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Chair of Comparative Politics*

**The New Role of Private Sector in Tackling  
Social Issues through CSR Initiatives**

*MNCs and Best Practices of CSR to Reduce Social and Economic Inequalities*

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ACADEMIC YEAR: 2017/2018

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### ***Abstract***

The social challenges that characterize the world today are so big and complex that no one sector – government, business or civil society – can find the solution on their own. The role of the private sector has changed during the years as well as the degree of its responsibilities towards society but the potentials of CSR remains unexplored. This dissertation tries to analyse the extent to which nowadays the private sector is a central actor in tackling social issues and reducing inequalities and it attempts to stimulate reflections on which are the realistic possibilities for improvement and expansion of CSR in the current voluntary regulatory framework. The case study presents three CSR best practices, performed by leading Brazilian multinational corporations (MNCs), it shows how some companies actually managed to embed CSR into their core strategies and succeeded in reducing economic and social exclusion of local communities in Brazil.

### ***Abstract***

I grandi problemi che caratterizzano il mondo di oggi sono così grandi e complessi che nessun settore - governo, imprese o società civile - può trovarvi una soluzione da solo. Il ruolo del settore privato così e il grado delle sue responsabilità nei confronti della società è cambiato nel corso degli anni ma il potenziale della CSR rimane tuttavia inesplorato. Questa tesi cerca di analizzare fino a che punto il settore privato oggi sia un attore centrale nell'affrontare le questioni sociali e ridurre le disuguaglianze e intende stimolare riflessioni su quali siano le reali possibilità di miglioramento e di maggior coinvolgimento nella CSR nell'attuale regime di auto-regolamentazione. Il case study presenta tre esempi di Best Practices di CSR, realizzate da alcune delle principali multinazionali brasiliane, e mostra come alcune aziende siano effettivamente riuscite a incorporare la CSR nelle loro strategie ottenendo significativi risultati nella riduzione delle disuguaglianze economiche e sociali di alcune comunità locali in Brasile.

## ***Acknowledgments***

I would like to thank my supervisor, *Professor Leonardo Morlino*, for the support and encouragement he has given me during these months. Thank you for making me understand that the value of a research lies in the passion with which it was made. I would like to thank my co-supervisor, *Professor Efsio Gonario Espa*, and the members of the examination committee for their attention.

A special thank goes to all the people who have been there in these years:

To my parents *Emanuela and Claudio*, my point of reference and source of strength, encouragement and love. I owe you everything that I am and I dedicate to you all that I will be.

To my grandparents, *Elena and Paolo*, you support me with love always.

To my grandmother *Romana*, who is always present and protects me every day in my life.

To my aunt, *Laura*, my second mother and my second home.

To his uncles, *Antonio and Ilaria*, full members of the family.

To *Chiara and Alice*, best friends and companions of life, this exciting chapter of my life opened and closed with you. I cannot wait to see what the future will bring us and I am sure we will face it together.

To *Joao*, I was lucky enough to meet you and from that moment, you support and stand me every day. I hope you will continue to do it forever.

To *Matteo and Aurora*, my brothers in fact, thank you for always being my safe harbor.

To *Isabella, Claudia, Chiara, Enza and Ginevra*, special friends.

## ***Ringraziamenti***

Vorrei ringraziare il mio relatore, il *Professor Leonardo Morlino*, per il supporto e l'incoraggiamento che mi ha dato durante questi mesi. Grazie per avermi fatto capire che il valore di una ricerca sta nella passione che con cui è stata fatta. Vorrei inoltre ringraziare il mio co-supervisore, il *Professor Efsio Gonario Espa*, e i membri del comitato d'esame per la loro attenzione.

Un ringraziamento speciale va a tutte le persone che ci sono state in questi anni:

Ai miei genitori *Emanuela e Claudio*, mio punto di riferimento e fonte di forza, incoraggiamento e amore. A voi devo tutto ciò che sono e a voi dedico tutto ciò che sarò.

Ai miei nonni, *Elena e Paolo*, che mi supportano con affetto sempre.

Alla nonna *Romana*, che è sempre presente e mi protegge ogni giorno nella mia vita.

A mia zia, *Laura*, la mia seconda- madre e la mia seconda casa.

Agli zii di fatto, *Antonio e Ilaria*, membri a pieno titolo della famiglia.

A *Chiara e Alice*, migliori amiche e compagne di vita, con voi si apre e si chiude questo avvincente capitolo della mia vita. Non vedo l'ora di vedere cosa il futuro ci riserverà e sono sicura che sapremo

A *Joao*, che ho avuto la fortuna di incontrare e che da quel momento mi supporta e sopporta ogni giorno. Spero che continuerai a farlo per sempre.

A *Matteo e Aurora*, i miei fratelli di fatto, grazie per essere sempre il mio porto sicuro.

A *Isabella, Claudia, Chiara, Enza e Ginevra*, amiche speciali.

### ***List of Abbreviations***

BLIHR	Business Leaders Initiative on Human Rights
BRICS	Brazil, Russia, India, China and South Africa
CSR	Corporate Social Responsibility
FABs	Business Principles for Food and Agriculture
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
IFAD	Fund Agricultural Development Organization
ILO	International Labour Organization
ISO	International Organization for Standardization
MNC	Multinational Corporation
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
OHCHR	United Nations Commission on Human Rights
SDG	Sustainable Development Goals
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre Transnational Corporations
UNGC	United Nations Global Compact
UNHCR	United Nations High Commissioner for Refugees
UNODC	United Nations Office on Drugs and Crime
UNPRME	Principles for Responsible Executive Education
WEPs	Women's Empowerment Principles

## ***Introduction***

In the 21st century, businesses are expected to take on a more comprehensive role in the society than ever before. This is due to the fact that the public challenges that characterize the world today, nationally and globally, are too big and the resources and capacities to address them are too scarce and disintegrated that no one sector – government, business or civil society – can find the solution on their own. (Philipps, 2005)

A matter of interest is that, instead of assisting to a rearrangement of the status of business according to its new relevance in the current system, the responsibilities of the private sector in tackling social issues still rely on private regimes of CSR initiatives. This is particularly noteworthy in the case of Multinational Corporations (MNCs), whose power increased and whose governability simultaneously reduced because of their expansions in the global market. This dissertation retraces the development of the most famous CSR international initiatives and underlies their potentials and their limits. It analyses the difficulties these initiatives face to constitute an effective substitute to a binding international regulatory framework. The general consideration on the unexplored potentials of CSR in tackling social issues and on the necessity of a coral corporate endorsement to achieve significant results is especially appealing if applied to the Latin American experience. In a country like Brazil, where public institutions historically have never been able to deal with the difficult social issues characterizing the country, the private sector is even more compelled to assume greater responsibilities towards society and to face arduous challenges. Brazil is considered the leading country in Latin America in CSR: the number of Brazilian national companies involved into international CSR

initiatives or in self-regulatory practices is the highest in the region. While some Brazilian multinationals, presented in the next chapter, developed well-structured CSR programs to reduce economic and social exclusion of low-income local communities and managed to internalize CSR into their core corporate strategies, in general, only a limited adherence to CSR is present in the country.

### ***1.1 Problem statement***

The role of the private sector has changed as well as the degree of its social responsibilities towards communities in which companies work, especially in countries characterized by severe social problems. This is the consequence of a series of interrelated phenomena, such as the decline of State power, which increases the influence of companies on a wider range of issues: from the quality of lives of local communities and labor standards to environmental conditions. According to the bigger repercussions of business' actions, CSR cannot be conceived anymore by companies as a philanthropic activity but has to be internalized into the core company's strategies, in order to maximize its impact. Many companies joined international CSR initiatives like the UN Global Compact, engaged in reporting activities and introduced self-regulatory policies but all these efforts are weakened by the voluntary type and not enforceable nature of these activities, in addition to its limited engagement among companies. The findings from international and national CSR databases and from an analysis of a limited number of CSR initiatives implemented suggest that until the possibility of enforcing regulation on the matter and controlling its implementation will not become a real option, only a limited number of companies will pursue CSR as a vital objective for the company. Even though



Brazil is considered “the leading country of Latin America regarding CSR”, only multinational corporations and big companies seem to be active in this field; medium and small-sized companies demonstrated reduced involvement.

### ***1.2 Aim of the thesis***

The primary objective of this dissertation is showing how some CSR activities and projects reflect a real consciousness, from the private sector, of its new role in the society. The wider analysis will investigate the extent to which nowadays the private sector is a central actor in tackling social issues and reducing inequalities and will stimulate reflections on which are the realistic possibilities for improvement and expansion of CSR in the current voluntary framework. The analysis of the case studies instead will present the three CSR best practices and will show how some companies actually managed to embed CSR into their core strategies and their visions and how they succeeded in reducing economic and social exclusion of local communities.

### ***1.3 Research question***

The main research question in this dissertation is the following:

***Are Brazilian multinational companies assuming the new role and the greater responsibilities that private sector is urged to perform nowadays?***

The main research question is guided by three other questions:

- 1. What is the role of the private sector in tackling social issues?*
- 2. What are the current governance systems for regulating MNCs behaviors and responsibilities and how do they work?*
- 3. How are Brazilian multinationals implementing CSR initiatives?*

#### ***1.4 Structure of the dissertation***

The dissertation is organized as followed:

The introductory chapter above presents the theme of the research, the context of the analysis and the statement of the problem. Then the aim of the thesis and the research question are illustrated in this same outline of the dissertation.

In the first chapter “*What is CSR?*”, the concept of CSR is presented along with the problems related to its definition and to the development of its conceptualization over time, retracing its phases from the ‘50s to current times. The theoretical framework of the research is then introduced after a classification of the most famous theories on CSR. According to the findings encountered during the drafting of this theoretical first chapter, some suggestions for future opportunities for contributions are presented at the end of it.

The purpose of the second chapter “*Bases to CSR and related international initiatives*” is to examine how CSR is implemented and what are the existing initiatives on CSR at international level. The most known private regulatory regimes are explained and their weaknesses and strengths are analysed. The problematic issues identified during this recognition are extensively discussed and special attention is given to UN initiatives, in particular to the UN Global Compact.

The third chapter “*Brazilian Multinational Corporations and CSR within the Latin America experience*” presents the geographical reality of Latin America in the field of CSR, showing which role the private sector takes on in the region

and the specific position of Brazil, defined as “the leading country of Latin America in CSR”.

The fourth chapter of this dissertation “*Case Study: best practices of CSR in Brazil*” points out the elements that characterize successful CSR programs and focuses on the role of MNCs. CSR programs implemented by three Brazilian leading MNCs (Natura, Fibria and Embraer) are chosen as best practices and are analyzed in their objectives of reducing social and economic exclusion of local communities.

Finally, in the conclusive chapter, the findings are brought together in order to give an answer to the research question, identifying the contributions that the present dissertation gave to the field of CSR and pointing out the limits of this research. Suggestions and recommendations for further studies on the theme of CSR are made.

## 1. What is CSR?

*“The term [social responsibility] is a brilliant one; it means something, but not always the same thing, to everybody. To some it conveys the idea of legal responsibility or liability; to others, it means socially responsible behaviour in an ethical sense; to still others, the meaning transmitted is that of “responsible for,” in a causal mode; many simply equate it with a charitable contribution; some take it to mean socially conscious; many of those who embrace it most fervently see it as a mere synonym for “legitimacy,” in the context of “belonging” or being proper or valid; a few see it as a sort of fiduciary duty imposing higher standards of behaviour on businessmen than on citizens at large”*

(Votaw, 1972, p.25)

### ***Introduction to the chapter***

Defining “Corporate Social Responsibility” (hereinafter CSR in this dissertation) is not an easy operation because the concept has evolved and has assumed different connotations over the years. An extraordinary quantity of definitions has been formulated accordingly to different approaches and theories: scholars with different theoretical frameworks and multi-disciplinary backgrounds influenced its conceptualization emphasizing one aspect of the phenomenon more than others. The complexity of defining the issue is due to the variety of theories raised in different fields of study and to the fact that research methods used are varied. The way CSR is intended is affected by many elements: historical, economic, cultural and social factors greatly shape the vision of a country on the role that their agents have to play in the society and

regarding how social responsibilities should be redistributed. It is not necessary, however, to cross national borders to find different approaches to CSR: the way and the degree to which it is adopted can vary also within the same country, differing from firm to firm.

An important consideration about the specific national content of CSR is related to the fact that it reflects the role of the state in that area and consequently the roles of the other social actors. Countries in which the state historically performed a central role in providing social goods and services are less likely to rely on corporate initiatives; in places in which the state has played a much smaller social role, the private sector is more inclined to assume social responsibilities. This consideration helps to understand why the origin and the development of the first forms of CSR can be traced in the United States, a country that made of liberalism one its cornerstone. According to the World Business Council for Sustainable Development, “*no universally accepted definition of CSR exists*” as the concept of CSR is still undefined. Its barriers and fields of application keep appearing extremely confused in spite of its worldwide - recognized centrality. Undoubtedly, one of the main element of CSR is its “permanent mutable status”; a characteristic that allows CSR to be responsive to new challenges and assimilate new demands.

Re-elaborating the definition of Frederick on the issue, CSR is the expression of a corporation's level of moral development that guide the elaboration of socially responsible policies, decisions and programmes and that are the outcome of normative systems based on many factors like the culture, the religion, the education, etc. of a country. For these reasons, rather than providing some CSR definitions here, that would never be exhaustive nor would help in the definitional problem already mentioned, a historical review is going will be

presented in this part of the dissertation. Retracing how the definition of CSR changed over the years will be very interesting to understand the development of the concept of CSR in accordance with the mutation and evolution of our societies. The historical panoramic will start from 1950 to 2000.

### ***1.1 History of CSR development***

#### ***Before the '50s – The Profit-Maximizing Management Era***

The academic attention on the concept of CSR, as we are used to thinking about it nowadays, was formally introduced during the '50s. Nevertheless, the perception that companies had some responsibilities towards society emerged far earlier and from several examples that can be observed from the end of the nineteenth century. The two scholars Ed Gray and Robert Hay denominated the period from the end of nineteenth century to the second decade of twenty-century "Profit-maximizing management" because of the companies' explicit profit-oriented management characterized by the unrestricted economic and political power acquired by large corporations and by the occasional dimension of philanthropic social activities implemented by companies towards society. In this period, characterized by the model of mass production in fabrics and by the standardization of the work, big companies started to undertake activities that actually improved the living conditions of their workers, providing them with basic services and forms of welfare state. Business's concern in enhancing the development of social welfare was undoubtedly sustained by public opinion's pressure and by the rising of industrial welfare movement demanding fairer salaries and better working conditions to companies.

This is, anyway, a good starting point to understand how the concept of corporate social responsibility grown and how it reached its current worldwide institutionalization. At that time, the fundamental approach of these social activities was, on the external side, supporting charities or giving contributions to philanthropic initiatives while, on the internal side, providing to employees basic health services, clinics, and recreational facilities. In these years, business started to be aware of their responsibility towards society but also, it was a strategic decision taken to raise employees' productivity at work investing in their wealth. Literature categorizes this kind of conception of corporate responsibility as Corporate Philanthropy. It refers to the notion that the approach to CSR is linked to solidarity reasons and in form of sporadic, individual and voluntary contributions to the wellbeing of the society.

Most of the executives of that time did not recognize the long-term opportunities for a company in engaging in social development and in building positive relationships with the community. Instead, at the time the general consideration of CSR was that the logic of corporate contributions towards society was actually against the nature itself of the business: instituting services or redistributing money to people which were not company's stockholders was considered a "not appropriated" action for a business company, an appropriation of company's private resources. Just a few powerful executives from big companies undertook CSR activities before the '50s, and always as a personal, individual action performed for a sense of duty towards misfortunate people.

### ***From the '50s - Trusteeship Management Era***

According to Gray and Hay's temporal classification, the period following the Great Depression is called "Trusteeship management". C. Frederick identifies

three core elements of this temporal phase: the idea of managers as public trustee, the balancing of competing claims to corporate resources and business philanthropy as a model for corporate activities towards society. (Frederick, 2006) This new model of conceiving corporate responsibility arose from the social and economic changes that connoted the word after 1929 and consolidated in the first years of the Cold War. Recessions, losses, dramatic unemployment and the outbreak of the Second World War made executives rethink about the way of conducting businesses. Companies' managers understood that to gain new competitiveness and relaunching their business, they had to undertake a new approach more adherent to the muted society. The first step was starting behaving responsibly towards whole gamma of stakeholders of the society, for their operations, and at the same time foreseeing innovative methods to match corporate interests with the demands of the society. An important aspect to understand this process is the geopolitical situation of that time in the United States, where CSR was born. During the '50s, United States had to give legitimation to the world for the capitalistic industrial model: the rising of this new consciousness about business duties and responsibilities found its bases also in the American attempt to promote and defend free-market system against the threat of Communism.

*"Businessmen's first responsibilities is to sell the American system of free enterprise and the ideology on which it is based"* (Bowen, 1953, p.54)

As previously mentioned, the idea that companies had to be somehow socially responsible started to be diffused during the Industrial Revolution but, the first time the concept of CSR became the object of analysis and academic research was in 1953 with Howard Bowen. Considered by many scholars, among which Carroll, as the "Father of Corporate Social Responsibility", Bowen inaugurated



the era of conscious analysis on corporate responsibility with the publication of the book “Social Responsibility of Businessmen”. Focusing on a macro dimension of CSR’s possible outcomes, he tried to shape the link between companies and society’s demands.

*“The experience of the 'thirties, combined with worldwide tendencies towards social control and socialization of business, has led businessmen to think deeply about the conditions which must be met if the private-enterprise system is to continue as the basic economic organization of this country. They have seen clearly that private enterprise would be accepted and could continue only if it demonstrably served society better than any alternative system. Passionately sincere in their belief that the private-enterprise system is superior to alternatives, their problem has been to consider how business should be conducted if it is to serve society well, and how to demonstrate that business does, in fact, serve society well”* (Bowen, 1953).

This modern approach deals with the necessity of private sector to assume its responsibilities and claims that businessman should change their management models in accordance with the circumstances of their time in order to legitimize their roles and to vindicate the business vision of the western world against any other possible models. He realized that trying to shape a new conception of conducting business with CSR, a new model for companies, would have benefits the society in its all and at the same time would have to be the perfect answer to the many critics done towards capitalistic model regarding its failures during the ‘20s. For these reasons, Bowen writes: *“Businessmen must pursue those policies, to make those decisions, or to follow those lines of action, which are desirable in terms of the objectives and values of our society.”* (Bowen, 1953, p.6)

The concept of CSR and its applications were crucial in this redefining process: through CSR initiatives, big companies could play their part in correcting social inequalities and mitigating their power, showing that past errors could be avoided in future.

### ***From the '60s - Quality of Life Management Era***

The decade of 1960 is a significant period in the history of the development of CSR and in the temporal categorization presented by Hay and Gray this new phase is denominated “Quality of Life Management”. A new business consciousness arose, stimulated by the social movements and by the civil protests that were taking the international stage in those years. Companies felt the necessity of responding to new social demands and going beyond the previous limited efforts. The society was changing and the private sector had to redefine its role: the academic literature grows intensely addressing the duties of big companies to meet coherently public expectations. CSR remained during this decade relegated to the idea of a tribute and not something in which companies could invest structurally and in a long-term perspective. Still considered as a compensation from who holds the power to who does not, corporate philanthropy and contributions to local charities and to specific social causes remained the most practiced way of performing social actions. The conceptualization of CSR, despite the efforts for formalizing its existence and its nature, was still vague. Keith Davis, the most famous scholar of the decade defined CSR as “*Businessman’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest*” (Davis, 1960, p.70)

Davis added another element to his initial definition of CSR, broadening the perspective to the society in its all rather than to specific vulnerable individuals and introducing a completely new perspective in the history of CSR. He was the first to correlate the social responsibilities of the private sector with its economic power and its influence on the exterior.

*“Social responsibility moves one large step further by emphasizing institutional actions and their effect on the whole social system. Social responsibility, therefore, broadens a person’s view of the total social system... Social responsibilities of businessmen need to be commensurate with their social power.”* (Davis, 1960, p.46)

Mentioning “social power” Davis pointed out that business has power and influence in several fields in the society and can concretely improve issues like inclusion, employability and environmental problems. The so-called “Iron Law of Responsibility” states the importance of a constructive dialogue and a strong connection between the corporate world and local communities. If companies avoid their duties and do not act in conformity with their social power, they will pay their irresponsibility in the future by losing their privileges. *“In the long run, those who do not use power in a manner that society considers responsible will tend to lose it”.* (Davis, 1960, p.16)

Despite his revolutionary vision, several years had to pass before companies would interiorize and implemented his theory. It happened when they started perceiving that using social power and incorporating CSR into their business strategy would generate profits in the long period for the companies themselves. To retrace other important definitions formulated during the ‘60s, William C. Frederick, already mentioned in this dissertation for his temporal subdivision of

CSR's development, gave his contribution labeling his definition of social responsibility, not yet calling it CSR.

*“Social responsibility, in the final analysis, implies a public posture towards society's economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms”* (Frederick, 1960, p.54).

CSR had to face many challenges during the years: many critics raised their voices against this concept as for example, Theodore Levitt. In his publication “The Dangers of Social Responsibility” in 1958, he wrote about these “dangers” referring to the possible diversion that a social perspective in business' orientation could provoke towards fundamental responsibilities of a firm. Levitt had no doubt in identifying these fundamental responsibilities, which are respectively conducting business in good faith and pursuing long-run profit maximization. These and these only had to be the concerns of a company towards society in which it operates.

### ***From the '70s - Enlightened Self-Interest Era***

During the 70s', the concept of CSR gained an extraordinary attention in the academic and in the managerial worlds and the conception of “Enlightened Self-Interest Model” acquired wide support. This model introduced the idea that it is in company's long-term interest to engage in socially responsible activities since they could result in benefits for the company itself like increasing corporate reputation among its customers, having employees more qualified and gaining fiscal exemptions. In this decade, the managerial approach to CSR started taking the form: the old conception that considered pursuing companies' interests and at the same time being considered socially responsible as intrinsically opposed

started losing its dominant position. In 1971, Wallich and McGowan published for the Committee for Economic Development a report called “New Rationale for Corporate Social Policy” where they tried to reconcile the economic and social perspectives of CSR strategies. They affirmed that, on one hand, credible and efficient CSR strategies must be in accordance with companies’ core interests and objectives and, on another hand, that CSR’s social outcomes could actually be considered companies’ long-term interests. It is worth mentioning the opinion of one of the most influential critic of CSR, Milton Friedman. In 1970, he addressed the whole concept of CSR in the saying

*“There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”* (Friedman, 1970, p.173).

It is interesting to notice that, at the same time, when Friedman wrote *“It may be in the long-run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government”*, he is pointing out how companies have no imposition in behaving as socially responsible entities but, if it is convenient for the company’s interest, any of these strategies can be performed. Friedman indeed contested the moral obligation of social responsibilities for companies, not the possibility or willingness to do it so. In 1971, Harold Johnson wrote the book *“Business in Contemporary Society: Framework and Issues”* and he presented some issues that will be formulated a decade later by Freeman, in his famous stakeholder theory. Johnson wrote *“Social responsibility moves one large step further by emphasizing institutional actions and their effect on the whole social system. Social responsibility, therefore, broadens a person’s view*

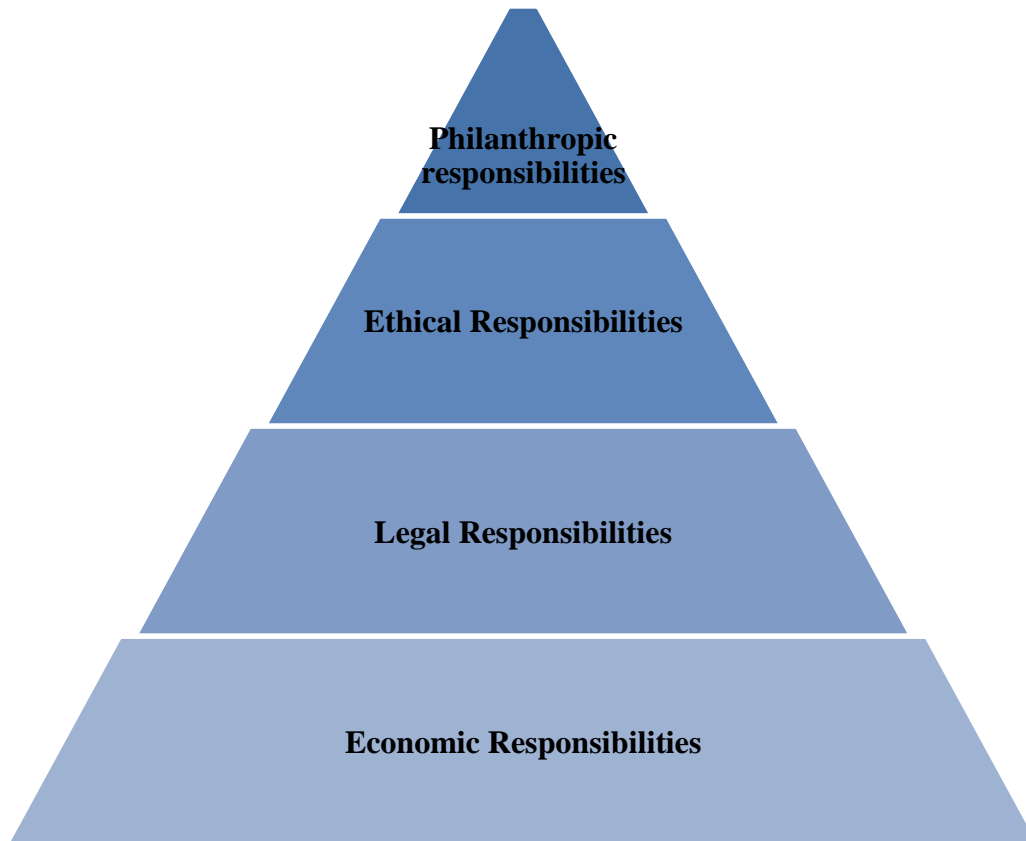
*of the total social system... Social responsibilities of businessmen need to be commensurate with their social power” (Johnson, 1971, p.50)*

The choice of mentioning a “multiplicity of interests” and a multiplicity of stakeholders is very interesting because it denotes the rising awareness in relation to internal and external entities, both directly and indirectly affected by companies’ policies and practices. The necessity of business was finding a meeting point between firm’s social initiatives and financial return. In 1973, Ackerman affirmed that a company should be reactive to what happens around it and be responsive to the social challenges of its local environment. For this reason, in 1976, he proposed a strategy to implement CSR activities in different phases: this formalization was, at the time, a big step further into CSR practice. Starting from the firm’s effort to recognize a social problem, the second phase was an intensive study of the problem conducted by experts to find solutions and implementing the proposed solutions. As shown by a research conducted by Eilbirt and Parket in the same year, CSR strategies, in that decade were aimed at responding to social concerns such as environmental preservation, minorities’ inclusion, formation and training for poor people. All those activities aimed at improving general societal conditions through reaching a better accountability and transparency, or promoting civil rights in a wider view were undertaken in a residual percentage. In 1975, Preston and Post underlined how the progress made on conceptualizing CSR did not reflect the practical improvement of its implementation into managerial approaches. The fact that CSR was accepted did not mean that it was internalized.

*“In the face of the large number of different, and not always consistent, usages, we restrict our own use of the term social responsibility to refer only to a vague and highly generalized sense of social concern that appears to underlie a wide*

*variety of ad hoc managerial policies and practices. Most of these attitudes and activities are well-intentioned and even beneficent; few are patently harmful. They lack, however, any coherent relation to the managerial unit's internal activities or to its fundamental linkage with its host environment"* (Preston and Post, 1975, p.9)

In 1979, Archie B. Carrol presented his definition of CSR "*The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time*". This approach was aimed at addressing more dimensions of CSR: he pointed out the economic, legal, ethical and philanthropy dimensions of a company's responsibilities. Carroll elaborated, from this definition, the most famous model to address the dimensions of CSR, the "Pyramid of CSR". The model embraced four kinds of social responsibilities as core constituting part of CSR: economic, legal, ethical and philanthropic.



( Self-made representation of the Pyramid of Carroll, 1979)

Economic responsibilities are the grounding element for the pyramid. First, a company must be profitable, achieve economic success by producing goods and services for consumers in order pump resources and sustain wealth. This dimension is interpreted as a way in which private sector generates wealth for the society in its all: maintaining the business sector active and florid, the economy keeps growing benefitting everybody. The other business responsibilities are built and supported upon the economic responsibilities of the firm. (Carrol, 1979) The second level of the pyramid is composed by legal responsibilities. A firm has to comply with regulations, laws and indications decided by the state and has to obey to legal requirements imposed to firms. Even if they are graphically on different levels, the author of the model underlined how economic and legal responsibilities have the same weight and the same level



of importance in the pyramid. The third dimension is the one of ethical responsibilities that embrace practices, standards, norms and values that characterize a society. These are the directives for the creation and for the reforms of laws: ethical responsibilities follow the changing expectations of society towards business' reception of its duties. Due to their mutable nature, it is very difficult for business to comply to them, varying from time to time and with different circumstances and conditions. (Carrol, 1979) Ethical values are the forces directing laws and as so, at some time, they reached the internalization and formalization into the legal ordainment. For this reason, the connection between ethical and legal responsibilities is very tight and sometimes the former become part of the latter expanding its definition.

Philanthropic responsibilities are in the last level of the pyramid of CSR and are the manifestation of goodwill of a firm towards society. According to this model, a firm can engage itself into philanthropy in many ways, giving financial contributions, supporting a good cause etc. but it is not into its crucial aim to perform these activities and this is the reason why this dimension is on the top of the pyramid. If the economic and legal dimensions of responsibilities are compulsory for a company, ethical is expected while philanthropy is very desirable and much appreciated but in order to be considered socially responsible, a firm need to comply in the first instance with the previous three dimensions. This decade was characterized by attention towards what was called corporate responsiveness or adaptation of corporate practices and the following years were characterized by a proliferation of new concepts who seemed to better address and redefine the concept itself of CSR as corporate social performance, sustainability and corporate citizenship. In the next chapter, these terms will be analyzed.

***From the '80s – Empirical research and the new vocabulary of CSR***

The decade of the '80s is a neuralgic period for CSR's history because in these years a new way of conceiving CSR was established. Executives tried to englobe CSR strategies into the company's culture linking the concept of CSR with the concept of Corporate Social Performance. New terms like Corporate Social Performance, Corporate citizenship, and others were created to indicate corporate responsibilities and to specify the role of business in the society; this linguistic enrichment stimulate debate over the concepts but it created more confusion in the theoretic domain.

Many scholars commenced considering CSR as a very wide framework encompassing a broad variety of other meanings, while other start differentiating the concept from the most recent development. This decade was characterized by the spreading of empirical researchers which were performed to understand how CSR strategies were implemented by firms and how firms were introducing these themes into their internal dynamics and many academic works were published on current operationalization of CSR. Another new territory explored in the '80s was the measurement of CSR strategies' outcomes and the correlation between social performance and financial performance. *The Reputation Index* elaborated by Cochran and Wood in 1984 was a first attempt to give a value in terms of profitability to CSR's application. Thomas Jones and proposed a vision of CSR that focus more on the idea of the process rather than "a set of outcomes" that was reformulated then by L'Etang a decade later as an "*ongoing process constantly monitoring the environment and relationships and not a fixed mission in relation to specific groups with a predetermined priority that remains static*"

The strategies and the ways of intending CSR are dynamic as the society and the relationships between them vary significantly. (Jones, 1980)

***The '90s and 2000 – Modern concepts on CSR***

During the 1990s, nations around the world started framing guidelines, codes of conduct and principles for regulating companies' behaviour outside their national territories. The role of multinational corporations, in particular, caused concern because these entities strengthen their power and influence in a deregulated environment and their operations cause an impact so much bigger than other companies. CSR started to be directly connected to the responsibilities that companies had in addressing not only local but also global issues like environmental protection, poverty and so on. To face global challenges, the relevance of empirical literature based on CSR best practice or leading companies grow exponentially and important networks and international initiatives were created to spread the expertise. Many academics and organizations started investigating on the relation between business and environment, being a crucial theme of the last decade, formulating models like the "Triple Bottom Line" and the "DNA of CSR 2.0" that gave wide space to the concept of sustainability. The triple bottom line theory, formulated by Elkington in 1999, is aimed at measuring the economic performance of a company considering also its social and environmental performance. By unifying the three dimensions, also referred to "profit, people, and planet", economic competitiveness is taken into consideration at the same level of social and environmental ones (Elkington, 1999).

Visser exemplifies the bases of his model, DNA of CSR 2.0, making an analogy between the CSR and the DNA. If, for the DNA the component parts are adenine, cytosine, guanine, and thymine, for the DNA of CSR these value creation, good governance, societal contribution and environmental integrity. The four have to be considered together to establish a new paradigm of CSR. Visser in his articles

defined it as “*spiralling, interconnected, non-hierarchical levels, representing economic, human, social and environmental systems, each with a twinned sustainability/responsibility manifestation: economic sustainability and financial responsibility; human sustainability and labor responsibility; social sustainability and community responsibility; and environmental sustainability and moral responsibility*” (Visser, 2010, p.126).

One of the most famous contributions arrived in the 2000s from Schwartz and Carroll’s which presented a theatrical approach envisioning Carroll’s previous pyramid of CSR. In this model, the fourth dimension of the pyramid, the philanthropy one, does not exist anymore partly internalized by the ethical dimension and partly left to discretionary decisions of a firm. As the same author, Carrol observed in 2008, from the ‘90s the biggest part of contributions overcame the concept of CSR and assumed it as a general framework to develop and analyze other concepts tightly associated with it, like the above mentioned, corporate citizenship. The most important contributions of the twenty-one century are certainly the empirical experiences of CSR like reports, publications, guidelines, and other initiatives focused on showing and communicating transparency and accountability. Researches and studies on business case become central in the analysis of CSR and, as consequence of a growing and global interest in the theme, a structural approach took shape in the international debate. The incorporation of CSR into companies’ core strategies became the objective of any committed company.

## ***1.2 Classification of CSR theories***

*“In order to contribute to a clarification of the field of business and society, our aim here is to map the territory in which most relevant CSR theories and related approaches are situated. We will do so by considering each theory from the perspective of how the interaction phenomena between business and society are focused.”*

(Garriga and Melé, 2004, p.52)

Giving the order to the multitude of definitions, theories, models and approaches developed over the years is a complex task but retracing the development of the term over the years has been useful to understand why this concept raises so much debate and why it is so difficult to give a definition. The development of the society deeply affects the content of CSR, since it is strongly dependant on the expectations of the society itself. The theoretical models that provide a foundation to one or another model proposed strongly vary and many classifications have been proposed. The most recognized and accepted classification of CSR theories is the one proposed by Garriga and Melé in 2004. The 2004 model sets four macro groups in which the different theories can be subdivided: each macro-group of theories responds to one dimension of the social reality.

The first macro-group denominated “Instrumental theories”, centres on the economic perspective and addresses those theories that see CSR strategies only as an instrument to achieve economic goals. The only objective of companies, in this vision, is creating wealth and any activity undertaken for this purpose is

legitimate, even social activities are accepted if they comply with this mandate. The second group, “Political theories”, focuses on the social power of the corporation and its responsibility towards society in political terms. The third group, “Integrative theories”, focuses on approaches that perceive business-having responsibilities in integrating social demands since the society itself allows business to create wealth and prosper. The fourth group of theories, “Ethical theories”, focus on the ethical foundation of CSR.

### ***Instrumental theories***

The Instrumental theories’ group gathers all those approaches that see CSR as a mean for reaching economic profit, the only important objective for economic agents. Under this categorization, the most emblematic and famous theories are The Agency theory, the Resource-Based theory, and the Cause-Related Marketing theory. The Agency theory is an example of Enlightened Self-Interest models, arisen during the ‘70s and already mentioned in this dissertation. It considers shareholders’ value as the main reason to undertake or not a CSR activity, it has a short-term profit orientation because it is driven by what is profitable and positive for those that have officially a share into corporate decisions and it does not take into consideration social motivations. The theory, developed by Jensen and Meckling in 1976, assumes that even inside the company, in the internal dynamics between managers and shareholders, managers should always prefer any action that could maximize shareholder wealth instead of privileging other subjects. This theory affirms indeed that shareholders and managers can have diverging interests that cause conflicts but since maximizing profitability for shareholders is a core principle of a company, this objective should be followed in any phases of the decision making process.

The Resource-Based theory can also be classified as an Enlightened Self-Interest model that focuses on the unique value that a series of relationships, within the company and outside, can add to the company itself, giving to it a competitive advantage in the market. In this view, the implementation of CSR strategies is instrumental to achieve economic profit: having established a positive relationship with local communities, having a specific department for CSR, or having a flexible corporate organization could increase company's competitiveness. The most interesting dimension of CSR for competitiveness is the capacity of the company to comply with external muting circumstances like environmental issues and regulations. Also in this approach, the social component is not a driven force for the implementation of CSR.

The Cause-Related marketing theory introduced CSR as a way of creating value for a company by assuring to its products a socially responsible reputation. In the current marketplace, where the gamma of products is similar in quality and price, the fact that the company is engaged in promoting the well-being of the society and in creating a positive social impact assures to the firm a distinctive attribute. A varied and valuable gamma of benefits can arise from the high appreciation of society for corporate policies: indeed, by publicizing their support to social issues, firms try to communicate to their consumers that they are worthy to be rewarded for their efforts and that the consumer itself is somehow contributing to the cause itself. *“Cause-related marketing is defined as the process of formulating and implementing marketing activities that are characterized by contributing a specific amount to a designated non-profit effort that, in turn, causes customers to engage in revenue-providing exchanges”*.

(Mullen, 1997, p.42)

### ***Political Theories***

Political theories focus on the relationship between business and society and the more important approaches to analyze in order to understand this connection are Integrative Social Contracts Theory and Corporate Citizenship.

The Integrative Social Contracts Theory arose from the traditional Social Contracts Theory that considers CSR as the outcome of an implicit social contract between business and society. The objective of this theory is to provide a framework through which managerial and business decisions can be made with respect to their impact on local communities, ethical norms, and possible universal moral standards, and in which any economic actor, like a company, in this case, must comply with the norms of this agreement. In the Integrative Social Contract Theory, the social contract is composed of two different level, the first one, and the wider one, is the theoretical macro-level in which actors must act in accordance with universal moral principles, common everywhere and for any circumstance. The second level establishes that actions should follow micro-social contracts established between companies acting in a territory and the local communities living in that place. Local norms define the type of interactions in that take place in a specific place, with specific actors, and that are binding exclusively for those involved. The norms contained in these local contracts have to be in compliance with universal norms, they must not struggle. The second theory is Corporate citizenship that has been considered by some academics an independent concept from CSR and by other part of it. In this review of theoretical classifications, corporate citizenship is considered part of the theoretical framework of CSR. Corporate citizenship is a theory that sees companies having great responsibilities towards society, somehow equal to government itself, due to the power they owe. Companies nowadays possess an



extraordinary economic and social power because of their supranational dimension and because of the loss of centrality and decision-power of national governments. Considering global phenomena like business's deregulation or global warming, companies must regulate themselves and act in conformity with modern challenges into its own area. Belonging to a community means have rights and duties, and it means that any subject, including firms, must play their part. In the corporate citizenship approach, the sense of belonging to a community is emphasized and the willingness to concur to the well-being and to the development of that society is the central focus of the concept of citizenship. As mentioned, the rising influence of companies into global market increase their social performance and, as will be presented in the next chapter of this dissertation, many global initiatives arose from this assumption.

### ***Integrative theories***

This group of theories considers business depending on society's approval for its existence and prosperity and, for this reason, the integration between social demands and organizational management is fundamental to address companies' role in society. The most famous theory associated with this category are the Issue Management Theory and Corporate Social Performance.

The concept of social responsiveness helps to understand the approach of this group of theories: a company must have the ability to respond to the environment, being "responsive", and to calibrate its actions in relations with the specific circumstances. Part of this way of addressing the role of business in the society is related to the capacity of companies of identifying the gap between what society expects from companies' performance and the actual performance:

the readiness and ability of the firm to filling this gap make a company responsive and adequately social responsible.

The Issue management theory encompasses the concept of social responsiveness but, in addressing CSR perception, focus on the process undertaken by a company to be socially responsive. In this vision, that tends to be specifically managerial, responding to social demands is a way of anticipating possible problems for the firm arising from political and social alterations or further social expectations. Corporate social performance, as corporate citizenship, seems to have found its autonomy in the last years being considered by many scholars a different and separated concept from CSR. Wood for example, defined CSP as “*Business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships*” (Wood, 1991, p.700) giving to the concept a broader dimension than CSR. In this classification, however, the corporate social performance is intended as a theory completely reliant on the concept of CSR, used to connect CSR strategies to corporate financial performance, the financial viability of an organization.

### ***Ethical Theories***

Ethical theories are grounded in the idea that ethics is a fundamental component for assessing the role of business in society. Normative Stakeholder Theory, the theory of Common Good, and the Human Rights approach are the most famous formulations of this kind of theories.

For one of its theorists, Freeman, the Stakeholder Theory concerns how managers or stakeholders should act and should view the purpose of the organization, based on some ethical principle. (Freeman, 2006) Stakeholder

theory was born on the ground of a strong normative ethical literature that comprehends Rawl's and Kant's philosophy. Companies have responsibilities not only to shareholders but also to a wider gamma of subjects: stakeholders are all those entities or group that have a claim on the firm or those who are influenced by company's activity, and that, for this reason, should be involved into managerial decision-making. To be considered socially responsible, a firm has to manage the conflictual interests that might be expressed by different groups and engaging in inclusive CSR strategies. The idea of corporations as the exclusive property of their owners or of shareholders, in public corporations, and that has to be responsible for their effects only to them is nowadays unacceptable because of the wider range of other stakeholders involved at many levels.

The definition of stakeholder and its relevance towards organization changed over the years as market dynamics changed over the time. Symptomatic of the need of a new conceptual framework, Freeman changed his position when defined stakeholders as "*any group or individual who can affect or is affected by the achievement of the organization objectives*" to "*those groups who are vital to the survival and success of the corporation*". The groups of considered stakeholders increased: customers, employees, local communities, suppliers and distributors, and shareholders. In 2006, Freeman re-elaborated these groups adding: media, the public in general, business partners, future generations, past generations, financiers like bondholders and creditors, competitors, government, regulators, policymakers, academics, competitors, NGOs or activists and stakeholder representatives such as trade unions or trade associations of suppliers.

Another important type of approach to CSR is the one characterized by Universal Rights as the main reference. Grounded in ethics as directive of business's

action, companies have to adhere and comply with principles recognized as valuable and worldwide recognized. Complying with human right declarations and formalizing their commitment to specific objectives is a way in which company can state their position on public social issue.

The theory of Common Good grounds its bases into ancient Greek, with the philosopher Aristoteles but during the '90s has been reinterpreted to address business's responsibility towards social heritage. It prescribes that common good must be pursued and preserved by any actors of the community and that in the specific business has a peculiar role in this shared global commitment because it aggregates and creates wealth in many ways. Business gathers together people and resources, has the power to provide people with better conditions and can act as a multiplier of social value establishing as a fundamental condition the respect of human rights.

### ***1.3 Concentric Circle Model of CSR in the Post- National Constellation***

As already shown, according to Garriga and Melé, the theoretical framework on CSR can be divided into four macro groups in which the different theories can be subdivided as each macro-group responds to one dimension of the social reality. Briefly synthesizing, the pure economic view of CSR, the one promoted by authors like Friedman, considers the spheres of business and politics completely separated and recognizes to them different interests; while the primary objective of business is to maximize the capital and to favor shareholders, politics has to take care of societal demands. The former can consider assuming some responsibilities towards society only if this decision is strategic to the long-term interest of the corporation. *“In [a free economy] there is one and only one social responsibility of business—to use its resources and*

*engage in activities designed to increase its profits so long as it stays within the rules of the game” (Friedman, 2002, p.57).*

What if the “rules of the games” themselves need to be reformulated? What if societal changes influenced again the conception of CSR so deeply that a new approach is needed? First, this instrumental vision of the CSR assumes the domestic domain as reference and considers that nation states and the juridical system are able to predict crises formulating a priori laws to regulate any possible circumstances. As will be treated in depth in the following paragraph, the historical circumstances changed and political and legislative arena, or the legal system itself, are no longer performing efficiently these duties. Considering agents like corporations that act worldwide overcoming geography and legislation, they have the possibility to choose the best conditions for their activity and the legal system that better fits with their necessities. Alternatively, considering global issue, they do not fit with national borders but involve all the humankind. *“We have managed to globalize markets in goods, labor, currencies, and information, without globalizing the civic and democratic institutions that have historically comprised the free market indispensable context” (Barber, 2000, p.275)*

All the approaches considered in this first chapter have been extremely important to understand the concept of CSR that, for its very nature, constantly changes and evolves. Drawing a historical overview of its development and underlying its different theoretical foundations have been the necessary starting point for this dissertation; in the following part of this dissertation will be unlighted why a political theory has been chosen to be the theoretical framework for this dissertation.

### ***Concentric-Circle Model of CSR***

A model developed in the last years, namely Concentric-Circle Model of CSR, considers these four dimensions of social reality in a new perspective where social responsibilities permeate the core economic responsibilities of a company and CSR initiatives are embedded into business operations and companies' core strategies. This normative model is based on the approach proposed in 1971 by the Committee for Economic Development (CED) that urged business to adopt a broader and more humane view of its function in society (Geva, 2008) integrating CSR into the day-to-day business functions. According to the progressive development of CSR, the CED moves from the assumption that economic responsibilities in CSR can follow ethical responsibilities and act for the need of the society in its all. Economic responsibility, in this view, is not limited to wealth creation but it is conceived as engendering a series of positive effects that improve the lives of the community by providing services and goods for its wellbeing. Creating jobs, offering learning and formative opportunities, supporting rural excluded communities are considered multi-effects actions to eliminate inequalities and poverty. "Above all, CSR is a concept supporting social control of business that resides and operates inside business itself, with the aim of protecting and enhancing the public welfare as well as private interests." (Logsdon and Wood, 2002) Companies are compelled to act responsibly as a constant driver of their operations throughout all phases as result of the internalization of social norms within business strategy. The problematic issue is that CSR practices and initiatives are often relegated to a specific department or delegated them to foundation, institutes or associations, completely separated from the core strategies of a firm. It results in superficial, inefficient, not decisive and vague results in terms of concrete improvements.

Considering CSR as nothing more than conformity to externally imposed expectations, endorse a mediocre commitment to CSR. The model instead presents a vision of CSR that permeates any ambit and focus to improve social conditions by taking into high consideration the social value of their managerial decisions. It moves from a political theory already mentioned in this review of theoretical approaches, the Social Contract Theory, which lies on the consideration that social contracts for business are nowadays more necessary than ever as their role grew in relevance as much as their responsibilities for social improvement. The reason why this model is a good theoretical framework for this dissertation is that it contextualizes the role of companies and the importance of CSR in the circumstances and challenges that globalization brought. It indicates the necessity of large companies to assume an important role for social change insisting in their proactive role in defining priorities instead of reacting passively to them. Also on the legal and regulative sector, companies must comply with legal obligations and without coercion or under threat of litigations in case of non-compliance but as an act of internalized as guiding standards and regulatory efforts. In addition, when legal control over corporations hardly exercised or it results inefficient, public sector itself is required to help to define the point how to introduce adequate regulation measures. The partnership between government and private sector is crucial in this model. Corporations obviously cannot solve alone global problems like poverty or environmental damages but they can collaborate with other entities like other companies, NGOs, associations etc, to mitigate complex issues. They are called to support rational governmental regulation, which should remove the short-run impediments and should improve stability, equity, and protection of those subjects not protected by well-established ethical norms and customs. The

model perfectly interprets the recent development of CSR as a value generating activity in many fields. As the evolution of the concept of CSR among the years showed, CSR assumed a wider scope, overcoming philanthropy and reaching a central role in strengthening institutions. Companies, in fact, can contribute to the well-being of the society by using and sharing their skills and those competencies that allowed them to become competitive and acquire good performances. MNCs in particular, holding resources and managerial could help re-equilibrating a situation characterized especially in the international scenario by strong market imbalances, weakness of institutions, lack of regulation, and global endemic problems.

### *Post-national Constellation*

One of the first things that must be taken into consideration is that the epochal changes that had taken places in our society in the last thirty years radically muted all the paradigms used before to approach business role and governmental management. In our society, it is a task of the state to establish the preconditions for the proper working of markets: defining property and contractual rights, creating enforcement institutions and prevent negative externalities is something that, by the dictionary, is supposed to be administered by the state and not by private entities. These tasks, however, are difficult to be performed at the international level. The structural condition of anarchy in which no international authority exists that can perform legislative, executive, and judicial functions as the state does at the national level, impedes a clear allocation of regulatory responsibilities between entities. This lack of clarity constrains what (if any)



rules can be written and how effective those rules will be in constraining what actors do. (Detomasi, 2008)

There is no doubt that the perspective on the private-public relationship and on responsibilities of national business inevitably changed due to globalization. Phenomena of different nature, from the reduction of trade barriers, the creation of new transport facilities, communication systems, new migratory routes, the spread of scientific knowledge to the creation of new cultural identities, created a strong interdependence between sectors. The intensification of cross-border social interactions is now possible due to the declining costs of connecting distant locations in terms of people, goods, and capitals. The process of globalization certainly brought many positive things but it also contributed to generating a complexity that is difficult to manage. Economic liberalization and deregulation in particular, combined with the loss of centrality and authority of national states, have brought out the necessity of reshaping new roles for society's actors. It is evident that the customary paradigm, used as reference for an instrumental vision of CSR, stating the division between market and state responsibilities, is no longer meaningful.

In the development of this new balance between powers, the end of the Cold War was a crucial threshold. When the capitalistic system attested its centrality and uniqueness, many countries reconverted their economies into free-enterprise systems demolishing trade barriers to increase their competitiveness. Countries tried to attract investments and business in their territories creating favourable conditions for big foreign companies; multilateral investment and trade agreements were signed, and many measures were implemented to enter as fast as possible into the circuits of global trades. Fiscal facilitations, government subsidies, permissive laws on investments, scarce regulations on business

activities, production facilities for minimizing costs and technology development made all process of production easier and provoked the “divorce from the regulatory control of any individual nation-state” (Kobrin, 1997).

Considering these premises is very easy to understand that the traditional institutional framework for business relationships became inadequate to address the current global market movements and to be seen as a reliable legal corollary.

In the challenge of the establishing a new legal regulatory framework to address properly the current international scenario, considering the potentialities of CSR’s culture is a fundamental objective. Habermas introduced a definition that brilliantly interprets these days addressing the “*post-national constellation*”. The capacity of sovereign countries of maintaining their central role within communities is compromised by the “*fragmentation of authority currently in the act and by the ambiguity of borders and jurisdictions*”.

This fragmentation of powers and authority led to a growing influence of non-traditional actors in defying policies and regulations in the post-national constellation since their contributions and their expertise is extremely important in the development of global initiatives to face global concerns. In this sense, CSR should be intended not as a compensative measure for stakeholders affected by companies’ actions (or no action), but as the response of private sector to social global challenges by exerting its influence in the new political spaces created by global governance. Indeed, in this dissertation, the new political role of business is analyzed but it is only circumscribed in terms of CSR activity. Political activities traditionally performed by corporations like lobbying, campaigning or public relations will not be the object of studying because the aim of this research is to show how initiatives were undertaken by the private sector, strictly pertinent to the domain of CSR, could be useful to redistribute

powers and improving the wealth of society. When national law can hardly be enforced beyond the national territory and international law regulates the relationships only between states, without intervening directly on corporations (that are not subjected to international law), the legal vacuum originated in the existing institutional capacity, summed to regional conflicts, inequalities, and poverty, can provoke severe consequences.

Not-supervised operations performed by multinational companies can cause a huge negative impact on national economies; reducing the competitiveness of individual national companies, lowering labor standards, affecting local development and increasing corruption. Newell and Levy (2006) pointed out that *“the trans-nationalization of production and capital and the removal of trade barriers have themselves created the need for orchestrated institutional responses from states”*. Nevertheless, it is difficult to believe that even an “orchestrated institutional responses from states” could be enough. As already mentioned, in the last decades the role of states, as well as their coercive power and their resources, has been eroded and other significant actors gained relevance.

CSR, the private sector’s contributions to the “governance deficit” and to the regulation of multinationals’ behaviours and actions, establish a series of new forms of governance composed of standards, norms and initiatives that can contribute to regulation. Even without official legitimation, in many situations, companies have already assumed states’ traditional role of providers of services for citizens making itself a propulsive force able to stimulate and provide organizational, technological, and financial resources (Levi and Kaplan, 2006)

## 2. Bases to CSR and related international initiatives

CSR standards include the wide set of national and international standards that—despite relevant differences in their nature, focus, monitoring mechanisms and governance structure—all share a common objective: *to advance the social, ethical and environmental performance of organizations by codifying aspects of organizational behaviour.*

(Henriques, 2013, p.177)

### ***Introduction to the chapter***

A series of initiatives have been promoted on global and regional levels to address the rising regulatory gap of governments on business activities and to shape the way in which big companies can ethically and legitimately contribute to tackling social issues. Many of these initiatives have been voluntarily created by businesses themselves, others instead have been created by coalitions of stakeholders from different sectors: the common characteristic is their effort of bringing greater responsibility, transparency, and accountability to businesses. Since an increasing number of global challenges require bilateral, regional, or global solutions and the mobilization of resources, skills, and effort needed are bigger than any individual capacity, cooperation and active involvement of new stakeholders is necessary.

The emerging institutional infrastructure around corporate responsibility is based on a gradual, diversified and decentralized number of stakeholders of various nature, can “*operate above and beyond the nation-state in order to re-establish the political order and circumscribe economic reality by new means of democratic control*”. (Schrer and Palazzolo, 2007) Clearly considering a

political theoretical approach to the role of private sector, the majority of these initiatives on CSR can be considered as a manifestation of a broader vision called “Global governance”. *“Global governance refers to the emerging multi-layered and multi-actor system of global authority. It defines the rules, institutions, and norms that order, channel, and constrain economic activity and its impacts in relation to international issues of public concern. It, therefore, includes not only national-level regulation and formal international agreements, but also private mechanisms such as codes of conduct, discursive and normative frames, and market structures.”* (Levy and Newell, 2006; Prakash and Hart, 1999; Slaughter, 2004). It comprehends the creation of a completely new legal framework composed of rules, enforcement systems and a new form of institutional entities and it gives a wide space for a soft form of governance promoted and implemented by different stakeholders. It is important to consider the revolutionary impact that this idea of new governance brings: it adapted itself to a real participative collaboration between different entities considering the disaggregation of the center of the authority of the state and answering to problems like MNCs regulations.

Regimes of CSR indeed were born as a solution to failed attempts to regulate activities of transnational business with binding rules and in order to integrate companies into societal responsibilities. During the ‘70s the idea that the power of MNCs should have been restrained by compulsory agreements and rules was interpreted by many international organizations such as the International Labour Organization (ILO), the United Nations Centre on Transnational Corporations (UNCTC) and the United Nations Conference on Trade and Development (UNCTAD). They developed several instruments like the Tripartite Declaration

of Principles Concerning Multinational Enterprises and Social Policy, the Code on Restrictive Business Practices and on the Transfer of Technology and the Draft Code of Conduct on MNCs (Torrent, Lavopa, 2006).

These experiments attempted to regulate business activity from a normative point of view but these and other global labor conventions result unsuccessful. Nevertheless, even if they did not reach the expected support, they succeeded in awareness-building and raising consciousness on the issue and offered possible solutions to many problems that until that moment seemed unsolvable.

Making a jump in the 2000s, the most interesting attempt to create globally accepted binding rules for business are the “UN Norms”, which had a special focus on the relation between human rights and corporate responsibilities. In 2003, the Working Group on the Working Methods and Activities of Transnational Corporations, established by a Sub-Commission of the UN Commission on Human Rights and led by Harvard Professor John G. Ruggie, elaborated a legal framework called “Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights” or simply “UN Norms”. Experiencing strong opposition from many states and from the private sector, in 2005, the Norms were abandoned and the functions of providing a regulatory system for multinationals passed to other actors. Based on content of the UN Norms, in 2011, the UN “Guiding Principles on Business and Human Rights” were endorsed by the international community and by UN entities like the UN Global Compact, but these guidelines, constituting an instrument of non-binding ‘soft law’, for now, provide nothing more than other CSR initiatives. The hope of many not-institutional actors like NGOs is that these guidelines may eventually show the way for a future establishment of a recognized and legitimate document of binding rules.

These norms represented the effort to provide business all over the world with a ‘non-voluntary’, a comprehensive set of rules that foresaw direct obligations for transnational companies. This framework was supposed to be integrated by a proper enforcement mechanism, to whom running stakeholders of a different kind could contribute and establish a system in states can be condemned for their inappropriate actions towards the respect of human rights.

The UN Norms are an important example of the possibility of overcoming the problems related to the governance gap that has been analyzed until now, through the redistribution of roles and competencies between actors. The Norms were a radical advance over existing voluntary standards not only endowing a legal liability upon companies that were acting inappropriately, but stimulating company to make respect human rights obligations upon states, even if that state did not recognize the UN Norms, or refused to apply such standards on the human rights, like in case of corruption for example. (Miretski, Bacchmann, 2011) The document actually gives great importance also to the states and affirms that companies should perform such functions within their respective spheres of activity and influence. The Norms were clear on every issue as for example in the case of the rights of workers. *“Companies have to ensure the freedom of association and effective recognition of the right to collective bargaining by protecting the right to establish and ... to join organizations of their own choosing.”* (United Nations website, 2003)

Companies strongly refused this vision and resisted the idea of being binding that the entire responsibility of promoting human rights development would fall into their duties. The opposition of states to the UN Norms is due to the fact that norms applied directly on multinational and transnational companies without the intercession of states and the necessity for them to implement legislation to

regulate companies' performances within their jurisdiction. In this framework, the role of the state in regulating this matter would have been relegated to a secondary role losing their central role in international law. An instrument of international law addressing subjects that do not hold a legal personality in international law, like companies, actually represents a threat to all the paradigms used until now dismantling the distinction between public and private law frameworks. As Miretski and Bacchmann brilliant pointed out *"this was an attempt to re-join the public and private legal systems into a single framework of transnational law"*

Only the members of the "Business Leaders Initiative on Human Rights" accepted the challenge and applied the UN Norms for three years. The members were important multinational companies such as ABB, AREVA, Barclays, Coca-Cola, Ericsson, General Electric, Gap and others more. After this period, they judged it positively and declared *"In 2003, we set out to find practical ways of implementing the Universal Declaration of Human Rights in a business context. These practical ways are now clear to business. Our next challenge is to implement these practices in our own organizations, sectors and value chains around the world. As our work here comes to a close, there are now foundations to build from and windows of opportunity for the global business community to go further"* (BLIHR)

Probably the time was not yet arrived for this revolution and the solutions to global problems are never as straightforward as it seems, the way Norms should have been implemented underestimated the operationalization of the standards provided and the limits of companies in realizing those objectives. Lack of legitimation, expertise, capacities, resources, personal, commitment might were



taken for granted as well as the real difficulties of improving conditions in some places in the world for governmental instabilities or cultural differences.

To resume and extrapolating concepts, the idea of establishing global mandatory codes of conduct failed because of political disagreements between states from different countries. The second option and the only one that resulted possible in those circumstances was adopting non-binding instruments like guidelines the OECD Guidelines Declaration on International Investment and Multinational Enterprises. The OECD Declaration, along with the ILO Conventions, established in 1977, was the only major international code, although non-binding, to be recognized. The OECD Guidelines for Multinational Enterprises provide guidance for international business is a comprehensive set of indications covering different fields and sectors like human rights, anti-corruption, and supply chain management. The respect of OECD guidelines is voluntary, but OECD countries signed a binding commitment for making their national MNCs implementing in their conducts the principle contained into the guidelines OECD Guidelines for Multinational Enterprises.

Having seen the difficulties and the failures of international bodies regulating this matter, the attention passed to all those series of initiatives that are now the existing mechanisms to regulate business actions in relations to ethic and sustainable behaviors. At the beginning codes of conduct, designed from individual companies on their own interest and on selected contents, represented the only way to approaching the field. Even the creation of organizations aimed at assisting companies in assuming voluntary compliance mechanisms such as ISO 14000, the Sullivan Global Principles and the MacBride Principles, or in measuring and reporting activities such as the Global Reporting Initiative did not

succeed in making these codes of conduct equivalent to legal regulation. (Torres, 2010)

### ***2.1 UN Global Compact Initiative***

*“Self-regulatory initiatives that address governance gaps on the global level have become one of the most important pillars to address negative business externalities by advocating global CSR standards for business firms”*

(Abbott and Snidal, 2010, p.315)

The UN Global Compact is a self-regulation initiative and it predisposes a global platform of discourse for the implementation of efficient mechanisms to protect basic human rights and environmental principles and has been often defined as “the world's largest and most widely embraced corporate citizenship initiative”. In 2000, the United Nations established the Global Compact and the Secretary-General Kofi Annan invited businesses to work with development agencies to achieve global objectives.

*“I see the Compact as a chance for the U.N. to renew itself from within, and to gain greater relevance in the 21st century by showing that it can work with non-state actors, as well as states, to achieve the broad goals on which its members have agreed.”* (Secretary-General Kofi Anan, 2000)

With the creation of the Global Compact, the United Nations tried to move towards a more proactive role assisting companies in operationalizing their assumption of responsibility through policy dialogues, learning, multi-level networks. At the time of its launch, the Global Compact consisted of nine principles in the areas of human rights, labor, and environment but four years

later, during the triannual Global Compact Leaders Summit, a new tenth principle against corruption was added. The ten principles, founded on the Universal Declaration of Human Rights, the International Labour Organisation Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the UN Convention Against Corruption, respond to four thematic groups: Human Rights, Labour, Environment and Anti-Corruption.

The 10 Principles of the UN Global Compact are resumed in the table below.

The infographic is titled "The Ten Principles" and is enclosed in a blue border. It lists ten principles grouped into four categories: HUMAN RIGHTS, LABOUR, ENVIRONMENT, and ANTI-CORRUPTION. Each principle is numbered and includes a brief description. The logo for "THE GLOBAL COMPACT Network Japan WE SUPPORT" is located in the bottom right corner of the infographic.

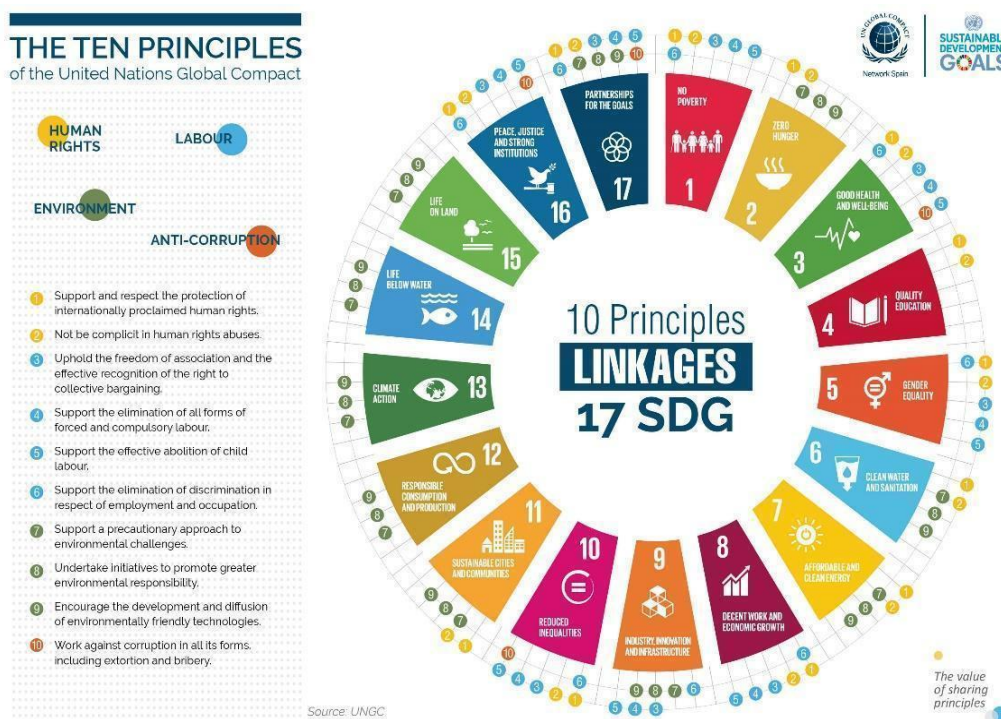
Category	Principle	Description
HUMAN RIGHTS	Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
	Principle 2	make sure that they are not complicit in human rights abuses.
LABOUR	Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
	Principle 4	the elimination of all forms of forced and compulsory labour;
	Principle 5	the effective abolition of child labour; and
	Principle 6	the elimination of discrimination in respect of employment and occupation.
ENVIRONMENT	Principle 7	Businesses are asked to support a precautionary approach to environmental challenges; undertake initiatives to promote greater environmental responsibility; and
	Principle 8	encourage the development and diffusion of environmentally friendly technologies.
	Principle 9	Businesses should work against corruption in all its forms, including extortion and bribery.
ANTI-CORRUPTION	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

(UN Global Compact Japan Network)

1. Businesses should support and respect the protection of internationally proclaimed human rights
2. Business make sure that they are not complicit in human rights abuses
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
4. Elimination of all forms of forced and compulsory labor
5. Effective abolition of child labour
6. Elimination of discrimination in respect of employment and occupation
7. Businesses should support a precautionary approach to environmental challenges
8. Undertake initiatives to promote greater environmental responsibility
9. Encourage the development and diffusion of environmentally friendly technologies
10. Businesses should work against corruption in all its forms, including extortion and bribery

The UN Global Compact endorsed the new challenges presented with the adoption of the 2030 Agenda for Sustainable Development on 1 January 2016 in which were established 17 Sustainable Development Goals (SDGs) to be achieved. The more important global challenges identified by the SDGs need the participation of the private sector that represents a large and growing market for

business innovation. For doing this, Global Compact Local Networks contribute to spread conformity with the 10 Principles and the SDG by working on companies' capacity building and supporting them on preparing companies to integrate the 10 principles in their business models, helping them to understand the business case for the SDG and aligning their strategies in order to lever their impact on the SDG, as breakthrough innovation components.



(UN Global Compact Spain Network)

“For companies wanting to advance the SDG agenda, the job starts by acting responsibly – incorporating the UN Global Compact’s Ten Principles widely into strategies and operations, and understanding that good practices or innovation in one area cannot make up for doing harm in another.” (UN Global Compact website)

The idea behind this conjunct effort is that business can turn global goals into local business thanks to the UN Global Compact's support. "The UN Global Compact is committed to be a leading catalyst of that transformation. We will devote our capacities and global network to make it happen – based on the sound values and principles that the UN Global Compact is built upon." (UN Global Compact website)

The procedure to join the UN Global Compact is quite easy. The possibility for a company to access to the initiative is subjected to the UN General Secretary's approval. After the positive response, firms are required to prepare a Letter of Commitment from their CEO expressing support for the ten principles and present annually a communication on the progress of its activities in compliance with the principles of the UN Global Compact. The report is published on the UN Global Compact website and it is can be examined by anyone. The company must account for the operations and the results obtained during the year and show which were its main focuses between the ten principles. The "differentiation program" introduced in 2011 classifies UN Global Compact members based on their engagement in CSR and on their capacity of improving their performances. Members start as "learner", then become "active" and arrive at the status "advanced", they can also be downgraded. If a member does not communicate its progress through the submission of its COP for a year, assumes the status of "non-communicative"; after the second year it gets eliminated from the UN Global Compact and barred from using the Compact's logo or participating in Compact events. From 2000, the United Nations Global Compact has witnessed an extraordinary increase in its members: in 2018 it reached 12.935 members worldwide. The UN Global Compact accomplishes to its mission through

dialogue events, learning events and partnership projects that help firms to understand how to fit with new expectation on business responsibility.

### ***Strengths and weaknesses of the UN Global Compact***

Despite the critics and weakness of the UN Global Compact, that will be analyzed soon, the initiative achieved important successes. Through its ten principles, it diffused a broad normative consensus on global ethical values and CSR standards and it is no longer questioned that companies should be responsible for upholding these principles (Voegtlin, 2014). Moreover, it gave to CSR global attention, helped to shape the CSR business agenda and contributed in creating multi-stakeholder partnerships. Much literature on the theme suggests that CSR sharing can lead to a multitude of environmental innovations because it put companies to question existing assumptions and to seek new strategies to grow and develop their business by other companies' examples. An interesting observation made by Williams (2014) asserts, *"Globalization can be made sustainable if there is an underlying universal values base: the UN Global Compact's mission is to create such a base"*.

The main purpose of initiatives such as the UN Global Compact is to provide institutions and corporations with support and guidance that help them avoid negative business externalities globally. (Berliner and Prakash, 2014) Since their aim is trying to strengthen the culture of CSR among nations, an initiative like the UN Global Compact have to be seen as positive and important tools for fostering the discussion about it, not as the appropriate instrument for substituting legal binding agreement on business operations.

The UN Global Compact is a reference instrument for the business sector in CSR but many weaknesses can be pointed out: the first critic is related to the fact that

the UN Global Compact will remain strength less as long as it cannot perform a real monitoring of the implementation of the respect of the ten principles and sanctioning situations of non-compliance. Companies must submit annually a report on their performance, denominated *communication on progress* (COP), in which showing that their activities have been done in compliance with the objectives. Many critics assert that not all initiatives are fully transparent and there is no control on the real implementation of what is attested in the COP. For this reason, companies can take advantage of this mechanism using its membership to “blue wash” their reputation under the UN flag and cover their critical CSR performance since there are no standardized reporting requirements. The low entry barriers for becoming member represent a crucial trade-off between being a tool that encourages as many companies as possible to join and lower the standards required to obtain the status. Authors like Sethi and Schepers (2014) sustain that the more participants an initiative has, the less cohesive these participants become in their purpose to fulfill the mission of the initiative. It is a matter of concern also that the scarce specification of the standards of the UN Global Compact cannot prevent problems like free riding of some members. They also stated makes clear that low accountability and transparency of the standard being attractive to any kind of companies, including those with low CSR performance, created a heterogeneity that limits cohesiveness and affects results. The way it is structured does not consent to play control and imposing sanctions to enforce compliance. On the contrary, it relies on members of the civil society to highlight cases of poor performance or disingenuous reporting, creating weakness. A structural problem of the UN Global Compact is the absence of a conspicuous financial support given by members indeed the fact that the initiative has scarce financial resources strongly limits its mission and



its credibility. Other strong critics have been issue towards UN Global Compact like in 2004 when more than twenty international NGOs addressed the biggest UN agencies to stop working and supporting the Global Compact if no measures are taken to control corporate behavior of its members and to solve the problem lack of binding instruments and unrestricted access to any companies. They attacked the initiative declaring it “little but a public relations cover for global corporate malefactors”. They asked for a complete modification of the UN Global Compact capable of make it work as a real accountable tool, or for its disbandment. The high percentage of non-communicating participants also questions the globalism of the UN Global Compact, which is one of its main strength, being considered as the “the world's largest and most widely embraced corporate citizenship initiative”.

Supporters of the UN Global Compact argue that its performance cannot be measured by the degree of compliance of its members but in how it made enter into business' culture the importance of assuming social responsibilities.

The UN Global Compact is a principle-based initiative whose main objectives are orienting new participants in developing their CSR strategies and attracting not yet participants in this field. The UN Global Compact could be seen as a broad framework to achieve a global spread and implementation of CSR standards, a learning and sharing platform on CSR, which need complementary and more specific regulatory instruments to successfully sustain business in assuming their new role and regulate transnational phenomena.

### ***2.3 Private Regulatory Regimes***

The necessity of regulatory forms has been promoted not only by governments but also through the development of new technologies of regulation in the private sphere and the proliferation of transnational mechanisms of self-regulation in the shadow of public authorities. (Abbott & Snidal, 2000) The phenomenon of private regulatory regime suggests the possibility to apply a new paradigm to the whole set of conventional power relationships and institutional roles. Private regulatory regimes set rules or standards that try to delineate behavior in the pursuit of a particular objective such as improved environmental protection, worker protection, community protection, or consumer protection. The legitimation of such regulatory structures is currently a subject of numerous discussions in political science and jurisprudence but if considered in the framework of global governance they represent a valid alternative.

By using the word “regime”, it is here assumed that corporations gain a centralized administrative capacity to develop the rules and to monitor their application. This function can be performed by different kind of subjects, from association related to specific sectors of the industry, NGOs, sub-units of bigger entities like the Forest Stewardship Council, which is part of the World Wildlife Fund, to multi-stakeholder entities like ISO or the Global Reporting Initiative. (Webb, 2011) These actors, playing these administrative tasks, act in association with a specific governance structure and related procedures for rulemaking and implementation. For these reasons, the UN Global Compact cannot be considered a private regulatory regime because it lacks this specific structure as it does not foresee in its mission any administrative mechanism to monitor the implementation of the norms that it proposes.

*“The rules or standards of private regulatory regimes are not intended to be simple re-statements of existing behavior, rather, participants are expected to meet the rules designed to drive them to higher levels of performance or protection or to constrain unacceptable behavior”* (Webb, 2011, p.40)

Their membership is voluntary – there is no compulsory requirement to get involved into a private regulatory regime – so corporations can decide as to whether they commit to apply the rules in a private regulatory regime and to choose the one that better fits with their needs. This circumstance obviously does not occur in public regulatory regimes typically where compliance with rules is guaranteed by the use of coercion. Many authors observed that even if not legally bound, organizations feel a different but equally relevant kind of pressure, which is related to social expectations of stakeholders for organization’s commitment to a private regulatory regime. This may be considered interesting but maybe quite exaggerated because even the strongest external pressure to influence a company’s choices has less power than legal obligations.

Private regimes can be classified into four types accordingly to the type of function they perform.

- a) Company-based responsibility management systems, that are internal management approach to the concept of CSR and are not going to be analyzed in this dissertation.
- b) Codes, standards, and principles
- c) Transparency and reporting as GRI
- d) Verification, certification, monitoring, consulting as SAI international with its SA8000 standards
- e) Assurance standards as ISO

There are private regimes that articulate substantive norms of behaviour turning acceptable from unacceptable performance related to peculiar environmental or social issues (e.g., human rights, worker health and safety or rights, community development). Example of this kind of private regime called “assurance standards” are ISO 26000, the Sullivan Principles and the Caux Principles. ISO is the acronym for the International Organization for Standardization that, in its own definition, develops international assurance standards in an “open, impartial and consensus-based process”. The ISO 26000, published in 2010, has been created in a participative way by a wide variety of different interests involving international organisations such as the International Organisation of Employers. To assure inclusiveness, the working group was composed by an international team coming from more than 70 countries and to receive support it stipulated special agreements with the ILO, the Global Compact, the Global Reporting Initiative and the OECD. As a result, ISO 26000 is probably the most inclusive sustainability standard in regards to the issues it covers (Henriques, 2012).

It provides organizations with guidance to assume social responsibilities through mechanisms of accountability, transparency, ethical behaviour, respect for stakeholder interests, respect for the rule of law, respect for international norms of behaviour and respect for human rights. (International Organization for Standardization website) ISO 26000 does not provide organizations with any certification, it is conceived as a complementary instrument to other initiatives for social responsibility that helps organizations in complying with international treaties and conventions and gives support in identifying in which issue, pertaining to social responsibility, is more important for the company and their stakeholders to invest. This issue can go from organizational governance, labour

practices to community involvement and development. Another kind of assurance standard of private regulatory regime sets out approaches for companies to follow in order to achieve a specific objective that is defined autonomously by the corporation, accordingly to the other stakeholders involved. This form of private regime focuses on the process rather than on the result providing standards that must be met. ISO 14001 (environmental management) and OHSAS 18001 (occupational health and safety management) are the most famous example of this kind of regulatory effort: their force and accountability lie in their proven utility and accessibility of standards to meet good social performances. ISO 14001 for example, addresses environmental risk management but it also supports companies in specific areas of sustainable procurement and the adoption of environmentally sound technologies. The “transparency and reporting” type of private regulatory regimes establishes environmental and social standards and help to facilitate inter-sectorial comparisons. The Global Reporting Initiative is a classic example of this kind of private regulatory regime in which reporting and assurances are usually used together by companies to foster credibility of not-financial reporting to both internal and external audiences. The Global Reporting Initiative Sustainability Reporting Standards, created in 1997, are the first and most widely adopted global standards for sustainability reporting. The Global Reporting Initiative Standards represent global best practice in sustainability reporting on a range of economic, environmental and social impacts. Global Reporting Initiative also offers e-learning courses designed to support organizations in understanding how to use Global Reporting Initiative Standards to align sustainability reporting with the 17 Sustainable Development Goals.

The “Verification, certification, monitoring and consulting” type of regulatory initiatives are hybrid private regulatory regimes which are expected to combine the flexibility and expertise of private arrangements with the increased effectiveness of public regulation.

They establish outcome-based standards mixed with reporting and assurance as for example the SA8000 labor standard regime. SA8000 Standard is a social certification established by Social Accountability International as a multi-stakeholder initiative in 1997 and measures social performance in eight areas important to social accountability in workplaces that are Child labour, Forced or Compulsory Labour, Health and Safety, Freedom of Association and Right to Collective Bargaining, Discrimination, Disciplinary Practices, Working Hours, Remuneration, and Management System. It is worth noticing how governments around the world are committed to supporting national labor laws reforms and many states that decided to encourage and strengthen social performance in the workplace created incentive programs that privilege companies with an accredited SA8000 certification.

These regimes are characterized by industrial sectors that develop practical standards or by non-governmental organizations. In the first case, it has the legitimacy among private sector peers but other stakeholders see at it with suspicion, instead in the second case, industrial consensus and engagement can be obtained only if industry interests are taken into great consideration, as example of Forest Stewardship Council Standards.

Many aspects of private regulatory regime lack of efficacy as the difficulty of enforcement mechanisms, the scarce legitimation that they hold, poor results of existing CSR initiatives in terms of delivering social and environmental outcomes.

These regimes could work only with the active participation of different entities and institutions, with different governance capacities, working together to define the best practices of corporate social responsibility in an international context and creating shared value. Therefore, the private sector, composed by multinational corporations, companies, standardization, ratings agencies and international industry associations, can provide organizational competencies for establishing effective international governance mechanisms that smooth transaction costs, reduce operating risks and assure predictability and transparency in international operations (Detomasi, 2006).

This contribute would not be important only for the development of a regulatory global governance system, but would also generate positive outcomes for companies themselves. Apart from gaining recognition and legitimacy by government for its unique expertise, the first positive effect for private sector would be reducing market unpredictability and establishing rigid norms for regulating areas that affect their activities like intellectual property and anti-competitive trade practices. The social legitimacy of economic actors like multinational companies is often debated due the possible conflicts of interest lying behind actions. It is to say that, considering the raising consciousness of the need of global regulatory mechanism, soon or later, forms of regulations would be established anyway so acting proactively would give them the opportunity to shape those rules.

Public international institutions are other fundamental actors whose legitimacy to sign agreements and framing policies arise from national governments. Public international institutions are supported in their duties by their member states, which recognized their roles when created such institutions. Even if they obtained independence in their scope, these kinds of institutions are strictly

dependent by national state's policies in performing their activities because are financially funded and composed by representatives of their members, which are, as mentioned, the same national states. As consequence, their governance capacity is influenced by state priorities which unfortunately gives little space for other entities. Non-state actors often claim for wider inclusion into public international institutions' mechanisms, and for a better responsiveness to global concerns. Civil society, its associations and its activists hold rising potentialities due to the development of information technology and to the power of media. Activists, for example, have the capacity of gathering together people from all over the world for a common goal or social issue, becoming a powerful agent of pressure for traditional and non-traditional governance authorities.

The participation of NGOs, activists and any kind of associations of the civil society is very important because specific demands can be met only through their intercession and the multiplying effects produced by these movements is translated into political influence. Sometimes these entities saw their political power reduced because of the use of informal channels to influence public opinion instead of presenting their interest in more institutionalized forums and requiring realistic improvements.

The last actor that need to participate in CSR global governance process is individual nation states. National states have the strongest claims to legitimacy among all the subjects considered until now because they are invested in legitimacy by a democratic process. They have the capacity of imposing regulations and standards on a national level but, as already illustrated, they lost their authority in the current circumstances and now face the problem of understanding their roles. The key of this kind of governance structures lies in their ability to integrate public, private, and non-governmental efforts in



managing the governance challenges posed by particular policy areas. The central point of this is inclusiveness: it operates by bridging the technical and administrative expertise possessed by industry actors, and the legitimacy acquired by state regulatory endorsement. (Reinicke, 1998)

### ***2.3 Between private and public***

However, the reality is that private regulatory regimes are still normally considered as an alternative to government public regulation and what happened many times is that, even without any official legitimation, in many situations, the private sector has already assumed states' traditional role. It provided services for citizens making itself a propulsive force able to stimulate and provide organizational, technological, and financial resources. (Levi and Kaplan, 2006) Private regulatory regimes indeed may work on the same direction of public regulatory regimes. What is very interesting also for its future development are the potential legal implications associated with the institutionalization of hybrid regimes.

In a judicial case of 2004, in Canada, indeed after a long trial in which two companies were involved for years, at the end both were convicted to get the ISO 14001 certification as a remedy to solve the dispute. This case is a clear example of a private regulatory regime that acquired legitimacy and gets involved in a public regulatory regime. It is a crucial point because the mutual recognition of the legitimacy of the two kinds of regulatory regimes already happened as well as their possible complementary institutionalization into hybrid public/private regulatory regimes. Firms that participated in the establishment and management of private regulatory regimes could see the rules and standards they help to develop integrated into a public regulatory regime or

acquiring a leadership role in regulating that specific matter. In this sense, private regulatory regimes could intervene in coordinating issues that have so far not been codified in law and that are difficult to manage through traditional instruments.

On a national perspective, what has been done until now is that governments have encouraged business to harmonize autonomously their business activities with environmental and social expectations and they tried to work with the private sector. A strategic decision is structuring partnerships between government and private sector on specific critical issues that concern the national context. For example, in the 2000s', in Denmark, the level of unemployment and social exclusion were very high due to long-term unemployment, lack of training, abuse of alcohol and so on. This condition influenced the society in its all and for this reason, the Danish government encouraged the formation of a network of top-high managers that gathered together to analyze how the private sector, through CSR, could assist the government in addressing these social problems. This recognition of the government of the importance of cooperation with the private sector for solving social problems is the first step for a gradual devolution of functions to private business. Those countries whose governments decided to encourage private businesses initiatives to address social problems got a different perspective on the problems and started implementing public policies to complement these private practices and encouraging more companies to engage in CSR. Governments are favorable to the use of policies that endorse, facilitate and collaborate with firms showing how norms, networks, incentives, and voluntarism can be a valid support to regulation.

Moreover, government's involvement in CSR can assist business in addressing some collective action like for example providing resources and legitimacy for new CSR initiatives.

An interesting consideration regards the scope of business responsibilities and their limits. During the nineties, when attention for human rights was very much on the state and less on non-state actors such as business, corporate policies for protecting and improving specifically human rights were residual and completely voluntary. Challenges like extreme poverty, transnational crime, corruption, disaster response, institutional failures and instability (Schwab, 2008), global in scope and locally damaging, started to be included into the range of matters of which business should consider. With the rising of a series of "multi-stakeholder initiatives" characterized by a distinctive rule-making function and the direct involvement of private sector, a new conception arouses towards business responsibilities towards human rights. Therefore, regarding the scope of responsibilities of the private sector is quite intuitive to reconnect to a company's responsibilities every misconduct performed by their managers, their employees, and their representatives but also any damaging actions caused during production, transportation, exportation of products. For all those activities potentially dangerous for the environment, for local communities and for the entire society companies are, or normally are, accountable for but, with the diffusion of those phenomena related to globalization that have been previously analysed, the issue becomes more complicated since it is not so easy tackling direct responsibilities for global problems. For example, in case of witnesses of violation of human rights, is it acceptable for a company to remain passive and avoid taking action? Which should be the position taken when in an area in which a company is present human rights are explicitly compromised, or when

the general legal framework does not assure the respect of high standards for human rights? Some scholars affirm that growing interdependence between actors imply a greater commitment by those who have more influence and power but generally, the most common approach to these kinds of situations is passivity due to the extra-territorial accountability's challenge. Companies not only should be accountable for their operations in areas of poor or inefficient governance as much as they are in their territory but instead they should be driving force for change or for strengthening the institutional capacity for rights' protection. Companies are, now more than ever, called to commit themselves to the fight for changing existing processes and renovate the institutions that produce or allow violence and injustice. Considering the current literature available it is evident a lack of exhaustive researches and it could be a good opportunity for contributions establishing the plausible thresholds between which responsibilities are expected from business and what can be left voluntarism, as well as defining what responsibilities do not own or should own to business.

### **3. Brazilian Multinational Corporations and CSR within the Latin America experience**

*“There is no successful enterprise in a failed society”*

Stephan Schmidheiny

#### **Introduction to the third chapter**

The third chapter of this dissertation will be focused on the situation of CSR in Brazil, one of the most interesting emerging economies. One of the aspects that will be illustrated is how the specificities of a nation such as its culture, its tradition, its geopolitical position, its economy, its social conditions and its governmental relations deeply define the position of companies in acting as socially responsible subjects.

Many developing countries or emerging market nations may face social challenges so hard to solve that the intervention of the private sector, through CSR initiatives, is nowadays crucial. In some countries, the state weakness in providing people with goods and services and with the right support to improve their lives is acuter so the firm commitment of the social actors, especially the ones with more powers and resources like MNCs, is necessary to improve the wealth of society and the life of local communities.

The private sector can be a crucial partner in improving the health and welfare of socially and economically excluded populations giving them access to services and resources, from which they were excluded, to ameliorate their social and economic conditions. Social development is perceived to be an overwhelming task but nonetheless, corporations are called to contribute in what the governments cannot cope with their own for tackling issues that affect all the society at different levels and intensity. The lack of institutional capacity,

scarcity of government funding, the persistent presence of phenomena like corruption, racism and deep social and economic inequalities undermine the good running of all the relationships within the society. Contributing to stabilizing social conflicts and smoothing social differences within a country is a multi-value generating action. It is extremely interesting analyzing what role can and should play the private sector in one of the world's fast-growing developing country like Brazil, that is considered Latin America region's leader in CSR and that at the same time is characterized by dramatic social and economic inequalities.

Are Brazilian multinational corporations assuming the new role and the greater responsibilities that private sector is urged to perform nowadays? How are Brazilian MNCs tackling social problems through their CSR strategies? Which approaches and methods characterize CSR in three companies (Natura, Fibria, and Embraer) that are going to be analyzed in the following chapter? Can the current CSR implementation be considered enough in a country so deeply characterized by economic and social inequalities? Can these multinationals be considered the model for future development of CSR practices of Brazilian companies.

### ***3.1 Brazilian MNCs in CSR within Latin America experience***

This chapter is going to analyze which role the private sector can/should play in Brazil, the country considered as Latin America region's leader in CSR, one of the fastest growing and biggest emerging economies of the world. According to McKinsey Global Institute's research, it is esteemed that by 2025, 46% of the "Fortune Global 500" companies will come from emerging and developing

economies like Brazil, as compared to just five percent in 2000 (McKinsey Global Institute, 2013). Their influence, their power, and their resources will grow exponentially and this is the reason why the international community, governments, international organizations and NGOs are putting pressure on Brazilian companies to improve their CSR practices by now.

Indeed, even if Brazilian multinationals and big national companies are considered pioneers in CSR commitment and their initiatives helped to address social problems, they act in a country where the greater part of the companies still fail in undertaking CSR practices, in complying with international standards and in auto-regulating their activities beyond legal compliance.

The fact that emerging markets are assuming a leading role in global economy gives a good starting point for reaffirming the growing importance of the role of the private sector as a social actor and for expecting greater interactions between companies and communities. The choice of Brazil as geographical reference is due to its emerging economic power and to its leading position as the most advanced country in Latin America in the field of CSR. With regard to the choice of analyzing specifically Brazilian MNCs, Latin America region experiences a relevant backwardness in CSR, witnessed by the limited participation of companies in international, regional and local CSR initiatives.

Also in the specific case of Brazil, there is a low-adherence to these kinds of initiatives because generally only big Brazilian companies engage in CSR and considering that 80% of Brazilian companies are medium and small-sized companies, a “limited participation” emerges. Nevertheless, analyzing multinationals’ initiatives on CSR can be used to exemplify best practices at their best potentials considering that multinationals normally have the resources to

better and faster engaged in challenging objectives like, in this case, converting their companies into socially responsible agents.

The academic literature already analyzed in depth the field of CSR in developed countries but only in the last years the interest for emerging economy countries and developing countries grow. The reasons for focusing on the CSR in Latin America and specifically on the case of Brazil can be briefly explained as it follows. Latin American countries present a characteristic set of CSR priorities that are different from other countries. In Brazil, in particular, CSR's attention is focused on addressing socio-economic problems and CSR is considered a driving force of change in a territory historically devastated by inequalities, poverty, and corruption. According to Jim O'Neill, global economist at Goldman Sachs, the economic potential of emerging countries identified as BRIC (Brazil, Russia, India, and China) is so big that they could become among the four most dominant economies by the year 2050. Their territories, combined together, reach over 25% of the world's land coverage, their population accounts for 40% of the world's population and they hold a combined GDP of \$20 trillion. Considering this forecast, this is why is so important that the concept of CSR is understood and internalized by companies coming from these countries.

Brazil represents one of the most interesting country in Latin America because despite being an emerging economy country with extraordinary potentialities and in rapid expansion in the international scenario, economic and social inequalities remain elevated

### ***3.2 Leading Brazil multinationals***

The literature on CSR in emerging markets is a quite recent trend and empirical researches on the characteristics of CSR initiatives remain scarce. In Baskin's



research in 2006, an interesting pioneering analysis on CSR strategies of 100 MNCs coming from emerging markets countries, results that the commitment on CSR from some multinationals from emerging markets countries like Brazil is comparable with that of multinationals from developed countries in terms of planning, investment and outcomes. In any ranking indeed, Brazilian big companies and multinationals hold the leading position in the region for their commitment and implementation of CSR strategies scoring excellent results also in comparison with top North-American and European multinationals.

As Waddock wrote in 2006, “MNCs acquired extraordinary power from the end of 20<sup>th</sup> century and today are among the world’s most dominant and powerful institutions”. In the last decades, the process of globalization of the economy allowed and stimulated the entry of firms from emerging countries like Brazil into the global market: this process of business internationalization can be considered the third wave of internationalization characterized by BRICs explosive performance.

The first wave was led by European and Northern American companies from the end of the Second World until the 1970s; the second then happened from ‘70s to 80s’ and was led by countries like Japan and Hong Kong, Singapore, South Korea and Taiwan. During the 70s’ indeed, MNCs from Latin America, and especially from Brazil, started internationalizing their productions and invested in the Latin American region, trying to substitute foreign importations. The context was characterized by high tariffs, few economic resources, low technic expertise and labor-intensive processes when MNCs tried to create export channels for their products establishing long-lasting partnerships and collaborations with the countries of the region.

The second generation of Latin American MNCs was born thanks to economic liberalization. Changing the environmental conditions in which companies operated and falling the institutional barriers for business, Brazilian firms started to invest in new markets and looking for new countries for exporting their products. Brazilian multinationals coming from that third generation of companies that internationalized their business are now leading companies at the global level, earning billions of dollar per year and employing thousand people worldwide. In virtue of this power and of their central role in society, MNCs are called for rising their social engagement, assuming in first person greater responsibilities for tackling social problems, being accountable and transparent and, at the same time, avoiding despicable behaviors. International public opinion is today more aware of the correlation between social and environmental problems and phenomena linked with globalization, like industrialization and deregulation. It is indeed now widely accepted that production and marketing operations of large MNCs have a critical impact on environmental stresses, labor market practices, regional economic development, and the broader culture (Barnet and Cavanagh, 1994; Rondinelli and Berry, 2002)

In the range of negative consequences attributed to MNCs, there are also the loss of domestic jobs and reduction of national industries' competitive power, the sweatshop phenomenon, exploitation of natural and human resources, human rights abuses, not adequate working conditions, over-consumption, excessive waste and misleading competition. Multinationals have to face these accuses of generating negative social impacts especially in countries with scarce regulations and ineffective enforcement mechanisms and prove that their conduct is ethical and sustainable. In relation to this last reflection, it is worth investigating the reasons why multinational companies in Brazil are so much

more engaged in responsible behaviors than small and medium-sized national companies. One of the first reasons is sure that multinational companies have bigger financial resources, knowledge, capacity and personnel to implement CSR practices. They can establish a specific department for CSR, as the majority of multinational companies already did, or even creating a foundation or an institute for this specific purpose. Embraer, one of the three companies chosen as case study in this dissertation, established in 2001 the Embraer Institute in Brazil and then in 2004 established the Embraer Foundation in the United States. MNCs are more involved into an international dimension in which the pressure for behavioural conformity and compliance is stronger; the more a company is subjected to international exposure the more it joins CSR initiatives at local, regional, national and international level. Moreover, multinationals acting in global arenas and in CSR networks can interact with their peers, being updated and take part of the movement.

In addition, there are many strategic motivations for showing commitment to CRS: it can be seen as an important tool to achieve competitive advantage in the developed world showing credibility. Entering into global market means be subjected to the same pressure than any other companies, so emerging countries' multinationals need to comply with international stock market listing requirements, including various forms of sustainability performance reporting and CSR code compliance (Visser, 2005)

Developing CSR initiatives in partnership with other stakeholders to improve local communities' wealth presupposes investing in the development of the human capital more than allocating financial resources for a short-term investment. For example, investing in formative courses and training to assure

profitable long-term benefits both for people who follow these training both for the companies who hire a skilled and prepared workforce.

It helps the organization also to develop an in-depth knowledge of the area in which operates gaining privilege information about how to prevent conflicts and risks. Indeed building better relationships with key stakeholder groups is a strategic move also to enhance the reputation of the company, building its identity within the society in which it works. The crucial long-term objective of any CSR initiative is to contribute to the development of a stable society.

### ***Brazilian situation***

Brazil is a unique country: it is the largest country of Latin America with an extension of 8.516.000 km<sup>2</sup>, accounting for 47,3% of the Latin American continent, with 170 million inhabitants and 4356 billion of GDP. Brazil is part of BRICS, a denomination for a group composed by Brazil, Russia, India, China and South Africa. BRICS countries possess common characteristics like a large population, an extraordinarily extended territory, abundant natural resources, a rising developing economic situation and, especially in the last years, they are all characterized by strong growth in GDP and by a rapid internationalization of their enterprises. The forecasts for the relevance of BRICS countries in the international scenario are extremely dazzling since, as above mentioned, it is assumed by many economists that by 2050 their markets will be in dominant position. The differences within Brazil are very consistent with a strong difference in terms of economic health, social inclusion and opportunities as the GINI Index in 2015 testify, assigning to Brazil a score of 51.3.

The GINI index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy

deviates from an equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or households. The GINI index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line.

Thus, Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality. (World Bank data, 2017) Actually, compared to the previous years, is it possible to see how that the score gradually decreased going from 60.1 in 1993 to the current 51.3. Based on data from Oxfam, between 2001 and 2015, the richest 10 percent of the population accounted for 61 percent of economic growth, and unbelievably the Brazil's six richest men have the same wealth as poorest 50 percent of the population.

Some progress have been achieved because, during the last decades, the level of inequality has been reduced, as consequence of the implementation of important social policies and social welfare programs implemented by the Brazilian governments. "Bolsa Familia", for example, is a program that provides financial aid to poor families across the country whose aims are reducing extreme poverty situations by direct cash transfers and investing in a long period strategy for human development. Families participating in the program indeed must comply with some duties like assuring school attending of their children and bringing them to periodical health checks in order to keep receiving funds from the government. The program reached 46 million people in the country and it reduced poverty to less than 10 percent of the population but still, despite this evolution, the economic and social polarization within the country is very high.

The social and economic problems of the country are deeply rooted in its history and reparative solutions or mitigation measures have been implemented only in the last decades.

In Brazil indeed, but this assumption can be generalized for many countries in Latin America, companies began to seriously reconsider their role in the society taking greater social responsibilities no more than thirty years ago. The driving forces of CSR lied in the political, social and economic changes that occurred during the 80s' when, after more than twenty years of military dictatorship, Brazil finally managed to institutionalize a democratic form of government. During the two decades of military dictatorship, the Brazilian society was characterized by the suppression of civil rights and by the ban of any organized labor movement claiming for better working conditions. The state institutions explicitly colluded with a few big companies that exercised unlimited and exclusive power in many important economic fields, in important economic fields, exacerbating even more economic and social inequalities within the society. The economic polarization grew and instead of redistributing wealth among the people, the finances of the state were drained by the realization of gigantic and expensive infrastructures.

The symbolic year for the reborn of democracy was 1989 with the approval of the new Constitution, namely "Constituição do povo" in honor of the popular involvement in the establishment of a democratic instrument for ruling. After the instauration of a real democratic system and the falling of the military ruling, a new political space opened for private sector's participation in the social field. Companies in the 1990s recognized their social responsibilities and started assuming the role of co-responsible actors in solving the problems of the country. The way of enhancing into society gradually changed from philanthropy to social

investment in a tentative to improve the relationship with their closer stakeholders, namely workers and the local community, and foreseeing that having a stronger connection with the society could be a competitive advantage in such a difficult region.

In 1992, the United Nations Conference on Environment and Development, also called Rio Summit, was one of the first events in which a high number of country's representatives coming from 172 nations (many Latin American countries participated) gathered to talk about sustainability, global warming and public and private responsibilities. CSR, meaning the recognition from firms of the necessity to assume social responsibilities in practice and to incorporate a culture of ethical responsibility within companies, was extensively debated and many national and international networks and institutions were created as consequences. In 1997 Forum Empresa was created, a continent-wide alliance of 16 CSR business institutions coming the Latin American continent and a year later, in 1998, the Instituto Ethos de Empresas e Responsabilidade Social, one of the most important national organization worldwide for promoting CSR, was instituted Brazil. The Instituto Ethos was created from the ashes of the Brazilian think tank "Pensamento Nacional das Bases Empresariais" in which pioneer executives tried to spread CSR culture in Brazil as a response to social problems of the country. In the beginning, only 11 companies joined the Ethos Institute but the progressive debate at international and national levels on CSR determined a conspicuous increase in the members of Ethos Institute. The Institute can count now on 1368 effective member companies of different nature, sized and relevance but the annual revenues of all these companies account approximately for a 35% of the Brazilian GDP and they employ roughly 2 million people on the national territory. (Ethos website)

### ***3.3. Local and International CSR Initiatives***

Ethos Institute's mission does not only lie in defining corporate behaviors and codes of conduct but it also assumes a central role in reshaping companies' way of perceiving themselves as social actors. Over the years, the Institute organized conferences and congresses and published researches to spread knowledge on CSR. Its aim has been making people aware that in Brazil a revolution in the traditional distribution of roles and responsibilities is needed to change social conditions and for this reason, the private sector has to take immediately remedies to face these issues.

The Instituto Ethos de Empresas e Responsabilidade Social created in 2000 the first indicators for CSR process in Brazil. They gained prestige and recognition across all continent and were translated into Spanish in order to be used by other Latin American countries. The Instituto Argentino de RSE in 2005 adapted and reformulate the Ethos' indicators for Argentina and the same did the Asociación Perú 2021 in 2006 for Perú, the Corporación Boliviana de RSE in 2009 and the Asociación de Empresarios Cristianos in Paraguay in the same year. The indicators were then globally adopted within the framework of the Programa Sur Americano de RSE.

One of the reasons that gave to Ethos Institute's indicators their fame is the capacity of the Institute of formulating and reformulating the indicators accordingly to the emerging discussion concerning CSR and the most relevant stakeholders. In the 2003 edition of the indicators, specific attention was given in measuring how companies were facing some of the more sensitive themes at the time like for example how companies were respecting confidentiality's policies and how were managing the privacy of their consumers. The following



edition's indicators evaluated the fairness of remuneration policies, career perspectives and promotion of diversity in the working place. The edition of 2004 was very important because of the indicators added to measure corporate governance and evaluating if companies were committed to sustainability and fair trades. The 2006's version incorporated the Business Child Development Index, introduced indicators to measure companies' commitment to racial and gender equality. The numbers of indicators increased progressively, nowadays companies can choose between different models composed of different indicators, and selecting the one that better fits with their company. The general and the most used model for sustainable companies comprises 47 indicators but there are also models specifically created for micro-sized, small-sized and medium-sized companies. Between the models aimed at measuring and communicating CSR initiatives for specific objective "Model for Integrity, Prevention and Anti-corruption" composed by 14 indicators, the "Model for Gender equality" with 12 indicators and the one for "Racial Equality" with 13. The Ethos Institute also started partnership and collaborations with sectoral organizations to develop specific indicators for specific entities like banks, oil and gas, public transportation and so on.

In the 21st century the relevance of CSR increased and its conceptualization grown differentiating itself upon business sectors, national context and level of national engagement into it. The Institute is a leading institution for Brazilian companies and its models and indicators are used, together with GRI guidelines, for creating the annual reports of the three multinationals companies that will be analyzed in the following chapter. As for reporting activity and subscription to global initiatives on CSR, Brazil stands for the number of its signatory companies. According to the UN Global Compact website, the "Rede Brasil do

Pacto Global”, which is the Brazilian local entity of the network, positioned its self in the first position in Latin America and in third position worldwide, right behind Spain and France.

Brazilian companies Fibria Celulose and Natura were the first in the region to join the program and in the last fifteen years from the launch of the UN platform in Brazil; its importance grows until becoming the reference pole for Latin America with its 763 participants. (UN Global Compact website)

**Active participants in the UN Global Compact among Latin American countries in 2018**

Country	Participants
Brazil	763
Colombia	564
Argentina	436
Ecuador	151
Peru	121
Paraguay	91
Uruguay	77
Chile	60
Bolivia	29
Venezuela	12

(Self-elaborated table based on data from UN Global Compact website)

## Distribution of Brazilian companies adhering to UN Global Compact in 2018

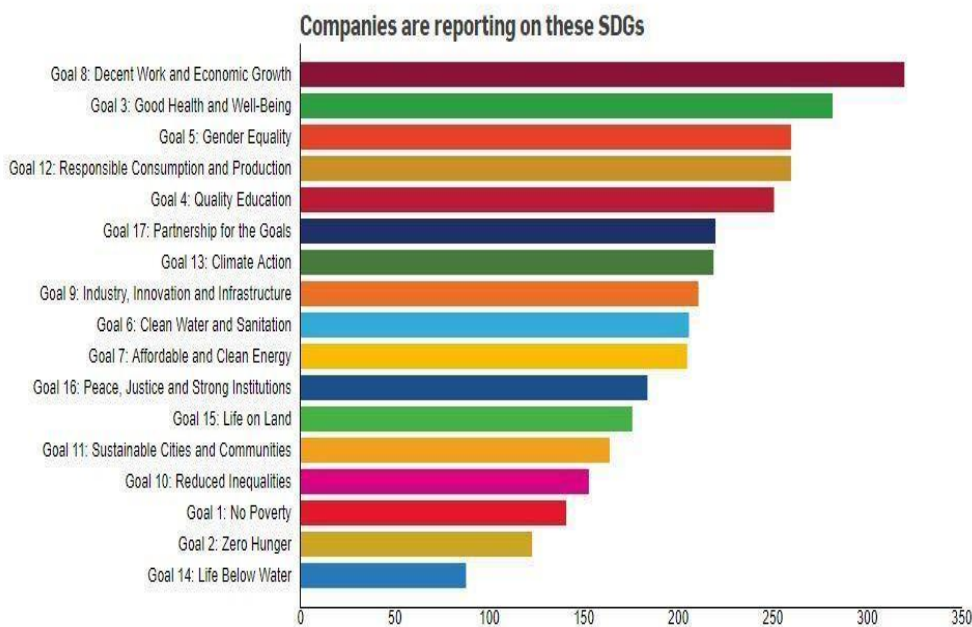


(Image elaborated on the bases of data from UN Global Compact website)

According to the last published report of UN Global Compact Brazil, from 2016 to 2017 the signatory countries increase of 8,7%, seeing 45 new members applying to the initiative. In 2017, Rede Brasil do Pacto Global, the local network of the UN Global Compact, established several projects in partnership with other UN Agency namely International Labour Organization (ILO), United

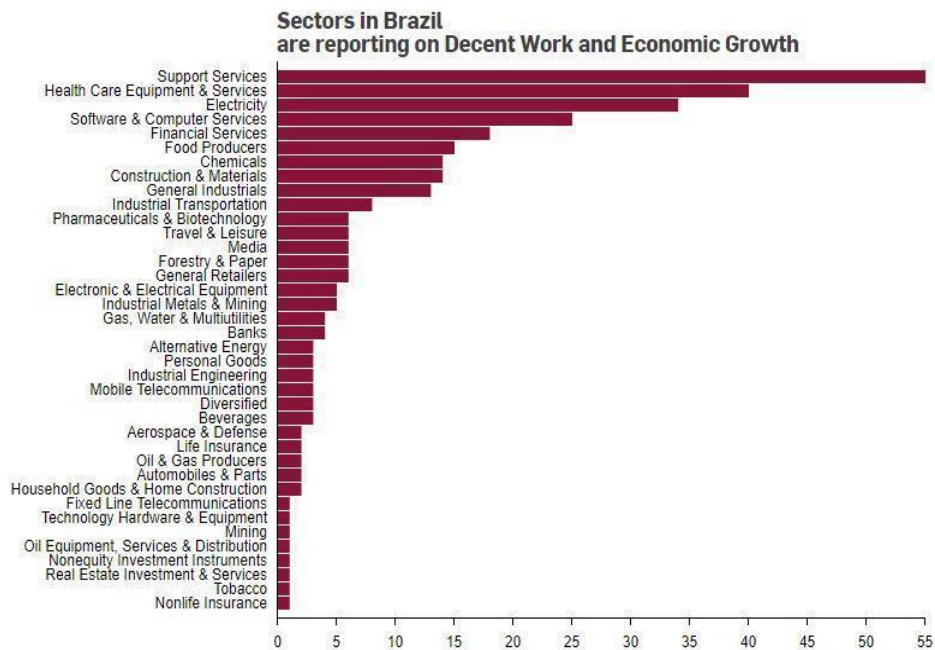
Nations High Commissioner for Refugees (UNHCR), UN Women, International Fund Agricultural Development Organization (IFAD), United Nations Office on Drugs and Crime (UNODC) and United Nations Commission on Human Rights. It also took part in the creation and development of platform like Women's Empowerment Principles, Caring for Climate, Anti-Corruption, Human Rights, Business Principles for Food and Agriculture (FABs Principles), Business for Peace, The CEO Water Mandate and Principles for Responsible Executive Education (UNPRME).

Based on COPs from Brazilian companies are reporting on these SDGs in 2017:



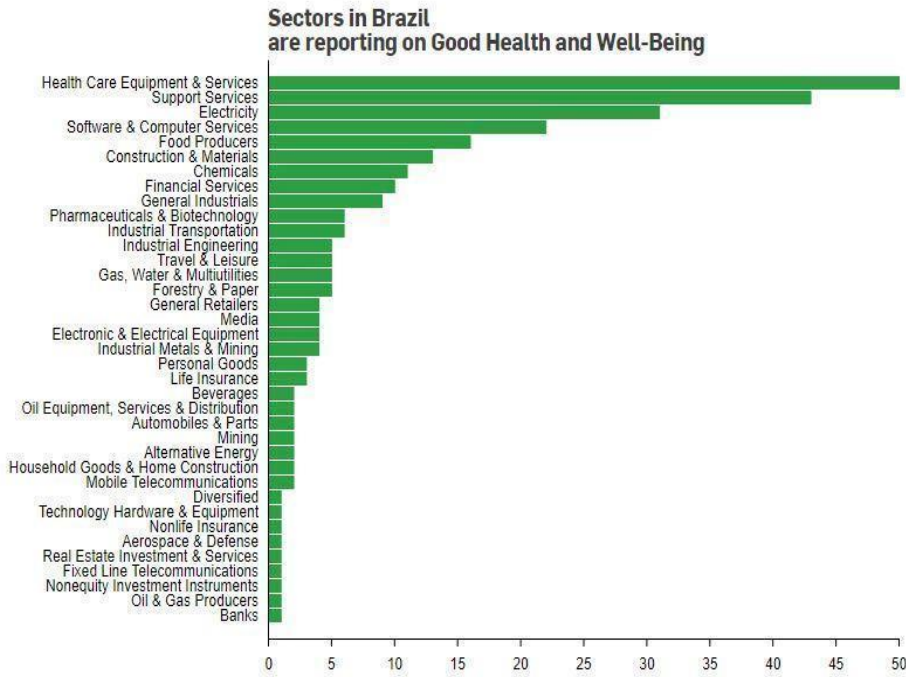
(UN Global Compact website)

The first one is the SDG 8 concerning *Decent work and Economic Growth*: 320 companies are reporting activities to advance the SDG 8. As shown below, the three main sectors that are committed to support the SDG 8, “Decent work and Economic Growth” are 55 pertains to Support services, 40 to Health care equipment& services and 32 to Electricity.



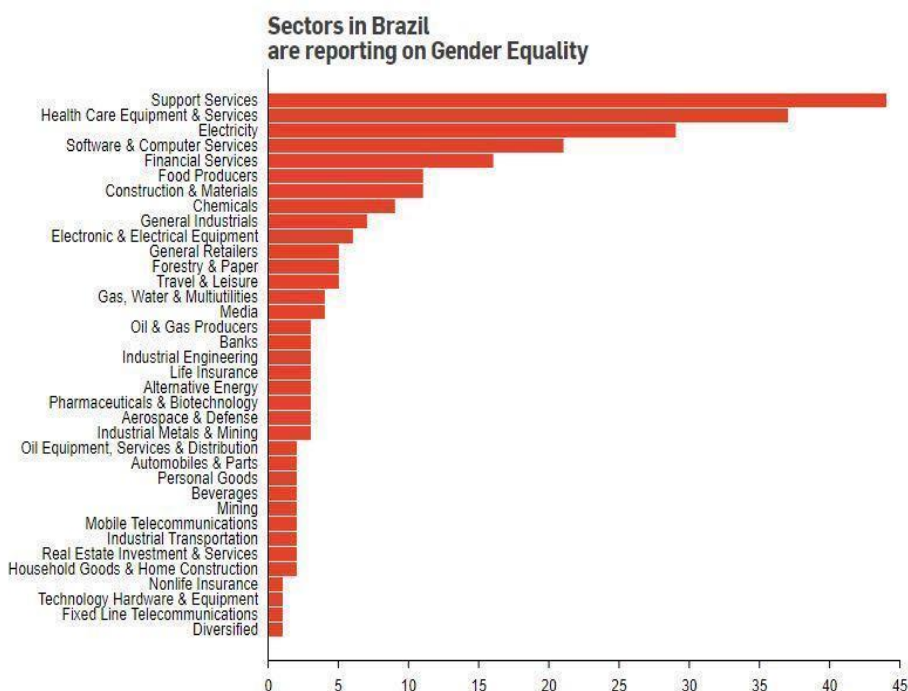
(UN Global Compact website)

The second one is the SDG 3 concerning *Good health and Well-Being*: 282 companies are reporting activities to advance the SDG 3. As shown below, the three main sectors that are committed to support the SDG 3, Good health and Well-Being are 50 companies pertain to Healthcare Equipment & Services, 43 to Support services and 31 to Electricity.



(UN Global Compact website)

The third one is the SDG 5 concerning *Gender Equality*: 260 companies are reporting activities to advance the SDG 5. As shown below, the three main sectors that are committed to support the SDG 5, Good health and Well-Being are 44 companies pertain to Healthcare equipment & Services, 37 to Support



services and 29 to Electricity. In emerging markets countries, the adoption of ISO 14001 and of Global Reporting Initiative's Sustainability Reporting Guidelines has widely diffused as well as the application of specific codes of conduct for self-regulation of companies' actions in specific sectors or specific issues, like corruption or gender equality, central in emerging market countries.

**Companies adopting GRI guidelines among Latin American countries in 2017**

Country	Participants
Brazil	210
Colombia	170
Argentina	80
Uruguay	65
Peru	63
Chile	65
Ecuador	18
Bolivia	10
Paraguay	3
Venezuela	2



### ***3.4 Characteristics of CSR in Brazil***

According to the rising importance of the role of private sector, corporations have begun implementing important programs related to a broad definition of corporate social responsibility. In part formulated as a response to growing distrust of large companies by the general public and in part as re-recognition of the embeddedness of business in society (Polanyi, 2001) many MNCs not only started disclosing information on their activities and engaging into reporting activities but they actually created autonomous projects aimed at benefitting directly to the society.

Latin America's countries present a characteristic set of CSR priorities that are different from other countries and in Brazil, in particular, CSR attention is focused in addressing socio-economic problems. Thus, CSR initiatives tend to focus on specific national problems like reducing unemployment, improving working conditions, increasing economic inclusion of rural communities, reducing the racial gap, providing basic services and environmental sanitation and reducing social and economic inequalities within the country.

National states in Latin America keep showing scarce effective mechanism to control companies' actions and legislation does not provide consistent incentives for business engagement into CSR and as widely exposed in the second chapter of this dissertation, the issue of CSR and private regulatory regimes are seen as tools to reduce the "governance gaps" is present also in the country.

What is worth noticing as peculiar in the case of Brazil is which kind of commitment companies take at the national level. The role companies play, through CSR initiatives, is often considered an alternative to the role of the state and firms got engaged in the provision of social services that in other countries are normally assured by the state like providing any district with schools and

facilities, or guaranteeing water availability for households. The societal pressure over companies in performing a more development-oriented approach to CSR is very strong because Brazilian state has historically never been able to answer to societal demands with adequate solutions for its problems. What strongly differ from North-American and European multinationals' CSR initiatives is the extent to which is CSR is accepted by different sized companies in the country and in the region. The most structured CSR programs are usually implemented by multinational companies and by high profile national companies with recognized international brands or those aspiring to global status (Visser, 2007). "CSR is less embedded in corporate strategies, less pervasive and less politically rooted than in most of high-income OECD countries." (Oxford Handbook, 2006)

In emerging market countries like Brazil, CSR assumes also another connotation that is the possibility of stimulating and generating a series of positive and concatenating effects in many fields. From the possibility of creating new jobs and thus reducing unemployment, to investing in human capital through training and formative activities. Big companies can establish local business linkages, diffusing best practices and requiring high standards of sustainable practices on all the suppliers of the supply chain of big multinationals, transferring expertise and technological innovations and providing institutions with support and encouragement for improving their institutional capacity.

These countries, as a report of World Bank explicitly analyzed in 2006, are those "where globalization, economic growth, investments and business activity are likely to have the most dramatic social and environmental impacts, both negative and positive".

The peculiarities of Brazilian society, strongly and characterized by inequalities, forced companies, civil society organizations to design CSR initiatives fitting the local context. For example, the presence of the Amazonian forest, covering a big region in the north-west of the country, requires companies to face the challenge of protecting it and respecting local communities living there. Companies undertaking CSR initiatives focusing on local community development pay primary importance in building positive community relations. Indeed, the first phase of a project aimed at including a group into the closer network of a company is identifying which are the most problematic issues for the communities and the reasons for the company to get involved into them. The way of developing a strategy is very important as well as establishing the different phases of the project in order to measure and evaluate systematically the degree of improvement realized in the community.

In the next chapter will be analysed initiatives of (a) involvement of local communities into the system of production of the companies (b) provisions of trainings and employment opportunities for people of local communities (c) investment in high-level educational projects for students coming from low-income families; (d) structured partnership with governments and local associations to support local development.

#### **4. Case study - Best practices of CSR in Brazil**

##### **Natura, Fibria, and Embraer - An analysis of CSR initiatives to reduce inequalities and social and economic exclusion of local communities in Brazil**

*“To sustain performance...you must also understand the societal impact of your business as well as the ways that broad, structural trends — from slow wage growth to rising automation to climate change — affect your potential for growth”*

Larry Fink, CEO of BlackRock, January 2018

##### ***Introduction to the chapter***

In this chapter, a selection of CSR best practices to reduce inequalities and social and economic exclusion of local communities designed by three Brazilian multinationals will be introduced. The case studies proposed will analyze the role of private sector, in specific the role of MNCs, as a social actor and its responsibilities towards the society.

This chapter is aimed at discovering and analyzing how Brazilian MNCs are engaged in CSR programs that tackle critical regional issues and how these CSR initiatives are embedded into the core strategies of the company. Importance will be given to the way in which companies interact with communities, governments, NGOs and other local stakeholders, in establishing long-lasting and profitable partnerships and collaborations for efficient CSR initiatives. Between the factors that will be taken in consideration, special attention will be given to the way companies designed CSR projects that align corporate core objectives/production/interests with the real needs of the local communities for

establishing how these multinationals are performing their role of the driver of change in Brazil.

In this dissertation, the degree of commitment of the company in CSR is analyzed through the level of embedment of these activities into the core business strategies, in the modalities above mentioned, as the way they actively contribute to reducing inequalities and social and economic exclusion of local communities. The chosen sample is limited in number, analyzing just three companies, namely Natura, Fibria, and Embraer, but it is very representative of the potential of private sector's contributions since the characteristics of all the projects are replicable and scalable across the country. Natura, Fibria and Embraer and they have already achieved a sufficient degree of maturity in CSR initiatives to be taken as an example. The three are leading MNCs in CSR field but it is possible to establish a ranking between them assessing how they are performing their role of social actors by identifying weaknesses and strengths of their approaches. The analysis of CSR initiatives implemented by the three multinationals will be restricted only to those external strategies with a focus on community development and on the reduction of social and economic exclusion of local communities.

The records of the three important MNCs will be analyzed from their websites, annual reports, ranking, and articles. In order to elaborate an analysis of the three multinationals performances in CSR, the first requirement that a firm must meet is to be of Brazilian national origin; the second to be a multinational company and the third one is that CSR information is accessible.

These questions will be answered in order to analyze the three MNCs that compose this case study:

- a. Which are the principal CSR activity undertaken by the firm?*
- b. Are these activities integrated into the company's management model and core strategies?*
- c. Did the company promote dialogue, cooperation with different stakeholders and exchange of experiences between sectors?*
- d. Did the CSR initiatives of the firm directly affect the level of exclusion of the local communities and reduce social and economic inequalities?*
- e. Are these initiatives scalable and replicable in other places and circumstances?*
- f. Which are the limits of these CSR projects?*

#### **4.1 NATURA Cosméticos S/A**



(From Natura website)

##### ***Who is Natura?***

Natura Cosmético is a Brazilian multinational founded in 1969 and it is one of the world largest personal care products company in the world. It developed a wide series of products made with natural ingredients coming from local Brazilian plants, especially from the Amazon forest.

In Brazil, Natura is the first cosmetics manufacturer and the country's leader in the direct sales sector. Based in Cajamar, São Paulo, the company employs around 7.000 people in the seven countries in which it expanded: Brazil, Argentina, Chile, Mexico, Peru, Colombia and France. Its motto is “Bem - Estar - Bem” which means “Well - being – Well”, meaning that the physical well-being of an individual is connected with the nature, with other people and with the entire planet. This vision strongly characterizes the whole Natura’s production and management that relies on ethic and environmental principles as fundamental values.

It considers that responsible and sustainable practices are not activities limited only to one department but, rather, they form a part of the company’s everyday

operations. Natura pays particular attention that the positive impacts of its actions are generated throughout the company's chain of productivity; from the early stages of the production to the final external business relationships.

### ***Reputations and Rankings***

The Spanish consulting firm Merco published for the Brazilian magazine EXAME the 2017 list of "The Ten Companies with the Best Reputation in Brazil". According to the research, Natura has the best corporate image in the Brazilian market and surprisingly in the first ten position, seven are Brazilian companies, and Vale and Petrobras took the second and third position. Merco interviewed more than a thousand consumers to establish a reliable criterion for comparing the reputation of companies and analyzed economic and not-economic data performance from the companies investigated. The survey was also audited by consulting firm KPMG.

According to another ranking elaborated by Merco, Natura leads the 2017 ranking of "Responsibility and Corporate Governance in Latin American". The company maintains its position since the first survey conducted in the country, in 2015. Natura is among the 20 best-reputed companies also in the rankings of the countries where it operates in Latin America: Argentina, Chile, Mexico, and Peru. The criteria used for creating Merco's reputation assessment are community contribution, commitment to the environment and climate change, accountability to employees, ethical behavior, transparency and good governance.

During the 2018 World Economic Forum in Davos, Natura was awarded the 14th position in the "The Global 100", the annual list published by Corporate Knights, a Canadian consultancy agency, which selects the 100 companies with the best



corporate sustainability practices in the world. The publication selects companies from all sectors based on indicators such as energy, carbon emissions, water consumption, solid waste, innovation capacity, tax payments, the of employee's salary to the CEO's one, corporate pension plans and the percentage of women in management. A newly added indicator to the ranking is the percentage of new investments that companies are allocating in sustainable projects, such as investment in less polluting sources and the development of greener products. Natura is not the only Brazilian companies to be present in the new edition of the ranking; there are other four Brazilian companies: Companhia Energética de Minas Gerais in the 18<sup>th</sup> position, Banco do Brasil at the 49<sup>th</sup> position, Engie Brasil Energia at the 52<sup>nd</sup> position and Banco Santander Brasil at the 76<sup>th</sup> position.

### ***CSR International Initiatives and Corporate Commitment***

Natura signed its commitment to the UN Global Compact on 26 July 2000 and its status is currently “Active”, meaning that he is constantly submitting communications of progress (COP) to the UN Global Compact. Natura declared to address within its activities the following Sustainable Development Goals (SDGs):

SDG 10 - Reduce inequality within and among countries -

SDG 14 – Life under the water -

SDG 9 – Industry, renovation, and infrastructures -

SDG 11 – Responsible consumption and production -

Other initiatives in which Natura is currently engaged are the Carbon Pricing Champions, Caring For Climate, Founding Companies, Responsible Climate

Policy Engagement, Science-Based Targets, Women's Empowerment Principles.

The 2016 Natura Annual Report is the last published and it follows the guidelines established by the GRI (Global Reporting Initiative) for reporting sustainability performance, using the 2016 latest version. Natura adopted the GRI-aligned reporting approach in 2000 and now is in line with the integrated reporting principles set out by the International Integrated Reporting Council.

Natura obtained the status of “B Corporation” attesting its dedication in achieving outstanding both economic and socio-environmental results. The company follows the “Active Ingredient Certification Program”, based on the forest management standards of the Forest Stewardship Council to assure that inputs originating from the Brazilian flora are extracted in an environmentally correct and socially fair manner (Natura, 2006, p. 98). The three directors of Natura, Antonio Luiz da Cunha Seabra, Guilherme Peirão Leal, Pedro Luiz Barreiros Passos decided to put an important declaration of commitment in the beginning of the annual Report, in order to explain and share the choices of Natura during these years and the continuous deepening of its commitment to sustainable development.

*“In our times, the overriding sensation is one of profound doubt about our individual and collective destinations which provokes anxiety and anguish, a sense of frustration with politics and grave tensions between nations. One of the issues that generate uncertainty on a global level is extreme social inequality, within countries and between them, an alarming situation for us all. Given this panorama, it is necessary for us to seek the lights of our fundamental principles and our origins in humanism and in respect for others. Basic truths, such as awareness that we are all part of the chain of life on the planet should fuel our*

*thoughts and our resolve, and guide our actions in the struggle for further advances for humankind. This commitment enables us to see the beauty in uncertainty; it offers us opportunities for all kinds of innovation, encompassing especially the social realm. Uncertainty also exercises a particular power: it demands that each one of us – individuals and political, social, business, academic and cultural leaders – do their part. That we participate in public life and in the discussion about the future that we want to build. Companies, in turn, in defense of their own interests, are able to and are responsible for assuming the role of agents of social and environmental transformation. They should understand these two commitments as opportunities for disruptive innovation. As discussed in the latest World Economic Forum in Davos, it is necessary to concretize the contribution capitalism can make to reduce the pains caused by social inequality. We are part of this movement which, based on new paradigms, seeks to generate development and prosperity for all, especially those who have been left behind” (Natura Annual Report 2016, pp.2-3).*

### **CSR Projects**

In 2015, Natura launched the “2050 Sustainability Vision” committing to having a stronger positive impact on the environment and society. An impact analysis in 2016 pointed out that, all the CSR initiatives promoted by Natura in many fields, such as inclusion, women’s empowerment, education, water, biodiversity and the Amazon, address 16 of the 17 SDGs of the United Nations. Natura is involved in these objectives in many stages of its production starting from the interaction with its suppliers, which is a central theme for the company

The most important project that shows the role of Natura is the “Amazon Program”, a well-structured sustainable model of business project that represents

a CSR initiative perfectly embedded into the core strategy of the company. In the area of social added value, Natura's indicator for Amazon Program, show that the number of families benefited in Supplier Communities passed from 3.121 in 2014, to 2.251 in 2016 until now that are 2.841 in a cumulative business in the region of 973 R\$ million in 2016, closer to the 2020 objective of reaching R\$ 1 billion. Natura produces natural products made with Amazonian ingredients and it created a sustainable production chains in the region, generating income for 2,119 families in the Amazon, affecting the quality of life of more than 8,000 people in the region and preserving more than 257,000 hectares of forest from exploitation. The idea behind the project is to present a more inclusive and sustainable development model for the region that could be replicable and scalable.

The part related to social and economic improvement for local communities will be analyzed in depth but it is important to stress that, in this project, the environmental protection is also a crucial aspect. The Amazonia forest indeed represents an invaluable resource, playing a fundamental role in the regulation of the planet's climate, and representing 55% of the world's tropical forests and 20% of the world's fresh river water. Nonetheless, the forest is subjected to the devastation in terms of agricultural exploitation, illegal cutting, deforestation, and destruction of the eco-system and the bio-diversity.

Natura structured a program composed of three major pillars of activity a) Science, Technology, and Innovation b) Development of Sustainable Chains and c) Institutional Empowerment.

The first pillar, named "Science, Technology, and Innovation" is an instrument to promote and sustain research and scientific innovation and investigation with the support of business and the involvement of many stakeholders, like

universities, local NGOs and research centers. Respecting bio-diversity in this region means committing to adopt sustainable management in any steps of the production, researching and investing in innovative solutions. For these reasons, Natura created in 2012 its “Natura Amazon Innovation Center”, originally located in Manaus (Amazonas) and that is now in Benevides (Pará). It comprises the Natura Amazon Campus, in which more than 360 pioneering researchers have the possibility to test their studies and several researches centers and laboratories. Natura established important partnerships with local organizations and entities such as the Federal University of Amazonas, the National Institute for Amazonian Research, the Brazilian Agricultural Research Corporation and the Amazonas State Research Support Foundation. Through this network, students and professionals can achieve scholarships and grants for researching innovative projects in the region. Natura experienced a pilot project in cooperation with the Tomé-Açu Mixed Farming Cooperative located in the state of Pará, with Embrapa and the Funding Agency for Studies and Projects. They used 18 hectares to test the replacement of palm monoculture with an agroforestry system, whereby oil palm cultivation is carried out alongside other plant species. Monoculture indeed affects the eco-system and create a scarcity of resources for other less valuable products. The preparation for the pivotal project started in 2007 when Natura got involved into alternative methods of palm cultivation, and it showed good initial results in the cultivation and excellent environmental benefits – such as the natural barrier against pests created by the diversity of plant species.

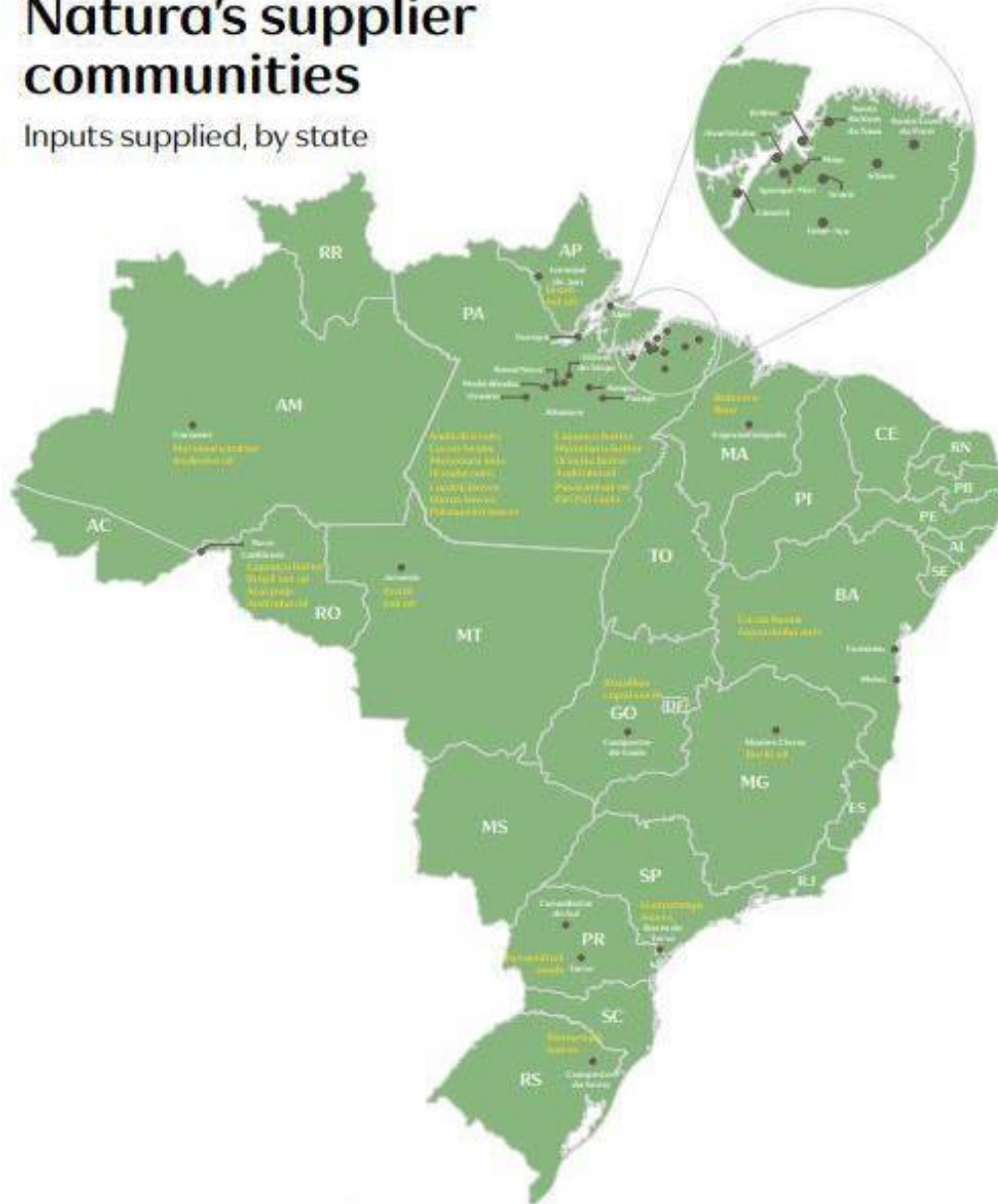
The second pillar of Natura’s project, “Socio-biodiversity Production Chains” is the most significant for this research, showing results and improvement in economic and social conditions of excluded local communities. The

relationships created with the local communities comprehend both commercial relationships with local people that work for Natura as suppliers, and non-commercial relationship with communities as local stakeholders. The first kind of relationships is aimed at creating and defying sustainable production chains in the Amazon, investing in the employment of local people, and providing them training, production skills and adequate technologic tools for being independent in their work. Including local communities within the production chains generate local wealth, sustains social development and economic inclusion.

Every year the supplier communities increase and in 2016, three local communities were added, reaching the number of 33 communities and 2841 families benefitted within the communities.

## Natura's supplier communities

Inputs supplied, by state



(Imagine taken from the Annual Report of Natura)

Around 75% of these business partners are located in the Amazon region, counting for 27 communities and 2119 families. The other partner communities are located in different parts of Brazil in Pará, in a new area of operations for Natura. The communities involved are: Codaemj Carauari (Amazonas), Cofruta Abaetetuba (Pará), Comaru Laranjal do Jari (Amapá), Coomar Santa Luzia do Pará (Pará), Coopafloresta Turvo (Paraná), Coopavam Juruena (Mato Grosso),

Coopção Pacajá (Pará), Copaesp Esperantinópolis (Maranhão), Copoam Medicilândia (Pará), Copobom Anapu (Pará), Copops Uruará (Pará), Adincocma Afuá (Pará), Apobv Acará (Pará), Aprocamp Santo Antônio do Tauá (Pará), Ataic Gurupá (Pará), Caepim Igarapé - Miri (Pará), Cabruca Ilhéus (Bahía), Camta Tomé Açu (Pará), Camtaua Santo Antônio do Tauá (Pará), Cart Cameté (Pará), Cepotx Altamira (Pará), Coaprocor Corumbataí do Sul (Paraná), Copotran Vitória do Xingu (Pará), Copoxin Brasil Novo (Pará), GF Guaçatonga Barra do Turvo ( San Pablo), GF Jatoba Campestre de Goiás (Goiás), GF Poejo Campestre da Serra (Rio Grande do Sul), GF Sapucainha Camamu (Bahía), Grande Sertão Montes Claros (Minas Gerais), Irituia Irituia (Pará), Jauari Moju (Pará), MMIB Belém (Pará), Reca Nova Califórnia (Rondônia).

The third pillar of the Amazon Program is “Institutional Empowerment”. The specificity of the Amazonian context requires that local institutions are effectively empowered and able to protect the resources of the forest. For this reason it is so important that the various stakeholders collaborate to define priorities and the best way to achieve them. The network in the region, composed by local governments, grassroots communities and other companies identified the main objectives and initiatives, for which working together, and that resulted to be: promoting forestry education, fostering entrepreneurship, digital inclusion and carbon reduction. One of the most important elements to sustain the forest, and the communities which live next to it, is spreading education and teaching a specific knowledge for living in the forest. The project, financed by Natura and other entities, offers to children and teenagers the possibility of residing at school or learning online at the family’s rural property. Schools that offer this option play a vital role in tackling the exodus of young people from forest areas that



leave their homes due to the deficiency of the institutional system of providing quality education in rural areas. Focusing on the specificities of the life in rural areas near the forest and giving people the knowledge and skills to manage such a unique ecosystem is the most effective strategy to implement sustainable production techniques in the future.

Local leaders and institutions were empowered through the process of creation of territorial arrangements, developed in collaboration with the entire stakeholder community present in the territory, which identified a specific “Local Development Plan” for any area in which Natura works. The Local Development Plan includes a participative analysis of the situation, defines priorities and shapes a specific strategic plan to achieve them. Example are “Comunidade Viva” (Living Community) in Jaguará, “Inova Cajamar” (Innovate Cajamar) in Cajamar, and UDBEN in Benevides.

Natura participates in the development of local centers by direct investment and incentives to improve the education of children at school. In 2016, the investments in communities surrounding Natura’s units exceeded R\$ 530.000. Natura also financed and promoted innovative projects like a pre-acceleration project for regional start-ups, in line with the United Nations Sustainable Development Goals, developed by young entrepreneurs and worked in partnership with Artemísia, a non-profit organization that has pioneered the support of social impact businesses in the region.

Natura is trying to increase its presence and contribution in the region planning development in order to better support the communities living near the firm’s operation centers in Brazil. The regions interested are Mid Juruá (Amazonas), Lower Tocantins (Pará) and Transamazon (Pará), areas where Natura wants to improve change on a sizeable scale working together with the local governments,

local population and its stakeholders through open dialogue and collaborative construction”(Natura Annual Report 2016).

As an example of the work in these communities, Natura supported in Mid Juruá the access to basic sanitation and safe water for 500 riverside communities, through a partnership between the Chico Mendes Memorial Fund and the Ministry for Social Development, and constructed 1 km of waterfront warehouses for delivering products. Natura created an Open University of Brazil’s campus near riverside communities in order to provide high-education facilities for the local communities. Four rural areas in Lower Tocantins received funds to rehabilitate their school’s rooms and create digital centers. Natura financed formative training and vocational training in crop and livestock farming for 1,800 young students from the Rural Family Homes in Pará and the number of places available is expected to duplicate in the following years.

It is possible to understand the Amazon Program reading it in accordance with different SDGs, as the Natura Annual Report 2016 shows.

The Amazon Program’s emphasis is primarily on SDG 15 - Life on Land - seeking to promote the sustainable use of terrestrial ecosystems, managing forests in a sustainable manner and reversing land degradation and loss of diversity. Through the Amazon Program, 256,798 hectares of forest have been preserved.

Natura’s CSR activities address other SDGs, like the SDG 1 - No Poverty - working for 17 years in partnership with agro-extractive cooperatives from the Amazon region and boosting their development while generating income for 2,000 families and producing a direct impact on improving the quality of life of 8,000 people.

SDG 3 - Good Health and Well-Being - Social inclusion and income generation improve the access of riverside communities to health services and boost their quality of life.

SDG 4 - Quality Education – As widely explained above, Natura supports the empowerment of 30 rural community schools in the state of Pará, giving 2,000 young people access to quality education, including technical training tailored to their local situation.

SDG 5 - Gender Equality - Working with species from the local biodiversity enables important advances in the training of women as leaders and the creation of jobs and generation of income for women from the Amazon region.

SDG 6 - Clean Water and Sanitation - Through a partnership with the Ministry of Social and Agrarian Development, established in early 2015, the Amazon Sanitation Project has provided basic sanitation infrastructure and access to drinking water to 500 riverside families in the Mid-Juruá region of Amazonas state.

SDG 8 - Decent Work and Economic Growth - The Amazon Program focuses on inclusive and sustainable economic development, contributing to the development of leadership, strengthening of cooperatives, and creation of jobs and generation of income in 25 communities comprising 2,000 families in the region.

SDG 9 - Industry, Innovation, and Infrastructure – Investments in agricultural innovation, training and infrastructure, in order to boost the competitiveness of the 24 cooperatives from the Amazon region.

SDG 10 - Reduced Inequalities - The Amazon is one of the regions with lowest per capita income in the country and social indicators that are below the Brazilian average. The Amazon Program stimulates the standing forest economy as a

development alternative for the region, thus contributing to a new business perspective, wealth generation and shared value in the region. (Natura Annual Report 2016)

SDG 12 - Responsible Consumption and Production – Supporting the empowerment of local cooperatives and preserving the genetic heritage and traditional knowledge. The implementation of projects for social improvements, the creation of value added to local communities and the inclusion of sustainable production and management systems sustain responsible consumption and production.

SDG 13 - Climate Action - 41% of Natura's is committed to reducing the consumption of CO2 and using clean energy. Natura promotes action to make flourishing deforested areas again and conserve the forest.

SDG 17 - Partnerships for the Goals. Acting in partnership with grassroots communities, governments, NGOs and local companies, under territorial development arrangements, empowering leadership, institutions, and bringing to improve the well-being of the region and of its habitats.

### ***Reduction of social and economic conditions of local communities***

The income received by the 33 communities during 2016 exceeded R\$10 million, an income that is 55% higher than the previous year. This amount is composed by R\$ 5.8 million of payment of supplies, R\$ 3.07 million derived from access to traditional knowledge, R\$ 669.000 of contributions for support and community infrastructures, R\$ 36.000 of compensations for use of communities' image, R\$ 77.000 in training, R\$ 255.000 in technical services and R\$ 245.000 for studies. In 2016, 545 people were trained in the fields of health, safety, good management practices and organization management through the

one-year training program. In 2016, Natura invested directly in the Mid-Juruá region and in the northeast of Pará to increase the productivity of these two communities and adding value to their supplies, by upgrading the infrastructure of two extraction units. The local communities mentioned above benefited from the relationship with Natura immensely: they got involved into a stable and long-lasting process of income generation through the purchase of inputs achieving stable and profitable employment's contracts for the members of the community. Natura invested in training, formative workshops and intensive courses to teach to the communities valuable technical skills. This systematization of the supply chain and production gave the opportunity to them to organize themselves into cooperatives and establishing commercial relationships as suppliers for other firms.

In the indicator, "Proportion of Natura operations that set up programs focused on the development, engagement and impact assessment of local communities", Natura esteemed that the ongoing assessment of social and environmental, impact for the engagement of the local population is at 66.6%. Regarding other indicators like "Community development programs based on local needs", "Stakeholder engagement", "Plan implementation following the identification of the main stakeholders" and "Formal structure for lodging complaints or ombudsman" they ranked Natura with a 100%.

#### **4.2 FIBRIA Celulose S.A.**



(Forbes)

##### ***Who is Fibria?***

Fibria is a Brazilian multinational company founded in 2009 that is present in 261 municipalities in Brazil and operates in three industrial units in Brazil: Aracruz (Espírito Santo), Jacareí (São Paulo), and Três Lagoas (Mato Grosso do Sul). Fibria is a leading company exporting in 35 countries, with a production capacity of 7.25 million tons of eucalyptus pulp per year and a net profit of R\$ 1.093 billion in 2017. Fibria holds more than 1 million hectares of forest in Brazil including 633,000 hectares of planted forests and 364,000 hectares designated for environmental preservation and conservation.

##### ***Reputation and Rankings***

According to the ranking “Responsibility and Corporate governance in Latin American” 2017 elaborated by Merco, Fibria is in 75th position. The “100+ IT Innovators 2017”, a survey conducted by PWC included Fibria in the top 20 for the fifth consecutive year. Fibria won the “Sustainability Awards 2017”, from

the British magazine Capital Finance International, for its performance in Latin America.

***CSR International Initiatives and Corporate Commitment***

Fibria signed its commitment to the UN Global Compact on 26 July 2000 and its status is currently “Active”, meaning submitting communications of progress (COP) every year. Fibria declared to address the following Sustainable Development Goals (SDGs) within its activities:

SDG 2 - End hunger, achieve food security and improved nutrition and promote sustainable agriculture -

SDG 4 - Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all -

SDG 5 - Achieve gender equality and empower all women and girls -

SDG 6 - Clean Water and Sanitation -

SDG 7 - Affordable and Clean Energy –

SDG 8 - Decent Work and Economic Growth –

SDG 9 - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation –

SDG 10 - Reduce income inequality within and among countries

SDG 11 - Sustainable Cities and Communities –

SDG 12 - Responsible Consumption and Production –

SDG 13 - Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy –

SDG 15 - Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss –

SDG 16 - Peace, Justice and Strong Institutions -

In the Annual Report of Fibria, it is strongly affirmed that company's actions are aimed at advancing the Sustainable Development Goals and at integrating them into the company's business model. It is declared that company's priorities are aligned to one or more SDGs the activities are undertaken in collaboration with other stakeholders in order to give to the activities the widest relevance possible. The company takes part in forums, global platforms, associations and working groups on CSR like the Brazilian Pulp and Paper Technical Association, Annual Inventory and the GHG Protocol, Brazilian Coalition on Climate, Forests and Agriculture, Brazilian Business Council for Sustainable Development, Engaging Stakeholders Network – SustainAbility, The Forests Dialogue, Forestry Industry Association, Racial Equality Initiative, New Generation Plantations, Shared Value Initiative and, as already mentioned, the UN Global Compact. This is the message of commitment to sustainable practices of Marcelo Castelli, CEO of Fibria in the first page of their Annual Report.

*“We know what inspires us: we must be part of the development of transformational solutions for a more just and sustainable society. We are sure that our role does not replace the role of other players, such as the government or organized civil society. On the contrary, we are complementary, partners to these players and not isolated protagonists. In the context of our organizational culture, sustainability is fully tied into our business strategy: it is connected to climate issues, our relationship with our stakeholders, and the consistent financial results we are expected to deliver” “In a developing country, we have the need, the obligation and the will to stabilize the communities and obtain a*



*social license to operate. It is much more than welfare and corporate social responsibility. It is a business prerogative. "*

### ***CSR Projects and Activities***

In 2017, Fibria launched “We Are Fibria”, a program aimed at promoting a culture of CSR in every sector of the company. The approach of Fibria in relation to the social impact on local communities seems to be a focus on mitigating the possible negative impacts generated by its activities rather than be an active driving force of positive change and leading development. The privileged stakeholders of its program indeed are those local communities which whom the company had in the past difficult and conflictual relationships. The process that brought Fibria to be accepted in the region and has established a positive coexistence was hard and troubling but gave good results.

Relationships with local communities are now based on cooperation and respect to the extent that they are now included into the value chain of production of Fibria and they accepted to be part of that company that was a hostile presence for them not so many years ago. In 2017, Fibria managed to allocate R\$ 52.8 million in social investments through well-structured programs to generate large-scale social impact able to improve the social and economic conditions of the local communities living in the territories in which Fibria works.

Fibria’s “Rural Land Development Program”, the largest agro-ecological program in Brazil and the most important CSR initiative of Fibria, was created to offer alternative economic opportunities to people living in the forest. What is interesting is the driver for change because in 2009, those same communities caused a loss of US\$ 20 million to Fibria stealing big quantitative of wood from the company’s property,

Fibria's efforts to integrate social dimension into its business strategy is the recognition of the company's role in promoting development in the society and in understanding that creating harmonious relationships with external stakeholders is a wiser strategy than opposing to them. The program, aimed to strengthening ties with rural communities, worked because wood theft in Aracruz decreased by over 90 percent and disruptions caused by fires and road blockages diminished substantially.

The program wanted to create and strengthen agricultural associations providing those tools, inputs, training and technical assistance to improve communities' ability to produce and commercialize a wide range of products, from cheese to vegetables. The project was structured on three levels: the first one consisted of training and technical assistance to family farmers to learn how to use low-cost technologies. The second level was more theoretical and aimed at spreading knowledge on how to reduce environmental impact while the last one stress the importance of participation of rural communities in participative spaces in order to gain access to public policies. Through these progressive training, 5000 families in 56 communities in the states of Bahia, Espírito Santo, Mato Grosso do Sul and São Paulo increased their income of R\$ 1,505 per month.

The "Local Supplier Development Program", promoted by Aracruz companies with the partnership of Instituto de Euvaldo Lodi – Espírito Santo and Brazil's National Confederation of Industry, created an exceptional positive effect on the communities in the region of Aracruz creating more than 58000 jobs from 1995. The initiative was launched as a pilot initiative to develop local suppliers and providing local companies with the necessary suppliers.

The small companies that joined the initiative received training in financial and administrative management and strategic planning and became the primary

supplier for big companies like Fibria. In 2017, the local companies that joined the program are 650 (232 are Fibria suppliers) and they account for 70 percent of procurement for the Aracruz unit. The technological development of the region represented a significant cost saving for Aracruz's companies because they can reduce transfer costs and time loss but it is especially a very important source of income for the region and a reliable opportunity of employment.

Another important initiative is the "Forest Savings Program", a program that included rural families into Fibria's supply chain. Launched at the beginning of 1990 to create connections to local farmers, the program became bigger and welcomed thousands of farmers into the process of wood production, representing an average of 20 % of the Aracruz mill's timber needs.

More than 2000 landholders in the region stopped planting low productive, low-value crops and dedicated themselves to this activity and increasing substantially their incomes. They received training for seeding and technical assistance to ensure they are maximizing the value of their territories applying sustainable forest management practices.

In order to make a real impact on communities, creating jobs and generating income is surely a very important dimension, but to assure a long-lasting social inclusion for poor local communities is necessary to create partnerships with the public sector, other private entities, and associations of the third sectors. The "Public Administration Support Program" is an initiative conducted by society in a participatory manner. The aim of this project is to support technically the governments of Brazilian municipalities in the creation of projects for modernization of public administration and territorial planning, coordinating partnerships transparently and with public participation.

Assuming that the participation of private sector is fundamental in strengthen and improving institutions, Fibria has joined national and international institutions to sponsor and implement this initiative in two places: in Brasilândia (Mato Grosso do Sul) and Três Lagoas (Mato Grosso do Sul). Fibria worked closely with other important actors like the Votorantim Institute, the Inter-American Development Bank, the Brazilian National Bank for Economic and Social Development and the Arapyaú Institute, in addition to the governments of participating municipalities.

An example of another CSR initiatives is the “Social Credit program” through which Fibria invested BRL 11.7 million to rehabilitate local infrastructure and in activities for dental care and education programs for adults and youths. Fibria jointed the “Votorantim Partnership for Education” also; a program coordinated by Votorantim Institute to help improve public education in 53 municipalities where group’s companies operate working in partnership with municipal governments and private entities. The program addressed 795 schools with more than 700.000 students and administered training for 1590 school administrators. Through a comparative study conducted from 2007 to 2013 between towns where the initiative is in place and others with the same local characteristics where it is not in place, the Basic Education Development Index increased of 30%. A very interesting program is the so-called “Agente Do Bem”, established in 2016 in the city of Três Lagoas, and that gave the first positive results in 2017. The movement represented an innovative approach to the mitigation of the problem of child sexual abuse in regions with large construction sites, phenomena that unfortunately registered a very high average in the region. Childhood, an NGO specialized in this matter and that became a partner of the operation of the program, developed a strategy emphasizing on citizenship

education that led to the creation of a network in which all the members of the community were responsible denouncing situation of exploitations or harassment. Agente do Bem helped the city to become a model city in protecting children and adolescents from exploitation and sexual violence and the rape rate sharply decreased.

***Reduction of social and economic conditions of local communities***

Investment in socio-environmental projects for community development increased 15.5%, from R\$5,054 in 2015 to R\$5,839 in 2016. Fibria invested in over 400 projects involving more than 18,000 families in areas such as education, ecological family farming, rural land development, beekeeping, fishing, handicrafts, public management, indigenous sustainability and sustainable settlements. (Fibria website) The number of households directly benefited in 2016 increased 9.9% from 2015, with 3,218 more people benefited, representing a percentage of 16.2% higher than in 2015. In 2016, investment in socio-environmental projects related to engagement processes reached 69.5% of locations considered a high priority for development and 27.3% of projects to boost income generation and strengthen social capital executed by communities or associations were evaluated as self-sustainable. As demonstration of the real support that Fibria gave to the associations with whom it works in its programs, the company helped 34.5% of these associations in achieving and using governmental funds for development.

### **4.3 EMBRAER**



(Forbes)

#### ***Who is Embraer?***

Embraer is a Brazilian multinational company that produces jets in commercial, executive and military segments. It is one of the main forces in the global aerospace market and it is the largest Brazilian company in the defence and security segment, being the fifth largest manufacturer of executive jets in the world. Founded in 1969, the company was based initially only in São José dos Campos, Brazil, but now its offices are in 10 Brazilian cities and in 17 more cities abroad, exporting in 12 countries all over the world. It follows the production from the original projects through the realization, to the final manufacturing and gives support and after-sales services. In 2016, the company earned US\$ 6.2 billion, increasing its 2015's performance of US\$5.9 billion.

#### ***Reputation and Rankings***

Embraer has been listed on the Dow Jones Sustainability Index in 2017 for the 8<sup>th</sup> year. The DJSI ranks companies that stand out for their economic, social and environmental performance and Embraer won the second place in the Aerospace

& Defence segment. The company achieved very good results in: Supply Chain Management, Innovation Management, Human Capital Development, Labor Practice Indicators and Product Stewardship.

***CSR International Initiatives ad Corporate Commitment***

Embraer signed its commitment to the UN Global Compact on 16 June 2008 and its status is “Active”, meaning submitting communications of progress (COP) every year. Embraer declared to address the following Sustainable Development Goals (SDGs) within its activities:

SDG 4 - Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all -

SDG 5 - Achieve gender equality and empower all women and girls -

SDG 9 - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation -

SDG 10 - Reduce inequality within and among countries -

It is strongly affirmed that company’s actions to advance the Sustainable Development Goals show how one or more SDGs are integrated into the company’s business model. The Annual Report complies with GRI G4 standards and it highlights how the contents of the information follow the requirements of the Dow Jones Sustainability Index and of the Corporate Sustainability Index. Other initiatives supported and signed by Embraer are The Initiative Towards Sustainable Kerosene for Aviation, Friends of Rio+20, The Commitment to reducing GHG emissions in aviation, The Call to Action and the Bio-fuel research center. In the Annual Report no statement, declaration or committing sentences in expressed in favor of social commitment and sustainability.

### ***CSR Projects and Activities***

Many multinationals and big companies decided to create a specific institution, frequently with their own names, with the specific duty of developing social projects and taking care of all the initiatives that reflect the engagement of the company in addressing social problems. Embraer created in 2001 the “Embraer Institute for Education and Research” for this specific purpose, realizing activities based on three main themes: education, engagement with society and preservation the memory of the Brazilian aeronautical industry.

Considering the nature of the company that produces jet and planes, tools that consume big quantity of fuel, Embraer is committed to reduce the environmental impact of its products, designing aircraft that can optimize and diminish the fuel consumption and reducing the waste of natural resources during the production process.

Moreover, Embraer is very active in promoting and sustaining educational project and programs for forming the future generation of Brazilian leaders: it created two advanced high schools for talented young students from low-income families in the communities where it operates. The Juarez Wanderley High School and Casimiro Montenegro Filho High School are the two schools sponsored by Embraer. The first one welcomed more than for 600 students coming from the public school system and it is considered as an excellent institute, one of the five best-ranked in the State of São Paulo and one of the top 30 in the country. In March 2012, the Institute created another high school, the Embraer Casimiro Montenegro Filho School in Botucatu, one of the biggest production unit of Embraer in the state of Sao Paulo.

The project cost R\$5 million to Embraer, enabling 360 less-privileged students to attend classes through scholarships. The educational program lasts three years,



on a full time based, at no cost for students coming from poor families and the Embraer Institute provides uniforms, teaching materials, food, and transportation. Based on the results of the National Secondary Education Exam for 2016, both high schools were listed into the ranking of best institute of the state.

Embraer supports *ex-alumni* of the Embraer High Schools that demonstrated excellent academic results but have financial limitations to go to university, providing them with a full scholarship. In 2016, from the 271 university students that earned a scholarship from 2012, 256 completed their studies graduating in public and private Brazilian universities.

Through the “Social Partnership Program”, Embraer supports financially projects proposed and voted by the communities where it works, Araraquara, Botucatu and São José dos Campos. Last year, 12 projects received sponsorship and most of them regarded capacitation training. The “Entrepreneurship Programs” encourages the entrepreneurial spirit in students of the public system to develop their capacities. Another CSR initiative promoted by the company is a program based on volunteering opportunities for employees to get involved in charity projects in partnerships with public entities.

In 2016, among 19.167 employees of Embraer, 4.370 defined themselves interested in participating in some kind of voluntary activity. Through the portal “Asas do bem” employees can find opportunities in which get engaged and these activities vary significantly, from participating in fundraising activities for charity projects to get involved into bigger and more articulated projects.

***Reduction of social and economic conditions of local communities***

As of 2012, more than 1,600 students had graduated, with 100% passing college entrance exams and more than 80% going to public universities, which in Brazil are the most selective and best ranked. From 271 university students that received a scholarship, the 95% brilliantly graduated in public and private Brazilian universities, showing their commitment to study and research.

## ***Conclusions***

This study tried to contribute to the current academic literature in shaping and defining why companies are called to assume greater responsibility, transparency, and accountability towards society. The acceptance of the new role of private sector in society passes through the comprehension that the traditional paradigm of relationships between actors (institutions, companies, organizations of the civil society, etc.) does not fit anymore the reality of the 21<sup>st</sup> century and that a new model is needed to understand the complexity.

The concept of CSR offers a series of interesting perspectives on the theme of responsibility and this dissertation tried to illustrate the extraordinary potential that CSR could represent for the development and the improvement of the society, especially for those realities characterized by inequalities and critic social issues. Working side-by-side private e public sectors, in an integrated, complementary, systematic way, could reach exceptional results. Thus, the involvement of private sector in creating and supporting new opportunities for people for improving their social and economic conditions is crucial but a process of revision of the regulation on the matter is needed as well as an adjustment of the legal framework.

The complete voluntary regime covering the issue weakens the efforts made and impede the greatest possible coverage of commitment on the issue. At the international level, the analysis of the current regulation on the subject of CSR shows the weakness, when not absence, of an efficient way of regulating transnational problems and encouraging active participation of the private sector. Guidelines, non-binding agreements, private regulatory regimes of different nature answer inadequately to the challenge of regulating the economic activity

of multinational corporations, agents with extraordinary resources whose actions have the power to dramatically worsen the conditions of the places where they work or considerably improve them.

What emerged from the analysis of CSR in Brazil have shown that the relationship between an inadequate regulation of the private sector and the difficulties in resolving critical economic and social issues in Brazil has not been sufficiently understood. As previously analyzed, the urgency of establishing a new system of regulations, incentives, and transversal partnerships in the field of CSR is necessary for sustaining an all-encompassing and systematic involvement of companies in social issues.

Another cause for reflection is that for regulating the responsibilities of private sector, especially in a global scenario a more inclusive and responsive process is needed. All the stakeholders must contribute and present their instances to create an instrument that could realistically gain global support and recognition in a framework of mixed hard and soft rules. Just to sum up, the weakness of the current voluntary and self-regulating framework shows the necessity of creating a new and more efficient system of the regulatory regime.

The failed attempts for global rules renovated the debate on the issue and stimulated the re-opening of the discussion on companies, on states and on the opportunities arising from the future development and the institutionalization of hybrid regulatory regimes. Indeed, they offer an interesting and real possibility to tackle complicate situations and to give legitimation and support to CSR.

After a panoramic on the findings of the first part of this dissertation, a first reflection on the case study presented regards the conceptualization of a CSR project and its realization. Based on the concentric circle model of CSR

presented in the first chapter there are some elements that characterize a successful and efficient CSR activity. First, the clear perception that the company is part of society and, as such, it is implementing that specific activity is needed in order to give legitimation to the project. Then, a project needs to be designed with a clear stakeholder orientation and finally, this process must be conceived as a tool to improve the sustainable development both of the business and of society as a whole (Casanova, 2009).

A well-structured CSR initiative have to reflect the philosophy that it is an opportunity for the society and an opportunity for the company itself for changing and incorporating new ways of operating and facing complex challenges. Moreover, CSR initiatives that are properly designed for fitting both the needs of the community and the company become a source innovation, progress and a competitive advantage for the company that can foster the maintenance of the project during the time. Even if helpful, all those CSR practices that belong to the field of philanthropy are designated to suffer because of possible contingencies because different circumstances (changing of management, financial turbulence, changing of orientation of the interests of the business) could disincentive the financing of these initiatives in a long-term perspective, causing severe problems for the beneficiaries.

Only those companies that achieved the integration of CSR activities within their core corporate objectives and strategies are able to structuring and implementing impacting projects. Succeeding in this is not easy, but is necessary that every actor of the society assume greater responsibilities especially those, like multinational corporations, that can give vital contribution to the improvement of the society with their resources and influence.

In this dissertation, three Brazilian multinational corporations have been selected as model and reference for other companies to engage in CSR.

The three different approaches that have been analyzed show that, even if the three are present in important global rankings for their CSR performances and are considered as leading companies in the region for their outstanding commitment in supporting social and environmental projects, some are performing better their role. It is possible indeed to draw up a ranking in CSR embedding into the vital objectives of a company: the level of embeddedness of CSR into the company's core strategies is so important because it represents the degree to which a company has assumed the responsibilities of its role, which is the wider theme of this dissertation.

If not completely absent, there is scarce integration (management systems acting independently) of CSR in the core corporate objectives and strategies of Embraer; Fibria presents a partial integration of CSR practices (some components of some systems with integrated operations) and Natura has fully integrated CSR in the core corporate objectives and strategies (all components integrated).

Natura is at the top of this ranking and it can be considered a company that fully achieved the integration of its CSR activities within its core corporate objectives and strategies. For Natura, the concept of CSR seems embedded into the core strategy and in the essence of the company, itself as it is mirrored by the decision of producing care products with the sustainable use of natural products from Amazon forest, treated and extracted by Amazonian communities. They got involved in a stable and long-lasting process of income generation through the purchase of inputs achieving stable and profitable employment's contracts for

the members of the community. The company presented the “Amazon Program” as a best practice model for well-structured and complete CSR initiative for reducing inequality and social and economic exclusion of local communities. The first dimension used by the company to structure its commitment to CSR has been developing scientific research and fostering innovation paths. This is a productive way of supporting and stimulating innovations that will improve the future of the company and will benefit the society. In addition, investing in technology innovation, research and development raises productivity levels, improves products while at the same time increasing access to products and services for local communities.

Secondly, establishing a sustainable and inclusive model of business in the territory and thirdly, investing in the development of projects strictly connected with the gamma of operations, interest, and knowledge on the matter that is daily performed by the company. The key factor to assure the success of a CSR initiative aimed at reducing inequality and social and economic exclusion of local communities is empowering local communities by giving them training and working opportunities within the possibilities offered from the chain production of the company. Natura managed also to establish partnerships with institutions at the local level and to collaborate with other entities, such as NGOs, which are important stakeholders. On the communicative side, Natura also provided full and clear information on its activities defying strategic objectives, stakeholder involved and resources used in each phase of the projects.

Fibria, instead, could be defined as a company with a commitment to CSR partially integrated within its core strategies, meaning that some components of its initiatives match with the nature of the company, but some activities remain

detached from the expertise of the company. What is crucial is the willingness of a company in assuming responsibilities as a social actor and not perceiving these initiatives as separated from its essence and scope. Fibria showed to have engaged in this modality employing, for example, local communities for eucalyptus's extraction and introducing them as suppliers in its business. The formula is implemented effectively because the company aligned its interests (extracting the plant) with community's necessities (acquiring technical skills, have a job and improve their conditions) but nonetheless, it is a strategy which born after years of tough fights with local communities. It seems a reparative action more than a propulsive initiative to reduce exclusion of local communities because the number of local people involved in the supply chain is quite limited.

Embraer, despite its important financial investments in supporting educational projects and managing the two high school in the areas where the company is located in Brazil, showed no integration of its CSR activities within its core corporate objectives and strategies. For example, the fact that CSR initiatives are designed, structured and implemented by an Institute, which is external to the company itself, clearly shows that these activities are not integrated into the core objectives and the daily management of the operations otherwise they would be embedded into the company's functions.

On the other hand, it is interesting the fact that Embraer was one of the pioneers of CSR in Brazil. In 2001, when the Embraer's Institute for Education and Research was created, it was a quite unusual initiative from the private sector and this indicates proactivity and a strong sense of participation in the life of the communities where it is present. Embraer dedicated its CSR projects to support education and to sponsor high-formation programs, idealistically for the future



aeronautical engineers of tomorrow. It is obviously very important in providing educational facilities to children and teenagers of local communities but it remains a philanthropic activity without a transformative value. The company, for example, did not actually promote dialogue, cooperation with different stakeholders and exchange of experiences between sectors, which is one of the aims of locally designed CSR initiatives.

Indeed, according to the research developed in 2009 by the group AVINA, “In search of sustainability: the road of Corporate Social Responsibility in Latin America and AVINA Foundation contribution” philanthropy seems to have remained as the most common form of CSR activity in Brazil. It is testified by the information provided by companies in their reporting activities and from the fact that when it is performed, CSR in Brazil is still conceived as a sporadic, not necessary, generous activity and instead of being embedded into the core strategy of companies it is still perceived as an external component.

There are some phases to be followed for developing a CSR strategy: the first phase of a CSR initiative is identifying the problematic issues for communities, by consulting people involved then second, identifying the right strategic partners for a new CSR and then implementing a program that can create added value for all the parts. The three companies structured strategic partnerships between organizations of the civil society to facilitate social networks and access to information or specialized skills, like Fibria’s partnership with Instituto de Euvaldo Lodi, which gave a substantial contribution to the project, and Natura with Chico Mendes Memorial Fund for developing a sanitation program.

The importance of CSR in Latin America, and in Brazil specifically, is not only about increasing the number of companies signing up to the concept but is also about how companies can drive forward their own home-grown version of CSR,

addressing local problems and working close to state institutions to solve those issues.

Governments should particularly be a partner in large-scale CSR initiatives; first to officially give legitimation at the intervention of the private sector in public social issues, then for facilitating the interaction between all the subjects involved. The public sector cannot substitute governmental action in providing social services and assuring opportunities to everybody but surely can do its part. The more institutions and the private sector collaborate, complementing their actions for the common objective of reducing social and economic exclusion of local communities, the more CSR initiatives will be relevant and useful for everybody.

The private sector represents a capable and essential partner especially in a country like Brazil where social and economic inequalities deeply affect society and the relationships between its actors. The future projections of this economy in the international scenario impose to the public and private sectors to engage more seriously in CSR because at the current stage, what results from this analysis is the extraordinary potentials of CSR in theory and the limited application of it in practice. Partly due to the quite recent diffusion of the concept and partly due to the ambiguity still latent within its definition, scope, application, and implications, CSR is still perceived as a complex theme.

Its application and its contents differ around the world and cultural and social circumstances strongly determine its connotation: in North America and in Europe is already a mainstream concept, while in developing countries and emerging economies only MNCs and big companies started engaging in it. According to AVINA's analysis, there is a remarkable lack of institutionalized responsible practices within medium-large companies, if not in the exception of

voluntary work. Just a few companies managed to internalize CSR into their business in a strategic and effective way generating that series of positive and concatenating effects in many fields and thus reduce social inequality by including local communities in the labor market. Moreover, Brazilian firms, especially small and medium-sized companies, still present an inadequate knowledge on CSR in a broad sense. The problem becomes very intense considering that in Brazil small and medium-sized companies account for the 80% of the firms of the country and their level of engagement reached one of the lowest position in Latin America.

It is found a consistent lack of correct information about what CSR means and what kind of corporate intervention is expected and necessary. Especially medium-sized companies keep showing a deep level of diffidence and mistrust on the matter and perform low-intensity CSR. Probably many companies feel the difficulty of making CSR initiatives part of in their core strategies because they feel more vulnerable than large corporations do and prefer investing in the improvement of their business rather than investing in something from which they cannot see a short-term financial return. The fact that there is no rule or imposition by law in engaging in CSR determines a scarce commitment to the theme especially for these companies and their engagement in assuming greater societal responsibilities and this represents a crucial challenge to the development of CSR activities in the region. What is very important to stress is that any company can follow the above-mentioned scheme of CSR initiative. The approach of companies to social thematic has to be anticipatory, with a potentially transformative impact for the stakeholders involved and not only responsive. The resources invested can be lower, the communities involved and the people benefited can be less, the focus can be reduced or being widened but

any company can define the closer fields and sector of intervention to its business and to its expertise and act as a propulsive force. The more a CSR initiative find a balance between the specific social goal for which it is designed, as in this case reducing inequalities and social and economic exclusion of local communities, and the interests of the company that implements it, the more the project will find a long lasting support and commitment on both sides.

This dissertation tried to contribute by analyzing the concept of CSR from different perspectives, showing its potentialities and its limits and focusing on the case of Brazil for its interesting peculiarity. The limits of this research are the limited number of case studies considered and the difficulty of analyzing objectively the information provided by companies on their CSR activities, compared with other sources. The data used for the description and analysis of the CSR projects studied came from the website, annual reports, and documents elaborated by the companies themselves. More researches should be undertaken to shape the role of business in society and the scope of its social responsibilities and suggestions for contributions for further studies on the theme regard the study of the potentialities of CSR for the future Brazil and the way the private sector could work efficiently on the side of the public sector.

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### ***Annex. 1***

The role of the private sector has changed along with the degree of its social responsibilities towards society. This occurred mainly as a consequence of the fact that the public challenges that characterize the world today, nationally and globally need an integrated approach to be faced. The power of national states has declined and the influence of corporations grow on a wider range of issues, from the quality of lives of local communities and labor standards to environmental conditions. This is the reason why now more than ever before, businesses are expected to take on a more comprehensive role in society.

The matter of interest is that, instead of assisting to a rearrangement of the status of business according to its new relevance in the current system, the responsibilities of the private sector in tackling social issues still rely on private regimes of CSR initiatives. This is particularly noteworthy in the case of Multinational Corporations (MNCs), whose power increased and whose governability simultaneously was reduced because of their expansion in the global market. This dissertation retraces the development of the most famous CSR international initiatives and underlies their potentialities and their limits showing how a limited and voluntary approach to the matter can difficulty constitute an effective substitute to a binding international regulatory framework.

The general consideration of the unexplored potentials of CSR in tackling social issues and on the necessity of its coral corporate endorsement for achieving significant results is especially appealing if applied to the Latin American experience. In a country like Brazil, where public institutions historically have

never been able to deal with the difficult social issues characterizing the country, the private sector is even more compelled to assume greater responsibilities towards society and to face arduous challenges. Brazil is considered the leading country in Latin America in CSR: the number of Brazilian national companies involved in international CSR initiatives or in self-regulatory practices is the highest in the region. Even if some Brazilian multinationals developed well-structured CSR programs for reducing economic and social exclusion of low-income local communities and manage to internalize CSR into their core corporate strategies, a limited adherence to CSR is still present in the country because medium and small-sized companies show reduced involvement and they count for the majority of companies in Brazil.

In order to understand more deeply how this dissertation is developed, it is useful to retrace the issues analyzed in each chapter. The introductory chapter presents the theme of the research, the context of the analysis and the statement of the problem. Then the aim of the thesis and the research question are illustrated together with this disposition of the contents.

In the first chapter “*What is CSR? Theoretical framework*”, the concept of CSR is presented, the problems related to its definition and the development of its conceptualization over time. The complexity of defining the issue is due both to the fact that the concept has evolved over the years and to the proliferation of theories raised to define the concept. The way CSR is intended is affected by many elements: historical, economic, cultural and social factors greatly shape the role of the different agents playing in society. This complexity brought to present an historical review of the development of the concept retracing its

phases from the '50s to nowadays rather than providing some CSR definitions. The theoretical framework of the research is then introduced after a classification of the most famous theories on CSR. Following the classification of CSR theories of Garriga and Melè, four macro groups of theories are presented (Instrumental, Political, Integrative and Ethical) in which the different theories can be subdivided: each macro-group of theories indeed corresponds to one dimension of the social reality. This dissertation assumed as theoretical framework the political theory of the Social Contract, which lies on the consideration that social contracts for business are nowadays more necessary to establish responsibilities toward society.

In specific, it relies on the Concentric-Circle Model of CSR to investigate the scope of private sector's responsibilities, a model that considers the four dimensions of social reality as permeating the core economic responsibilities of a company. The epochal changes that had taken places in the society muted all the paradigms used before to approach business role and governmental management and the traditional institutional framework for business relationships became inadequate to address the current global market movements and to be seen as a reliable legal corollary. The definition "*post-national constellation*" introduced by Habermas describes the current fragmentation of authority and the ambiguity of borders and jurisdictions, which led to a growing influence of non-traditional actors in defying policies and regulations since their role and activities like CSR is crucial to face global concerns.

The second chapter “*Bases to CSR and related international initiatives*” examines how CSR is implemented and which are the existing initiatives on CSR at international level. These initiatives try to reduce the regulatory gap of governments on business activities especially on MNCs and to shape the way in which the private sector can tackle social problems. United from the common objectives of promoting greater responsibility, transparency and accountability for businesses, the most known forms of private regulatory regimes are presented in the chapter. The development of these regulatory initiatives is retraced together with some failed attempts of establishing global mandatory codes of conduct: the problematic issues identified during this recognition are extensively discussed and special attention is given to UN initiatives.

Considerable space is given to the UN Global Compact, considered the “world's largest and most widely embraced corporate citizenship initiative” that is a self-regulation initiative predisposing a global platform of discourse for the implementation of efficient mechanisms to protect basic human rights to regulate private sector's conduct. The components, functions, and elements of strength and weakness of the initiative are widely discussed in the chapter. In order to better shape the situation of CSR a series of initiatives are presented and it is investigated how they set rules or standards that try to delineate behavior in the pursuit of a particular objective such as improved environmental protection, worker protection, community protection, etc. Private regulatory regimes can be divided into four types accordingly to the type of function they perform. From the analysis performed emerges that, in order to function properly, these regimes need an active participation of different entities and institutions, with different governance capacities, able to shape the best way of addressing social issues on

a global scale. Private regulatory regimes indeed may work on the same direction of public regulatory regimes, in a framework of partnerships between private and public sectors. The future development and the institutionalization of hybrid regulatory regimes offer an interesting possibility to tackle complicated situations and especially government involvement in CSR can assist business in committing more adequately in CSR initiatives and practices.

The third chapter “Brazilian Multinational Corporations and CSR within the Latin America experience” presents the reality of Latin America in the field of CSR, showing which role the private sector takes on in the region and the specific position of Brazil, defined as “the leading country of Latin America in CSR”. The private sector can be a crucial partner in improving the health and welfare of socially and economically excluded communities giving them access to services and resources and improving their social and economic conditions. The wide panoramic on Brazil presents its history, its culture and its society showing a country with extraordinary potentials but still characterized by deep inequalities affecting the development of the entire country.

The framework of the UN Global Compact and of regional initiatives is useful to draw the degree of commitment to CSR of Latin American countries. Brazil leads the ranking, followed by Colombia and Argentina but the rest of the region shows a great backwardness in engaging in the matter. In addition, well-structured CSR programs are only implemented by multinational companies and by high profile national companies, while small and medium companies, representing the majority of the companies in the region, have not yet incorporated CSR into their strategies.



The characteristics of CSR vary according to the characteristic of the country and in America Latina CSR initiatives tend to focus on specific national problems such as reducing unemployment, improving working conditions, increasing economic inclusion of rural communities, reducing the racial gap, providing basic services and environmental sanitation and reducing social and economic inequalities within the country.

The fourth chapter “*Case Study: best practices of CSR in Brazil*” points out the elements that characterize successful CSR programs and focuses on the role of MNCs. CSR programs implemented by three Brazilian leading MNCs (Natura, Fibria, and Embraer) are chosen as best practices and are analyzed in their strategies to reduce social and economic exclusion of local communities. Special attention is given to the way in which companies interact with communities, governments, NGOs and other local stakeholders, in establishing long-lasting and profitable partnerships and collaborations for efficient CSR initiatives. Another important element to establish if these Brazilian multinational companies are assuming adequately the new role and the greater responsibilities that private sector is urged to perform nowadays is level of embedment of these activities into the core business strategies of the companies. In this chapter indeed, it is analyzed which CSR projects align corporate core objectives/production/interests with the real needs of the local population in inter-sectorial partnership with other entities, for a substantial improvement of social and economic conditions of local communities. Only those companies that managed to design CSR programs to effectively reduce inequalities and social and economic exclusion of local communities in the long-term are considered an adequate model for other companies and fundamental driver of change in the

country. From these case studies, Natura and Fibria successfully gained the title of leading companies in CSR while Embraer showed to be a step behind them.

Finally, in the conclusive chapter, the findings are brought together in order to give an answer to the research question, identifying the contributions that the present dissertation gave to the field of CSR and pointing out the limits of this research. What emerged from the analysis of CSR in Brazil have shown that the relationship between an inadequate regulation of the private sector and the difficulties in resolving critical economic and social issues in Brazil has not been sufficiently understood. As previously analyzed, the urgency of establishing a new system of regulations, incentives, and transversal partnerships in the field of CSR is necessary for sustaining an all-encompassing and systematic involvement of companies in social issues. CSR activities also need to follow some rules to be considered efficient and change driving. A company needs to feel part of society to implement a project that benefits a wide range of stakeholders but it is equally important that companies perceive that initiative positively both for the business itself and for society as a whole. After an in-depth analysis of the characteristics of CSR projects, the final consideration of this dissertation regards the importance of a stronger and more widely shared commitment to CSR from Brazilian companies, especially considering that extraordinary forecasts for Brazil's development in the next years.

The analysis performed and the cases presented in this dissertation attempted to stimulate a more elaborate reflection on the theory and on the practices of CSR. Suggestions and recommendation for further studies on the theme of CSR concern a more elaborate study on the scope of social responsibilities of the

private sector and the way it could efficiently work on the side of the public sector.