

Globethics Repository

The logo for Globethics, featuring the word "Globethics" in white, sans-serif font centered within a solid blue rectangular background.

Ethics and corporate social responsibility in Latin American small and medium sized enterprises

This page was generated automatically upon download from the Globethics Repository. More information on Globethics see <https://www.globethics.net>. Data and content policy of Globethics Repository see <https://repository.globethics.net/pages/policy>.

Item Type	Article
Authors	Arruda, Maria Cecilia Coutinho de
Publisher	BEN-Africa
Rights	With permission of the license/copyright holder
Download date	2026-06-19 10:49:46
Link to Item	http://hdl.handle.net/20.500.12424/174353

Ethics and corporate social responsibility in Latin American small and medium sized enterprises: Challenging development

Maria Cecilia Coutinho de Arruda

ABSTRACT. Considering the lack of substantive scientific or theoretical studies about ethics in small and medium sized enterprises (SMEs) in Latin America, this paper examines the context of an existent paradox, based upon the perspective of experts and academicians of Latin America and the Caribbean. These countries live different realities, due to their respective European cultural influences, as well as to racial and economic issues. Such facts impact the size and characteristics of their industries. On the other hand, the SMEs face more similarities in the region, so they will be treated as a group in the discussion of ethics and corporate social responsibility (CSR) in Latin American SMEs. As this topic has not been sufficiently investigated in this geographic area, the objective of this exploratory study is to offer a contribution for future research. It raises the main dilemmas and intends to explain how legislation and common practices enable and perhaps lead SMEs to choose unethical strategies to survive and compete in the market. These enterprises are growing in number and in job creation, but do not participate in the Gross National Product in the same proportion. Informality, tax evasion and corruption are gradually caused or erode morality in business, but can contribute to corporate social responsibility in the region. The paper tries to show positive and negative aspects of apparently unethical practices and discusses challenging ways to solve complex problems that are common in most Latin America.

Key words: business ethics, corporate social responsibility, fair competition, illegal practices, informality, small and medium sized enterprises, tax evasion

Introduction

Ethics in small and medium sized enterprises (SMEs) has not been a significant focus of academic studies in Latin America and the Caribbean.

Latin America is a diversified region. Geographically, North, Central, South America and the Caribbean countries are gathered. Some figures help to understand the region's situation. In 2008, the Gross Domestic Product (GDP) of Latin America and the Caribbean grew by 4.6%, and per capita GDP rose by 3.5%.

Maria Cecilia Coutinho de Arruda is an associate professor at Fundacao Getulio Vargas, São Paulo, Brazil, where she teaches business ethics, corporate social responsibility and strategy. She has served as president of the Latin American Business Ethics network (ALENE) for the past four years, helping to organize international conferences in several countries. She offers training on Business Ethics to companies interested in developing programs or codes of ethics.

Most countries have presented a positive economic performance, perhaps in a slower, but always increasing path. For instance, in 2008, the region registered its fifth consecutive year of substantive growth, with GDP expanding by about 5.4%, and the per capita GDP by 3.3%. (ECLAC, 2008)

These countries are different in terms of the Latin-European cultural influences, as well as racial and economic issues. Such facts impact the size and characteristics of industries. While SME research has been deeply developed in Europe and North America, Latin America, as a unit of analysis, is still new and rare. Therefore, it is not easy to reach a consensus about the SME definition.

Although around 90% of Latin American firms are small, the availability of statistical data is limited, and precise information for business is costly. Given this, any research project related to Latin American enterprises, involving a search for information not directly related to business profits, requires a significant investment.

SMEs have increased in number, due to many reasons. International crises, wars and globalisation have impacted the employment level, mainly in multinational companies (MNC). As an example, Brazilian micro, small and medium sized enterprises (MSMEs) experienced 22.1% growth in the period from 2001 to 2004. This number includes formal and informal enterprises. (SEBRAE, 2006). Many professionals with expertise in specific areas decided to open their own businesses, often becoming suppliers for the same companies for which they previously worked. Nowadays, upper middle class citizens are responsible for about 10% of small and medium sized enterprises (SMEs). Created upon innovative ideas, product concepts or processes based on leader's expertise, the opportunities have been offered in market niches.

The Global Entrepreneurship Monitor world ranks Latin American countries and the Caribbean as having the most entrepreneurs in 2008. Bolivia occupied the first position in the ranking, showing a TEA index (early stage entrepreneurial activity) of 29.82, which means that one out of every three Bolivians developed some entrepreneurial activity. Peru held the second position, with the TEA of 25.57, i.e. one in four Peruvians developed entrepreneurial activities. Other Latin American countries had similar indexes: Mexico (13.09), Chile (13.08), Brazil (12.02), and Uruguay (11.90). It is interesting to notice in the 2008 GEM Survey that developed countries, such as Belgium, Germany and Russia were ranked last. (GEM, 2008: 24).

In reality, serious ethical issues can be seen at micro, meso and macro levels. The SMEs are now finding ways to discuss such issues, as they receive support from international agencies, local government and specific stakeholders. Corporate social responsibility (CSR) has been mostly taken into consideration in large corporations in Latin America. The author considers how the region has naturally started applying it in small and medium sized enterprises' strategies and practices, i.e. a mix of all three levels. With regional integration, a network of organisations and associations of business leaders helped to become socially responsible through a variety of initiatives. The objective of this paper is to discuss the SMEs' social contribution to the regional economic development, based on documental research and data provided by academics, practitioners, leaders of NGOs, experts in Business Ethics (BE) and CSR. Some of them are Alter, 2003; Ashley, 2002; Haslam, 2008; Ibarra, 2007; Khagram et al., 2004; Lacerda, 2006; Kliksberg, 2003; Oliveira, 2008; Paladino, 2007; Peinado-Vara, 2005; Preziosa, 2005; SEBRAE, 2005a, 2006; Vives et al., 2005b; Wharton, 2007; and Zevallos, 2003.

Defining small and medium enterprises (SMEs) in Latin America

The concept of SMEs varies in different countries or regions. Aiming to promote the development of SMEs in Spanish and Portuguese speaking countries, the Organizacion Latinoamericana de Micro y Pequeñas Empresas – OLAMP (Latin American Organisation of Micro and Small Sized Enterprises), an international non-profit organisation, was created and integrates more than 30 public and private institutions. It gathers 19 nations (most of which are in Latin America: Argentina, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Paraguay, Peru, Uruguay, and Venezuela) and business associations (Confederacion Bolivariana de Venezuela de la Micro, Pequeña y Mediana Empresa – CONFEDEMPRESA-MIPYME; Comision Empresaria MIPYMES MERCOSUR, Argentina; Confederacion Latinoamericana y del Caribe de la Pequeña y Mediana Empresa – CLAMPI, Colombia). Table 1 shows OLAMP's contribution to research projects, defining parameters to measure the size of such enterprises. As a limitation, they do not take into account the micro sized enterprises, which happen to be the majority in the region.

TABLE 1: CLASSIFICATION OF ENTERPRISES BY NUMBER OF EMPLOYEES AND VALUE ASSETS

Size	Workers	Value assets (Minimum wages)
Small size enterprise	11-50	501-5,000
Medium size enterprise	51-200	5 001-30,000

Source: OLAMP (2004)

Researchers at the Comision Economica para America Latina y el Caribe – CEPAL (Economic Commission for Latin America and Caribbean – ECLAC) have gathered information from different sources and criteria to define micro, small and medium sized enterprises (MSMEs) in the region. (FUNDES, 2002:4)

In a rigorous approach, Angelelli, Moudry and Llisterri (2007) discuss the extreme difficulty to present a comprehensive definition of enterprise sizes in Latin America, due to differences in sectors and a wide diversity in markets and national economies. Aiming at a most homogeneous figure, their study indicates several indexes used by 18 Latin American countries (LAC), as number of employees, sales, assets, and a combination of other competitive and collaborative units.

Argentina, for instance, considers annual sales. Colombia and Chile define size as a criterion, based on the number of employees and an economic variable. Among others, Brazil, El Salvador, Peru and Venezuela work with their own definitions. Therefore, there is no consensus concerning criteria. (Vives et al., 2005a:18)

For the purpose of this paper, the author understands that there are many similarities in LAC. As Central America and the Caribbean have small economic and demographic participation in the region (Peters & Waltring, 2003), they will always be included in the analysis.

Latin American and Caribbean countries went through economic and political reforms in the 1980s and 1990s: liberalisation of markets, privatisation of several industries for which the public sector had been responsible, and price stabilisation. New ways to develop the countries aimed at better social conditions. (ECLAC, 1994)

Many organisations are concerned about capacitating early stage business leaders and professionals in SMEs. In Brazil, the Servico Brasileiro de Apoio as Micro e Pequenas Empresas – SEBRAE (Brazilian service to support micro and small sized enterprises) has largely offered programmes meaning to develop managerial skills, technology information, education in accounting and economics, qualifying citizens to access the market. Other institutions aim at similar objectives throughout Latin America. Exchanging experiences has proved to be a good help to the leaders. According to the SEBRAE Observatory, micro and small sized enterprises represent 98% of the private sector organisations in Brazil. (SEBRAE, 2005a)

An interesting comparison to European data allows a perception of the micro sized enterprises' important role in Latin America (Table 2).

TABLE 2: NUMBER OF MICRO ENTERPRISES BY SIZE OF THE ECONOMY AND POPULATION

Country/ region	2004 GDP (US\$ billions) ¹	2004 Population (millions) ²	Number of MSMEs ³	People per MSME ⁴
Brazil	599.8	179.1	4,903,268	37
Mexico	676.5	106.2	2,998,449	35
Venezuela	107.5	26.2	2,909,594	9
Argentina	151.9	37.9	2,187,874	17
Ecuador	29.9	13.4	1,043,440	13
Chile	93.7	16.0	700,014	23
Colombia	95.2	45.3	684,646	66
Peru	67.9	27.5	658,837	42
Paraguay	7.0	6.0	548,000	11
Bolivia	9.4	8.8	501,333	18
Dom. Rep.	19.4	8.8	355,175	25
El Salvador	15.8	6.7	264,914	25
Honduras	7.4	7.0	257,953	27
Guatemala	26.1	12.7	173,699	73
Uruguay	12.0	3.4	143,035	24
Costa Rica	18.5	4.2	73,518	57
Nicaragua	4.4	5.6	54,953	102
Panama	13.8	3.2	39,636	81
Region total	1,956.2	518.0	18,498,338	28
Europe	12,213.0	460.0	23,000,000	20

Source: Angelelli, Moudry & Llisterra (2007:38)

Aiming at the future, the economic scenario seems optimistic for many Latin American countries, given their characteristic of raw material exporters. On the other hand, the wealth concentration has constantly increased in most nations in the region (Schwartzman, 2000).

Public policies seem not to be sufficiently strong to correct the extreme disparities found in countries, such as Brazil and Peru. This opens good opportunities for private initiatives through micro and small sized enterprises that find niches in the market. They contribute for a better distribution of wealth at the same time as they stimulate higher quality of education and other social services. (Sainz & La Fuente, 2001).

The role of Latin American SMEs in society

In the last two decades, MSMEs reached an important position in the development agenda of many countries as effective job and wealth creators. Looking at the impact in society, some public policies help them to overcome obstacles in production and marketing, preparing them to compete with large corporations. (Oliveira, 2008)

Leaders of Latin American SMEs seem to be seriously concerned with the North-South inequalities (Klikberg, 2003). Regional social problems seem to become more

accentuated. The globalisation process has not helped to reduce them as much as expected.

There is a large spectrum of meanings around the business ethics (BE) and corporate social responsibility (CSR) concepts. Because of the strong wealth discrepancies existent in most Latin American countries, terms such as philanthropy, charity, social assistance and grants have often been indistinctly used in the media, in business, in churches and in communities. These concepts are not clear in the business arena yet.

In the 1950s, the internationalisation of multinational corporations (MNCs) raised ethical concerns. Facing cultural shocks, the MNCs developed codes of ethics or codes of conduct to assure that their core values were seriously preserved in the subsidiaries throughout the world. Social and economic constraints could create opportunities for less ethical procedures. There is an increasing focus on individual values and ethics, on human dignity and transparency. Compliance with the law became a bottom line in the formulation of business strategies, which was not so common in other times. Despite this concern from the headquarters, social problems were clear and concrete in Latin America.

With good intention, most people tried to solve short-term problems. Professionalism was needed to organise programmes and actions in order to effectively find permanent solutions.

In the early 2000s, Brazilian CSR movements apparently started to influence other Latin American countries substantially. The challenge has been to be persistent and hopeful. For many reasons, Latin Americans seem to have lost self-esteem. A SME leader's first priority may be to help the employees, and citizens in general, to recuperate the trust in themselves and the sense that it is worthwhile struggling for a better economy. Representing around 90% of the economy (in number of firms), the contribution of SMEs to the GNP is only about 5%, which is a paradox. A partnership between large and small sized enterprises has to effectively occur, concerning CSR. This effort requires organisation and articulation, so that the programmes become more focused and effective.

CSR has recently started to be seen not as a matter of financial resources invested in social projects, but as a philosophy that determines the relationship between SMEs and all stakeholders. As examples, it is positive to see how Latin American SMEs open opportunities for older workers – over 35 years of age, for instance – while large companies fire, more than hire them. Women seem still to be discriminated against concerning wages, compared to men. SMEs have shown to be the alternative for many women who started their own businesses. Frequently they become the most important – if not the only – financial support in the family.

By 1990, several Latin American business leaders started to mention corporate social responsibility, meaning philanthropy, corporate citizenship, social investment or

donation, just to summarise some of the many different denominations for the CSR concept. The academicians were not included – or invited to participate – in such a discussion. The terms were not clearly defined in the business field, generating strong bias around the theoretical rigour. This fact has raised not only semantic issues, but eventually wrong practical applications of the concept. Many non-governmental organisations (NGOs) are legally created, but do not fulfill their objectives. This recalls the importance of having ethics as the basis of the CSR concept. The current situation is that ideas are more important than concepts. For instance, while codes of ethics were the most important CSR tools in the late 1990s, social balance sheet, social investment, socio-environment, sustainable development and, now, transparency and reputation have become the key words in the area, with no clear definitions. Despite the effort of academics, mostly in South America and Mexico, there is a need for deeper studies in BE and in CSR.

CSR activities in Latin America

As in many other regions, ethics has not been considered a crucial topic or a priority for business leaders, mostly in large corporations in Latin America. Nevertheless, significant amounts of resources have been dedicated to huge social projects, which show the generosity of top managers in many companies. Considering the fiscal benefits that governments offer to the large profitable organisations, more educated citizens often show some skepticism concerning CSR. Expensive social reports have been written, showing their professionalism, but at the same time their subtle, tenuous or clear marketing intention.

Because of the proximity of owners or investors, Latin American MSNEs usually do not create codes of ethics. Occasionally, when they stand as MNCs' subsidiaries, they follow the company code of ethics or conduct (Agatiello, 2003). Compliance remains contestable, due to their 'flexible' culture (as the Brazilian *jeitinho*: always find a way, no matter what and how you do it).

It is typical of Latin American SMEs to understand and participate in social, cultural and political initiatives, indicating commitment towards the local needs. Family businesses are seen as ethical and philanthropic, which does not call so much attention as often happens with large corporations (UNIDO s/d). The amount of resources dedicated to philanthropy is scarce, given the economic limitations of the enterprises' size.

Aiming at the Global Compact principles of good corporate citizenship, the United Nations Industrial Development Organisation (UNIDO) developed the Operational Guide for SMEs, emphasising the significant impact of CSR in the countries or regions. Actually, many Latin American MSMEs seem not to be particularly interested in this manual, as they feel closely committed

with the institutions that care about the social problems around them, mostly related to poverty alleviation. Donations, more than investment, are the way they choose to show their CSR concern.

The UNIDO's expression 'silent CSR' seems quite appropriate for MSMEs' leaders in Latin America. The legislation does not allow them to be more generous with their financial support, as they truly struggle for survival. Those legally established try to be as socially and environmentally responsible as possible, in their operations and in their supplying activities. This does not mean that they are not aware of all the CSR movement in the country. They just have to be prudent, as changes in regulation make them unstable.

In Latin America, the CSR movement became more active in the late 1990s, when the market required more ethics and transparency in business. SMEs could not be left out of this concern, as the opportunities for initiatives were appearing.

Large corporations started to hire professionals dedicated exclusively to CSR. They analyse proposals, organise internal programmes, and manage the concern with the community. Business schools, as well as all careers in universities, together with volunteer programmes, have dealt with CSR. A Latin American network started to be established, as a consequence of a culture of responsibility and social good. In this context, Latin American SMEs joined the network, although their participation had to be quite different from that of the large corporations. Teaching entrepreneurship has been a good opportunity to bring up the role of SMEs in society and their effective potential contribution.

Hundreds of institutions have dealt differently with CSR, social investment or philanthropic activities, emphasising topics as informality, poverty alleviation, corruption, interaction with stakeholders, social and environmental responsibility, sustainable development, volunteer work, solidarity and gender, among others. Some aspects that the author considered more relevant for MSMEs are discussed in this paper.

Informality

A politically correct expression for illegal economic activities has frequently been used in the business world and in the means of communication in Latin America: informality. It can be either a 'domestic market', meaning sales of homemade products directly to consumers, or clandestine manufacturing industries operating in non-established firms.

In this sense, informality in Latin America is a reality that usually is not reflected in most statistical data provided by governmental agencies. Nevertheless, they have a significant impact in the economy of the region. Some figures help to understand their importance:

- 56% of Latin American urban workers are employed in the informal sector;

- informal self-employed workers account for 24% of urban jobs, while informal salaried workers make up about 30%;
- young people hold more than half of the jobs in the informal wage sector;
- in Brazil, 76% of micro sized enterprises lack a license to operate and 94% do not pay taxes; and
- in Nicaragua, less than 7% of micro sized enterprises have more than two employees after three years of operation. (World Bank, 2008)

Perry et al. (2007) study the phenomena with two approaches: *exit*, for many reasons, such as lack of jobs and cost restraints to access the formal market; and *exclusion*, motivated by cost-benefit advantages, such as easier possibilities of tax evasion, flexibility to create jobs with no commitment to provide welfare plans, such as health and life insurance, and pensions to reduce the worker risk. The authors consider informal workers as independent and informal salaried. Independent would mean experienced self-employed or micro entrepreneurs that voluntarily chose the informality for its flexibility and autonomy. The informal salaried, mostly young, would be workers that prefer a formal or independent job.

As informal MSMEs become successful, it is often imperative that they enter the formal market. In the same study Perry et al. present some figures of an IFC survey held in Bolivia, Peru, Brazil, Honduras and Nicaragua indicating the advantages for this formalisation: compliance with the law (47%); avoidance of paying fines (20%); increase in the number of clients (14%); avoidance of paying bribes (9%); better access to credit (8%); better compliance with the contracts (2%).

In fact, the informality creates a gap between the micro and the large sized enterprises:

Another complexity lies in the so-called 'missing middle', this intermediary sector which is missing in the statistics and based on the observation that the distribution of employment in a country is generally bi-modal: Many jobs are created by the micro-enterprises of the informal sector, many jobs are created by large firms and in the middle, small and medium enterprises are missing, giving room to the interpretation of an absence of transition from informal to formal. ... Of course the missing middle is of particular interest because these enterprises are precisely at the margin, trying to push the borders of informality further. (Perry et al., 2007:2)

In some Latin American countries, the governments are creating mechanisms to discourage the informality of MSMEs: SARE Programme in Mexico (less bureaucracy for registration) and Brazilian SIMPLES Programme (tax reduction).

The ethical perspective of such a reality is complex. On one hand, informal enterprises cause unfair competition,

as their prizes become more attractive to customers. In the long run, they negatively impact the economy as a whole. Also, an extremely large number of entrepreneurs and employees, citizens after all, live in the illegality. Very important is the fact that these workers, mainly the young generation, may get used to not struggling to find a formal and stable job, and therefore do not contribute to build an economically and morally sustainable society. On the other hand, the reality of low per capita income drives workers to any source of job that can guarantee their survival. This vicious circle can only be broken by strong and courageous public policies that should be implemented by ethical governmental agents committed to social justice. The low level of education has made Latin American citizens elect representatives that often do not take ethics and social responsibility into consideration, neglecting the democratic principles of their constitutions. For instance, in Brazil the government offers so many different kinds of financial support (subsidies) for the poorest segment of the population (including here the unemployed citizens), that there is no incentive for these people to look for a job. As a consequence, the economic development suffers a negative impact in the long run (OECD, 2008).

Poverty alleviation and job creation

Mostly, after 1950, the awareness of serious social issues motivated citizens, businesses and not-for-profit organisations to co-operate with the governments in the task of eradicating problems such as poverty, child labour, slavery, and unemployment, among others. The United Nations Millennium Development Goals have encouraged many initiatives.

Through decades, governments allowed many companies and citizens to deduct the payment of income taxes, if they proved to have contributed to philanthropic projects. Several not-for-profit institutions were 'adopted' by businesses, or found in them partners to help them to achieve their goals.

In the last decade, large private companies preferred to create their own foundations or associations. Some of these initiatives came out of needs that the business itself required. For instance, educational institutions prepared teenagers for their first job. In some cases, government, not-for-profit organisations and businesses invested in joint projects to develop abilities in young students, preparing them to assume technical positions in all sorts of firms.

Recently, leading business schools in Latin America have developed a CSR programme sponsored by the AVINA Foundation, having the Harvard Business School as a partner. Their goal is to support social entrepreneurship, aiming basically to reduce poverty.

The SMEs have been significantly responsible for the generation of job positions. The large size companies,

aiming to increase the productivity required by globalisation, have continuously looked for innovative processes, tending to robotise their plants with the dismissal of innumerable employees. Nevertheless, instead of supporting the SME, the governments of most Latin American countries seem to underestimate them or to postpone solutions for the problems they face.

The Brazilian Lei Geral das Micro e Pequenas Empresas (Lei Complementar n. 123, Dec. 14, 2006 – General Law for micro and small sized enterprises), legislation concerning micro and small sized enterprises, was recently updated with the intention of generating job positions, improving the wealth distribution, promoting social inclusion and offering incentives to innovation, among other benefits. A significant tax reduction was established for SMEs with annual total revenue below US\$1,150,000. Some areas could have even more benefits. It is expected that other Latin American countries also start to offer better legal conditions for SMEs.

Despite their small number of workers per establishment, in the last years more jobs have been created in the micro than in medium and large sized organisations. This is one of the important findings of the Relacao Anual de Informacoes Sociais (Rais – Annual Report on Social Information), prepared by the Brazilian government. According to this Report, in the period of 1995 to 2000, small sized business with less than 100 employees created 96% of new jobs in Brazil. Similar figures seem to express the reality in other Latin American countries.

Nowadays, Brazilian entrepreneurs face a serious challenge: the fear of hiring. Some of the reasons are: the very high amount of social taxes, which reach over 103% of the worker's wage; a significant bureaucracy meaning financial costs, attention, time and anger; a relative insecurity concerning the excessively protector behaviour enforced by the labour laws and justice; the fear of fiscal actions by the Labour Ministry, which often allow simultaneous action and judgment; a joint responsibility concerning third parties; suing for moral damage when workers experience unfairness; a judge's power to block a banking account in a labour litigation; and the volume and complexity of legal obligations.

For instance, despite the size or industry, a Brazilian entrepreneur has to follow:

- 46 constitutional requirements;
- 922 articles of the Consolidacao do Trabalho (CLT – Labour consolidation of laws and rules);
- 200 specific laws and rules;
- 79 conventions of the Organizacao Internacional do Trabalho (OIT – International Labour Organisation);
- more than 120 ministerial rules;
- more than 30 regulation norms, with more than 2,000 requirements of safety and labour medicine;
- more than 60 rules of labour fiscal actions; and
- more than 300 decisions of the Tribunal Superior do Trabalho (TST – Labour Supreme Court) and

obligations generated in union agreements, besides a large number of contradictions of the Brazilian courts. (Penha, 2007: B2)

More information was intentionally offered here about Brazil, as this country seems to have played a leading role in the CSR movement in Latin America. There is an expectation that similar measures and procedures will occur or already occur in the rest of the region.

Corruption

The fact that MSMEs employ the largest number of workers in Latin American countries is a CSR concern. As the MSMEs invest in their employees, they will become more conscious of their political role in society.

CSR in Latin America will contribute to the economy, as formal jobs can replace the current informality. As governments reduce taxes for MSMEs, business leaders will avoid fraud and other unethical conducts, and will find conditions to employ more human and financial resources, increasing their contribution to society as a whole (Schiappa-Pietra, 1998).

The concept of hospitality, loyalty and friendliness is often used as a synonym for corruption, meaning short-term gains as gift-giving, bribery, use of public resources for one's personal benefit (i.e. the recent scandal of Brazilian corporate credit cards handled by governmental leaders). Although most citizens notice the ethical problems, their concern is not quite reflected in the elections.

Aiming to support SMEs, Itacarambi (2007) understands that the quality of an organisation's culture can become an attribute of competitiveness, the same way as administrative-financial variables, price, excellence of products and services. He comments on how the society as a whole starts to evaluate intangible criteria, such as transparency in governance, compliance and ethical values. Business citizenship is perceived according to: the level of participation of the enterprises in the problem-solving process; and the commitment and effectiveness of the enterprise in balancing public and private benefits of its activities, measured by its economic, social and environmental results.

Interaction with external stakeholders

Whenever ethics is not clearly the basis for corporate social responsibility (CSR), any inconsistencies perceived by consumers, suppliers, clients or any stakeholder impacts negatively on the results. As a consequence, there is a loss of trust and reputation with a denigrating image. Even financially, it is not easy to recuperate the stakeholders' disappointment.

Once this is true, the organisation urgently needs a CSR programme. In this situation, the stakeholders

have a special interest in offering their contribution. For investors or owners, consistency and transparency become a tool for business and for the common good. Top managers and workers easily verbalise this philosophy. Actually, what can be observed is that it is still difficult to transform ideas into actions.

The 'CSR System' ... theorises the key relationships and influences on the development of the CSR culture in the region. It defines the major actors working to promote CSR in the hemisphere as multilateral organisations, governments, private firms, private foreign foundations, educational institutions, and civil society organisations. (Kliksberg, 2003)

What relates to the government, tax evasion and informality seems to be necessary for MSMEs to survive or succeed in some Brazilian economic sectors. In order to reach higher ethical standards, a better relationship between MSMEs and the government is mandatory. A fair labour legislation and lower taxation would contribute for MSMEs' higher road, in terms of business ethics.

Considering the relationship of MSMEs with their stakeholders, or the several parts specifically interested in the organisation, special attention has been given to strategic partners and the government, due to the large number of MSMEs operating in the informality.

Ethics within SMEs

It is understood that the core of CSR has to be personal ethics. 'Be good to do good' has shown to be the root of a real CSR. In general, all individuals in a company are equally responsible for good performance, but the means to reach the business goals are not always the most ethical. Leaders have the responsibility to offer ethical examples, to make sure that an effective ethical climate is a result of individual efforts. CSR starts inside the firms. Good products, fair salaries, punctual payments, respect towards the workers, suppliers, clients and competitors, among other factors, may assure that CSR is a serious concern in a company.

The segment of small businesses is one of the main pillars of sustaining the national economy, either for the number of enterprises and geographic distribution, or for their capacity of generating jobs. Even if recognised by its social and economic importance, the sector finds serious obstacles for its growth, sustainability and competitiveness. (Gianni, 2007)

As in any other sized enterprises in Latin America, many ethical problems are easily found in MSMEs: Unfairly dealing with employees, inappropriate use of company resources, and fraud, among others.

Being ethical and successful has become a challenge for MSMEs. Labour legislation seems to be the most

negative burden for entrepreneurs. While it is crucial to guarantee a minimum respect for the rights of workers, the legislation at times appears to be excessively protective. In Brazil, labour conflicts usually benefit the worker.

The corporate social responsibility (CSR) discussion has focused on individual firm case studies, best practices, and philosophical and moral support to encourage the adoption of codes of ethics. While it became usual for large companies, it is not so common for MSMEs in Latin America. Several organisations have tried to support them in creating their codes. Given the limited number of employees, a written code has often been perceived as useless, as the mission and the principles of owners or investors are clear to all. Once the MSMEs operate as subsidiaries of MNCs, they are required to follow the headquarters' ethical policies.

Large corporations have made efforts to encourage their direct suppliers, and through them the whole supply chain, to take ethics and CSR into account in their decision-making and in their relationship with all stakeholders.

Ethics and sustainability

Mainly after the Crash of 2008, it is interesting to notice how ethics impacts Latin American SMEs' sustainability and vice versa. In other words, to what extent companies' financial security impacts their ethical behaviour.

While many SMEs have been created in Latin America, others have soon gone into bankruptcy. Often SMEs' owners are unable to position themselves in the market, even if they offer good products, services or ideas. They frequently start their business as a micro sized enterprise and become successful. Based upon the initial positive results, their goal is to make the firm a SME. In order to survive, some of these business leaders go into informality or illegally withhold practices. Others are not prepared to manage the business. The inefficiency may lead to fraud, intentional tax evasion, bribery and unemployment. Qualified employees are replaced by less competent workers, as lower wages imply a cost reduction. Aiming to compete with large corporations, the Latin American SMEs would need to rely on appropriate legislation to protect them: taxes compatible with their conditions; agility to assure patents in their innovation processes; piracy control; and support against predatory competition.

Survival and sustainability have been major concerns. The 2004 SEBRAE Report (2005) on SMEs' mortality indicated that 49.9% close their activities before two years of existence; 56.4% before three years; and 59.9% before four years. In order to obtain gains of scale and to reach better conditions to negotiate, SMEs have organised associations that allow them to buy from large suppliers and exchange managerial experiences.

The same way as in Brazil, this initiative seems to have increased the SME's competitiveness in Latin America.

Apparently most companies certified by SAI are large sized. The SA 8000 will strengthen the relationship with the community, in a concrete commitment with the sustainable development, better competitiveness and stronger corporate image. In order to remain competitive, the SMEs have to adopt some environmental controls as they provide goods and services for large companies. In this sense, the large corporations require several conditions to keep SMEs in their list of suppliers.

A Brazilian survey developed in 2003 by the Confederacao Nacional da Industria (CNI – National Confederation of Manufacturing Companies) indicates that 68.5% of the SMEs had some sort of environmental control. In 2006, 73.5% of them already had some programme in this area. As a matter of survival, 92.9% of pharmaceutical enterprises show environmental care, as well as 92.3% of chemical manufacturing businesses, 91.3% of the leather industry and 90.9% of paper industry. According to this survey, rules and legislation encourage the enterprises to adopt environmental controls. In 60% of the businesses, the leaders understand that the environmental protection improves the institutional image, while 17% notice a cost reduction (CNI, 2006). Every enterprise reports to different levels of Health and Environmental governmental agencies, depending on the city, state or national regulation for specific industries.

In order to remain competitive, the SMEs have to adopt some environmental controls as they provide goods and services for large companies. In this sense, the large corporations require several conditions to keep SMEs in their list of suppliers.

Governmental agencies usually react with moroseness in offering licences to new operations. Corruption is also a limitation in this aspect. If environmental protection is not concrete, SMEs have to pay fines. If they improve their technology, meaning to preserve the environment, the licences are not easily obtained.

Developments of CSR in Latin America

Given that the concepts are not clear, what becomes more concrete and appealing to business leaders is to create or adopt CSR indicators, or to show interest in the Global Report Initiative (GRI), and the Millennium Development Goals (Pinto, 2005). Conferences, seminars and workshops are frequently organised to increase sensitivity to the main issues. Unfortunately, the results seem not to be proportional, or actions appear to be mostly marketing oriented. Few large corporations seem to develop serious internal programmes in Latin America. MNCs bring their codes of ethics, which seldom are appropriately discussed with employees in the subsidiaries or suppliers. Therefore, SMEs usually do not create ethics

or CSR policies, assuming that the owners or investors are physically close to employees and their values are tacitly communicated and perpetuated. In order to obtain gains of scale and to reach better conditions to negotiate, SMEs have organised associations that allow them to buy from large suppliers and exchange managerial experiences. This initiative has increased the SME's competitiveness. This *Associativismo* has attracted many SMEs in Latin America.

Vives et al. (2005a) carried out a survey about eight Latin American and Caribbean SMEs' perspectives to invest in internal, external and environmental activities of CSR in the period from 2005 to 2008. Internal responsibility was related to socially and environmentally responsible attitudes towards the health and well being of workers, training and participation in the business, equal opportunities, work-family relationships, and some corporate governance practices (independent audits, CSR in suppliers, and internal control of corruption practices). External responsibility was understood as support for social and cultural community activities, as well as community development and other issues. Environmental responsibility embraced activities related to the decrease of the environmental impact of their operations, reduction of waste and consumption of natural resources, and recycling, among others.

Although Vives et al. (2005a) developed the three responsibilities in the survey, only the results of the external are summarised in Table 3. The reason for this is that the citizens' perception relies on external CSR activities, and not as much on internal or environmental activities.

TABLE 3: LATIN AMERICAN SMEs' PERSPECTIVES OF EXTERNAL CSR ACTIVITIES

Active SMEs in external CSR (%)	Perspectives
55.4	Remain as it is
34.8	Increase support
8.9	No clear idea
1.0	Reduce support

Source: Adapted from Vives et al. (2005a: 81)

Latin American and Caribbean countries have received support from the Inter-American Development Bank (IADB) to increase their competitiveness. Certainly many SMEs benefited. Non-governmental organisations and networks have promoted programmes, training, and awards to CSR projects, emphasising topics such as sustainable development, poverty, environment, volunteer work, and solidarity.

Following the principles and methods of the Business for Social Responsibility (BSR), the Instituto Ethos deals with corporate social responsibility (CSR) in Brazil and supports partner organisations throughout Latin America.

Instituto Ethos and SEBRAE (2003) edited a step-by-step CSR manual for SMEs, defining guidelines about:

1. **Values and Transparency**
 - Self-Regulation of Conduct
 - Ethical Commitments
 - Embedding into Organizational Culture
 - Transparent Relations with Society
 - Dialogue with Stakeholders
 - Relations with Competition
 - Social Reporting
2. **Workforce**
 - Dialogue and Participation
 - Relations with Unions
 - Participatory Management
 - Respect for the Individual
 - Commitment to Children's Future
 - Valuing Diversity
 - Decent Work
 - Remuneration, Benefits and Career Policy
 - Concern for Health, Safety and Working Conditions
3. **Environment**
 - Responsibility before Future Generations
 - Management of Environmental Impacts and Product and Service Life Cycle
 - Reduction of Inputs and Waste of Materials
4. **Suppliers**
 - Selection, Assessment and Partnership with Suppliers
 - Child Labor in the Production Chain
 - Relations with Outsourced Workers
 - Support for Supplier Development
5. **Consumers and Customers**
 - Marketing and Communication Policies
 - Excellence in Consumer Service
 - Knowledge of Potential Harm Caused by Products and Services
6. **Social Dimension of Consumption**
 - Marketing and Communication Policies
 - Excellence in Consumer Service
 - Knowledge of Potential Harm Caused by Products and Services
7. **Community**
 - Relations with the local community
 - Philanthropy/Social Investments
8. **Government and Society**
 - Political Transparency
 - Contributions to Political Campaigns
 - Anti-Corruption and Bribery Practices
 - Social Leadership
 - Leadership and Social Influence
 - Participation in Governmental Social Projects.

(Ethos, 2003:9–10)

According to this manual, a socially responsible SME becomes more competitive. Prices are not the only factor to be considered. Nowadays, it is extremely important to care about the relationship with all the stakeholders, meaning the many groups related to the enterprise. Products that do not degrade the environment attract new consumers and clients, generating business opportunities and a strong institutional image. The access to credit opens possibilities of growth to SME, if CSR criteria are included in the managerial models. Consumers are more concerned about quality and social issues, demanding better products, services and information.

The CSR programmes can be monitored. The SA 8000, created by Social Accountability International (SAI), is an international certification that could help the SMEs. In a broad definition, the SA 8000 measures the relationship of top managers with employees and the community, as well as how the environment is treated. Apparently, most companies certified by SAI are large sized. The trends are that the stakeholders will require from all firms a socially responsible behaviour. The SA 8000 will strengthen the relationship with the community, in a concrete commitment to sustainable development, better competitiveness and stronger corporate image.

Final considerations

MSMEs in Latin America have a special role aiming at low-income consumers. In order to achieve this goal, either serving middle or final customers, they have to develop a sustainable and solid CRS network, including social organisations and local governments.

Most Latin American countries' legislators seem not to be as supportive to the SMEs' development as necessary. The recent Brazilian law, for instance, showed a significant step forward in strengthening the importance of SMEs, but did not solve the most serious problems. Anyway, it may serve as benchmarking to the region. Hopefully other initiatives become helpful.

More than ever, Latin American universities have included *Entrepreneurship* classes in their programmes. A new generation of professionals can improve the SMEs' level of quality and results. The countries' economy as a whole will benefit from this.

People who understand their business, do not necessarily rely on adequate knowledge or tools to run their SMEs successfully. In Brazil, SEBRAE is considered an important initiative to reduce this gap. Only in Sao Paulo, 30,000 current or potential SMEs' leaders receive orientation, individually or in groups, every year. This support is offered through classes, workshops, talks, consultancy, and the website (Portugal, 2007).

The current emphasis in CSR activities can be perceived as a benefit that the private sector offers to society. Nevertheless, it is common to see that this

attitude, called *citizen-business*, may hide or foster omission on the government side. By not fulfilling their responsibilities, governmental agents often use public resources, mainly those indicated in the stated budget, for less ethical purposes. Corruption may be one of the consequences of such an omission. In this sense, the CSR concept should eventually be reconsidered, as an inversion of roles and responsibilities may provoke a social disorder, and a lack of social justice. Businesses should not be *penalised* twice. Taxes are not reduced as CSR activities are developed by profitable enterprises. This perspective clarifies why large corporations like to show their CSR budget figures, meaning an investment in marketing, encouraging SMEs to also do it to make sure that they will be good suppliers.

Notes:

¹ IMF World Economic Outlook, April 2005

² Population Reference Bureau World Population Data Sheet, 2004

³ Table A1–2 Appendix 1

⁴ GDP and Population: OECD in Figures, 2005 (for EU 15). European SMEs: OECD SME & Entrepreneurship Factbook, 2005.

References

- Agatiello, O.R. 2003. *Code of conduct: Corporate responsibility in Latin America and the Caribbean. Public Policies, Private Initiatives, and Inter-sectoral Cooperation*. Washington, D.C.: Inter-American Development Bank. [Online]. Available: <http://www.iadb.org/ethics/sp4321-i/DocHit-i.cfm?DocIndex=1184>. Accessed on 26 February 2008.
- Alter, S.K. 2003. *Social enterprise: A typology of the field contextualized in Latin America*. Virtue Ventures LLC, August. p. 3–10; 40; 57. Case study provided by NESST. [Online]. Available: www.nesst.org. Accessed on 27 February 2008.
- Angelelli, P., Moudry, R. & Llisterra, J.J. 2007. *Institutional capacities for small business policy development in Latin America and the Caribbean*. Sustainable Development Department Technical Papers Series. Washington, D.C.: Inter-American Development Bank. [Online]. Available: <http://www.iadb.org/sds/doc/intC95.PDF>. Accessed on 26 February 2008.
- Ashley, P.A. 2002. *Etica e Responsabilidade Social nos Negócios*. Sao Paulo, Brazil: Editora Saraiva.
- Ciberamerica: *O Portal Ibero-Americano*. 2007. [Online]. Available: <http://www.ciberamerica.org/Ciberamerica/Castellano/Areas/Empresas/ResponsabilidadSocial/informacionresponsabilidadsocialcorporativa.htm>. Accessed on 27 February 2007.
- ECLAC. 1994. *El Crecimiento Economico y Su Difusion Social: El Caso de Chile de 1987 a 1992*. ECLAC, Santiago, Chile, December.
- ECLAC. 2007. *Social Panoram of Latin America*. Preliminary Version.
- ECLAC. 2008. *Statistical Yearbook for Latin America and the Caribbean*. Statistics and Economic Projections Division. [Online]. Available: http://websie.eclac.cl/anoario_estadistico/anoario_2008/datos/2.1.1.1.xls. Accessed on 17 August 2009.
- ETHOS Indicators. 2003. *ETHOS Corporate Social Responsibility Indicators*. Sao Paulo: Brazil.
- FUNDES Internacional. 2002. *Small and Medium-Sized Enterprises (SMEs) Indicators in The FUNDES Region Presentation*. [Online]. Available: http://home.fundes.org/doc/FUNDES_INDICATORS_2_STATISTICS.pdf. Accessed on 26 February 2008.
- GEM (Global Entrepreneurship Monitor). 2008. *Empreendedorismo no Brasil*. Curitiba, Brazil: IBQP, 2009. [Online]. Available: [http://201.2.114.147/bds/BDS.nsf/5D1CAC412448B0428325757B00697DC7/\\$File/NT0003EF2A.pdf](http://201.2.114.147/bds/BDS.nsf/5D1CAC412448B0428325757B00697DC7/$File/NT0003EF2A.pdf). Accessed on 17 August 2009.
- Haslam, P.A. 2008. The corporate social responsibility system in Latin America and the Caribbean. *FOCAL Police Paper*: 2008, 4(1): 10–14. [Online]. Available: http://www.focal.ca/pdf/csr_04.pdf. Accessed on 26 February 2008.
- Ibarra, P. 2007. *Informality in LAC: A Barrier to Growth and Social Welfare*. Washington, D.C.: World Bank, 23 May 2007. [Online]. Available: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/LACEXT/0,,contentMDK:21345369~pagePK:146736~piPK:146830~theSitePK:258554,00.html>. Accessed on 15 May 2008.
- Itacarambi, P. 2007. *Apoio A Pequena Empresa*. Executive Director of Instituto Ethos de Empresas e Responsabilidade Social. [Online]. Available: <http://www.rts.org.br/artigos/artigos-2007/apoio-a-pequena-empresa>. Accessed on 18 July 2007.
- Khagram, S., Hokenstad C. & Arruda, M.C.C. 2004. Ponga Orden a la Informacion Social de Su Empresa. *Harvard Business Review – Latin America*, 82(12): 58–66. (December).
- Kliksberg, B. 2003. *Inequality and Development in Latin America: A Procrastinated Debate*. [Online]. Available: http://www.iadb.org/Etica/Documentos/kli_inequ-i.pdf. Accessed on 26 February 2008.
- OECD (Organization for Economic Co-operation and Development). 2008. *Informality in LAC – A Barrier to Growth and Social Welfare*. [Online]. Available: <http://www.oecd.org/dataoecd/4/29/38889514.ppt#1>. Accessed on 26 February 2008.
- OLAMP (Organizacion Latinoamericana de la Micro, Pequena y Mediana Empresa). [Online]. Available: <http://www.olamp.org>. Accessed on 27 February 2007.
- Oliveira, J.A. 2008. *Empresas na Sociedade: Sustentabilidade e Responsabilidade Social*. Rio de Janeiro, Brazil: Elsevier Editora.
- Paladino, M. (ed). 2007. *La Responsabilidad de la Empresa en la Sociedad: Construyendo la Sociedad desde la Tarea Directiva*. Buenos Aires, Argentina: Emece Editores.
- Peinado-Vara, E. 2005. *Corporate Social Responsibility in Latin America: Responsible Solution to Business and Social Problems*. Technical Papers Series. Washington, D.C.: Inter-American Development Bank, Sustainable Development Department, 4–5. [Online]. Available: <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=893319>. Accessed on 27 February 2008.

- Penha, C.D. 2007. 'O medo de empregar', *O Estado de S. Paulo*, June 30, Economia, B2.
- Perry, G.E., Arias, O., Fajnzylber, P., Maloney, W.F., Mason, A.D. & Saavedra-Chanduvi, J. 2007. *Informality: Exit and Exclusion*. Washington, D.C.: World Bank. September. [Online]. Available: <http://www.oecd.org/dataoecd/4/29/38889514.ppt#1>. Accessed on 26 February 2008.
- Peters, E.D. & Waltring, F. 2003. Condiciones y Retos de las Mipymes en Centroamerica'. *Propuestas de Politicas*. ECLAC, Santiago, Chile, Chapter II, 25–7.
- Pinto Saavedra, J. A. 2005. A America Latina e as Metas do Milênio. *Bem Comum* (ed.) 85, ano IX, 13–6, Sao Paulo, Brazil.
- Portugal, J. 2007. Duvidas Empresariais tem Espaço no SEBRAE. Entidade Faz 30 Mil Atendimentos por Ano so em SP. Sao Paulo, Brazil: *O Estado de S. Paulo*. June 24. Oportunidades, p. 3.
- Preziosa, M.M. 2005. La Definición de 'Responsabilidad Social Empresaria' como Tarea Filosófica. *Etica y Responsabilidad Social de la Empresa. Numero Especial. Cuadernos de Difusion*, Universidad ESAN, 10:18–19, Enero-Dic., Lima, Peru.
- SAI (Social Accountability International). 2008. *SA 8000 – Social Accountability 8000 (SA8000) Standard*. (Published in late 1997 and revised in 2001). [Online]. Available: <http://www.sa-intl.org>. Accessed on 30 January 2009.
- Sainz, P. & La Fuente, M. 2001. Economic Growth, Employment, and Income in Latin America: A Long-Term Perspective. In *Analysis of Prospects of the Education In Latin America and the Caribbean*. Santiago, Chile: UNESCO. pp. 82–101).
- Schiappa-Pietra, O. 1998. Building Business and Ethics in Latin America, *IBER*, 2(1), 1st October. [Online]. Available: <http://www.business-ethics.org/newsdetail.asp?newsid=27> Accessed on 14 March 2008.
- Schwartzman, S. 2000. The Future of Education in Latin America and The Caribbean: First Results of The Delphy Survey. In ECLAC, *Social Panorama of Latin America*, 2006.
- SEBRAE (Servico Brasileiro de Apoio as Micro e Pequenas Empresas). 2003. *Responsabilidade Social Empresarial para Micro e Pequenas Empresas – Passo a Passo*, (Instituto Ethos de Empresas e Responsabilidade Social/SEBRAE, Sao Paulo, Brazil)
- SEBRAE. 2005a. Pesquisa de Mortalidade de Empresas. Boletim Fatores Condicionantes e Taxa de Mortalidade de Empresas no Brasil. *Boletim Estatístico de Micro e Pequenas Empresas*. Observatorio SEBRAE. 1º Sem.
- SEBRAE. 2005b. *Relatório Consolidado de 400 Empresas – 2004*. SEBRAE-DF, Brasilia, DF.
- SEBRAE. 2006. *Onde estao as micro e pequenas empresas no Brasil*. SEBRAE-SP, Sao Paulo, Brazil. Social Accountability International – SAI. [Online]. Available: <http://www.sa-intl.org>. Accessed on 23 February 2007.
- UNIDO (s/d). UNIDO's Corporate Social Responsibility (CSR) programme reaching out to small and medium-sized enterprises (SMEs) worldwide. [Online]. Available: http://www.unido.org/file-storage/download/?file_id=84703get.document.pdf. Accessed on 26 February 2008.
- Vives, A., Corral, A. & Isusi, I. 2005a. *Responsabilidad social de la empresa en las pymes de Latinoamérica*. BID/IKEI, Donostia-San Sebastian, Espana.
- Vives, A. 2005b. *Social and environmental responsibility in small and medium enterprises in Latin America*. Washington, D.C.: Inter-American Development Bank. Sustainable Development Department. Technical Papers Series. September, pp. 1–11. [Online]. Available: http://www.iadb.org/sds/doc/PEF-105_e.pdf. Accessed on 27 February 2008.
- Wharton. 2007. In Latin America, companies are becoming more interested in Social Corporate Responsibility. *Universia Knowledge@Wharton*. [Online]. Available: <file://localhost/<http://wharton.universia.net>. Accessed on 8 January 2007.
- World Bank. 2007. *Informality: Exit and Exclusion*. Washington, D.C.: The World Bank, September.
- World Bank. 2008. *Informality in Latin America*. [Online]. Available: <http://www.ethicalcorp.com/content.asp?ContentID=5479>. Accessed on 26 February 2008.
- Zevallos V.E. 2003. Micro, small and medium-sized enterprises in Latin America. *CEPAL Review*. n. 79, April.

Address correspondence to:
Maria Cecilia Coutinho de Arruda
Fundacao Getulio Vargas – Sao Paulo
Rua Itapeva, 474 – 9th floor
01323-000 Sao Paulo, SP, Brazil
e-mail: maria.cecilia.arruda@fgv.br