are essential pillars for peace and prosperity there are many areas where companies face serious dilemmas such as exploitation, corruption, inequality and other barriers that discourage innovation and entrepreneurship.

Hence, responsible business activities support the development of trust and social capital, while contributing to the development and creation of sustainable markets. Also, according to the United Nations Global Compact Organization (2011), the Pact has become a voluntary platform of learning and dialogue for companies that are

committed to the ten universally accepted principles. Endorsed by chief executives, the Global Compact is a practical framework for the development, implementation, and disclosure of sustainability policies and practices. It offers participants a wide spectrum of work streams, management tools and resources, all designed to help advance sustainable business models and markets. Overall, the Global Compact pursues two complementary objectives:

- Mainstream the ten principles in business activities around the world
- Catalyze actions in support of broader UN goals, including the Millennium Development Goals (MDGs)¹³.

3.1.1. Global Compact Principles

According to United Nations Global Compact Organization (2012), the Ten Principles of the Global Compact that companies must be guided by in order to achieve a responsible management based on respect for human rights, the environment, labor standards and the fight against corruption are:

3.1.1.1. Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: Make sure that they are not complicit in human rights abuses.

3.1.1.2. Labor

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- Principle 4: The elimination of all forms of forced and compulsory labor.

¹³ The eight Millennium Development Goals (MDGs) - which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, all by the target date of 2015 – form a blueprint agreed to by all the world's countries and the entire world's leading development institutions. They have galvanized unprecedented efforts to meet the needs of the world's poorest.

- Principle 5: The effective abolition of child labor.
- Principle 6: The elimination of discrimination with respect to employment and occupation.

3.1.1.3. Environment

- Principle 7: Businesses should support a preventative approach to environmental challenges.
- Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility.
- Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

3.1.1.4. Anti-corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

The United Nations Global Compact Organization (2012), explains the process of implementation of the ten principles and the commitment to be achieved by companies in order to implement and apply them. Regarding the first point, companies participating in the Global Compact are committed to work towards the implementation of the ten principles. Although sometimes companies, whether small or large, fail in achieving the appropriate approach for the implementation process, they should understand that this is a long term process and involves continuous improvement in business performance.

Some of the factors considered as the key ones to achieve a successful implementation of the principles include:

- The treatment of the principles not as complementary but as an integral part of the business strategy and operations, and have strong commitment and leadership from the highest levels of the organization.
- Communication of the commitment to the Compact within the entire organization from the top management to the employees to ensure broad support of the principles. This should be complemented by providing a business environment favorable to new ideas and business innovation.
- Implementation of specific activities regarding the Ten Principles based on openness and dialogue with the stakeholders of the organization.

The Global Compact has a large set of resources and tools that provide guidance to companies to cover issues related to the principles. The application of the principles is a long term process that requires commitment, continuous improvement and organizational innovation. For that reason, there is no single formula for applying these principles in the management model of an organization, in fact, several models and management approaches can help and enrich the process of implementation.

3.1.2. Tools for implementing the Global Compact principles

The Global Compact provides some tools to enhance and facilitate the process of implementation of the Principles within companies and organizations; among them can be mentioned:

3.1.2.1. Partnerships for Development: The Global Compact invites companies, including its stakeholders, to participate in collaborative projects that promote the broader goals of the United Nations such as the Millennium Development Goals. Because business interests are increasingly linked to the goals of society, there is a growing need for partnerships with governments, civil society, local communities and other actors in society. The collaboration between each of these sectors can help overcome the challenges that one organization or sector can find difficult to address individually.

3.1.2.2. National Networks: These are groups involving the participants of the Global Compact and its goal is to advance the implementation of the Compact and its principles in a particular business sector or geographical context, and some networks have support from governments. These networks play a strategic role in strengthening the Compact within different national, cultural and linguistic contexts. They also contribute to the development of this initiative by sharing knowledge and experiences through local or regional activities, events and dialogues.

3.1.2.3. Politics Dialogue: Annually, the Global Compact organizes meetings and speeches in different countries focused on specific issues related to globalization and corporate citizenship. These events bring together companies, UN agencies, trade unions, NGOs and other groups that work together to find solutions to current problems. The dialogue process to identify new and emerging issues promotes trust and interaction between the different actors and in the relationship with public policy makers.

3.1.2.4. Learning: Companies should share their experiences about business practices with the Global Compact Office, through the National Networks, meetings or speeches with other participants. This learning process allows good business practices to develop and deepen which helps companies to apply the new knowledge they acquire in their activities both in a business context and also academically. These learning activities whether local, regional or international, promote the creation of new knowledge.

3.1.2.5. Collective Actions: Collective actions between companies can be an effective way to promote the conditions for the emergence of inclusive and fair competition in local markets while strengthening the individual capacities of companies. Being able to join efforts with other companies contributes to the creation of greater confidence and to identify and develop innovative solutions.

3.1.3. Global Compact Network in Ecuador

In this context, it is important to emphasize that in Ecuador, the CERES network, which is the Ecuadorian Consortium for Social Responsibility, assumed the leadership of the Global Compact Network in Ecuador, on July 26, 2011. This was made with the goal to promote the 10 principles of the Global Compact in the country and be able to apply them according to local realities and priorities. The Consortium achieved this with the support of the Global Compact Office, the Regional Centre for Latin America and the Caribbean and the United Nations System in Ecuador.

According to the Global Compact Network in Ecuador (2011), the office's mission is to disseminate, promote and create capacity to support the adherence and implementation of the Global Compact initiative in Ecuadorian organizations. This includes the participation and involvement of public and private actors. Among the primary objectives of the network are:

- Encourage organizations to adhere to the Global Compact, implement the Ten Principles and conduct their Communications on Progress¹⁴ (COP) according to local priorities.
- Suggest activities that promote the discussion, analysis, exchange of experiences and creation of local tools for the implementation of the principles.
- Promote the debate between public and private actors on the implementation of the 10 principles of the Compact.
- Encourage participating organizations to develop partnership projects to contribute to the Millennium Development Goals of the UN.

¹⁴ Business participants in the UN Global Compact commit to make the Global Compact ten principles part of their business strategies and day-to-day operations. Companies also commit to issue an annual Communication on Progress (COP), a public disclosure to stakeholders (investors, consumers, civil society, governments, etc.) on progress made in implementing the ten principles of the UN Global Compact, and in supporting broader UN development goals. The COP is frequently the most visible expression of a participant's commitment to the Global Compact and its principles.

- Promote capacity development among members through training and assistance in their process of joining, implementing and reporting the Global Compact.

The network consists of a group of companies and civil society organizations interested in promoting dialogue and cooperation for the achievement of the Compact principles in companies. Currently, the Global Compact Network in Ecuador has 56 participating companies that belong to the public and private sectors. Those companies work in various industries such as flower-growing, food production, dairy, tourism, banking and construction. Also, there are organizations that operate in the education, health, telecommunications, electricity, automobiles and finance sectors. Some of the companies participating in the Compact are: Pronaca, Floralp, Pacificard, Adelca, University Espíritu Santo, Telefónica Movistar and El Tiempo newspaper.

3.1.4. Implementing the Global Compact: How to implement each of the Principles

The United Nations helps businesses implement and apply each of the Global Compact principles and to deal with the many challenges involved in doing so, has created a pamphlet titled “Implementing the Global Compact”. Each of the actions presented in this document show clearly that the Global Compact principles are integrated into the values of companies. Therefore, the principles are not considered complements incorporated into companies but rather they are a reflection of the socially responsible behavior of a company.

3.1.4.1. Theme 1: Human Rights

Regarding to the first main issues, human rights, the pamphlet explains that a company must require its branches and suppliers to comply with the national laws of the countries where they operate (ILO, ECLAC and UNPD 2005, 13). In addition, a company should set guidelines for its suppliers defining requirements related to the respect for human rights and perhaps can include these requirements in their contracts.

Some particularly important human rights in this context are the right to non-discrimination; the right to life as well as freedom and personal security. Also, other rights that must be taken into consideration are the right not to be subjected to any form of slavery or inhuman treatment; the right to rest and leisure; the right to education and the right to an adequate living standard (United Nations Global Compact Organization, 2010). In this sense several voluntary initiatives can contribute to the promotion and support of all these human rights.

Along with this, a company can also search for information on human rights and the risks resulting from their violation in the countries where it operates. This risk assessment will identify what kind of operations can be done and what kind of providers a company can work with in countries with particular risks (ILO, ECLAC, UNDP 2005, 14). Another way to improve the understanding of human rights is through continuous communication practices between employees and local managers. This practice can help explained why human rights are an important issue for the company and its employees.

3.1.4.2. Theme 2: Labor Relations

Regarding this second issue covered by the Global Compact, the pamphlet explains that from the point of view of strategy and business management, companies can begin by reviewing their current policies and strategies. They must ensure that those policies reflect a commitment to the four principles on labor relations. In addition, a company can evaluate their employment practices regarding the provision of a safe working environment (ILO, ECLAC and UNDP 2005, 16).

In this sense, companies can also develop guidelines for its suppliers so they ensure the respect of the various ILO conventions related to employment status. These guidelines can be part of the contracts signed with suppliers. Also, it would be essential for companies to start a dialogue with their stakeholders on the importance of avoiding discriminatory practices, eliminating child labor, creating a healthy labor environment and integrating people with disabilities. This would provide these vulnerable groups a space for their personal and professional development (UNDP and Danish Ministry of Foreign Affairs, 2005).

3.1.4.3. Theme 3: Environment

The third area that is part of the Global Compact is the environment. The pamphlet explains that in order to address this issue the initiatives that companies can develop to promote a greater environmental responsibility, will depend on the size of the industry, the products offered and the conditions of each company (ILO, ECLAC and UNDP 2005, 19). However, it is important to note that there are different ways to address the task of environmental management. For example, a company can develop an environmental management system aimed to achieve environmental certification of their products and processes.

Along with this, a company can develop environmental reports that demonstrate to their various stakeholders the performance of the corporation regarding the prevention of environmental damage. The development and diffusion of environmentally friendly technologies that respect the environment, or so-called clean technologies, can act at different levels within the company. At the operational level, for example, it can be implemented through concrete changes or through adjustments in the production processes. Companies can make changes in the composition or type of materials that are used and in the product design. Also, they can implement better waste management practices and can include an efficient recycling system (UNDP and Danish Ministry of Foreign Affairs, 2005).

At the strategy level, a company can develop a better analysis of the lifecycle of existing products and also of new ones so that the process is environmentally friendly (ILO, ECLAC and UNDP 2005, 20). A company can also work on creating environmental awareness in the purchasing decisions of consumers if it can develop ecological products and processes that respect the environment. This situation will in turn communicate to the various stakeholders the advantages of developing and using products that are organic and support the achievement of a sustainable society (UNDP and Danish Ministry of Foreign Affairs, 2005).

3.1.4.4. Theme 4: Fight Against Corruption

The final key area covered by the Compact is the fight against corruption. In this sense referring to the United Nations Global Compact Organization (2010), it suggests a series of activities to implement an anti-corruption effort including the fact that companies should avoid engaging in bribery, extortion and other forms of corruption. At the same time, they must work actively against such acts through policies and actions that have to be included within the corporate philosophy.

All those actions can be achieved in different ways and the specific strategy chosen by each company will depend on its size, its location and its industry. It is essential to note that some companies choose to move away from certain markets that are corrupt and where bribery is the norm rather than the exception. Also, operating in these marketplaces can generate high costs for the company (ILO, ECLAC and UNDP 2005, 24). Avoiding entering this kind of marketplaces decreases the number of bribery acts that can occur. While this may result in a loss of important marketplaces, it is essential to recognize that a socially responsible company always works towards the principles of the Compact and for the benefit of its stakeholders (United Nations Global Compact Organization, 2012).

Likewise, it is considered a valuable option to develop clear rules to control corruption in the company through a corporate code. This code can guide and prepare employees to react when facing bribes or any extortion attempt. The code will then help employees determine what behaviors are acceptable in specific situations and marketplaces. Also, the existence of a clear policy on this issue generates a preventive attitude demonstrating to stakeholders the commitment of the company to avoid any kind of corruption (ILO, ECLAC and UNDP 2005, 25).

3.1.5. Business Cases

To demonstrate how some companies have successfully applied the Compact principles in their management and have become socially responsible companies, this part of the chapter will refer to the case of the Ecuadorian corporation Floralp. According to the Global Compact Network in Ecuador (2012), the progress reports

made by the members of the Compact permits the assessment of the company's job regarding the implementation of the principles. Purtschert (2012) states the following about the company Floralp:

Since January 4th 2012 Floralp adhered to the Ten Principles of the Global Compact, as a socially responsible company and has incorporated the concepts of social responsibility in its mission and corporate philosophy. These actions demonstrate the commitment to run its activities prioritizing human rights, labor relations, transparency and respect for the environment (Purtschert 2012, 1). The relationships with its stakeholders develop in a context of ethics, respect and transparency.

The company has confirmed its commitment to support and fulfill the Global Compact, so that the implementation of the Compact values would help the dairy industry become more responsible and sustainable in Ecuador. The company is located in the city of Ibarra – Ecuador and Floralp was born and has remained a family business since 1964 in Caranqui. It has three additional operation plants in Zuleta, Nono and San Gabriel. Also, the company has sales offices in Ibarra, Quito, Guayaquil and Cuenca. Floralp's main activity is the development of specialized dairy products, especially semi-mature and mature cheeses (Floralp, 2011).

According to Purtschert (2012), in September of 2005 Floralp began a program of social responsibility that involves a philosophy of life based on the main themes included in the principles of the Global Compact which are (3):

- **Environment:** In order to preserve the environment, the company works on projects of solid waste management, wastewater management and handling of gaseous emissions.
- **Community:** From the beginning, one of the main concerns of Floralp has been to provide the city of Ibarra the possibility of consuming fresh and healthy milk which guarantees consumers a product of high quality. As part of this objective the company launched educational campaigns to inform citizens about the importance of consuming pasteurized milk. The company also collaborates in the improvement of the nutrition of children through the

donation of milk in different childcare centers and kindergartens in the city of Ibarra.

- **Employees:** Since the company's early days, the founder of Floralp through his own personal example has developed with his collaborators the principles of punctuality, honesty, simplicity, innovation, loyalty and humanity. The adequate treatment employees receive and the concern about improving their quality of life have been vital in the organization. Floralp is a company that has been able to generate decent work for many Ecuadorians, Peruvians and Colombians who now thank the company for having the opportunity to educate their children.
- **Suppliers:** The company has created a technical assistance program and provides continuous training as a way to keep the high quality of raw materials, the loyalty of its employees and to increase its production.
- **Status:** Floralp complies with the regulations and laws governing the various countries in which it operates and meets its obligations on time.
- **Customers:** The company has provided instruments that facilitate the communication between Floralp and its customers such as specialized customer service line and support service.
- **Labor Relations:** Floralp respects the right of employees to form or join a union or representative body. However, until now the staff hasn't felt the need to form one as they have free access to the management and have no problems when expressing their needs. In 2008, the staff formed an association of employees to create a cooperative that began with a savings fund to which Floralp donated an initial capitalization of \$7000.

Currently the business association of employees, in which Floralp is the main customer and has supported the initial investment, is a company formally organized and provides transportation services of raw materials and finished products to Floralp. Additionally, the company has given them the opportunity to be in charge of

one of the external distribution routes. As a result of all this honest work, Floralp is nationally and internationally recognized as model for its responsible and efficient practices that certainly contribute to the development of a sustainable economy.

3.2. The ILO and Corporate Social Responsibility

The International Labor Organization is a UN agency and is the global body responsible for the development and supervision of the International Labor Standards. It is the only United Nations “tripartite” agency as representatives of governments, employers and workers participate together to develop policies and programs for the promotion of decent work (ILO, 2012). Regarding the decent work issue, the ILO seeks to respect the principles and fundamental rights which are:

- Freedom of association and collective bargaining.
- The elimination of discrimination in employment.
- Elimination of child labor.
- Elimination of forced labor.

Similarly, the organization works to promote employment opportunities in order to generate decent and productive employment policies. Along with this, the organization promotes social dialogue which aims to strengthen social actors and to increase dialogue. Finally, this aspect of decent work encompasses adequate social protection i.e., the improvement of the coverage and effectiveness of social protection for individuals.

According to Yurén (2008), the ILO promotes sustainable development and the creation of sustainable enterprises. To achieve this goal the organization along with governments, employers and workers has designed policies and programs with the goal of supporting the creation of sustainable enterprises (5). From this fact and based on the latest proposals for sustainable development, promotion of private sector businesses and corporate citizenship, the International Labor Conference of

2007¹⁵ addressed the most urgent needs for sustainable development, equitable globalization and the role of businesses (ILO, 2012).

In its conclusions the Conference presented a program to guide the promotion of sustainable enterprises, called “The Sustainable Business Program”. This program applies to companies of all sizes, from small firms to multinationals, and of all types, including cooperatives and social enterprises (ILO, 2012). Furthermore, the report on Sustainable Business explains that the ILO helps to create support systems and management capacities for companies.

All these provide companies with tools to improve their productivity and competitiveness, and in turn promote good corporate citizenship through actions that include all stakeholders. Therefore, the ILO supports the restructuring process of companies so they can become more sensitive to social issues, implement international labor standards and good management practices. These actions are based on the development of appropriate environments for investment, the support of entrepreneurship and enterprise development and on the creation of sustainable and responsible workplaces.

3.2.1. ILO actions regarding Corporate Social Responsibility

According to the ILO Helpdesk¹⁶ Program (2012), CSR is defined as follows:

“It's the way in which companies take into consideration the impact of their activities on society and affirm the principles and values that govern their own internal methods and processes and their relationships with others actors. CSR is a voluntary initiative that depends on the company and it refers to activities that are beyond the mere compliance with the law” (2).

¹⁵ The report of the International Labor Conference of 2007 is a contribution to the international debate on the promotion of sustainable enterprises. The central role of the private sector is recognized as a key element to address the challenges of development, including job creation. The report places particular emphasis on how to strengthen the contribution of business to economic growth and productive and equitable employment.

¹⁶ The ILO Helpdesk for businesses is a unified resource center for company managers and workers to promote respect for international labor standards in business operations and also helps to create good working relationships.

In this context of CSR the ILO plays an important role. Social dialogue and labor standards are the main aspects defended and promoted by the ILO and in turn these are fundamental aspects of CSR. It is essential to note that most social responsibility initiatives expressed in codes of conduct refer to the principles established in the labor standards that the ILO has developed (Helpdesk ILO 2012, 3). While the agreements emanating from this entity are not binding for companies, they can help guide their behavior. This institution plays a vital role in promoting dialogue and providing tools for a better understanding of the labor dimension of CSR (ILO, 2012).

According to Helpdesk (2012), there are two key points of reference for the organization regarding CSR. On the one hand, there is the ILO Declaration on Fundamental Principles and Rights at Work¹⁷ (1998) which requires governments to apply the principles of labor standards. On the other hand, there is the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy¹⁸ (also called “Multinational Enterprises Declaration”), which is a guide for the behavior of enterprises designed for governments, ILO principals and businesses. Finally, we can refer to Yurén (2008), to say that:

“When CSR is transparent, credible and based on genuine partnership, it can provide workers and other stakeholders more opportunities to make companies commit to the social and environmental impacts of its activities. These become the basis for social dialogue” (10)

¹⁷ Adopted in 1998, the Declaration commits Member States to respect and promote principles and rights in four categories, whether or not they have ratified the relevant Conventions. These categories are: freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory labor, the abolition of child labor and the elimination of discrimination in respect of employment and occupation. This ILO Declaration on Fundamental Principles and Rights at Work is an expression of commitment to uphold basic human values - values that are vital to our social and economic lives.

¹⁸ The principles laid down in this universal instrument offer guidelines to MNEs, governments, and employers’ and workers’ organizations in such areas as employment, training, conditions of work and life, and industrial relations. Its provisions are reinforced by certain international labor Conventions and Recommendations which the social partners are urged to bear in mind and apply, to the greatest extent possible. The adoption of the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up in 1998 highlighted the importance of the fundamental Conventions in realizing the objectives of the ILO, and consequently, the MNE Declaration takes into account the objectives of the 1998 Declaration.

3.3. CSR initiatives in Europe

When referring to the international arena, it is important to discuss the initiatives that have emerged in Europe on the issue of social responsibility. Although the European Union considers CSR a voluntary corporate action, this economic and political community plays a key role in driving policy initiatives and strategies that are adopted by European governments to promote this discipline. In fact, the EU has developed a common framework in this field and is the only supranational regional body that has addressed CSR.

Based on that fact and according to the Centre of Corporate Social Responsibility (2011), in the European Commission the foundations of the social responsibility policy were collected for the first time in the publication of the Green Paper “Promoting a European Framework for Corporate Social Responsibility” in 2001. Shortly afterwards, the European Union issued a Communication entitled “The Corporate Social Responsibility: A business contribution to sustainable development” (2002). This communication was subjected to public discussion in a second phase called the European Multi-Stakeholder Forum on Corporate Social Responsibility. This resulted in the development of a final report called Final results and Recommendations of the European Multi-Stakeholder Forum on CSR in 2004.

3.3.1. Green Paper of the European Union

According to the Spanish Centre for Corporate Social Responsibility (2011), in 2000, the Lisbon Summit set a goal to make Europe a competitive economy capable of achieving sustainable economic growth with greater social cohesion. To meet this goal, they agreed to begin a process of dialogue between all interested parties. They published in July 2001 what is called the “Green Paper” that reflects the European governmental policies on CSR.

The publication of this paper aimed to initiate a wide debate on how to encourage corporate social responsibility within the European Union. In particular, it seeks to explain how to take advantage of existing experiences, promote the development of innovative practices and increase transparency in corporate governance. Throughout

the entire paper it provides guidance on issues related to social responsibility for the internal and external dimension of a company (López Martínez 2010, 31). It also addresses the integration of social responsibility in the organizational strategy, the development of sustainability reports, the labeling of products and services, labor conditions and socially responsible investment.

3.3.2. CSR Multistakeholder Forum

According to the Centre for Corporate Social Responsibility (2011), the CSR Multistakeholder Forum was created in 2002 with the support of the European Commission. Its main goal is to bring together trade unions, companies and European NGOs to promote innovation and transparency in the practices and tools of corporate social responsibility. The Forum, leaded by the European Commission and composed of a plenary and roundtables, aims to encourage and promote best practices for the implementation of CSR in the EU and elsewhere in the world (European Commission, 2006)

Since its creation it has presented one report in 2004. This report determined that companies are major players in societies and authorities should facilitate the proper business environment and increase awareness about social responsibility. Three other forums were held in 2006, 2009 and 2010. The last one was focused on responsible consumption and investment and the relationship between CSR, competitiveness, transparency and the global dimension of CSR (Centre for Corporate Social Responsibility, 2011).

3.3.3. European Commission Reports

The Commission takes the initiative to publish a communication, which is not normative, when they want to present their own ideas about a topic. Until today the European Commission has issued three reports on CSR. The first was called “Social responsibility of companies: a business contribution to sustainable development” (2002). This communication was prepared according to the Green Paper and it sets out a proposal for the promotion of CSR (Scade 2012, 92).

The second report was called “Implementing partnerships for development and employment: making Europe a center of excellence on corporate social responsibility” (2006). This one led to the creation of the so-called European Alliance for CSR in sustainable development, economic growth and job creation (Scade 2012, 100). Its third communication was called “A renewed strategy for the CSR in the EU 2011-14” (2011). This report has a double objective. On one hand, it aims to improve positive impacts (for example through the innovation of products and services that are beneficial for society and companies themselves) and on the other hand, to minimize and prevent negative impacts (Scade 2012, 106).

3.3.4. Corporate Social Responsibility (CSR) Europe

CSR Europe is a European network of Business for Social Responsibility. It was founded in 1995 by some of the leading European companies and in response to a call from the president of the European Commission. Its main objective is to support companies to integrate social responsibility into their business model (CSR Europe, 2012). The main themes and issues covered by the CSR Europe are:

- Innovation and entrepreneurship.
- The consolidation of skills and competencies.
- Equal opportunities and diversity.
- Safety and health.
- The protection of the environment.
- The integration of CSR.
- Participation and engagement with stakeholders.
- Leadership and Governance.
- Communication and transparency.
- Cooperation and alliances between companies.

3.3.5. EABIS

The European Academy of Business in Society is a unique network of global companies and leading business schools committed to mainstreaming sustainable

enterprise in business and policy research, executive learning and management education. The goal of EABIS is to be a reference point for organizations seeking information and help in governance and management, sustainability and corporate responsibility (Scade 2012, 110).

EABIS began its operations in 2002 with five founding companies: IBM, Johnson & Johnson, Microsoft, Shell and Unilever, and with some of the most important European business schools and with the support of the European Commission (EABIS, 2013). Currently, EABIS offers companies the opportunity to explore new types of alliances with academic institutions. It is also a platform that allows companies to benefit from the results of research and thus companies can share knowledge with academic leaders and business partners on a wide range of topics.

Finally, the Ecuadorian Consortium for Social Responsibility CERES (2013), in its press magazine has reported that the European Parliament submitted a new proposal on CSR. This publication states that on January 28th, 2013 it was presented the Proposal for a European Parliament Resolution “on corporate social responsibility: responsible behavior, transparent business and sustainable growth” issued by the Legal Committee. The proposal, aligned with the European policy on CSR, wants to take the debate beyond the voluntary approach and calls for a dialogue on normative measures.

The Parliament considers that in evaluating a company's social responsibility process it must take into consideration the behavior of the companies that are part of the value chain. This new proposal suggests that social responsibility cannot be just a marketing tool. The only way to truly develop CSR is by integrating it into the overall company strategy and applying it in the daily operations of a company (CERES, 2013). In addition, the paper asks the Commission and the Member States to introduce corporate governance codes to create a close link between the financial performance of the company and its performance on environmental, social and human rights areas.

3.4. Global Reporting Initiative (GRI): International nonprofit organization

The Global Reporting Initiative (GRI) is an organization whose purpose is to promote the development of sustainability reports in all types of organizations. It provides a comprehensive framework for the preparation of these reports which are widely used around the world (Morán 2010, 26). This framework, which includes the Guide for the preparation of reports, sets out the principles and indicators that organizations can use to measure and publish their economic, environmental and social performance. This organization is committed to the continuous improvement and use of these guides, which are available to the public for free (Global Reporting Organization, 2013).

The organization was founded in 1997 in the United States by the Coalition Call for Environmentally Responsible Economies (CERES) and the United Nations Environment Program (UNEP). In 2002, the GRI moved its offices to Amsterdam, where its Secretariat is today. Also, it has regional offices (“Focal Points”) in Australia, Brazil, China, India and the United States, and has a network of more than 30,000 people worldwide (Morán 2010, 26). Its mission is to improve the quality, rigor and utility of sustainability reports based on what is known as the “Triple Bottom Line”, which links the economic, social and environmental spheres (Global Reporting Organization, 2013).

According to Ethics and Quality in Agriculture - Eticagro (2007), it explains some aspects concerning the development of sustainability reports. It states that these reports based on the GRI framework are focused on four principles that are used to identify the indicators and issues on which the organization should report (2). Those principles are:

- **Main Topics:** The information contained in the report should cover the topics and indicators that reflect the most significant impacts on social, environmental and economic performance of the organization, and also those that could substantively influence the evaluations and decisions of stakeholders.

- **Involvement of stakeholders:** The organization should identify its stakeholders and explain in the report how the organization has responded to the expectations and relevant interests of those interest groups.
- **Sustainability context:** The report should explain how the organization contributes, or aims to contribute in the future, to the improvement or deterioration of economic, environmental and social conditions whether locally, regionally or globally.
- **Exhaustiveness:** The report's coverage of the indicators or activities carried out by the organization must be sufficient to reflect the most relevant social, economic and environmental impacts. This would allow the stakeholders to evaluate the performance of the organization during the period covered by the report.

According to Morán (2010), there are also some basic principles to be followed in order to ensure high quality and an adequate presentation of the information published in the report (27). In this context these principles can be explained as follows:

- **Balance:** The report should reflect the positive and negative aspects of the performance of the organization. This allows a better evaluation of the overall performance.
- **Comparable:** The report must select, collect and disseminate information consistently. That information should be presented in a way that allows stakeholders to analyze the changes made by the organization over time and compare them with other organizations.
- **Accuracy:** The information must be accurate and sufficiently detailed so the different stakeholders of the organization can evaluate its performance.

- **Frequency:** The information must be presented on time and must be guided by a regular schedule so that stakeholders can make decisions with sufficient and updated information.
- **Clarity:** The information must be presented in an understandable and accessible way for the various stakeholders that will make use of the report.
- **Reliability:** The information and processes used in the development of the report should be collected, analyzed and presented in a way that can be subjected to review. This process must reflect the quality of information collected.

3.4.1. Global Reporting Initiative Content

According to Morán (2010), the Global Reporting Initiative has three main parts that have to be considered in order for the report to address specific aspects and to describe the management model of an organization (29). Such parts are:

- **Profile:** This is the information that defines the overall business context. This allows the understanding of the performance of the organization through its strategy, profile, and its corporate governance practices. It also includes the sustainability mission and strategy. It must be signed by the president of the company or organization.
- **Management Approach:** This issue includes information on the management model through which an organization addresses specific issues. It explains the behavior of an organization in the marketplace. This approach also includes how the business operates in terms of the decision-making process and management systems to control such decisions. Finally, it explains the stakeholder engagement and the social and environmental policies of the organization.
- **Performance Indicators:** These are classified as economic, environmental and social indicators. Sometimes the reports subdivide them into main and

optional indicators in order to have comparable information regarding the economic, environmental and social performance of the organization.

According to the Global Reporting Initiative Organization (2006), the Guide for the Preparation of Sustainability Reports determines what the purpose of these reports is, what they are and how they improve the dialogue with interest groups or stakeholders of a company. In this sense, the Guide explains that the development of a sustainability report includes many key aspects. Some of them are measurement, transparency and accountability before the internal and external stakeholders that are related to the performance of the organization and with the goal of sustainable development (Morán 2010, 29).

According to GRI: Sustainability Reporting Guidelines (2006), the development of sustainability reports is a term primarily used to describe the information on the economic, environmental and social performance of an organization. It should provide a balanced and reasonable explanation of the sustainability performance of the reporting organization including its positive and negative contributions (5). These reports show the results that have been obtained within a given reporting period, explaining the strategy, commitments and management approach adopted by the organization.

All documents prepared under the GRI framework are developed using a process that seeks consensus through dialogue between stakeholders. Thus, all reports are subjected to verification and continuous improvement. The main objective of the GRI framework for sustainability reporting is to become a generally accepted framework to report the economic, environmental and social improvements of a company. It has been designed to be used by organizations regardless its size, sector or location (Morán 2010, 26).

This GRI Framework is aware of the practical difficulties that a wide range of organizations face, from small companies to those with a large volume of transactions and that operate in different geographic areas simultaneously. On this basis, the mission of the GRI is to improve the quality in the preparation of reports in terms of comparability, coherence and utility. This guide and the GRI as an

organization seek to reflect a consensus on the preparation methods of these reports (GRI: Sustainability Reporting Guidelines 2006, 6). This guide becomes a model for reporting organizations and report users so they can face the challenge of developing effective and useful methods to report organizational performance.

In this sense, the economic, social and environmental spheres covered in the reports are known as Indicators. They reflect the level of performance of the organization in terms of sustainability in each of the aspects mentioned before. According to the GRI: Sustainability Reporting Guidelines (2006), each indicator or dimension covered in the report include various issues that need to be explained in a clear and transparent way in order to make it understandable to the stakeholders (27).

3.4.1.1. Economic Dimension or Indicator

The economic dimension of sustainability includes the impact of the organization on the economic conditions of its stakeholders and existing economic systems at the local, national and global levels (GRI: Sustainability Reporting Guidelines 2006, 28). Economic indicators illustrate the following:

- The capital flow¹⁹ among different stakeholders.
- The main economic impacts of the organization on the whole society.

This indicator includes financial performance which is essential to understand the organization and its own sustainability. However, this information is often recorded in the financial statements of the organization. In this sense, it should be emphasized that what is most frequently requested by users of sustainability reports is the organization's contribution to the sustainability of an economic system (GRI: Sustainability Reporting Guidelines 2006, 29).

Also this indicator should provide a concise explanation of the management approach of the company regarding the following economic aspects:

¹⁹ Quantity of variable capital (social capital characterized for varying depending on the number of partners and shareholders but it always has to be within the range set by law) measured over a period of time.

- Economic performance.
- Marketplace positioning.
- Indirect economic impacts.

3.4.1.2. Environmental dimension or Indicator.

The environmental dimension of sustainability focuses on the organization's impacts on living and nonliving natural systems including ecosystems, land, air and water. Environmental indicators cover the performance of an organization regarding its inflows (materials, energy and water) and outputs (emissions, spills and waste). Along with these, it includes the performance on biodiversity and environmental legal compliance and other relevant aspects such as impacts of products and services on the environment (GRI: Sustainability Reporting Guidelines 2006, 29). According to Morán (2010), this indicator should include a concise explanation of the following environmental aspects (24):

- Use of materials, energy and water.
- Protection of biodiversity.
- Quantity of emissions, effluents and waste.
- Products and services (Design, development and life cycle).
- Compliance with Environmental regulations.

3.4.1.3. Social Dimension or Indicator.

The social dimension of sustainability is related to the impacts of the activities of an organization on the social systems in which it operates. Social performance indicators of GRI identify key aspects regarding labor issues, human rights and product responsibility (GRI: Sustainability Reporting Guidelines 2006, 32). Regarding labor practices and decent work the specific aspects that make up this category are based on the recognition of worldwide standards among which are:

- The Universal Declaration on Human Rights of the United Nations.

- The United Nations Convention: International Convention on Civil and Political Rights.
- The United Nations Convention: International Convention on Economic, Social and Cultural Rights.
- The Convention on the Elimination of All Forms of Discrimination against Women (CEDAW).
- The ILO Declaration on Fundamental Principles and Rights at Work.

The indicators on labor practices are based also on the two instruments that directly govern corporate social responsibility which are the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy and the Principles for Multinational Enterprises of the Organization for Economic Cooperation and Development (OECD) (GRI: Sustainability Reporting Guidelines 2006, 32). This indicator should also include a concise explanation regarding labor issues as:

- Employment.
- Employees and Company Relationships.
- Health and Safety at Work.

Finally, it can be said that one of the most important challenges that sustainable development entails is the creation of innovative and new ways of thinking. As advances in knowledge and technology contribute to economic development they also help resolve the risks and threats to sustainability of social relationships, the environment and the economy. Therefore, new knowledge and innovations in technology, business management and public policy would provide organizations the opportunity to choose new management options. These would make their operations, products and services influence society and the economy to achieve sustainable development.

Hence the GRI Framework becomes a valuable tool for organizations to show their stakeholders their performance and interest in achieving a sustainable society. This initiative also helps to demonstrate the organization's accountability in their area of influence. Thus, the GRI was created to meet the expectations of stakeholders and to

report on sustainability in a clearer way. Its main mission is to address this necessity by providing a reliable and credible framework to develop sustainability reports that can be used by organizations regardless of their size, sector or location.

3.5. Ecuadorian Consortium for Social Responsibility (RED CERES)

The Ecuadorian Consortium for Social Responsibility is a network of public and private companies, corporate foundations and nongovernmental organizations (NGOs). It promotes the concept and practices of corporate social responsibility focused on businesses as they are considered the driving force for building a more just and sustainable society (CERES, 2012). CERES is the leader in management and research on social responsibility in Ecuador. It also has strategic alliances nationally and internationally to provide the best services to its members.

CERES has become a platform to facilitate constructive dialogue between different sectors of society. The members of the Consortium total 35 and among them are: Diners Club del Ecuador, Cerveceria Nacional, Banco del Pichincha, Corporación Favorita, CNT, Elecaustro, Floralp, Coca-Cola, Pfizer, Pronaca, Yanbal, TC Television (CERES, 2012). The services provided by CERES to its members are counseling, training, plus it has a network of responsible journalism.

3.5.1. CERES Counseling

Regarding this first service CERES has what is known as the CERES-ETHOS Indicators²⁰. This is a tool for self-assessment based on international standards but adapted to the Ecuadorian marketplace. These indicators of corporate responsibility are a tool of self-learning, awareness, assessment and monitoring of corporate management. They are the result of the Latin American Program on Corporate Social Responsibility and were validated for the Ecuador situation and reality (Viteri 2010, 6).

²⁰ The Ethos Institute of Business and Social Responsibility in Brazil, is a nongovernmental organization established in 1998 with the mission to mobilize, sensitize and help companies manage their business in a socially responsible manner, making them allies in the construction of a sustainable and fair society.

These indicators are a tool that facilitates the management processes of CSR and helps to set priorities, goals and joint initiatives. They also evaluate the actions that enable the sustainable development of the company and its value chain (Ethos, 2007). Similarly the indicators involve common aspects of social responsible management related to major global initiatives such as the GRI, ISO 26000, the Millennium Development Goals and the Global Compact. The indicators measure specific activities, standards and necessary initiatives for the implementation of corporate responsibility in companies (Ethos, 2007).

CERES also has a program called Measurement of carbon footprint and energy efficiency. Through the alliance that the Consortium achieved with “Carbon Masters”, an English consulting company for carbon mitigation, CERES provides the service of measuring carbon footprint and energy efficiency. This helps companies to improve their environmental performance (CERES, 2011). Along with this, CERES has implemented the scanning process to measure the fulfillment of the Millennium Development Goals (MDGs). This is called “MDG Scan Measurement”²¹. Through this service CERES offers to its members the opportunity to be evaluated in order to ensure that companies know their real contribution to the eight Millennium Development Goals (CERES, 2011).

Within its counseling service the Consortium also helps with the evaluation process regarding the adherence to the Global Compact principles and supports the development of the Communication on Progress (COP). In this context, CERES assists its members through the United Nations Global Compact (UNGC) Assessment Tool. This allows the determination of the status of the company in terms of the ten Global Compact principles and along with it the Consortium supports its members in their annual preparation of the COP report²² (CERES, 2011).

²¹ MDG Scan is a tool created by Business in Development and Sustainalytics a Canadian Company of Network Research.

²² The objective of this report is that the signatories identify their progress in matters of the Global Compact as a system of self-assessment and also seeks to provide greater credibility to the initiative through the application of a transparent process.

3.5.2. CERES Training

Regarding training and courses CapacitaRSE from Argentina and CERES signed a strategic alliance that allows members of CERES to get discounts on specialized online courses about Social Responsibility. It is important to explain that CapacitaRSE is the first virtual training center dedicated 100% to CSR.

3.5.3. Responsible Journalism

CERES believes that media is an essential agent for the promotion of Corporate Social Responsibility (CSR). When journalists use information, criticism, research, journalism ethics, transparency and opinion they offer citizens a service focused on building a society more aware of their rights and obligations (CERES, 2011).

This important social role exercised by journalists, has motivated CERES to create two pioneering projects. These are designed to promote corporate social responsibility through constant contact with the media. Those projects are:

- **Responsible Journalism Network:** The purpose of the Network is to provide training for media professionals on Corporate Social Responsibility.
- **Responsible and Inclusive Journalism Award:** has a key role in encouraging and recognizing the work done by media professionals on the issue of CSR.

In order to make a deeper analysis of the activities carried out by the Consortium during 2012, the Annual report of CERES publishes the activities and alliances made regarding corporate social responsibility in Ecuador. Among such alliances are the following:

- **Corporation for economic and competitive development in Bolivar: Codecob**

CERES signed a cooperation agreement to promote CSR practices in the province of Bolívar. Its main goal is generating a social, economic and environmental

contribution to the country through actions for the dissemination and implementation of CSR in the social and enterprise sectors (Gómez-Durañona 2012, 5).

- **MERCO**

The Corporate Reputation Monitor (MERCO) is a business reputation assessment tool. Since 2000, it has been measuring the reputation of companies operating in Spain and is one of the reference monitors in the world (CERES, 2011). In September 2012, the consortium signed an agreement to develop joint initiatives that benefit both parties (Gómez-Durañona 2012, 6).

Among the activities carried out during 2012 the official launch of the Business Network for an Ecuador free of child labor stands out. In this initiative CERES provides human, technical and financial resources. This network works together with 9 companies that are members of the Consortium, with the Ministry of Labor Relations and UNICEF. This network and CERES signed an agreement and cooperation framework with the Ministry of Economic and Social Inclusion (MIES).

This agreement will last 10 years and its purpose is to coordinate joint actions to allocate or manage financial, human and technical resources of the two institutions, CERES and the Ministry of Economic and Social Inclusion. This agreement seeks to implement programs and projects for individuals or groups that are excluded, discriminated against or vulnerable. Therefore, 2012 was an active and successful year for development of social responsibility in Ecuador.

3.6. Iberoamerican Network of Universities for Social Responsibility (Redunirse)

The American Network of Universities for Corporate Social Responsibility is a network of private, public and semi-public universities of the Ibero-American region. It was created to encourage and promote awareness on Corporate Social Responsibility (Redunirse, 2010). The network provides a favorable environment for regional and interregional cooperation regarding the exchange of new learning,

research and good business practices. In order to facilitate the interaction between the different participants the web page www.redunirse.org was created with different kind of articles, a discussion forum and a virtual campus that is considered the First Ibero-American Training Program on CSR (Redunirse, 2010).

This network is a platform where a number of institutions share knowledge about social responsibility. For this reason, it is convenient to refer to some of the publications and research conducted by professors regarding social responsibility. In this sense, the first article considered important to be included in this chapter is called “Towards a new business ethics”. This article provides details of some interesting aspects to be considered about society today which has been increasingly showing more concern about achieving a socially responsible management that benefits society as a whole. Also, the author makes some comparisons between the development of CSR in Europe and Latin America.

Kliksberg (2011), states that there is an explosion of global interest on corporate social responsibility. Today, in Western Europe there are 240 environmental, ecological and fair trade labels. French law obliges companies to publish social and environmental reports. England requires public pension funds to report on the ethical, social and environmental criteria used in its investments. In Italy, there are guidelines for the development of social reports for small and medium size companies. In Norway, 95% of small and medium size companies carry out social actions and Spain ranks companies according to how their efforts to promote social responsibility are perceived (2).

One can see how pressure is brought to bear on companies by increasingly active citizenry. Also, investors demand transparency and believe that more ethical companies better safeguard their investments. Similarly, CSR increases the competitiveness of companies and those who support the volunteer work of their staff have higher levels of productivity as their staff identifies more strongly with the company. There is also a fact that cannot be included in conventional economic analyzes and is known as the “Vote of the market”. This refers to the fact that the number of consumers that prefer to buy products that match with a “safe and

tolerable lifestyle” are not always reflected in purely economic indexes (Kliksberg 2011, 2).

According to Kliksberg (2011), the CSR paradigm is changing. There was an initial phase in which some theories stated that a company existed only to produce benefits to shareholders, but this point of view was superseded by a second phase known as corporate philanthropy, in which corporate donations and foundations support worthy causes. More recently a third stage has emerged, called “corporate citizenship”, that asks companies to become model citizens by accomplishing certain responsibilities. They include consumer protection, good treatment to personnel, environmental protection, good labor practices and social actions (3).

To make progress in CSR certainly is a collective effort that in many countries has had successful results, especially in developed countries such as Great Britain, that created the first ministry for CSR, and France, that created the European Academy of Business in Society to educate a new generation of entrepreneurs about his discipline. Regarding Latin America, the article explains that the continent, while having economic potential, has high levels of poverty and inequality. This situation requires high doses of CSR. Kliksberg (2011) has this to say about CSR in the region:

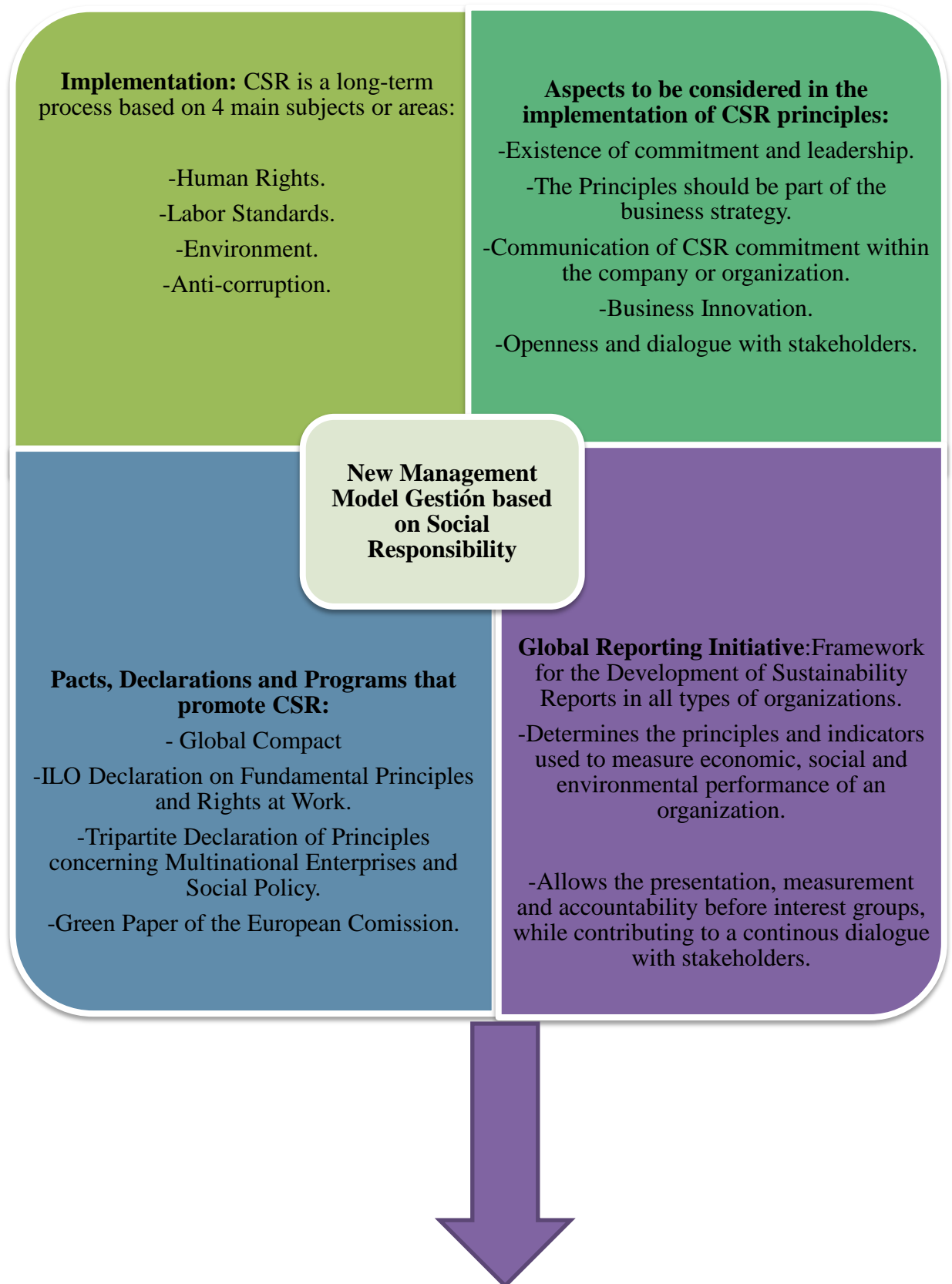
“To progress quickly in this area in which Latin America is clearly behind is crucial to improve social inclusion, equity and competitiveness. Ultimately, CSR responds to an ethical mandate with old roots. Even Biblical texts stressed the social function that property had to accomplish. It is necessary to implement this discipline in Latin America where there is a growing social demand for ethical behavior” (4)

In the context of what has been analyzed, it is important to note a significant point that refers to the fact that the size of the company is not essential when it comes to the implementation of social responsibility. Any company or organization must work to align its management model to the concepts of social responsibility. It also must have as a main objective the fulfillment of its obligation to society and with its sphere of influence. All these aspects will contribute to the creation of a sustainable

society that promotes respect for human rights, the environment and fair labor practices.

Finally, from the analysis made of all existing social responsibility initiatives at the international and national levels, it is necessary to develop a graphic that explains the main points and approaches that should be considered in the development and implementation of a social responsibility process. In this sense, it is important to highlight the essential aspects that allow a successful development of a new management model based on CSR. This new model applies to businesses and organizations on different sectors interested in improving their reputation, their positioning and their competitive advantage.

Graphic 6 Social Responsibility Approach



How to implement CSR principles in organizations, companies and its branches.

Human Rights

- Comply with the national laws of the country in which they are located.
- Create guidelines defining respect for human rights.
- Promote communication processes and spaces for employees and managers to achieve a better understanding of human rights.

Labor Standards and Relations

- Have strategies and policies that provide a safe working environment.
- Develop guidelines orientated to respect ILO Conventions regarding employment status.
- Start dialogues with stakeholders in order to avoid discriminatory practices, child labor and create a healthy work environment.

New Management Model based on Social Responsibility

Environment

- Develop an environmental management system aimed to achieve environmental certification in both processes and products.
- Develop and disseminate technologies that are environmentally friendly (clean technologies).
- Create environmental awareness in the purchasing decisions of consumers through the development of green products or services.

Fight against Corruption

- Avoid engaging in bribery or extortion through the inclusion of policies and actions that actively fight against them.
- Development of clear rules to prevent corruption through the creation of a Business or Conduct Code that can guide employees and managers.
- The Code will in turn determine what behavior is acceptable in specific market situations and generate a preventive attitude.

By: María Elisa Pesántez M.

CHAPTER 4: MODEL OF CORPORATE SOCIAL RESPONSIBILITY IN THE AGRIBUSINESS SECTOR OF ECUADOR.

This chapter provides an analysis of the Ecuadorian agribusiness in order to know how it has evolved and determine the support that has been given for its development. It also analyzes the support given to companies who operate in this industry. This will help determine the importance of agribusiness activity within the economy of Ecuador. In the same way, it includes a study of what Good Agricultural Practices are, what they include and the importance they have especially for the improvement of agricultural activity in Ecuador.

This chapter focuses specifically on how corporate social responsibility has been implemented in Ecuador. For this purpose, two companies that operate in the agribusiness sector will be analyzed. These companies have been recognized for their successful implementation of this discipline. The first company is named PRONACA and the other company that is analyzed is known as La Fabril. The analysis of both corporations determines the contribution that these companies provide for the implementation and application process of this discipline to spread to other Ecuadorian companies. Most importantly, it shows how the agribusiness companies, which is one of the main industries within the Ecuadorian economy, contribute to the progress of corporate social responsibility in the country.

4.1. Ecuadorian Agribusiness Sector

When talking about this industry, it is essential to explain that the agribusiness activity has been historically a determining factor for the Ecuadorian economy. This activity has become the main driving force for production and exportations. It is also one of the main employers of the qualified and non-qualified workforce (Ministry of Agriculture and Farming 2006, 4). Also, Ecuador is a country whose economy is bound to agriculture and in the twenty-first century this activity has gained much more importance thanks to agribusiness activities. This industry through manufacturing preserves and transforms raw materials not only for agriculture but also for others sectors like cattle, forest and fishing (Baquero and Lucio-Paredes 2010, 44).

The agribusiness is a productive alternative that contributes to the improvement of the quality, safety and trading processes of products related to the food, beverages, tobacco, textiles, chemicals, leather, rubber, wood and paper industries (Ministry of Agriculture and Farming 2006, 5). Its contribution to the Ecuadorian economy has been so significant that it is reflected in an increase of the GDP (Gross Domestic Product). The agribusiness represents more than a quarter of the exportations and importations of the last eight years. This industry also captures a high percentage of the workforce (Baquero and Lucio-Paredes 2010, 45).

Some of the factors that have been essential for the development of this industry since the 70's are the increased demand, especially for food products. Other factors that have influenced the agribusiness are the remittances to the country from the people who have emigrated, the population growth and the change in people's consumption habits (Baquero and Lucio-Paredes 2010, 45).

However, it should be noted that this industry has not made the most of its development potential and it even faces some difficulties. Those include limited application of new technologies, limited development of products, lack of packaging and machinery and an incomplete integration and organization of the productive chain. Also, the products have stayed the same and the quality has not improved which has limited their competitiveness. These deficiencies have been exacerbated by the lack of a specific policy that allows the development of the sector and the lack of a governing body that is in charge of this issue (Ministry of Agriculture and Farming 2006, 8).

It is also important to explain that the country has an economic and social force that is found in agriculture. This includes small or medium size producers who for the most part do not have the support of the government, although the government is trying to support their development. This sector, mostly located in Pichincha, Azuay, Guayas, Chimborazo, Bolívar, Tungurahua, among other provinces, produces food, fibers, clothing and related activities. The main obstacle for agriculture is the lack of funding for buying new machinery, the lacking of capital and the lack of training (Ministry of Agriculture and Farming 2006, 9).

Referring to Baquero and Lucio-Paredes (2010), since 2003 the Ministry of Agriculture, Farming and Fishing (MAGAP) created a Coordination and Planning department for Agribusiness Development. This department worked for two years in the development of a sector analysis. In 2007, it created an interagency commission that worked and developed the National Agribusiness Development Plan (2007-2011). However, the agribusiness policy is not yet completely defined or implemented (45).

In the same way it is explained that the control and existing regulations for this sector are under a number of legal and regulatory bodies. Also, agribusiness activities and policies are under the control of various institutions responsible for enforcing its implementation. Baquero and Lucio-Paredes (2010) state the following about this situation:

“In environmental issues, for example environmental approval is given both by the ministry and by the municipalities in different cities. Also, processed food is registered by the Ministry of Public Health saying that it is safe for exportation, and the exportation certificates are given by AGROCALIDAD” (46).

4.1.2. Analysis of the Ecuadorian Agribusiness Sector

The analysis of the situation of agribusiness in the country makes evident some of the industry realities and especially the importance it has for the national economy. According to the Ministry of Agriculture (2006), in order to understand how this sector is managed, it is necessary to consider the approach the productive processes have. This allows classifying the industry into three main areas or chains based on their market orientation (9). The classifications are the following:

- Chains or Productive processes that sell their products to local or national markets.
- Traditional exportation chains or processes.
- Nontraditional exportation chains or processes.

The first type of chain sells its products mainly to domestic markets. It is important to explain there is a significant presence of small and medium producers. This fact generates a considerable volume of products for the domestic market. Some of these chains have considerable levels of organization as in the case of the meat and dairy industry. Also, products such as corn, rice or sugar cane have also achieved systemized production (Baquero and Lucio-Paredes 2010, 47).

However, other production processes are very weak mainly when connecting small farms into a larger organization, especially those dedicated to the production of potatoes, wheat, flour, tomatoes, beans and bamboo (Baquero and Lucio-Paredes 2010, 47). In some cases the lack of sanitary measures makes it impossible for some productive chains, such as the sausage industry, to access international markets. This access is prevented because these chains do not meet all the requirements or in the case of the guadúa cane, the transportation costs are too high (Ministry of Agriculture and Farming 2006, 10).

One of the main problems that these chains have is low productivity, especially in industries like corn, rice, potato, tomato, wheat and soybeans. This situation results in low production which has created the need to import most of these products and their derivatives (such as tomato paste, candies and wheat products). This has become an obstacle for the growth and expansion of small and medium producers of these products (Ministry of Agriculture and Farming 2006, 10).

Regarding the traditional exportation chains it can be explained that this is the group in which the biggest companies of the country are located. These chains are economically the most important and the ones that contribute the most money to the economy. In this sense, it is essential to note that in 2007 Ecuador became the leading worldwide exporting country of bananas and the third exporting country of flowers. This fact shows that the association between small producers increases their overall productivity. This has allowed the exportation groups to be much more competitive in international markets (Baquero and Lucio Paredes 2010, 45).

In these chains there is also a high participation of medium and large producers that are concentrated in most of the cultivated area but there are also many small

producers. While this group is relatively well organized, it still can and should improve their level of association, especially among small producers who are part of this production chain (Ministry of Agriculture and Farming 2006, 11).

It is important to explain that most of the country's exportations are based on products that are not processed, particularly bananas and cocoa. The Cocoa, banana and flower industries have also exported processed products such as banana chips and chocolate, and have recorded high growth rates in these areas. Although, it is important to explain that the quantities sold of these products are small compared to the quantity sold of the non-processed products (Baquero and Lucio-Paredes 2010, 46).

Although coffee and cocoa chains have achieved successful results in terms of production and exportation processes, they still have an inadequate performance at the crops level. This deficiency has resulted in a decreased of production levels and has increased the need to import coffee beans, coffee, cocoa and especially chocolates. In this sense it should be emphasized that there is a need to stimulate the domestic and international demand of products from the coffee and cocoa industries (Ministry of Agriculture and Farming 2006, 11).

Finally, the third type of chains or processes are known as the non-traditional chains for exportation. These chains are formed by small and medium producers. Their level of exports has grown considerably in recent years, especially with products such as broccoli, pineapple, papaya, mango, Andean fruits (except uvilla) and palm oil. However, in terms of volume or quantities exported they are still small. In this sense, it is important to emphasize that these industries have a great untapped potential (Baquero and Lucio-Paredes 2010, 48).

Some of these chains do not industrialize their production and opt for the sale of fresh products rather than processed ones. In addition, the industry of natural fibers has significant untapped potential. If the production processes are improved, this would bring a substantial improvement to the national sale of products and also increase the level of exportations as these chains would be providing value-added products (Ministry of Agriculture and Farming 2006, 12).

4.1.3. The Agribusiness Development Plan

The Agribusiness Development Plan was prepared by the MAGAP. It is aimed to improve the legal environment of the sector, to strengthen the public institutions and to support the productive chains regarding technological innovation, partnerships, trade, and quality of products (Baquero and Lucio-Paredes 2010, 50). This plan began by implementing the Agribusiness Development Law.

To create the law, the Interagency Commission led by the MAGAP, and many other institutions such as the Ministry of Industry and Productivity, the National Association of Manufacturers of Food and Beverages, FEDEXPORT and the National Conference on Food Sovereignty²³ worked together in order to develop this law. These groups are working on the development of the agribusiness law with the support of the major players in the agribusiness chains (Baquero and Lucio Paredes 2010, 53).

Also, in this context of the development of the law, certain solutions appeared to solve existing problems in this industry. Those include the creation of a forum for dialogue and coordination that would allow the various sectors to get together with universities and research institutions. Also, greater efforts need to be channeled into the prioritization of research, the budget allocation and finding industries that are more productive. According to the economic data provided by the State Department, between 2010 and 2011 agribusiness grew 14%, specifically, the food and beverages industries. Their growth was the result of the implementation of public policies and strategies applied by the current government (Si3n, 2012).

4.2. Good Agricultural Practices (GAP)

The food industry, the production organizations, as well as governments and NGOs have in recent years developed a variety of codes, standards and regulations regarding Good Agricultural Practices (GAP). This was done in order to classify the production methods used by agriculture (FAO, 2008). The purposes of GAP include

²³ This is a Legislative agency in charge of the collective creation of several legal bodies.

compliance with regulatory requirements in trade regarding food safety and quality. They also include more specific requirements that certain markets demand. The function of these codes, rules and regulations of GAP include several aspects among which are:

- Ensuring the safety and quality of the products in the food chain.
- Gaining new business benefits by improving the management of the supply chain.
- Improving the use of natural resources, protecting the health of employees and providing adequate working conditions.
- Creating new market opportunities for producers and exporters from developing countries.

According to FAO (2008), the Good Agricultural Practices can be defined as follows: “Practices oriented to the environmental, economic and social sustainability of agricultural production processes. They guarantee the quality and safety of food and non-food products”. These four essential elements of GAP are economic viability, environmental sustainability, social acceptability, and safety and food quality. All these aspect have become requirements of the public and private sectors (FAO, 2008).

Likewise, the concept of GAP can serve as a reference point to decide, at each step of the production process, the practices and/or outcomes that are environmentally sustainable and socially acceptable (Hara and Cal 2007, 2). Therefore, the implementation of GAP should contribute to agriculture and rural development in the countries where they are applied. Similarly, it is necessary to highlight the benefits and potential challenges related to good agricultural practices as they are a voluntary dynamic and gradual process.

4.2.1 Potential Benefits of Good Agricultural Practices

The adequate implementation and monitoring of GAP contribute to the improvement of the quality of food and other agriculture products. These practices also help to reduce the risk of nonfulfillment of national and international norms and regulations such as the requirements of the International Organization for Animal Health and the International Convention for Sanitary Safety regarding the level of pesticides and contamination allowed for agriculture products. It also refers to all risks involved in chemical, physical and microbiological contamination (FAO, 2008).

The adoption of Good Agricultural Practices contributes to the promotion of sustainable agriculture. They also help to promote these practices in the national and international environment and to achieve objectives for society's improvement. In addition, this process allows focusing on consumer safety. This means being concerned with the consumer as they demand products of better quality and safety (Hara and Cal 2007, 4).

4.2.2. Challenges involved in the application of GAP

In some cases the implementation of GAP and the maintenance of agricultural certifications increase the production costs for producers and exporters. The lack of coordination between the GAP regulations and the absence of efficient certification systems is consider an obstacle for the development of agricultural activities (FAO, 2008). However, the GAP can be used to solve the conflicts among the interest groups involved in the agribusiness supply chain. This would modify and improve the relationships between suppliers and purchasers (Hara and Cal 2007, 5).

It is essential to explain that small producers find it difficult to take advantage of the opportunities that the exportation markets offer. These producers have to be adequately informed and technically prepared in order to face the challenges that those markets involve. They also need the support of governmental agencies that would help them during the exportation process (Fernández 2008, 2). Another challenge related to Good Agricultural Practices, is the need to increase the awareness of these practices so the groups involved in agricultural activities can

obtain benefits from its application. This would lead to an improvement in the efficiency and productivity of the small and medium producers and would also improve their environmental and economic performance (FAO, 2008).

According to Bernal (2010), Good Agricultural Practices are activities involved in the production, processing and transportation processes of agricultural products. These activities are oriented to ensure food safety, consumer health, environmental protection and labor conditions (3). These practices not only contribute to the community welfare but also promote competitiveness as it increases the opportunities to access new international markets.

In this sense, a program based on GAP must be a comprehensive plan that includes the adequate selection of the production location and, also involves the implementation of efficient programs regarding the use of fertilizers, plague control, and harvest processes. This plan must include an effective system to evaluate and control the production processes (Hara and Cal 2007, 6). In this context, it is necessary to refer to the Ecuadorian situation regarding agricultural practices. In this sense, it can be said that the country has problems regarding the quality and safety of food and beverages that are produced and consumed within its territory.

These deficiencies have affected the products of different industries as they cannot be exported to other countries because they do not comply with all the requirements international marketplaces demand. This has reduced Ecuador's competitiveness, thus impeding the economy to grow and also, reducing the exportation levels (Bernal 2010, 3). The quality control system of food and other agriculture products have been oriented to the certification of products rather than processes. Also, the international evaluation regarding quality and safety control of products is barely applied.

For this reason, it is essential for Ecuador to reinforce its quality and safety control systems. If the country succeeds in implementing all these aspects it would create a greater commitment to protect the consumers and, at the same time, it increases the competitiveness in national and international markets (Bernal 2010, 5). It is important to note, that the implementation of Good Agricultural Practices allows the producers to distinguish their product from others by having better prices and higher

quality, allowing them to access new marketplaces. This also allows small producers to achieve economic, environmental and social sustainability for agricultural activities (FAO, 2008).

In this sense, there are essential social and environmental aspects that must be taken into consideration to understand the importance of implementing GAP, especially in the Ecuadorian context. Thus, it is necessary to understand that agricultural activities are based on the direct use of biodiversity resources such as land, water and other natural resources, and they are also based on water absorption, use of fertile soils and organic matter. These activities have a great impact on the environment and its resources (Bernal 2010, 8). Over the years, the development of large crop areas and the excessive use of fertilizers and pesticides have generated more negative impacts to the environment. They include soil deterioration, water contamination, the accumulation of toxic substances on food products, the poisoning of farmers with pesticides and the loss of wild flora and fauna (CREDIFE 2010, 1).

All these effects have led consumers to be more concerned about the quality of food and the social and environmental impacts that agricultural activities have (FAO, 2008). For this reason and with the main goal of solving these problems, it is practiced among farmers worldwide the implementation of Good Agricultural Practices. These practices contribute to the production of healthy and safe food and also provide benefits for the producers and the consumers without deteriorating the environment (CREDIFE 2010, 2). In this sense the Good Agricultural Practices involve the following issues:

- Adequate use of soil and water, and responsible and appropriate use of pesticides, fertilizers and other chemicals.
- Secure management and control of plagues, and the use of organic fertilizers.
- Secure livestock farming and implementation of biosafety techniques.

- Control the hygiene, health and safety of workers. These include control during the harvest, processing and packing processes of the products.

In this context, it has to be explained that some independent quality certification systems have been developed. For this reason, farmers must implement these systems in order to provide consumers with products that fulfill the requirements established by Good Agricultural Practices. One of these certification systems is known as GLOBALGAP²⁴. This standard was designed to provide confidence to the consumer regarding the way in which the agricultural production is carried out. This standard also seeks to reduce the negative impact caused by the use of natural resources, it promotes using less chemicals or toxic products and ensures the health and safety of workers as well as of animals.

This certification process is carried out by more than 100 independent and authorized certification agencies in over 80 countries. Its main objective is to establish a unique standard for Good Agricultural Practices (CREDIFE 2010, 2). In this context it is important to explain some of the Good Agricultural Practices that are easy to implement in order to achieve environmentally friendly production processes. In this sense, it is necessary to list some of the laws that have to be taken into consideration for the development of agribusiness activities. According to CREDIFE (2010), the most important legal framework that has to be complied with in order to achieve an environmentally responsible agribusiness activity is (4):

- The law for the Prevention and Control of Environmental Contamination.
- The law regarding the use of water
- The Law for Environmental Management.
- The Law for the production, importation, selling and use of pesticides and similar agricultural products. This law establishes that the permitted pesticides must be registered before the authorized national body.

It is important to explain that there is a specific regulation for the different activities and industries that exist in Ecuador, like bananas, flowers, cacao and others. In this

²⁴ According to the official website of GLOBALGAP, this is a European private certifier that sets voluntary standards through which agricultural products can be certified on all parts of the world.

sense and according to CREDIFE (2010), there are various actions and practices that can be followed in order to achieve a successful implementation of GAP. These actions should be carried out by producers especially those that operate in the agribusiness industry. Among these practices the following can be named:

- **Preserve the soil and the water:** To achieve this, it is necessary to fertilize the soil with organic matter and avoid the use of pesticides or chemicals that will pollute the water and the soil.
- **Careful handling of pesticides and their residues:** Farmers should not buy pesticides that are prohibited. For this reason, Agrocalidad²⁵ publishes a list of pesticides that can be used in agricultural activities.
- **Careful handling of toxic waste:** When there are large quantities of toxic waste, it is necessary to build a place for the exclusive storage of these residues. This waste must be given to the authorized national bodies for its elimination or destruction.
- **Application of biosecurity standards in breeding animals:** It is essential that farmers keep their animals vaccinated. They should also apply measures to disinfect people when entering and leaving the area where chickens, pigs, guinea pigs and other animals are raised.
- **Careful handling of the finished product:** The people engaged in agricultural activities should harvest the product in a way that maintains the quality and prevent contamination. Producers must analyze the quantity of pesticide in the product and must have procedures to act in case the product has levels of pesticide that exceed what is permitted.

Finally, it can be said that the domestic and international marketplaces have been strongly affected by the contamination of food products. This situation has led health

²⁵ The Ecuadorian Agency for Quality Assurance in Agriculture was established as the National Authority of food safety. It is responsible for the definition and implementation of agricultural policies. It is also in charge of the regulation and control of national agricultural production activities, This Agency is supported by national and international standards.

authorities in various countries to take action regarding the development of standards that ensure food safety. In this context, the agribusiness sector, through the implementation of GAP, seeks to achieve a higher quality for its products, to protect the health and safety of the people involved in the production processes and to promote environmental protection (Fernández 2008, 4).

Therefore, the agricultural and agribusiness activities in Ecuador require the implementation of GAP as a means to make their products more competitive not only in the domestic marketplace but also in international marketplaces. In the country, several laws exist that protect the quality of agricultural products and in 2008 the Ecuadorian Agency for Quality Assurance in agriculture known as AGROCALIDAD was created. This agency seeks to improve the quality and safety processes in the Ecuadorian agricultural production (Agrocalidad, 2009).

This entity is in charge of developing agricultural policies, and it also regulates and controls the Ecuadorian agricultural activities. This has allowed the agribusiness industry to set as a main goal, the offering of high quality products and products that are safe for consumers, to the different marketplaces. This agency seeks to avoid the deterioration of the environment and to protect the safety and health of all the people involved in the production processes (Agrocalidad, 2009).

In this sense, the concept of corporate social responsibility is linked to the concept of Good Agricultural Practices. Both concepts are indispensable in order to promote the human and professional development of all the groups working in the agribusiness industry. At the same time, CSR and GAP involve greater respect and protection for the environment. In this sense, the economic benefit, the main objective of any company, is reinforced through the implementation of social responsibility and Good Agricultural Practices. This improves the long term development of any company as the concern for the economic, social and environmental aspects is the foundation of sustainability. In this sense, corporate social responsibility and Good Agricultural Practices create a new model for agribusiness management.

4.3. Historical Review of the company PRONACA



Once the agribusiness sector in Ecuador and the Good Agricultural Practices have been analyzed, it is important to study how these aspects are involved in the corporate social responsibility process of a company. In this sense, it can be shown how important the implementation of CSR is for Ecuadorian companies operating in the agribusiness sector. This becomes a means to achieve a competitive advantage and a leadership in the marketplace.

This chapter analyzes the Ecuadorian company PRONACA which is considered the largest producer and seller of food in the country. This analysis includes an explanation of its history in order to understand its evolution and how it has become a leading company in the food market. According to PRONACA (2011), it is a corporation formed by several companies related to the poultry and food industry. In 1957, its founder, Lodewijk Jan Bakker, of Dutch origin, formed the INDIA Company that imported textile products and agricultural supplies.

In 1958, the founder together with his son began poultry farming in the country by producing eggs and selling imported chickens. In 1974, PRONACA created and integrated the company Indaves that produced eggs. Since the 70s, it developed in Puenbo, the National Poultry Farm called GRANADA where the first chickens were raised. In 1979, the first chicken processor was created under the name of National Poultry Processor (PRONACA SA).

Since the 90s, the company began to diversify its production by adding meat and other food products and it began to export canned palm hearts. By the century, 2000, PRONACA developed in Brazil and Colombia the same model of production and sale of palm hearts and other canned goods. In this context, PRONACA has become

a proud Ecuadorian company that provides healthy products and promotes development in the agribusiness sector combined with social and environmental responsibility (Aviles 2008, 6). Among the major brands that are part of the portfolio of this Ecuadorian company are the following:

- **Mr. Pollo, Mr. Chanco Mr. Cook Mr. Fish and Mr. Pavo:** These brands offer a wide range of fresh meat, fish, chicken and ready to cook food products.
- **Gustadina:** Offers to the consumers a variety of jams, sauces and rice. It also offers seasonings, dressings and premium culinary products.
- **Fritz and Rubino:** These brands offer premium delicatessen products.
- **Indaves and La Estancia:** Offer fresh eggs and selected chickens.
- **Rendidor:** This brand provides the best quality of rice.
- **Pro-Can and Pro Cat:** Offers balanced and nutritious food for pets.

4.3.1. Corporate Responsibility: Social Responsibility/Sustainability Report of PRONACA 2011.

PRONACA published its fifth Social Responsibility Report, also called Sustainability Report in 2011. It contains important information about the economic, social and environmental performance of the company during that year. It should be noted that this report was prepared in accordance with the recommendations and indicators of the Global Reporting Initiative (GRI) and the Global Compact.

4.3.1.1. Economic Indicator or Dimension

The first indicator of this report is the Economic Indicator. In this area, the company demonstrates a strong and transparent financial management as PRONACA maintains a strong commitment to the country's economic development. During

2011, the company showed transparent and reliable financial balances. In addition, the committed work of thousands of employees and the confidence of its shareholders has become the basis to achieve sustainable development.

According to the information published in the Sustainability Report, the suppliers are considered an essential part of the production processes of PRONACA. In this context, the supply of high quality raw materials is a process that creates sustainable business opportunities for national suppliers. The mechanism for the selection, qualification and approval of suppliers allows the development of those who provide supplies and raw materials to the company (PRONACA 2011, 13).

During 2011, PRONACA developed a program that was focused on helping smaller suppliers become more organized. This process allowed the company to consolidate more secure and consistent business. This initiative was implemented in the company's branches located in Bucay (Coast Branch) and Santo Domingo de los Tsáchilas. The practices that are taken into consideration for the qualification of suppliers are their compliance with labor, health, environmental and safety standards. The following charts show the number of suppliers that the company has nationally and internationally and the purchase amount of supplies (PRONACA 2011, 13).

Chart 1 PRONACA Suppliers

Number of Suppliers according to its origin		
Year	2010	2011
Nationals	2872	2830
Foreigners	208	284
Internal	217	196
TOTAL	3297	3310

Source: Sustainability Report of PRONACA 2011

By: MaríaElisa Pesántez M.

Chart 2 Purchase Amount per Supplier

Purchase amount per supplier and origin (Thousands of dollars)		
Year	2010	2011
Nationals	136,000	172,000
Foreigners	191,000	233,000
Internal	90,000	109,000
TOTAL	417,000	514,000

Source: Sustainability Report of PRONACA 2011.

By: MaríaElisa Pesántez M.

In this economic indicator of the company, the poultry integration program which is an initiative of PRONACA stands out. The main goal of this program is to establish a direct relationship with private poultry farmers. The company considers farmers the main element of the value chain, and for this reason, its integration and expansion of poultry and cattle programs improve the productive processes of the company.

PRONACA provides high quality supplies to raise chickens, such as, balanced meal, vaccines, medicines, technical assistance and training. The farmers implement in their farms housing for animals, poultry equipment and biosafety systems in order to ensure the health and safety of animals. The control of the animal's breeding is evaluated through the European Efficiency Factor²⁶. This Factor measures the percentages of daily weight gain and the feed process of animals. The following chart shows the main aspects involved in the integration and expansion programs of PRONACA and also provides a comparison between 2010 and 2011.

²⁶ Monitoring that measures the improvement of animals through the perfection of the reproduction, hygiene and nutrition methods. This monitoring is based on a sustainable economic approach.

Chart 3 Poultry Integration Program of PRONACA

Indicator/Year	2010	2011
Producers involved	96	91
Families involved	576	546
Employment Creation	480	455
Technical Assistance (Training hours per producer)	212	220
Average productivity vs. Marketing	278/300 vs 254/300	297/300 vs 260/300
Incorporation of Good Manufacturing and Environmental practices	Supply of vaccines, grant of credits and training in operation norms	Supply of vaccines, grant of credits and training in operation norms
Investment in Ecuador (Thousands of Dollars)	23,054	24,549

Source: Sustainability Report of PRONACA 2011.

By: MaríaElisa Pesántez M.

In 2011 the company obtained successful results for poultry farming and the results exceeded those achieved in the preceding years. Also, the profitability achieved met the expectations of more than 80% of the farmers (PRONACA 2011, 20). In the same way, the company through this initiative has created awareness among poultry farmers about the importance of perfecting the biosecurity practices and the infrastructure and equipment conditions of their farms and housing. PRONACA has also organized training conferences in order to share with producers its corporate social responsibility practices (PRONACA 2011, 21).

It is important to explain that together with the poultry integration initiative, PRONACA has developed a program for corn producers called the corn integration program. This initiative includes large, medium and small size producers. Its main goal is to train corn producers so they can achieve a more efficient production and higher quality products in accordance with the requirements that the company establishes (PRONACA 2011, 21).

In this sense, the company has joined the efforts of governmental institutions to achieve long term growth for farmers. This fact has increased the confidence of the different producers and has created new opportunities for small and medium size farmers. Some of the results achieved by the company are the improvement of the small producers regarding knowledge, new techniques and use of technology for corn cultivation. Also, corn producers improved their cultivation processes by using different irrigation systems (Avilés 2008, 36).

The company has also helped its farmers to strengthen their production process by providing them with the modern technology that is used in poultry farming. In the same way, the company promotes the implementation of Good Manufacturing Practices and Good Agricultural Practices which has improved the performance of small and medium producers. These social responsibility actions have created a greater sense of belonging and loyalty in the farmers towards the company. These improvements have also allowed the training, incentive and production processes to be more effective (PRONACA 2011, 23).

In this economic dimension, the Sustainability Report of the company explains the achievements of the company through INAEXPO²⁷. Today, Ecuador has become the major worldwide exporter of cultivated palm hearts, and this achievement, supported by INAEXPO, involves essential aspects such as investment, research, agricultural improvement and study of the international markets. The palm heart exported by INAEXPO is produced in subtropical zones of the country and is sold to 78 companies worldwide, mainly located in 27 countries of Asia, Africa, Europe and the Americas (PRONACA 2011, 15).

The main exportation products of INAEXPO include canned palm hearts and artichokes. These are demanded by the most sophisticated consumers around the world for their quality and culinary desirability. The production process begins in the field where small and medium size producers work together to produce high quality palm hearts. The company buys all their production and the farmers receive from the company high quality agriculture supplies, technical assistance, training and technology transfer (INAEXPO, 2011).

INAEXPO is a business model that is part of PRONACA, and its main goal is to provide high quality products that fulfill the requirements of international marketplaces. The quality control systems of INAEXPO follow the parameters of the

²⁷ This is the exporting Agricultural Industry which is part of PRONACA. This company was created in 1992 with the objective of exporting quality palm hearts. A decade later, it started with the artichoke exportation project and by the beginning of 2001 the company expanded its production and trade model of palm cultivation to Brazil.

International Food Standards (IFS)²⁸, the ISO 22000 (Food Quality Management), the HACCP²⁹ (Analysis and Control of Critical points) and the Business Alliance for Secure Commerce ³⁰(BASC) (INAEXPO, 2011). In this sense, INEXPO and PRONACA are companies that have achieved successful results for the Ecuadorian agribusiness sector showing the commitment they have to the country's development. It also shows, that both companies are committed to face the different challenges that Ecuadorian products have in international marketplaces.

4.3.1.2. Environmental Indicator or Dimension

This is the second most important indicator within the Sustainability Report of the company. In this context, the report shows that PRONACA has been developing various activities that reflect its commitment to the environmental protection. Environmental management is one of the main corporate strategies of PRONACA, and for this reason, its operations are based on good business practices and the responsible management of its resources in order to achieve sustainability (Avilés 2008, 38).

To accomplish this goal, the company implemented Mechanisms of Clean Production. 2011, was an important year for the consolidation of its environmental policies. Also, the responsible management of natural resources is a practice that has become an essential part of the organizational culture of PRONACA and all its branches (PRONACA 2011, 25). The company is a member of the Global Compact and in accordance to the principles 7, 8 and 9, PRONACA is working to reduce the emission of greenhouse gases. This is done in order to develop preventive approaches to face environmental challenges and to promote greater environmental responsibility and the use of technologies that are environmentally friendly (Avilés 2008, 39).

²⁸ The International Food Standard (IFS) is a food safety standard with a constant evaluation system used to qualify and select suppliers. It helps retailers ensure the food security of their products and monitors the quality level of producers.

²⁹ The Analysis and Control of Critical Points (HACCP) is a systematic and preventive process to ensure food safety to ensure in logical and objective manner.

³⁰ The Business Alliance for Secure Commerce is an international business alliance that promotes safe trade in cooperation with governments and international organizations.

To promote its environmental responsibility, the company has made technological changes in 6 of its operation centers. These changes seek to achieve a comprehensive environmental management based on the concepts of cleaner production. Until 2011, PRONACA stopped emitting 202,612 tons of carbon dioxide to the atmosphere. This process is annually evaluated by the United Nations Organization (PRONACA 2011, 25). In the same way, the company has an environmental policy based on the compliance with the current legal framework and it also uses environmental indicators to show its levels of consumption of energy, fuels and other materials.

These indicators are annually published in order to prove the progress and compliance with the environmental policy of the company. Also, the company has obtained 70 environmental certifications which represent a great progress in the environmental management of PRONACA. The company's management model includes various environmental initiatives as the company is permanently investing in the implementation and improvement of its environmental control and prevention systems. All these actions are carried out with the aim of optimizing the use of resources, minimizing the impact on water and air and improving the management of waste (PRONACA 2011, 27). In this context is important to explain some of the practices of the company regarding waste management:

- The inorganic waste that is not used internally is given to environmental agencies that are approved by local authorities.
- The organic waste that results from the production processes is converted into raw materials that are used in new production processes. Some of this waste is used for the production of fertilizers that are sold in the national market. These fertilizers are also used in plantations and gardens located inside the company.

Other activities that reflect the environmental commitment of this Ecuadorian company are the recycling and reusing of paper and the reforestation activities that are carried out by its employees. PRONACA has developed a program called 3R which refers to the reduction, reuse and recycle of paper, water and energy. The

company also brings employees and families together to take part in reforestation. This initiative is part of the corporate volunteer work that seeks to increase environmental awareness not only in employees but also in citizens.

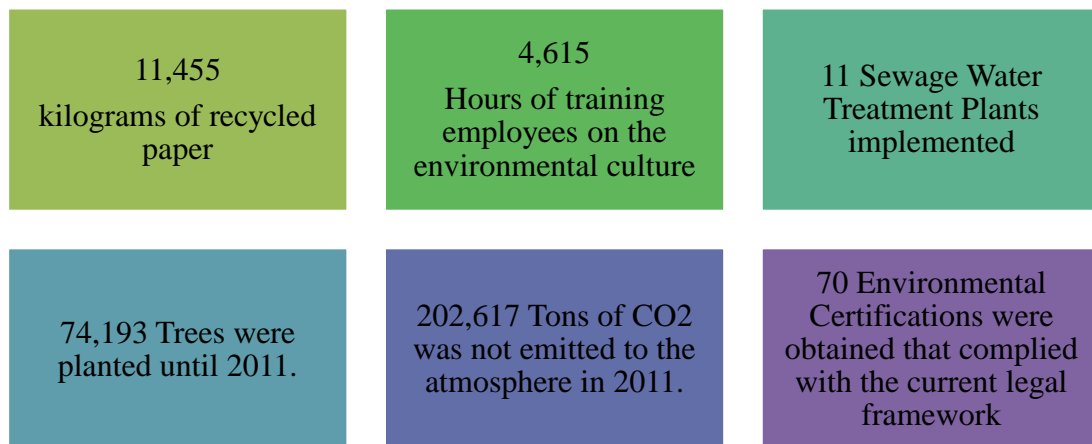
Finally, within this environmental dimension, one of the most successful strategies of the company regarding environmentally friendly practices is the creation of Treatment Plants of Sewage Water, which has been considered one of the most relevant aspects of the operation of PRONACA. This initiative has achieved the implementation of 11 modern systems of treatment in different production plants around the country.

Until 2011, the company invested almost \$10,154³¹ in these systems. This is an example of how to implement adequate environmental management that promotes the protection of the environment and its resources. These treatment plants use microbiological³² techniques in order to purify the sewage water. These techniques allow having purified water that fulfills all the requirements established by the current environmental regulations. The following graphic shows the achievements of PRONACA during 2011 regarding its responsible environmental management.

³¹ Corporate Social Responsibility Report. *Sustainability Report 2011*. PRONACA. URL: <http://www.pronaca.com/site/principal.jsp?arb=12>

³² Microbiological techniques are used to detect microorganisms in a sample in order to identify and quantify them.

Graphic 7 Environmental Management of PRONACA



Source: Sustainability Report of PRONACA 2011

By: María Elisa Pesántez M.

4.3.1.3. Social Dimension or Indicator

This third indicator shows the level of implementation of corporate social responsibility within a company. In this context, the Sustainability Report of this Ecuadorian Company explains that the commitment of PRONACA is focused on providing products of high quality that are also healthy, innovative and that have competitive prices (PRONACA 2011, 29). For this reason, during 2011 the company's positioning in the market was reinforced through the development of innovative products that have original and new appearances.

An example of this innovation process is that since June 2011, Ecuadorian consumers enjoy new Mr. Pollo products. These new products are more nutritious and cheaper and they are of higher quality. There was a greater acceptance in the marketplace which was reflected in the increase of sales of this brand (Bank Watch Ratings S.A 2011, 7). Also, PRONACA continues to work with the Program called "Socio Solidario" to which it provides different nutritious and high quality products that help address the basic food needs of Ecuadorians.

This strategy has allowed for the sales of the different brands to increase 35%³³ compared to the sales of 2010. It also increased the positioning of the products in the marketplace, and today there are in more than 36,900 point of sales around the country. Another initiative developed by the company in order to improve and diversify the daily menu of Ecuadorian families, was the creation of innovative recipes called TQMA.TV. (Te Queremos Mejor Alimentado). These recipes provide economic, nutritious and easy options for Ecuadorian families. PRONACA transmits these recipes on different TV channels around the country.

This initiative made consumption grow 8%³⁴ which reflects the commitment of PRONACA to its consumers as it provides high quality, reliable and profitable products (PRONACA 2011, 31). In this context, regarding the pet business, the company has built the PRONACA Research and Development Center of Nutrition and Pet Care. This was developed with an initial investment of \$1,000³⁵. The main objective of this center is to promote the research and development of new pet food that is more healthy and nutritious.

Also, with the main goal of fulfilling the requirements of product launching, PRONACA uses research tests to ensure that any product that comes to the market has at least 70% of consumer acceptance (PRONACA 2011, 31). All the products offered to consumers fulfill the requirements regarding labeling, safety and quality. All the labels of the company's products provide nutritional information, production and expiration dates, list of ingredients, price, and all the information requested by the current legal framework (Avilés 2008, 39).

PRONACA has also implemented an information Center for contacts and complaints. In 2011, PRONACA was able to manage in an appropriate manner all the complaints from its clients and consumers. This shows the commitment of the

³³ Corporate Social Responsibility Report. *Sustainability Report 2011*. PRONACA. URL: <http://www.pronaca.com/site/principal.jsp?arb=12>

³⁴ Corporate Social Responsibility Report. *Sustainability Report 2011*. PRONACA. URL: <http://www.pronaca.com/site/principal.jsp?arb=12>

³⁵ Corporate Social Responsibility Report. *Sustainability Report 2011*. PRONACA. URL: <http://www.pronaca.com/site/principal.jsp?arb=12>

company to provide high quality, healthy and safe products to consumers. PRONACA has implemented an efficient system to respond to the complaints and concerns of its consumers. Any person who wants to make suggestions or has a complaint can use the line 1-800 PRONACA and the web page www.pronaca.com

To ensure the compliance with national and international standards regarding food safety, PRONACA has implemented a system to control its raw materials, packaging and products. Also, its production plants have internal laboratories in which are analyzed the quality and safety levels of the products. The following chart shows the certifications obtained by the different productive sectors in which PRONACA operates.

Chart 4 PRONACA Certifications

Sector	Number of Certifications
Chicken incubators	3
Reproductive Poultry Farms	11
Poultry Farms	19
Turkey Farms	6
Pig Farms	16
Other Incubators	3
Processing Plants	25
Distribution Centers	1

Source: Sustainability Report of PRONACA 2011.

By: María Elisa Pesántez M.

An essential aspect that is taken into consideration by the company is the Product's Safety Control. This process includes scientific and technical analysis as well as a strict monitoring of the productive processes (Avilés 2008, 37). The various production plants of the company are still obtaining new certifications and have also implemented audit systems. In 2011, the audit scores achieved by the Distribution Centers located in the Coast and in the southern part of the country, on the implementation of Good Agricultural Practices and Good Manufacturing Practices stood out as they successfully applied these practices in their operations. In the same way, the suppliers of raw materials are required to present all the certifications obtained in order to ensure the safety of the materials that are used in the production processes (PRONACA 2011, 36).

The process of corporate social responsibility of PRONACA includes taking into consideration the welfare of animals involved in the productions processes. The special treatments provided during the stages of breeding, transportation and processing of poultry and pigs allow the stress levels of animals to be reduced. Also, the company controls the leisure time of animals before they are processed. Each one of these steps complies with standards that ensure an adequate care and treatment of animals. This also includes having clean housing and providing the adequate quantity of food and water to animals in order to obtain healthy and high quality products (PRONACA 2011, 40).

It is important to explain that these procedures also involve visit restriction, the use of exclusive farm clothes and equipment, obligatory showers and hand washing before entering any production center and the constant monitoring of the employees' health. All these measures are applied in order to avoid contamination risks. PRONACA has also implemented a System of Biosecurity and Animal Welfare for poultry farming and pig breeding. This system's main goal is to ensure the health and safety of animals which are the main element for the production of healthy food. These practices assure that all the animals raised in the farms are healthy and this ensures consumer health and safety.

An essential aspect included in the social indicator of PRONACA is the support of its employees and stakeholders. For this reason, the company respects human and labor rights and protects the safety and health of its employees. The company is also involved with the communities in which it operates and provides them with benefits. The company considers all these aspects as the most important factors to achieve sustainability. The performance of PRONACA regarding corporate social responsibility is based on the principle of respecting human rights. In this sense, the company's management is focused on a strategy called "People First". This strategy is based on the development of policies that promote favorable working conditions and that support the professional development of its collaborators (Avilés 2008, 36).

In 2011, the company through its social responsible actions employed 7,734 employees and 32% of these employees were concentrated in the coast region, 35% in the Highlands and 34% in Santo Domingo de los Tsáchilas (PRONACA 2011,

41). Regarding the aspect of training, the company's efforts and actions are focused on the development of human resources. For this reason, PRONACA has been working together with its employees to implement new plans that provide value added to the production processes and that also promote the professional growth of its employees.

Through its human resource department, the company develops Trainings Plans for its employees. In this sense, the company has achieved alliances with Educational Institutions and important Training Organizations so employees can get their Master's degree and Bachelor's degrees in the best universities or institutions. This training process seeks to ensure the successful professional development of all the company's employees. In 2011, PRONACA paid 70% of the training expenses and it also promotes training within the company (PRONACA 2011, 43).

One of the most important aspects of its social management is the implementation of a system of Continuous Training for its employees. This program is focused on the development of behavioral techniques and the proficiency of the employees by promoting the integral development of its employees in both its personal and professional spheres. It is important to explain, that PRONACA has valuable employees in the different regions of the country. For this reason, during 2011 the company researched the organizational environment and culture. This study called the Organizational Environment and Culture obtained significant results that helped improve the welfare of human resources that are part of the company (PRONACA 2011, 44).

Also, one of the main goals of the company is to work towards improving the quality of life for its employees. For this reason, the company has made great efforts to gain socio-economic data that would provide significant information about its employees and their families. To achieve this goal, PRONACA created a Social Work Team that is formed by 12 professionals that monitor the work environment of the employees and their families through the update of their information. This team offers services regarding issues such as how to improve the family environment. It also provides lectures on topics such as family violence, family economy and entrepreneurship.

PRONACA is committed to employing people with disabilities to promote and strengthen the respect and protection of the rights of this group. In this sense, before 2011, the company had successfully incorporated 275 employees with disabilities. In 2011, the company received from the Vice-presidency of Ecuador and the Ecuadorian General Foundation, a business award for its good practices of social and labor integration of people with disabilities (PRONACA 2011, 46).

Regarding the aspect of health and labor safety, the company focused its efforts on the management and control of accidents to prevent their occurrence. For this reason, PRONACA developed campaigns promoting safety within the company. They used safety and emergency instructions as one strategy to prevent accidents. The result was a year without major accidents and it increased awareness among their employees as to the importance of safety and health protection (PRONACA 2011, 50).

PRONACA contributes to the positioning of Corporate Social Responsibility in Ecuador as it maintains positive relationships with all its stakeholders. In 2011, the company worked together with the Global Compact Network, CERES, and the Business Council for Sustainable Development in Ecuador, in order to strengthen and promote corporate social responsibility practices in Ecuadorian society (PRONACA 2011, 54). In the same year, the company exchanged experiences and knowledge with other companies in the public and private sectors in order to promote the importance of achieving business sustainability. PRONACA promoted cooperation by maintaining communication with organizations and unions that represent the industrial and business sectors.

The company has also developed positive relationships with the communities that are involved and affected by its activities. In 2011, the company made great efforts to maintain good relationships with the different groups involved in the production processes. In this sense, the company's management is based on the joint work between employees and managers. Also, the information regarding the company's performance is at the disposal of all the stakeholders so they can evaluate the actions carried out by PRONACA.

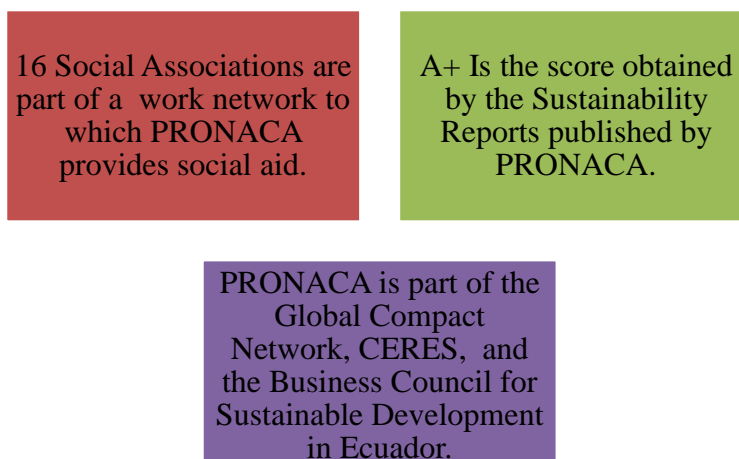
These practices were reinforced by company visits to the production plants of PRONACA. Also, the communication channels with communities and interest groups were strengthened. PRONACA is committed to the welfare and safety of the communities and stakeholders and for this reason, the company provides training seminars to the owners of small businesses regarding the production and processing of food. The main goal of this training process is to achieve the implementation of Good Agricultural Practices and Good Manufacturing Practices among small businesses so they can obtain high quality products.

Within this social indicator the contribution of the company towards the educational system of the country is included. The company has developed educational programs that are implemented through the San Luis Foundation. In order to take advantage of the experience the company has in the food industry, the San Luis Foundation has developed programs of food donation with other organizations and foundations that provide social aid. This aid is provided to 25 public dining rooms and it benefits approximately 3,200 people, the majority being children (PRONACA 2011, 58).

Because PRONACA is committed to the educational system in rural areas and to the supply of food for people with limited resources, it has focused on providing and promoting the training of small entrepreneurs, the use of new technologies, and the motivation of employees that help and promote San Luis Foundation activities. The educational model developed by San Luis Foundation has allowed it to build new educative institutions that are named San Juan de Bucay and San Pedro de Valle Hermoso (PRONACA 2011, 59). These centers offer primary and secondary schooling for the employees' children and also for the children of nearby communities.

To complete the analysis of the Sustainability Report of the company the following graphics show relevant information of the company regarding its social actions, employment creation, and also the relationships with its stakeholders.

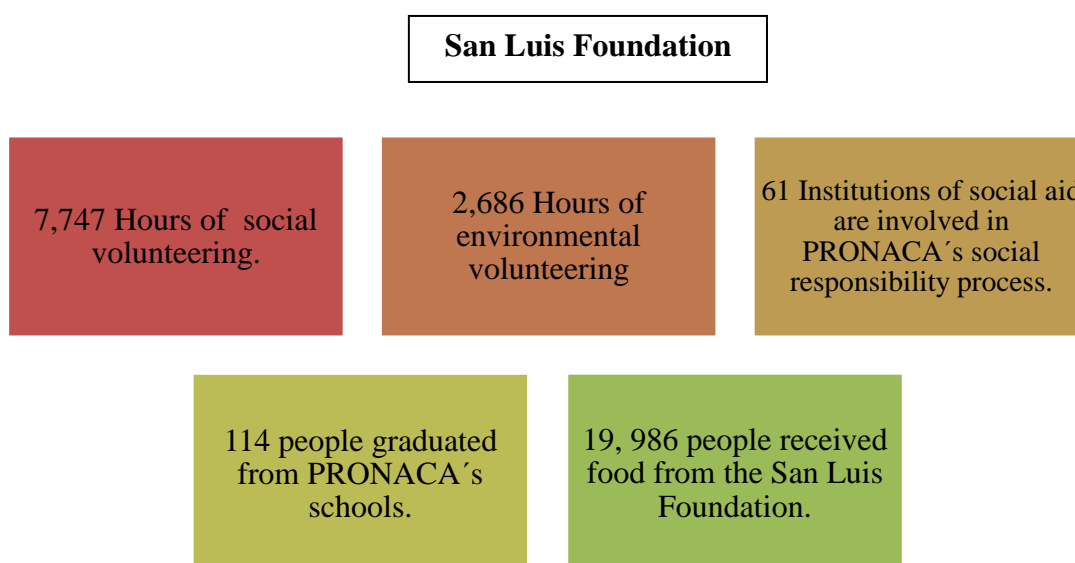
Graphic 8 PRONACA'S Relationships with the stakeholders



Source: Sustainability Report of PRONACA 2011.

By: María Elisa Pesántez M.

Graphic 9 Social Aid of PRONACA



Source: Sustainability Report of PRONACA 2011.

By: María Elisa Pesántez M.

PRONACA has become an example of a successful Ecuadorian company in the agribusiness sector. All its achievements reflect that an adequate economic, social and environmental management allows the company to not only be competitive in its market place but also to be a socially responsible company. This also allows the company to benefit itself, the nearby communities, and the stakeholders that are

involved in its activities. The main goal is to improve the quality of life and the economic stability.

According to PRONACA (2012), the company has been recognized for its achievement regarding one of its main brands. Mr. Pollo became part of the Marketing Hall of Fame³⁶ in 2010, and it is now one of the 14 Ecuadorian brands that have achieved this recognition. The prefix Mr. is established in the consumers' mind as a synonym of quality, for this reason this prefix has been used for other products like Mr. Chanco, Mr. Cook and Mr. Fish.

According to the interview that was done in 2010 with Gabriel Calderón, Executive Director of the Marketing Hall of Fame in Ecuador, what has allowed the brand to achieve this recognition was not only its individual characteristics but the combination of all of them. This means that the brand fulfills all the selection criteria that include leadership, innovation, professionalism, trajectory of the products and consumer protection. Quoting Calderón (2010):

“For the brand and the people behind it, this recognizes the daily work and effort that is involved in the development and maintenance of the brand. Being part of the Marketing Hall of Fame is a great responsibility for the company regarding its consumers, owners and collaborators, as it obligates the company to maintain and improve all the characteristics that take the brand to this position of honor”.

³⁶ It is a distinction created by the “The American Marketing Association” of New York and it distinguishes the brands that have attained a position as the best and have stand out from the rest through the implementation of innovative strategies and practices in the area of business marketing.

4.4. Background of the Ecuadorian Company La Fabril



La Fabril is an Ecuadorian company that began its industrial operations in 1966 as cotton seller and later it extended to the agribusiness sector in 1978 as a refiner of oil and vegetable fat. In 1981, the company focused on the independent management of its raw materials by integrating two companies that worked in the production and extraction of palm oil. Finally in 1983, La Fabril included in its production plans the production of soap and related products (La Fabril, 2010).

In the 90s La Fabril created the first Center of Research and Development of Oil and Vegetable fat in the country. This center develops oil products with high nutritional value like substitutes of cocoa butter made with palm oil ingredients. Thanks to the alliances with new clients, La Fabril started the development of innovative oil products that fulfill specific requirements which allowed the company to have a better positioning in the marketplace.

In the same way, the company promoted the diversification of its business by opening a plastic factory mainly dedicated to the production of its own containers and packaging for oil, butter and margarines. Along with this, the company developed a cleaning product line, and La Fabril rapidly developed innovative products for this sector. Also, the company created a plant for oil refining which is considered the most modern in Latin American and along with this the plant for soap production began its operation (La Fabril 2010).

Because of the high quality of its products, in 1991 La Fabril accessed the international market having as its most important clients some of the most prestigious companies such as FritoLay, Nestle, Carozzi, Watt's, Danica, among others. The exportations of the company are sent to countries such as USA, Brasil,

Argentina, Venezuela, Colombia, Panamá, Perú, Chile, México, Jamaica and Uruguay (La Fabril, 2010). The company has been having a sustained growing rate during the last 20 years, for this reason; in 2002 the company acquired the Unilever Best Foods Business of oil and vegetable fat, this included brands such as La Favorita, La Favorita Light, Criollo, La Favorita Achiote and the margarine brands Marva and Hojaldrina.

The high quality of its products, its research process and its sustained growing policy has made La Fabril the biggest company in the oil and fat industry in Ecuador. Also, the company has become an important group in the oleaginous industry of Latin America. In the last few years, La Fabril has become one of the 17 companies that are considered the biggest in the country and La Fabril has confirmed its leadership by opening in Montecristi (Manabí Province), the biggest Oleaginous Refiner Complex of the Andean Region.

This has allowed the company to become the first corporation in South America that uses the technology of “Sublimation” in the process of refining oil which permits the preservation of the beneficial compounds of natural oils and removes the Trans fats. La Fabril is the national leader in the production of oils and cleaning products, and it also produces supplies for bread making, pastry making, ice creams and coverings, chocolate substitutes, oil for fried food and canned products. In the soap industry, the company is also leading the production and selling of soap products and its derivatives and it also offers distinguished products that satisfy the needs of Ecuadorian consumers.

Within La Fabril the corporate social responsibility process is a main pillar of its management and it is also part of the commercial, productive, technological, financial, and social processes. This company manages its business model in a responsible, transparent and sustainable manner in order to follow its corporate values and achieve more confidence from its stakeholders.

The process of corporate social responsibility in La Fabril takes into consideration the expectations and needs of all its stakeholders, and for this reason, La Fabril has implemented a socially responsible management in order to become a good corporate

citizen. This company seeks to become a strategic partner in Ecuador's development that works to improve the quality of life of its employees, its communities, its suppliers and its clients. This is combined with the protection of the environment, the compliance with the law and the concern for the welfare of future generations.

4.4.1 Sustainability Report of La Fabril (2010) and its key points

La Fabril published its Sustainability Report in 2010. According to the information provided by the company, its last report will be published in 2013. For this reason, the analysis of this report is based on the achievements of the company on corporate social responsibility during 2010. It is important to note that the company does not develop its sustainability report according to the Global Reporting Initiative Indicators. However, the report of the company is also based on its economic performance, its social actions towards the community and its activities for the protection of the environment. The following analysis of the report provides an explanation of each of the aspects involved on it.

4.4.1.1. Economic Performance

According to the Sustainability Report of 2010, La Fabril considers that one of the main pillars for its development is the value it provides to its shareholders. As a result of this, the profits of the company continue to increase generating economic returns to society. This is a result of the efficiency in each of the activities and operations carried out by the company. Also, La Fabril has new financing alternatives that led the company in 2009, to issue in the stock market obtaining an AA score for its shares (La Fabril 2010, 12).

Also, the company in order to improve its economic performance has included new processes for the development of new products. For this reason, the company created a specific department that is in charge of this innovation process. This process is characterized for being multifunctional and it also defines and establishes the guidelines for the development of new and sustainable products (La Fabril 2010, 36). In this sense, the new products of the company are focused on protecting the health of consumers as well as addressing the needs they have.

Within the food section of the company some of the new products such as baby oils which are rich in Omega can be named. These oil products were launched in 2009 together with other 6 products that help mothers in their daily activities. These new products also allow improving the nutritional deficiencies of the population (La Fabril 2010, 37). In this sense, the company has developed a program of healthy fats for its bread making line products. This program has helped the company to become one the best corporations in improving the quantity of fat that is part of the daily diet. This is considered a benefit especially for products like bread that are consumed almost every day.

Regarding its productive processes, the innovation implemented by La Fabril allowed it to create the Research Center of Oil and Fat which permitted the company to achieve a higher competitive advantage. This has also permitted the development of 26 new products and the modification of existing ones in order to fulfill certain functional requirements. This has demonstrated to the market the innovation capacity of the company (La Fabril 2010, 37). An example of this process is the hygiene and personal care lines where La Fabril has developed new hygiene products for clothes cleaning such as the Perla Soft soap. This product is destined to treat and clean delicate clothes, especially baby clothes. This innovative product has achieved high sales levels in the marketplace.

According to La Fabril (2010), the company's competitiveness is based on the socio-economic progress of its strategic allies in the value chain of the value chain. For this reason, the company promotes inclusive businesses that involve the most sensitive and less developed sectors such as the small palm farmers and the community (41). An example of this involvement is the Associative Project of Palm Oil (PAPA) that is developed through Energy & Palma³⁷, a company that is part of La Fabril. This project began with the support of the National Finance Corporation, the Farmers Association (UTENAC) and the Ministry of Agriculture and Farming (Energy & Palma, 2008).

³⁷ Energy & Palma is an Ecuadorian company located in the Province of Esmeraldas. This company operates in the agribusiness sector and has a strong social and environmental responsibility. This company seeks to benefit all the communities and areas that are involved in its operation.

The promotion and development of this palm oil project has improved the quality of life of more than 200 families in the cities of San Lorenzo, Eloy Alfaro y Río Verde which are zones with high levels of poverty (La Fabril 2010, 42). According to the Sustainability Report of the company, some of the benefits for the people that participate in this project are:

- Access to financing for the development of the program and access to knowledge, technical assistance and technologies for the cultivation processes.
- Constant control and monitoring of the production process.
- The participants use the same fertilizers, technical knowledge and technology as a company with high experience in the marketplace.

Along with this, the efforts of La Fabril to support inclusive businesses have permitted the achievement of many benefits as well as helped the company to achieve the objectives established for this palm oil project. The following graphic shows the community and corporate benefits that were obtained:

Graphic 10 Benefits of the Inclusive Business of La Fabril

Benefits for the community	Benefits for the company
<ul style="list-style-type: none"> •Fair prices and weight • Positioning in the market place to sell the products •Creation of employment. •Training and Technical Assistance •Technology Transfer •Access to financing •Good business and investement environment 	<ul style="list-style-type: none"> •Security in the supply chain •Quality control of raw materials • Less transactional costs •Risks are shared •Access to local networks •Establishment of fair trade

Source: Sustainability Report of La Fabril 2010.
By: María Elisa Pesántez M.

What is shown in the graphic is based on a policy that includes essential aspects such as fair prices, exact weight of the product, immediate payment, appropriate service and technology transfer to the suppliers. This strategy permitted La Fabril to establish a win-win relationship with the small and medium palm farmers that work in the Ecuadorian agricultural sector (La Fabril 2010, 43). Through its production plants named La Comuna, Tysai SA, Río Manso and Monterrey located in the palm growing zones of Santo Domingo, Esmeraldas and Los Ríos, the company has supported and promoted the sustainable growth of the palm industry. This has helped the company to become a strategic partner in the development of this Ecuadorian industry.

The project of Energy & Palma was developed by an Ecuadorian company and is located in San Lorenzo in the province of Esmeraldas. Its only shareholder is the Spanish company named Retos Energéticos S.I (Energy & Palma, 2008). This company produces red palm oil and generates renewable energy to be used worldwide. The company has fulfilled all the principles of sustainable ecological production, and by 2009 the company complied with all the international standards regarding efficient production. Today, it has 4000 employees who live in the zone where this project has been developed (La Fabril 2010, 46).

Regarding the aspect of renewable energy, Energy & Palma has designed a project of electric generation³⁸ which has the support of the Ecuadorian Government. This energy project will use the waste coming from the extraction of red oil. Through the implementation of leading technology this project will generate energy that would be used by the industrial complex of the company, and also provides energy for an important group of nearby communities (La Fabril 2010, 46). The company's main goal is to support the families of more than 1400 small independent palm producers by providing them assistance in the production of high quality palm oil.

It is important to note that the policies and strategies implemented by the company add value to the communities thus improving essential aspects such as education,

³⁸ This is a high efficient energy system in which it is simultaneously obtained energy (electricity) and thermal energy (heat) from primary energy. This primary energy is usually obtained by burning fossil fuels such as gas or oil.

health, security, infrastructure and economic stability. This allows the company to be involved with the community through the various programs it develops in order to improve all the aspects named above. Energy & Palma has also achieved the Environmental Certification “RSPO” (Roundtable on Sustainable Palm Oil)³⁹ thanks to its responsible environmental performance and its compliance with the norms established for obtaining these international environmental certification.

Finally, within the economic performance of the company the high quality and innovation of its products should be mentioned. All the products of the company have achieved quality certifications allowing the company to increase its sales levels as all the requirements of quality and consumer protection are fulfilled. In this sense, La Fabril considers its clients and consumers its main motivation and for this reason, the company is committed to the protection of their health and safety. In this sense, the company complies with quality standards and this has enabled La Fabril to access not only national markets but also international ones. Today, La Fabril sends its products to countries such as Argentina, Perú, Venezuela, Colombia, Cuba and the United States (La Fabril 2010, 40).

In 2008, the company obtained the INEN⁴⁰ quality labels for some of its products such as vegetable oils and soybean oils from the brands La Favorita, Sabrosón, Criollo and La Favorita Light. In the same year, in the month of November an audit for the company to maintain the ISO 9001:2000 certification regarding Quality Management Systems was carried out. This audit recommended the company to maintain this certification as it complies with all the requirements established. Finally, in December 2008 an audit regarding Good Manufacturing Practices (GMP) was carried out and its findings recommended giving the GMP certification to La Fabril. The company has also developed a new plan that includes the implementation of Good Agricultural Practices, Environmental responsibility and the preservation of

³⁹ Roundtable on Sustainable Palm Oil (RSPO) is a global initiative on sustainable palm oil which was formally established under the Article 60 of the Swiss Civil Code in April 2004. This nonprofit organization is formed by the representatives of the most important participants in the supply chain of palm oil such as cultivators, processors, traders, manufacturers of consumer goods, distributors, banks, investors and NGOs that defend the environment, the ecosystem conservation and the social development.

⁴⁰ It is the official body of Ecuador in charge of the standardization and certification processes.

natural resources and biodiversity. This plan also includes the responsible management of all the production process of the company (La Fabril 2010, 40).

4.4.1.2. Commitment to the environment

As it was explained earlier, La Fabril has achieved the RSPO certification which ensures the product quality and safety throughout the supply chain. This allows obtaining high quality palm oil that complies with environmental responsibility standards (La Fabril 2010, 29). The efforts of La Fabril to improve its operations have allowed it to comply with global standards regarding quality and environmental protection. As a result of its work the company has achieved the following international certification regarding the protection of the environment:

- **ISO 14001 (Environmental Management):** In April 2006 the company received this certification which was given to companies in the private or public sectors that implemented an Environmental Management Plan within their activities. In 2007 and 2008, two audits were carried out to assess the operating system, the degree of compliance with the norms established in the certification and the company performance.
- **Energy saving and waste management**

According to La Fabril (2010), its data on the consumption of water, energy and fuel shows a significant reduction even though the company has increased its production levels (30). Similarly, the management of supplies is carefully done in order to place all the materials in the storages that La Fabril has. In this sense, it is the responsibility of each of the employees to place the materials and waste in the adequate containers. Also, it is explained to the employees about the dangers that this waste can cause to the environment, and the economic and environmental benefits that are obtained if a proper recycling process is carried out.

It should be noted that it is the responsibility of the companies that are in charge of environmental management to report on the final disposition of the recyclable materials that are removed from the company. The materials that are considered

within the category of “dangerous waste” are stored at the company location and then are sent to the “Pro Environment” foundation for its processing as recyclable waste, non-recyclable waste and dangerous waste (La Fabril 2010, 32).

The following chart shows the quantity of waste generated in 2009 during the period of January to June. This waste generation is measured according to the production levels of the company.

Chart 5 Waste Generation of La Fabril

2009	Kilograms	Tons
Total Production	100'771.1717,66	100.771,18
Total waste generation	2'861.240	2861,24
Total waste generation/Production	2.84%	

Source: Sustainability Report of La Fabril 2010.

By: María Elisa Pesántez M.

La Fabril is also focused on the development of what they call Green Projects. These projects allow achieving positive results regarding the fair use of natural resources and the protection of the environment. Therefore, the company has developed various initiatives in order to achieve a better use of the resources and in many cases, a better use of the waste that result from its production activities (La Fabril 2010, 33). In this sense, the company developed the energy generation initiative which is based on the use of waste from tuna processing. This project is known as Renewable Energy & Energy Efficiency Promotion in International Cooperation (REPIC) and has made La Fabril to become a pioneer company in the country regarding the development of biofuels (La Fabril 2010, 33)

The main objective of this project is to promote the use of organic material (Biomass) that exists in the Province of Manabí for the generation of energy, especially by using tuna processing waste. Among the most important results that have been obtained from this project are the identification of opportunities for using organic waste, the use of new technology, the replacement of fossil fuels, the competitiveness achieved by the economic sectors involved and the improvement of the tuna industry. Also, all these aspects have increased the commitment of the

company to the protection and preservation of the environment and its natural resources (La Fabril 2010, 34).

4.4.1.3. Social Performance

The social aspect is the third main aspect of the Sustainability Report of La Fabril. The report explains that the success of the company is based on having capable and committed employees. For this reason, the company provides benefits and a stable, safe and friendly work environment that increases the sense of belonging and loyalty. In this sense, the profile of employees who have joined the company is diverse, as La Fabril has a policy that allows integrating different people thereby promoting respect for their beliefs and views. This encourages the learning and development process of each of the employees in both their professional and personal spheres (La Fabril 2010, 16).

The following chart shows the number of employees working in La Fabril according to their age range:

Chart 6 Staff of La Fabril

Age Range	Quantity of Employees	Percentage
18-25	283	17,78%
26-35	679	42,65%
36-45	430	27,01%
older than 45	200	12,56%
TOTAL	1592	100,00%

Source: Sustainability Repor of La Fabril 2010.

By: María Elisa Pesántez M.

La Fabril has included within its work team employees with disabilities, that instead of being unconnected to the organization enrich and give more value to the work that is done within the company. As a result, each year people with disabilities join La Fabril and today the company has 47 employees with disabilities. Each one of them is performing a specific role according to their strengths and talent (La Fabril 2010, 17). Along with this, there is a training and development process that the company offers in order to reinforce the talent of its employees and this also adds value to the work that is done.

Among the programs developed by the company to improve the performance of its employees are:

- **Soul Training:** La Fabril launched a new training program called Human Interaction and Better Quality of Life (Soul Training). This project has as a main objective to contribute to the employee's personal growth through lectures, advice and group dynamics that encourage the employee to think and analyze his current situation regarding his emotional, spiritual and family issues. This helps employees to take actions that would improve their lifestyle (La Fabril 2010, 18).
- **Domino Sales Program:** This plan is based on the methodology of coaching that seeks to improve the relationships between the sales team and the customer. This project teaches how to deal with certain fears that are the main obstacle for the achievement of goals and that also impede the integration of the team members. This plan is taught to managers, supervisors and sales chiefs and has achieved excellent results in the relationships with customers. It has also improved the working environment of the various departments and has also increased the sales rates (La Fabril 2010, 18).
- **Labor Conditions and Safety**

La Fabril is closely related to the concept of corporate social responsibility especially to create awareness of the importance of providing good working conditions to employees. The company seeks to improve the health and quality of life of its employees and this has allowed the achievement of a higher competitive advantage for the company. Therefore, La Fabril provides its employees the necessary resources to improve the working conditions and is concerned about their safety and health. This responsibility to protect employees extends to all the departments of the organization. The company develops different plans in order to identify risks and create prevention mechanisms that would protect employees from accidents (La Fabril 2010, 20).

In order to collect relevant information regarding risks and accidents, the company has developed an Accident Report. This consists of a technical system in which are defined the responsibilities and roles of all the personnel who work in the production plants of the company are defined (La Fabril 2010, 21). In this sense, the reports includes inspections that evaluate the risks before they cause accidents and it also identifies dangerous situations and develops corrective actions before accidents occur. This report allows having relevant information about the main causes of accidents and also shows which are the most effective strategies to prevent them.

Regarding the social responsibility practices of the company towards the community, the company has developed various programs in order to promote the community's development. These programs include Handicraft Courses for the families of the employees and involve bakery, pastry and beauty seminars for the wives, mothers and daughters of the employees. These seminars are usually developed on weekends so the employees' families can assist (La Fabril 2010, 25). These seminars have achieved successful results since when they are finished the company provides extra lectures on issues such as Entrepreneurship. These extra seminars provide the people who attended them with more tools so they can start new activities or businesses.

Likewise, La Fabril believes that education is a right that every human must have access to as it is the main pillar for the development of the country. For this reason, the company is socially committed to the integral educational development of their employees and their families. The company educational commitment was reflected in the construction of the Carlos González Artigas Díaz School which was completed 1994. This educational process not only meets legal and academic requirements but it also reinforces important values and principles in all the children that attend the school (La Fabril 2010, 25, 26).

Today, the company addresses some needs of the children such as uniforms, food and supplies. Through this educational initiative, the employees' children have been able to complete their primary education and many of them have continued their secondary education. According to La Fabril (2010), its report describes the feelings of the children who are part of the school and one of them expresses the following:

“During this time that I have the opportunity to live in my community, I've realized the importance of my education in the development of my future, I always dream that someday I could get to study college. I owe my primary education to the company and I want to give back my gratitude, for this reason I want to study more and become part of the company that saw me grow up” (26). Jean Carlos (son of one the employees of La Fabril)

Among other programs developed by the company stands out the project called “Clean Hands”. Through this program the company seeks to aware the community on the correct use of cleaning habits in order to prevent death and diseases in Ecuadorian children. This program's goal is to promote the implementation of hygiene practices with children such as washing their hands every day. For this purpose, the company has created children's characters and a series of activities such as puppets, group dynamics and the handover of educational material and hygiene kits in order to promote the protection of children's health (La Fabril 2010, 49, 50). Today, around 78,000 children have been benefited in all the places where this project is implemented such as the provinces of Loja, El Oro and Manabí. The company continues to implement this initiative as an instrument to establish itself as a good corporate citizen in Ecuador (La Fabril 2010, 50).

Finally, within this social balance the donations made by La Fabril to several institutions and organizations of various sectors stand out (La Fabril 2010, 52). Among the donations made by the company can be named the following:

- Donation of lights to the Ecuadorian Army Station.
- Donation of metal tanks for garbage collection to the school “Las Cumbres” in Portoviejo.
- Donation of different products for the preparation of Christmas dinners in different organizations.
- Each month the company donates food and cleaning products to institutions like the Foundation Crecer Feliz and the Foundation for the elderly in Manta.

The company also donates food to voluntary workers that provided aid to poor people in Manta.

To complete the analysis of this Ecuadorian company, it is necessary to refer to the recognition that La Fabril has achieved. In 2011, the company received the award called “Company with the best brand capital” which was given by the Ekos Corporation. This was the second year in which this award is given to the companies with the greater brand capital. The methodology used to select the best brands is the Brand Equity Index (BEI) that works together with the company Praxis from Chile. This process is audited by Deloitte & Touche from France (La Fabril, 2011).

La Fabril S.A. which produces oils, fats and their derivatives was an award-winner for two of its elite brands, La Favorita and Girasol. This award was given according to the results of 18,144 surveys carried out among 22 sectors of the Ecuadorian industry located in the most representative regions and that included all socioeconomic levels. 48 brands were nominated as their BEI index was representative compared to other brands existing in the different industries.

The company’s public relations office informed that the positioning of its brands is due not only to the innovation, quality and benefits that its products provide to the consumer but also to the excellent advertising campaign made by the company month to month. For this reason, the company obtained sixth place in this recognition that includes the best brands of the country.

4.5 CSR as a new business management model for the Agribusiness Industry in Ecuador

Once the agribusiness sector in Ecuador is analyzed, it is essential to understand the importance of this sector in the Ecuadorian economy as it is a country that bases its activities mainly on agriculture where small and medium producers have emerged. However, it should be noted that this sector still requires some improvements especially regarding the use of technology that would help improve the productivity and competitiveness of agribusiness activities. In this sense, various governments have developed laws and implemented plans to promote and protect the agribusiness

industry in Ecuador so this sector becomes a key industry not only in the national economy but also in the trade balance.

It is essential to explain, that several Ecuadorian products such as fruits, palm oil, flowers, natural fibers and others products are exported to different marketplaces, however; they still need to meet certain quality and safety requirements in order to access new international markets. Although the diverse Ecuadorian industries show some deficiencies, there are companies operating in the agribusiness sector that have achieved notable improvements by combining their business strategies with social responsibility practices. This has helped them to achieve greater competitiveness by implementing actions that focus not only on gaining economic benefits but also in achieving environmental and social improvements.

When each of the corporate social responsibility elements are combined, they provide to the company and its staff the productivity, competitiveness and quality needed not only to succeed in the local marketplace but also to expand into new international marketplaces. This is the case of the two companies analyzed, PRONACA and La Fabril, which have become a model to follow in the domestic industry, as they have developed a new business management model. This new model is based on providing added value through the implementation of corporate social responsibility practices. In this way, these companies have managed to reach international markets by offering innovative products combined with a socially responsible management.

The integration of this new discipline allows companies to improve their productive levels by creating a new corporate philosophy where all the stakeholders receive benefits and become part of the business decisions. Therefore, these aspects allow the transparency levels of the company to be much higher. Also, corporate social responsibility creates a greater awareness regarding the accountability process, the support to communities, the protection and respect of fundamental rights and the protection of the environment. Today, all these aspects characterize the market, the society and the consumers.

Being a socially responsible company means that the authorities that manage the various companies are aware that their operations could not give the expected results if they did not have the collaboration of human resources. In this sense, employees provide the company with their knowledge and talent so the business activities can be carried out. In addition, it is the community of customers and consumers that make the decision to buy and prefer certain products over others that allow a company to become a leader company in the marketplace.

In this sense, the analysis consisting of the sustainability reports of the two Ecuadorian companies show how their work is focused on social responsibility practices and is based on a corporate philosophy that includes values, commitment and combines social, environmental and economic aspects. These characteristics make a company a successful model of good business management that has to be followed by similar companies. In this sense, it is essential to note that in the last decade this discipline has become the main element in companies' daily activities and therefore, it has been established that a socially responsible company increases its reputation and consumers prefer to buy their products and services.

In order to confirm this statement, the Ecuadorian-American Chamber of Commerce together with other 13 organizations of the private and public sectors and the academy, conducted an investigation in Ecuador with the goal of determining the perception that Ecuadorian society has regarding socially responsible companies (Ekos and CERES, 2012). The Ecuadorian Consortium for Social Responsibility, CERES, published in its official web page the most important results of the investigation carried out by the Chamber of Commerce in June 2012. The report showed that 85% of the Ecuadorians that were polled consider that a socially responsible company is better than other companies, and 98% of the survey respondents said that it is important for companies to implement socially responsible practices in their operations (Ekos and CERES, 2012).

The investigation also showed that a company that has socially responsible practices can improve its sales levels of products or services as 94% of Ecuadorians would change their current product brands for one of a socially responsible company, and in the case of services, 88% of the survey respondents said that they would change their

current service brand for one of a company that has socially responsible practices (Ekos and CERES, 2012). Along with this, the investigation verified that people know about a socially responsible company through television advertising, newspapers or through friends and Ecuadorians have a partial idea of what this discipline involves.

This situation represents a great educational opportunity for companies as through their reports or advertising they can communicate to Ecuadorian consumers the companies' commitment to society, the environment and the stakeholders. Also, it is important to note that for small and medium size companies it is essential to implement socially responsible practices that would allow them to become more competitive in the national marketplace. Companies that implement a corporate social responsible process can also improve their performance in international markets. In this sense, becoming a good corporate citizen allows the creation of competitive advantages and adds value to the productive processes of companies.

CSR helps a company to introduce itself to other companies as an organization committed to the intellectual and professional development of its employees and with the economic and social development of the community. Also, an aspect that is very important today is the responsibility a company has to protect the environment which is the provider of all the resources that a company needs to function properly. Therefore, in all of Ecuadorian society and worldwide this new trend exists based on appreciating the social responsibility practices of national and foreign companies. Thus, CSR is an essential element to be considered in the implementation not only of marketing and communication strategies but also in the corporate philosophy and the values on which companies are based.

Within the context of social responsibility in the agribusiness sector, it should be emphasized that the application of Good Agricultural Practices is an essential tool for achieving higher levels of productivity and profitability. The implementation of GAP involves the use of new technology, knowledge and technical assistance that would improve the growth of the agribusiness sector. It is essential to note, that the compliance with labor rights is also included in the scope of GAP as these practices seek to provide training and new technologies for the people working in agribusiness

activities. Also, GAP promotes team work and they create greater awareness regarding the protection of the environment and natural resources.

The agribusiness sector creates employment for many people in the country. For this reason, it is essential for agribusiness companies to understand the concept of GAP and implement them in their production processes. These practices involve the quality control of supplies and products, and the use new technologies. Also, they include the compliance with the legal framework and the communication of the benefits achieved through the application of GAP. For this reason, it is essential that these practices are implemented in the agribusiness sector as they contribute to the process of corporate social responsibility of the companies that operate in this industry.

The concept of GAP is linked to the concept of corporate social responsibility, and it includes issues as diverse as farming practices, plague control, environmental protection programs, waste generation management and consumer protection. Thus, it is determined that Good Agricultural Practices are the base for achieving sustainable development in the agribusiness sector. Therefore, these practices can be defined simply as “doing things correctly and providing guarantees of this correct performance” (Hara and Cal 2007, 6).

In this sense, the agribusiness sector finds in the implementation of social responsibility an opportunity to grow and improve. Also, the obstacles that the agribusiness sector faces can be overcome if companies carry out actions that combine CSR and Good Agricultural Practices. This would allow companies to change and improve their production and selling methods. This also creates awareness of the importance of respecting each of the groups involved in the production processes. By doing so, the reputation of a company will improve as well as the level of loyalty of the company’s employees and other stakeholders, especially consumers

Certainly, corporate social responsibility becomes a new management model that should be implemented not only by agribusiness companies but by companies that operate in diverse industries. Thus, CSR becomes a strategy to achieve higher

competitiveness and productivity. If this discipline is implemented by small, medium or large agribusiness companies in combination with GAP, it allows companies to combine social, economic and environmental aspects. In this sense, the socially responsible actions of companies would provide benefits not only to the company but also to each of the stakeholders involved.

A socially responsible corporate philosophy based on sustainability contributes to the development of business ethics for any company that implements this discipline. Also, CSR improves the reputation of the company as it becomes an organization committed to the sustainable development of society. Finally, we can quote what Mancera (2013) explains regarding the implementation of CSR in the agribusiness sector. He says that in this sector, the CSR approach has great potential considering that its social environment is basically rural and it is in relationship with people that have unsatisfied needs and high poverty levels. Quoting his words:

“It is crucial to contribute to the training process of community enterprises that provide various services, and to give more value to the various groups involved in the production processes. This is an essential preliminary step that has to be supported by a socio-economic analysis of the environment in which the company works. This analysis has to be conducted by social scientists who are experts in rural development” (Mancera, 2013).

CHAPTER 5: SOCIAL RESPONSIBILITY AS COMPETITIVE ADVANTAGE

The final chapter of this thesis provides an analysis of the link between CSR and the competitive advantage and how this new management model enables companies to achieve a better positioning and a better corporate reputation. In this sense, it explains how this discipline creates a new business model that in the modern world is highly appreciated as it involves and creates greater respect, commitment and concern about important issues such as human rights, social aspects and the protection of the environment. In this sense, it is important to explain that the environment is the main provider of resources for the development of the company's activities.

Today, the pressure that many companies have, to adopt a socially responsible model becomes a great opportunity to promote innovation, commitment and values within the company. It is precisely nowadays, when companies require new combinations and strategies that facilitate their access to markets in a more competitive and socially responsible way (CEOE-CEPYME 2011, 28). The reasons why a company should adopt an ethical management system based on CSR guidelines, are based on the fact that there are market incentives that through the application of social responsible practices allow the achievement of competitive advantages.

The most responsible companies in the international and national scenes are those who are considered the most sustainable, this means, the companies that are generating more profitability and long-term benefits (CEOE-CEPYME 2011, 30). CSR allows expanding the strategic view of a company by not only focusing on the economic and financial spheres but also focusing on learning, managing and controlling essential variables that are included in the environmental and social dimensions of the company. In this sense, CSR becomes an effective response to the new demands of society and it also offers solutions to improve the typical business model that was based only on the economic and financial view.

5.1. Corporate Social Responsibility as a competitive advantage for companies

The need companies have to interact with their environment is not new as they are social entities that have to establish and maintain open dialogues in order to survive in the market. However, in recent years, what has changed is the degree of complexity and interaction they have acquired with the various interest groups that are present in the internal and external environment of companies (ECLAC 2008, 2). Today, companies regardless of their location, have to create channels of communication with their stakeholders since they are who invest capital, resources, time and confidence in the company and therefore, hope their expectations are satisfied as they seek to obtain benefits for the development of society.

In this sense, the implementation of CSR within a company creates competitive advantages in several aspects. One of them is that CSR makes visible the benefits not only of the company's social actions but also helps to achieve other aspects that are highly appreciated by society today. These aspects include innovation, reputation, transparency, providing true and updated information, creating confidence and a proactive and efficient communication process between the company and its stakeholders (CEOE-CEPYME 2011, 32).

Corporate reputation and corporate social responsibility are based on an ethical, transparent and appropriate behavior in order to respond properly to the expectations of the stakeholders of the company. It is precisely the relationships with these stakeholders or interest groups where the reputation of the company becomes an essential part of the business strategy and finds its rationale in the perceptions those stakeholders have of a company. In addition, the implementation of CSR practices affects the capability of companies to survive in a marketplace that is increasingly competitive and demanding (Alea García 2007, 8).

According to Reyno (2006), a company addresses its social responsibility as a tool to distinguish itself over its competitors. For this reason, the competitiveness of a company is based on a perspective that seeks to strengthen two main aspects (71):

- **Internal Competitiveness:** Companies work to achieve the highest efficiency of their resources such as employees, equipment, capital, and others in order to carry out their activities. This is done through responsible policies and management because of the effect they have over society and the environment.
- **External Competitiveness:** A company that complies with national and international standards and with the requirements of the marketplace, in which it operates, achieves differentiation, recognition and positioning as a responsible company.

Working to achieve external and internal competitiveness is mainly focused on providing the market a distinguishing element in terms of how to do things and how to become an innovative company. From this perspective, the goal is to attract consumers so they change their preferences for the products and services provided by a socially responsible company. These types of companies provide value added products that go beyond their basic characteristics and that cover the needs of consumers by making them contribute to the causes that the socially responsible company supports (Reyno 2006, 72).

This will allow the recognition of a brand and of the reputation of a company and it will also show that the activities of the company are based on socially responsible practices which become part of a distinguishing strategy. Thus, social responsibility becomes a new business management model, as any organization that bases its management on CSR guidelines can measure the impact of its decisions on society and the environment.

In this sense, CSR is developed by the company, based on the incentive to improve as an organization and to become part of society as a corporate citizen. Its implementation also means to work on creating advantages over similar companies that operate in the industry (Reyno 2006, 69). In the long term, obtaining quantitative and qualitative results for the company depend largely on the success with which the management is developed and the level of involvement the company has with society. Companies have to carry out their activities with the purpose of convincing

both the community and the markets, of the benefits and value that their responsible management provides.

From the point of view of competitiveness it is established that the value a socially responsible management provides is reflected in the following aspects:

- The differentiation a company achieves as it develops a management process that is different, innovative and in accordance with the evolution of a globalized market.
- The recognition that is given to the company that has developed in the marketplace, a positive corporate reputation as well as having the confidence of the interest groups or stakeholders of the company.
- The perception created by valued added products and services provided by responsible companies, benefits the company as well as the community and the environment.
- The opportunity to access new marketplaces as socially responsible companies complies with global regulations and standards in the labor, environmental and societal aspects.
- Respect for the environment ensuring sustainability and an efficient operation regarding the use of natural resources.

In this context CSR tools provide benefits that go beyond the purely economic aspects and they become an investment that meets the expectations of shareholders, owners and other stakeholders involved in the company (Reyno 2006, 74). By implementing a process of social responsibility as part of the business management, the company's attractiveness in the market increases and it becomes a key factor that directly influences the sustainability of businesses (ECLAC 2008, 2).

5.2. A new model of business activities and management through CSR

Today, the increase in the importance of CSR is based on the fact that the interrelationship between society and companies is much broader. This has caused strategies and business activities not only to achieve economic returns but also to provide benefits to all stakeholders involved (Alea García 2007, 10). In this sense, it should be emphasized that successful corporations are the ones who are concerned with essential aspects, such as product safety and working conditions. These elements help attract and retain customers, employees and investors (Reyno 2006, 39).

Also, companies have to focus on achieving an efficient use of land, water, energy and other natural resources with the aim of becoming more productive, combined with the compliance of the law and good corporate governance, commitment and innovation (Porter and Kramer 2006, 7). The mutual dependency between corporations and society means that business decisions and social policies must follow a principle based on providing shared value. That is, the strategies developed by companies should benefit both parties in order to achieve long-term prosperity for all stakeholders (Porter and Kramer 2006, 8).

To implement all these principles, a company should integrate a social perspective that allows it to guide its business strategy. Because today the environment in which companies operate has been modified by a number of factors such as financial scandals, environmental accidents and the effects of climate change, this has increased the commitment of companies to act with transparency. In this sense, society, investors and the community analyze much more carefully what companies actually say and do. This has forced organizations to change gradually in the way they operate (García-Marza 2007, 13).

Therefore, how companies interact with their stakeholders is completely different from what it was ten years ago. Today, it is expected and often required for companies to provide information on the effects that their activities produce in the long term to the environment and the community. It is also expected that this information is disseminated to all stakeholders (Porter and Kramer 2006, 9). Today,

many of the companies that have a corporate social responsibility model use the web as a channel to communicate their reliability and transparency. It is also the place where they demonstrate their corporate responsibility and also receive recognition for their work.

The responsibility of companies regarding social and environmental aspects has become a new model of business activity. At the same time, a voluntary standard has been established that involves providing reliable information as well as increasing the requirements companies must fulfill (Porter and Kramer 2006, 91). It is important to note that there is a worldwide initiative to develop sustainability reports that are most commonly used by companies for the publication of non- financial information. This has become a fundamental instrument that insures the coherence of the company's activities regarding sustainable development (ECLAC 2008, 3).

Corporate social responsibility represents a management model which is economically efficient as well as being concerned with the individual. This promotes the competitiveness and establishes a solid and sustainable relationship with the social and environmental spheres. This model has sufficient evidence to encourage companies to adopt it for their own benefit and for the benefit of their stakeholders. CSR can be implemented voluntarily without the imperative of the law. It is a model that goes beyond profit optimization and allows improving the deficiencies of an imperfect market (Schaeffler 2006, 3)

In the previous chapter the management model of the Ecuadorian companies PRONACA and La Fabril were studied. Their management is based on social responsibility practices showing that this discipline allows any company to improve their business activities. This is achieved through the application of various actions that give added value to a company, strong market positioning and a corporate reputation that is recognized not only nationally but also internationally. The case of the two Ecuadorian companies reflects the impact that social responsibility has on making a company much more competitive. This competitiveness was achieved by PRONACA and La Fabril in their new management model allowing them to achieve greater benefits in the agribusiness sector and reaching a better position in foreign markets through its social responsible work.

Even though the agribusiness sector in Ecuador still has obstacles, these two companies have been able to succeed by developing strategies that are not only financial but a combination of social, economic and environmental dimensions. This combination has enabled them to improve their business vision and has created awareness in their internal and external spheres on the importance of respecting human and labor rights as well as protecting the environment. The implementation of CSR strategies permits companies to work for communities and society so that they can benefit from the company's operation in order to improve their lifestyle and achieve sustainability.

From this, it can be determined that social responsibility allows companies to have a vision that goes beyond the financial aspect and seeks to provide benefits to the individual, to the collaborators of the company and to the community. Thus, this becomes a new form of economic activity that is aimed to achieve a higher social welfare and environmental protection. In this sense, the behavioral indicators of a responsible company are analyzed based on its external and internal activities (Alea García 2007, 4).

It is important to note that companies are not only economic centers and producers of goods and services, but they are also socializing entities in which values, morals and ethical patterns are created. Within companies, social and cultural processes are developed and for this reason, it is essential that in the implementation of corporate social responsibility strategies and initiatives, companies develop and promote an organizational culture and values that are consistent with the model of sustainability.

Among the values that have to be part of the management model are openness, participation, team work, cooperation, responsibility and democratic processes. These values must be supported by solidarity, commitment, justice, consensus, persistence, equity and honesty (Alea García 2007, 5). Thus CSR is probably one of the most complex challenges that corporate management has to face. To succeed in its implementation companies have to progress in a responsible manner and to work with other social and economic groups in order to achieve economic, social and environmental improvements (Alea García 2007, 7).

5.3. The long term legitimacy that CSR provides to companies

In order to understand the legitimacy that social responsibility provides, it is important to understand what legitimacy involves. In this sense, legitimate organizations are those who are desirable and accepted by society as their activities are aligned with the norms, beliefs, values and principles of the social system to which they belong (García-Marzá 2007, 4). Legitimacy plays an essential role in understanding the growth and survival of organizations. Therefore, it becomes an instrument that promotes access to other resources such as investors, customers, suppliers, distributors and employees (Díez, Blanco and Prado 2010, 3).

In this sense, legitimacy is related to the perception society has about the actions that an organization carries out regardless of its profitability levels. Thus, companies that carry out activities that are accepted by society and in accordance with established values and norms not only survive in the market but also are recognized by the society that has confidence and loyalty in the companies. This helps companies to improve their levels of growth, reputation and positioning (Díez, Blanco and Prado 2010, 5).

Companies have considered it essential to modify their business approach by strengthening their links with communities in order to understand their interests and meet their needs more efficiently. This new approach has changed the business vision. Today, companies have to balance their economic objectives with the expectations and interests of their stakeholders (ECLAC 2008, 3).

In this sense, it is important to note that companies have played an important role in the development of the communities where they operate through the donations and support they provide regarding education, welfare programs and cultural activities. However, the innovative element of social responsibility is that companies have learned that the interaction with their stakeholders provides an opportunity to improve their business model and the way in which they carry out their activities (Schaeffler 2010, 5).

Implementing a business model based on CSR which includes better and more participative corporate governance has improved the long-term results of the company and has increased the value of the organizations that implement CSR. Socially and environmentally responsible companies are able to improve the way in which they monitor and manage external risks that might affect their reputation, and transforms these risks into opportunities for improvement (Schaeffler 2010, 9).

Therefore, companies have understood that social responsibility requires commitments that go beyond compliance with the law in order to meet the expectations of society. Even though this CSR process still has a voluntary nature, companies have realized that this is an opportunity to achieve competitive advantages and legitimacy (Rivera and Malaver 2011, 15). CSR increases the value of a company, improves the business model and management and reduces a number of risks. All these aspects allow companies to increase their reputation and improve their participation in the domestic markets and also in the international markets.

Within the context of legitimacy, it is important to explain that social responsibility is closely related to the concept of the common good which is considered the sum of the social values of a community and is also something generated jointly by all those who form the society. Hence, companies that improve the common good reach higher levels of business legitimacy. From this perspective, it can be explained how business and society need each other, as society is the sum of all individuals that need agreements in order to function. An organization or company is the group of people who coordinate their actions in order to achieve objectives that would benefit society and the company itself (Rivera and Malaver 2011, 18).

In order to achieve success, companies require a healthy society that provides not only education, health care and job opportunities but also ensures consumer safety, an efficient use of public services and good governance. The existence of healthy societies allows an increase in the demand of products and services, and therefore increases the development of the country. This kind of society requires companies that create jobs, benefits, safe products and services.

Also, it is required that companies and organizations collaborate to protect the environment and to provide the community with opportunities for their development, thus achieving an improvement in the quality of life of all its stakeholders (Rivera and Malaver 2011, 19). The dependency between companies and society implies that social and business decisions are focused on the principle of added value which means to achieve benefits for all parties involved. In order to achieve this added value, companies must take into consideration the fact that they operate in a competitive environment and social conditions are part of it.

This competitive environment is divided into four main areas. In the first place, this environment requires the availability of human resources and adequate infrastructure. Secondly, the existence of regulations and incentives is necessary to promote competitiveness. In the third place, a growing demand of products and services is needed and finally, this competitive environment needs a policy to support the different industries (Porter and Kramer 2006, 12). However, these elements can only be achieved through the existence of social factors such as an educational system, anti-discrimination laws, adequate infrastructure and training processes.

It is important to note that in this mutual relationship between society and organizations, the common good is the link between society and organizations. It is also an asset of society that cannot be measured in quantitative terms. This common good also creates rights and duties for all those who are part of society. In this sense, a company should be responsible to each of the individuals and groups that are linked to the company's operation. This allows the common good to be preserved and also the company is recognized by society for the work it has done regarding the improvement of the quality of life of the stakeholders (Rivera and Malaver 2011, 19).

Corporate social responsibility allows a company to integrate a legitimizing factor within its management thus allowing it to be accepted by society. A legitimate company not only complies with local regulations but it is also concerned with meeting international standards on essential aspects such as human rights, anti-corruption, environmental protection and working conditions. All these aspects help a company to become a creator of sustainability, business ethics and value for society and not just an economic center.

In this sense, the two Ecuadorian companies analyzed, show that their socially responsible practices have helped them reach not only national but also international recognition for their work, and for making their collaborators feel part of the work and mission of the company. In this way, both companies have created a sense of belonging and loyalty because of the benefits they provide and the long term results they have achieved.

5.4. CSR outcomes in the labor, commercial, environmental and financial aspects

It is important to emphasize that social responsibility becomes a tool that allows a new model of management by achieving competitive advantages and value added. It also creates various benefits to improve essential aspects of a company. These benefits allow a company to develop successfully and to achieve the following results in different aspects.

5.4.1. Results in the labor aspect

According to Reyno (2006), the programs implemented for the company's employees allow better performance and provide greater incentive to fulfill the company's objectives. The value and consideration given to employees have a great influence on the habits and behaviors of employees which allow them to achieve the following results (103):

- **Reduce labor absenteeism and promote punctuality:** This allows the reduction of costs for the company because there is less absenteeism and tardiness.
- **Increased motivation for the development of tasks:** This translates into a greater willingness to perform daily tasks thus achieving higher levels of productivity and competitiveness, and creating a more efficient business system. Providing incentives allows increasing the sense of belonging as it recognizes the work done by the employees and provides fair remuneration. These aspects improve the creativity, communication and quality of work.

- **Achievement of commitments that go beyond the rewards:** The activities of a company are carried out not only for the financial incentive but also in response to the concern shown by the company of its employees. Such incentive is reflected in a reduction of mistakes and it also improves the quality of the activities carried out.
- **Attracting and retaining human resources:** Individuals find it attractive to work in a company that is committed to the professional development of its employees. This commitment reduces the staff rotation and the recruitment and training costs. It also attracts highly qualified staff that wants to join a company that is recognized in the community.

5.4.2. Results in the financial aspect

In this area, the implementation of CSR improves the financial performance of a company as it directly influences the operations of the company. CSR promotes and works on areas that were not covered before the integration of this discipline. In this sense, companies that have a commitment to ethical codes are more appreciated by their shareholders. The Dow Jones Index shows that companies that achieve sustainable development by balancing the environmental, economic, social and ethical aspects outdo other companies in the stock market (Reyno 2006, 107).

This improvement creates value which is perceived in the marketplace as value added for products and services. This also has an impact on the sales levels and the annual income of employees. In this sense, CSR provides the following financial benefits:

- **Attracts investments and allows greater access to capital:** In this sense, the company is recognized by the business and financial community for its socially responsible work. The financial community values organizations and projects that are also valued by society.
- **Reduce operating costs:** A company reduces its operating costs if it acts under social and environmental parameters. This allows the company's

decisions and business operations to not harm or impact the community and environment resulting in an increase in productivity and competitiveness.

- **Improve risk perception:** The development of socially responsible programs improves the business management. A company with strategic plans that benefits the community and shows how it operates reinforces the ethical and transparent aspects of business and benefits the marketplace. These are characteristics on which a socially responsible company is based. This new company vision and its responsible actions will be reflected in the financial market and will reflect a better value which will allow businesses to have more access to credit.

5.4.3. Results in the commercial aspect

In the commercial area, the efforts and communication strategies that the company implements to communicate its socially responsible performance to the consumers, results in the recognition of the company by society and the marketplace (García-Marzá 2007, 19). The benefits the company provides to its stakeholders results in the creation of a positive corporate reputation, a strong brand positioning and differentiation. These aspects reflect the values and ethical behavior of the company and allow the consumers to identify the company as socially responsible. This creates loyalty and confidence as consumers prefer companies that are concerned with social and environmental issues. The results in this area are the following:

- **Positive Corporate Reputation:** CSR allows creating a positive corporate image as a socially responsible company, basing its operations on values and integrity. This creates a commitment to the various stakeholders as well as respecting the individuals and the environment in which it operates.
- **Consumer Loyalty:** Consumers are attracted to companies that are socially responsible and for this reason they prefer their products and services. Consumers identify with the values and commitments that companies reflect and in turn this makes the consumers part of this new management model.

- **Positioning and brand differentiation:** A company that has socially responsible business practices is recognized and recommended to investors, customers and other stakeholders. Each of these groups allows the company to achieve differentiation in the marketplace, as its practices benefit society and the environment. Also companies achieve positioning and distinction because the media is constantly mentioning companies that are carrying out activities that are socially responsible.
- **Access to new markets:** The current economic environment is characterized by being more open and having more access to new markets through trade agreements that benefit companies. However, the different markets require the fulfillment of certain aspects regarding quality, environmental protection and labor laws. This shows that social awareness has increased and the desire to achieve economic growth in a sustainable way has become a priority. In this context, a socially responsible company takes a major role as it is based on ethical aspects and complies with international standards and certifications. This allows them to have a greater capability to access and operate in these new demanding marketplaces.

5.4.4. Results in the environmental aspect

Companies that work in activities that directly or indirectly impact the environment, will achieve benefits by operating under ethical values and respecting the environment and its resources. This creates environmental awareness in both the internal and external spheres of a company (Reyno 2006, 86). Some of the results obtained by companies that have an ecological awareness are the reduction of production costs, better quality and a higher level of innovation in products and services and an improvement in their corporate reputation. These results are achieved by the company because its production processes take into consideration the effects and impacts that they will cause in the environment (Reyno 2006, 87).

5.4.5. Results in the legal aspect

CSR reconciles the activities of the companies and the laws governing such activities. Because social responsibility is a voluntary process the pressure to comply with the laws decreases as outside influences are less important (Reyno 2006, 87). In addition, the control and assessment processes are reduced as there is a higher level of transparency in the information communicated by the company.

In this sense, there is a stronger emphasis on meeting the legal regulations regarding labor, consumer, environment and community aspects (Reyno 2006, 110). The benefits in this area are mainly based on the fact that the company is identified as transparent, with an ethical and respectful behavior and that it complies with the laws and regulations. Therefore, the company achieves legitimacy that can be maintained in the long term if the company remains socially responsible.

In this way, corporate social responsibility contributes to the development of society, to the protection of natural resources and to the environment as a whole. These aspects are considered, in economic terms, as an investment that provides medium and long term financial benefits and profits (Alea García 2007, 7). Social responsibility allows the company to achieve its objectives as well as acting ethically towards sustainable development.

Regarding the advantages of having a social responsibility model Alea García (2007) quotes:

“Social responsibility reduces operating costs, improves the brand image in the market and achieves greater identity and sense of belonging of the employees. This becomes the best business model not only with a short-term vision, but also for the future. The implementation of CSR programs improve the financial performance, increases the customer loyalty and increases the sales levels, productivity and quality. Thus, CSR improves the ability of a company to retain and recruit the best employees and facilitates the access of capital for companies” (10).

5.5. Integration of business and society

The movement in favor of corporate social responsibility is led by a combination of international companies and also by innovative small and medium size companies that want to achieve valued added. Historically, companies have been defensive regarding social and environmental issues. However, in recent years a large number of companies have begun to consider social responsibility as an opportunity to recover the trust of consumers. Also, companies have understood that CSR is essential to maintain their competitive advantage and long-term positioning (ECLAC 2008, 5).

Corporate social responsibility has proven to be a powerful factor in improving the local environment and has become a common field where governments, companies and communities can converge. In this sense, this new management model becomes a new way to behave and think. Implementing CSR is a decision that affects all the activities of the organization and that it must be reflected in the company's actions (Barco Sousa, 2010).

Today, the changing and globalized world and the different organizations and institutions that make up society have a common challenge: how to contribute to the improvement of the environment in which they are established? In order to achieve this objective, companies must develop and adopt values and commitments to society. It is important to note that in order to develop a correct social responsibility process, in the first place, it is necessary to know and understand the needs society has in order to carry out the activities that would address them (Rodríguez and Hernández, 2005).

Social responsibility becomes effective when an organization develops a complete and holistic awareness of itself, its environment and its own impact on the environment (Barco Sousa, 2010). It also means, developing a comprehensive and global organizational awareness that includes individuals, the ecosystem, employees, customers and suppliers. The company must be able to transmit to the whole institution the CSR process. This means, that all people in the organization should

understand what this new discipline involves and apply it to its daily activities (Rodríguez and Hernández, 2005).

The various social institutions, the community, the family, the government institutions, the business sector and other groups define society and each one of them has a specific function. Therefore, the work of each these groups would have an impact on society in order to improve the quality of life of all people (Rodríguez and Hernández, 2005). The key to success is to understand the dialectics⁴¹ that exist within the society as all its groups are interrelated.

Based on what has been explained, it is important for companies to work with all their stakeholders and to develop an inclusive corporate culture that allows stakeholders to understand that team work helps achieve a better quality of life and benefits all of them. A company, besides being an economic entity, is also a social unit that is formed by people and for people. It is part of society and for this reason; a company must support it and cannot be indifferent to its needs and expectations (Barco Sousa, 2010).

Society provides the company with the workforce, the consumer market, the education system, the media, the economic infrastructure and the legal framework in which to operate. A company receives much of its resources from society and there is interdependence between them that is essential. A company is an economic institution and also a social institution that works towards achieving sustainable development for society and the world (Barco Sousa, 2010).

From this perspective, society is able to demand certain behaviors and responsibilities from the companies. The first performance area of the company is the marketplace; this considers the way society answers the questions as to what goods to produce, how to produce these goods and who produces them. The marketplace is the tool that society uses to redistribute the resources it has. As a social institution, the company must protect the integrity and dignity of all its citizens (Barco Sousa, 2010).

⁴¹ It is a dialogue and discussion technique that is based on the exchange of arguments.

A socially responsible company defines its CSR program as a principle that guides its organizational culture and the company also aligns its strategies to that principle. Social responsibility is based on ethical principles, rather than moral ones, and these principles are the guidelines of its internal and external relationships with the community and the social environment (González 2012, 2). Within the process of CSR, what is considered positive is what creates benefits or adds value and is not harmful to the individuals, the family, the community, the environment or society.

CSR then becomes the basis for designing a strategic business plan and for creating a program that would address issues such as business ethics. It is necessary, that a company develops an ethical code that must govern the organization and be communicated to all the interest groups. CSR allows implementing a management philosophy that promotes human talent and welfare, the protection of the environment and supports the community.

However, one of the most important aspects achieved by CSR is developing an ethical philosophy and a responsible marketing strategy that allow the differentiation in the marketplace (González 2012, 3). Therefore, a company that implements this discipline bases its organizational culture on the principles of honesty, transparency and service. All its activities and actions are also based on these principles and are reflected in the quality of life of the community, the protection of the environment and the business ethics.

A company that implements this management model is one that will remain in time and that will also create value for itself and for all its stakeholders. In this sense, it is explained that social responsibility creates sustainability. A company or organization that is morally committed to the community is accepted by the community and it will want the company to be part of its development. According to the analysis that has been done and to the description quoted by Viteri (2009) on CSR, this discipline can be explained as follows:

“Social responsibility is the voluntary commitment of organizations to respond to the problems that it shares with its sphere of influence. Social responsibility helps a company identify the existing social, economic and environmental

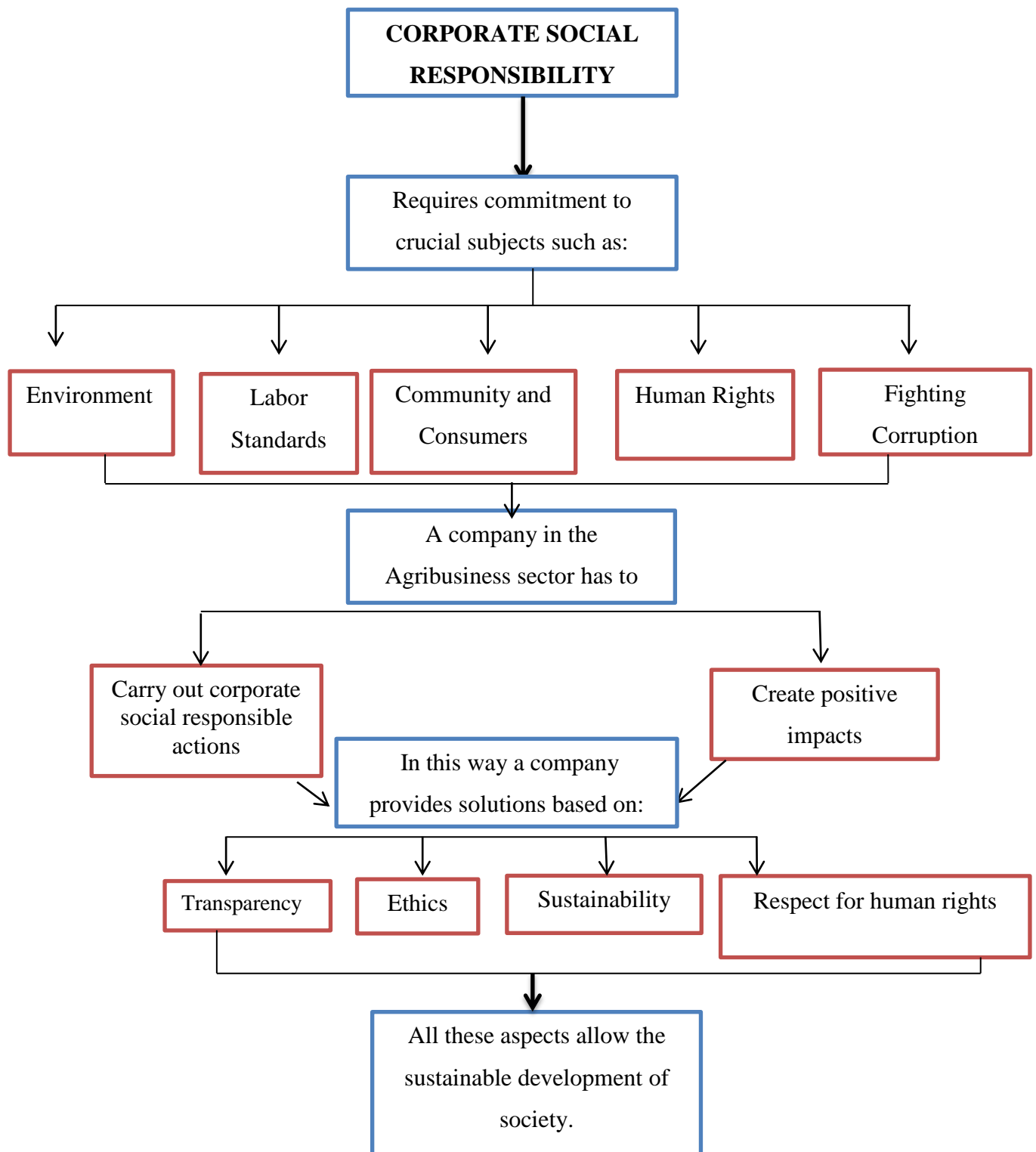
needs through the definition of strategies and policies as well as operational processes with its stakeholders. This allows achieving recognition, social acceptance and also promotes sustainability” (104).

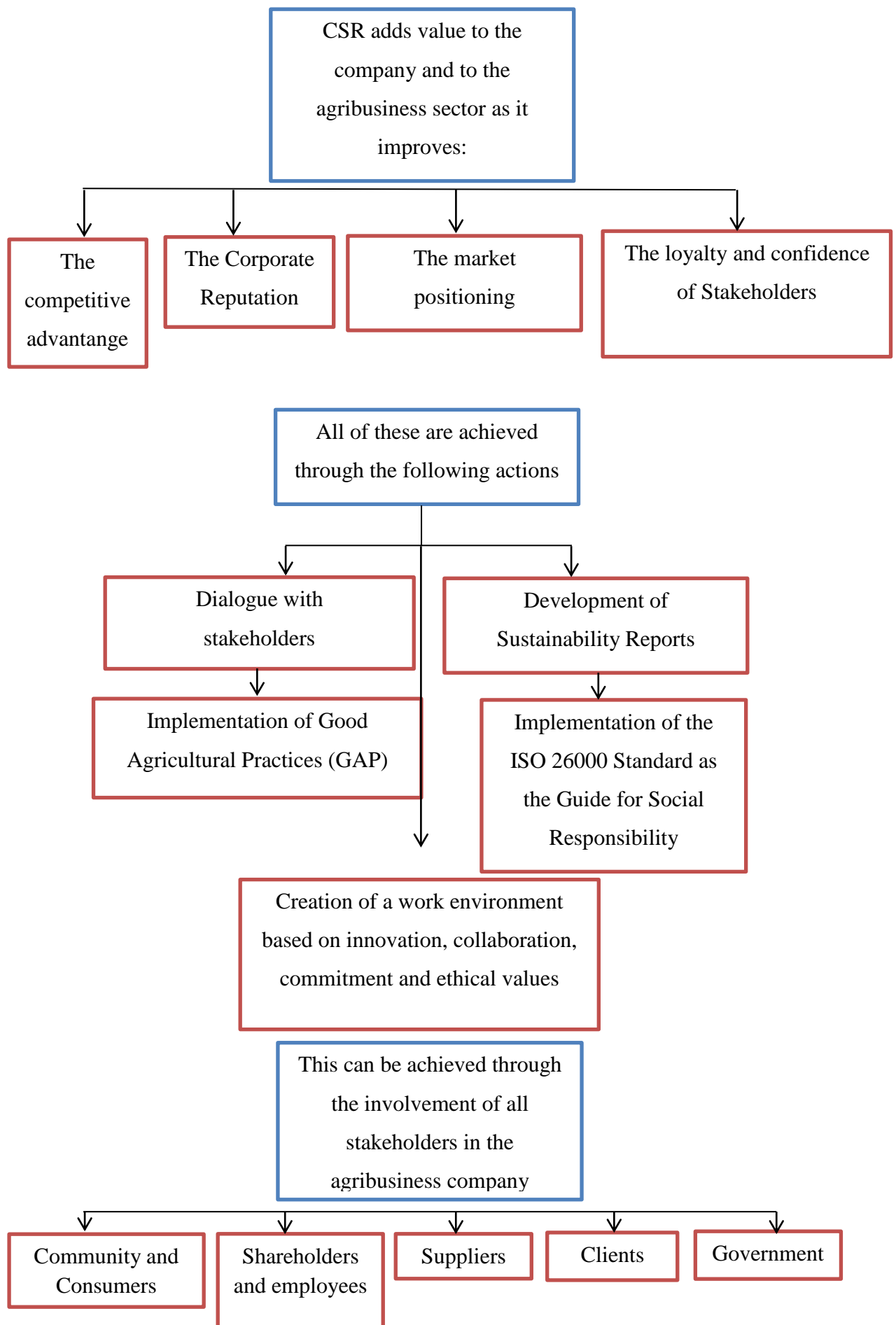
To complete the analysis done in the five chapters of this thesis, it is necessary to summarize the essential factors that allow the implementation of this new business management model based on social responsibility. This model can be applied in the Ecuadorian context for the improvement of companies that operate in the agribusiness sector and also for any other industry that seeks to achieve greater competitive advantages and sustainable development.

It is essential that companies that operate in different industries develop a positive and friendly attitude towards society. In the case of the agribusiness sector, it is essential to achieve a proper use of pesticides, fertilizers and chemicals in order to protect the health of the rural employees and farmers, as well as the health of individuals, consumers and communities located closer to the processing plants (Hara and Cal 2007, 5).

Business management based on social responsibility allows agribusiness companies to have products that are safer for the environment and human health. Therefore, the concept of corporate social responsibility in agribusiness is associated with the concept of Good Agricultural Practices. These practices are an indispensable element to promote human development in rural areas and in agribusiness activities as they include the respect and protection for the environment (Hara and Cal 2007, 6). The economic benefit, which is the immediate objective of a company, is reinforced through this CSR approach that ensures the long term growth of the company. This economic, human and environmental combination is the basis of sustainability and corporate social responsibility.

5.6. New Business Management Model based on Corporate Social Responsibility





CONCLUSIONS AND RECOMMENDATIONS

Once the analysis of the theoretical and practical framework of corporate social responsibility was done, it can be said that this new trend is taking a major role in the business world. Especially today, where a series of events such as corporate scandals, violation of human and labor rights, extortion and corruption have affected the image and reputation of many companies and this has led consumers and society to reject such conduct. Social responsibility is a discipline that has existed for many years, however, its areas of influence and the issues covered by this discipline have been refined over time in order to adapt to the needs and expectations of society. Today, society is characterized by having greater environmental awareness, fighting for human rights and demanding a more sustainable and just society.

Therefore, there are a number of initiatives at the national and international levels that seek to promote the implementation of social responsibility practices. The International Organization for Standardization (ISO) has provided companies and organizations with the standard ISO 26000 to be the guide to implement social responsibility. While this standard has a voluntary nature, it has become a norm for organizations to implement socially responsible actions that are based on principles of transparency, accountability, ethical behavior, respect for the interests of stakeholders, respect for international standards and above all respect for human rights. All these aspects include important groups of society such as industry, consumers, governments, workers and NGOs in order to address the needs and interests of each of them.

New organizations have emerged that promote social responsibility as well as initiatives that create a commitment for these organizations to implement this discipline. An example is the Global Compact of the United Nations to which many companies adhere to. Also, Ecuador through CERES has managed to have a local office of the Global Compact in the country in order to control the application of the Compact's principles in the companies that use social responsible management. Likewise, in the European context, the Green Paper is an important tool not only for the promotion of corporate social responsibility but also to create awareness of this discipline. This initiative seeks to improve the business activities so they can provide

benefits for the development of society and different groups. In the Ecuadorian context the Ecuadorian Consortium for Social Responsibility was created which has obtained great results regarding the dissemination and implementation of this discipline within the country. Today, many companies have joined the Consortium and have also subscribed to the Global Compact.

It is important to note that the Global Reporting Initiative (GRI) has become an instrument in increasing relevance among companies that want to be accountable to their stakeholders and to provide relevant information on issues such as financial, environmental and social performance. These reports allow companies to show to their interest groups the actions that reflect their commitment to the development of the community, the environmental preservation and the respect for human and labor rights. Regarding these aspects, is essential to explain that the Ecuadorian companies, PRONACA and La Fabril, have become an example of how to implement successfully a model of socially responsible management. These companies achieved a socially responsible model by implementing a communication process that informs the results achieved by the company and how they benefit the communities, the employees, the suppliers, the consumers and the environment.

PRONACA developed its sustainability reports based on the GRI indicators while La Fabril has been successful in developing its sustainability reports based on principles of transparency and ethics. This has allowed both companies to be recognized in the agribusiness marketplace. Along with this, both companies have shown that social responsibility is a new business management model that allows any company to combine its economic prosperity with positive actions that support sustainable development. This discipline also creates greater awareness in consumers, managers and other stakeholders in the importance of implementing socially responsible practices.

The analysis of the Ecuadorian agribusiness sector showed there are obstacles regarding the use of new technologies, productivity and competitiveness. It is essential to note that small, medium and large size companies can improve each one of these aspects if they implement socially responsible practices in its corporate philosophy. Thus, companies should base their mission and vision on ethical values

that allow them to be involved with its stakeholders. One of the main characteristics of corporate responsibility is dialogue. This permits the company and its stakeholders to be in contact and to understand the expectations, interests and needs of these interest groups. Also, by implementing this discipline companies not only comply with national laws but are committed to international standards of behavior and they become part of the international initiatives that respect human and labor rights and protect the environment.

CSR has created a social and environmental awareness and has become a new way to achieve competitive advantage, positioning and a better corporate reputation. Foremost, CSR allows achieving a greater involvement with the society. Today, society seeks new solutions to the existing problems not only made by governments but also by other organizations and companies that play a key role in society. In this way, it is suggested that a new management model is possible based on the principles, subjects and dimensions of social responsibility. In the case of the Ecuadorian agribusiness, CSR becomes an opportunity for change, improvement and development as was demonstrated by both national companies. It is important to note that any industry requires innovation and creativity in order to achieve high levels of productivity and competitiveness and CSR can provide both aspects.

There are still some deficiencies in the Ecuadorian agribusiness; the lack of support to this sector, the lack of new technologies, and the low levels of productivity and competitiveness. These obstacles haven't allowed companies to meet some of the requirements in international markets. For this reason, it is recommended the implementation of a process of social responsibility as a complement to the production and trading processes of companies that operate in the agribusiness sector. This industry's potential is very high and represents an important income in the economy of the country. For this reason, it would be essential that companies implement CSR practices within their business model so they can combine the social, environmental and economic dimensions. This will allow companies to be committed to each of these aspects and to carry out activities in which employees, consumers and community can be involved and can benefit from.

It is essential to give greater importance to the implementation of Good Agricultural Practices which promote environmental protection and allow the development of products that are safe for consumers. These practices also provide job security and protect the health of farmers that work in the agribusiness industry. All these aspects will create higher productivity and competitiveness while creating a greater sense of belonging to the company as it demonstrates commitment to each of its employees and the community. In this sense, the various Ecuadorian companies that operate in different industries must become part of initiatives and organizations that promote social responsibility in order to promote this discipline among the business sector and citizens. This would also help society understand the benefits that this new discipline provides and how it supports sustainable development.

Finally, the various existing initiatives at the national and international levels have created interest in this new discipline and have become an opportunity to address the challenges of a globalized world. This globalization phenomenon has created more marketplace requirements and consumers are much more aware of the need to achieve a sustainable society that will allow each of the individuals a better quality of life. Likewise, I believe that corporate social responsibility creates a greater awareness regarding companies' performance as it reduces the perception of companies as only being lucrative entities. CSR allows companies to be committed to the development of society and its groups and at the same time allows the development of a more sustainable world. All this combined with an efficient economic performance and the respect for the rights of each of the stakeholders allows the achievement of a successful socially responsible model.

ATTACHMENTS



UNIVERSITY OF AZUAY

FACULTAD OF LAW

SCHOOL OF INTERNATIONAL STUDIES

**Thesis submitted in partial fulfillment of the requirements for the Degree of
Bachelor of Arts in International Studies and Foreign Trade**

INTERVIEW #1

**THEME: SOCIAL RESPONSIBILITY AS A NEW MODEL OF BUSINESS
MANAGEMENT AND AS COMPETITIVE ADVANTAGE APPLIED TO
THE AGRIBUSINESS SECTOR IN ECUADOR**

Interviewee: Javier Mancera, Graduate in Anthropology with Master's Degree in Agricultural and Rural Development. He has worked on projects regarding the protection of the Amazon Region and has also worked with Indigenous people of Perú and Bolivia. Today, he is a consultant of conflict management in the Peruvian Amazon and Works for the Peruvian Ministry Board.

1. How could you define Corporate Social Responsibility?

Corporate Social Responsibility is understood as business management focused on achieving a harmonious coexistence and that also contributes to sustainable development. This discipline involves developing an analysis of the social, environmental and economic spheres of the company in order to improve these areas by implementing CSR.

2. Which are the main elements that any company has to take into consideration in order to implement a successful Corporate Social Responsibility process?

The essential elements of Corporate Social Responsibility are:

- Analysis of the environment
- Ethical Performance
- Active Participation
- Addressing the needs and problems of the community
- Commitment to sustainable development

Also, there are other requirements that companies must comply with in order to become socially responsible companies. These requirements involve the compliance with labor and environmental regulations, providing adequate working conditions (including incentives) and protecting employees' health and safety.

3. In which ways do you think that Corporate Social Responsibility can benefit a company?

Corporate social responsibility benefits companies that implement this discipline by increasing the prestige of the company as it shows concern for the social aspects beyond its lucrative objectives. In fact, CSR helps companies to have access to credit and improves its positioning in the marketplace. However, many companies use CSR just as tool to achieve these benefits without really implementing this discipline within the company. A correct CSR policy that includes well prepared CSR programs benefits in first place the stakeholders. In this sense, the main goal of a socially responsible company is to maintain a sustainable and harmonious link with the social environment in which it operates.

4. Do you believe that the concept of corporate social responsibility is known among consumers and other stakeholders?

Today, social responsibility is more a goal to accomplish rather than a reality. The various definitions of this discipline do not allow people to identify when a company is really implementing and acting as a socially responsible company. The truth is that there are many companies that have implemented this discipline and that have developed programs and departments in charge of promoting CSR and the various issues that it includes.

The concept of CSR is known among the media and certain groups that have learned about this discipline. In the case of companies that operate in rural areas, such as the agribusiness sector, the challenge is to teach this discipline among farmers and other groups involved in agricultural activities. More than just teaching definitions it is important that companies implement adequate CSR programs and apply all the principles and values involved in this new discipline. The main goal is that rural areas, mainly those involved in agricultural activities, implement CSR in their practices and production processes.

5. Do you think that the development of Sustainability Reports is an essential element to achieve a better communication process with the stakeholders?

I believe that the development of Sustainability Reports is more used among stakeholders that are located in urban areas as these groups are more educated and have more access to these reports. In rural areas, CSR programs are more appreciated and have more impact among groups that work in agricultural activities. Also, in rural areas the best way to transmit CSR practices is by using systems such as radio programs that have more impact.

6. Do you think there is a relationship among sustainable development and corporate social responsibility?

CSR has become an approach with great potential for the development of companies and its social environment. This discipline ensures a greater respect for labor, social and environmental rights. If CSR is implemented in an ethical way it provides benefits to society and to the company itself. The philosophy of a company must be the following: “If we show concern for the society and provide benefits to it, these benefits would improve the company’s management” In this sense, the programs and projects that are implemented in the framework of CSR must be characterized as sustainable. This should be achieved through actions that create value so that the investments made in CSR will empower the surrounding communities. In addition, it is necessary to change the management style, the transparency information policy and to encourage long-term commitments.

7. Regarding a specific industry, do you think that corporate social responsibility can become an essential tool for companies that operate in the Agribusiness sector so they can be more productive and competitive?

In the agribusiness sector, the CSR approach has great potential as its social environment is basically rural and it is in relationships with communities that have unsatisfied needs and high levels of poverty. For this reason, it is crucial to contribute to the training process of community enterprises that provide various services, and to give more value to the various groups involved in the production processes. This is an essential preliminary step that has to be supported by a socio-economic analysis of the environment in which the company works. This analysis has to be conducted by social scientists who are experts in rural development

8. Finally, what advice would you give to companies that want to implement CSR as part of their philosophy, strategies and management model?

I believe that companies of any kind must implement the process of CSR as an element to promote its development, not only internally but also for the improvement and development of its environment. It is essential to note that CSR has to be included as part of the company's strategies as the benefits it provides would create more positive effects for the management of the company and would also improve the results obtained by the company. This new discipline changes the vision of the company as organizations began to consider essential aspects as the social, environmental and labor spheres. It also allows the company to behave in an ethical way. Today, an ethical behavior is highly appreciated by society especially by consumers as socially responsible companies operate to achieve sustainable development.

INTERVIEW PRONACA # 2

Interviewee: Gabriel Calderón Executive Director of the Marketing Hall of Fame Ecuador.

MR. Pollo becomes part of the Marketing Hall of Fame

1. What is the Marketing Hall of Fame?

Marketing Hall of Fame® is a distinction that recognizes companies and brands that have achieved sustained growth over time in its corresponding marketplaces. Also, this distinction recognizes the brands that have improved the marketing strategies by using innovation, professionalism and high quality.

2. How many years has the Marketing Hall of Fame been in Ecuador?

The American Marketing Association of New York created in 1993 the Marketing Hall of Fame®, and it is located in Ecuador since 2005.

3. How many Ecuadorian brands have become members of the Marketing Hall of Fame?

14 Ecuadorian brands are now members of the Marketing Hall of Fame, among them are: Cerveza Pilsener, Lotería Nacional, Pingüino, PRONACA, Marathon, Atún Real, Fybeca, Supermaxi, Porta, Deja, Toni, Mr. Pollo, Banco de Guayaquil and Nestlé.

4. What does a brand need in order to become part of the Hall of Fame?

The Marketing Hall of Fame is a distinction based on the analysis made by professionals of the marketing industry in Ecuador. For this reason, it is necessary that the creation and development of the brand is done in a technical and professional manner. It is also important for the brand to have relevant trajectory, leadership, consumer acceptance, among other aspects

5. Which are the selection criteria and who are the members of the jury?

Each year 3 new brands become members of Ecuador Hall of Fame. Two of them are Ecuadorian and one is foreign. The brand must comply with all or with the majority of the selection criteria. These selection criteria include:

- The Brand can be Ecuadorian or foreign.
- This distinction seeks to distinguish the marketing trajectory of a company and its brand.
- The brand must show effective and sustained success in the market. The brand must be a leading one in its category as a result of the correct use of marketing concepts and tools.

- The brand must have contributed to the development of marketing strategies in its country by using pioneering and innovative practices.
- Through its marketing process, the brand must have impacted positively on Ecuadorian society.
- The brand is considered an icon in its category, both in the industry and in everyday life, and it has to be integrated in the lifestyle of its consumers.

Regarding foreign brands, the selection criteria are applied according to the compliance with the following aspects: leadership, innovation, positioning and relationship with consumers.

The jury consists of the Nominating Committee, which determines each year the 10 Ecuadorian, or foreign brands that become the five finalists, and the Election Panel, which elects the three distinguished brands for each edition. Both groups are made up of professionals involved in the marketing industry and its different disciplines such as Marketing, Advertising, Market Research, Media, Academia, Consulting, among others.

6. Which were the characteristics that allowed Mr Pollo to be part of the Hall of Fame?

Rather than individual attributes, it is the combination of all its characteristics that allowed Mr. Pollo to achieve this distinction. In this sense, the brand has complied with the selection criteria such as leadership, innovation, professionalism, experience, and consumer protection.

7. Why it is important for the brand and for the consumers to be a member of the Hall of Fame?

For the brand and the people behind it, this recognizes the daily work and effort that is involved in the development and maintenance of the brand. Being part of the Marketing Hall of Fame is a great responsibility for the company regarding its consumers, owners and collaborators, as it obligates the company to maintain and improve all the characteristics that take the brand to this position of honor

Moreover, the brands that become part of the Hall of fame have a very important link with consumers. In this sense, these brands become part of their daily lives, and are brands that are constantly concerned about understanding the consumers' needs and work to address them

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