

Implementing Corporate Social Responsibility in Small and Medium Suppliers through the Value Chain of a Large Mexican Firm

Mexico

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Executive Summary

CEMEX is one of the most dynamic and profitable global enterprises in the industry, being the largest cement producer in Mexico and the third largest in the world.

CEMEX's story of success, however, can also be linked to its deep commitment to the community and sustainable development. CEMEX has worked diligently towards building a corporate behavior that not only ensures returns to its shareholders, but also responds to societal and environmental concerns and values, making Corporate Social Responsibility (CSR) an important part of its business strategy. CEMEX is also committed to promote industry opportunities in CSR and its growing role in social and economic development is expected to continue.

Businesses are realizing that their response to demand for CSR is critically dependent on the behavior throughout their value chains of distributors, suppliers and clients. Large company influence can be an effective means to motivate small and medium enterprises (SMEs) to implement CSR measures. When more SMEs are motivated to act accordingly and achieve direct benefits, more small enterprises would likely become convinced of its effect on their businesses and thus interested in implementing CSR measures, generating a virtuous circle.

In 2006, CEMEX decided to participate in a pilot Mexican program with nine other "keystone" firms to support implementation of CSR measures among 10 of its small and medium suppliers.

This study focuses on the methodology employed by CEMEX and the other nine companies in implementing CSR measures among SME suppliers in their value chains. In particular, the following issues are discussed: a) the methodology used to develop a project work plan for implementing CSR measures among SMEs, b) CEMEX's ability to recruit and select 10 SME suppliers interested in participating in the program, c) the specific CSR priority areas that were transferred to the SMEs, and d) the development of indicators for monitoring and measuring impact of CSR implementation among smaller enterprises intended to capture the various CSR actions transferred from CEMEX to its value chain.

Finally, the conclusion of the study focuses on the analysis of the lessons obtained from CEMEX through its participation in the project "Implementing Corporate Social Responsibility Measures in Small and Medium Enterprises through the Value Chain".

These findings are also related to published studies on the benefits gained by large enterprises in disseminating their best practices along their supply chains, with the inherent understanding that the ultimate quality of the output of an integrated value chain cannot be greater than the quality of its weakest link. By the same token, quality management of the entire value chain is a vital tool of business management and a critical element in enhancing differential competitiveness. Consequently, responsible value chains can lead to a better relationship with suppliers, and improve public reputation as well as risk management policy.

Background

CEMEX is a growing Mexican company that produces, distributes and markets cement, ready mix concrete, aggregates and related building materials in more than 50 economies across five continents. In 2006, CEMEX achieved gross revenues of US\$18.2 billion, with an annual production capacity of approximately 93 million metric tons of cement.¹ In 2007 it announced that it expected to make investments of US\$1 billion in order to increase its operational income from emerging markets.²

¹ *Responsible Competitiveness Report, CEMEX*. Website: <http://www.CEMEXmexico.com/> (2005).

² Source: company information.

Founded in 1906, with headquarters in the city of Monterrey (located in Nuevo Leon, an industrial state at the northeast region of Mexico), CEMEX has evolved from a small local player into a global company with more than 65,000 employees throughout the Americas, Europe, Africa, the Middle East, Asia and South Pacific Basin.

For decades, CEMEX like many other companies in Mexico operated in a very protected and regulated environment, expanding operations only within the economy. Once the government abandoned the old model dominated by state inward looking policies however, the company was exposed to global competition under the new rules of a free market economy. This accelerated CEMEX's entry into the global markets in the nineties and in 1992, CEMEX started to expand abroad, buying the two largest Spanish cement companies, Valenciana and Sansón.

Under this scenario, CEMEX adopted a new and solid business model that led to explosive growth, acquiring companies (wholly or partially) and purchasing production and distribution facilities throughout the world. In 2005, it acquired the UK-based RMC for a total price of US\$5.8 billion (Hoyt, 2005: 3). But its biggest acquisition was made in 2007 when it acquired an Australian-based company, Rinker, thereby making the United States the most important market for CEMEX.

Since this new era of geographic diversification, CEMEX has not only reinforced its strategy to improve economic performance by achieving efficient operations, but has also pursued its transformation from simply selling "commodities" to selling "solutions".

Corporate Social Responsibility Path

The story of success of CEMEX reflects its unwavering commitment to society and the environment. Corporate Social Responsibility (CSR) has been integrated into the company-wide strategy. In particular, a solid commitment to the communities where CEMEX operates has enhanced the company's prestige and boosted consumer confidence.

The way social, ethical and environmental issues are incorporated into the day-to-day management business relies on three core values that support the integration of CSR issues into the company's strategy. These are: **collaboration**, working together with stakeholder groups in program development; **leadership**, essential in enabling a sustainable future for the company, industry, society and the world; and **integrity**, encouraging employees to adhere to the highest ethical standards and motivating them to assure compliance.

Table 1 summarizes CEMEX vectors of responsible competitiveness, which focus on four CSR activities and their specific courses of action.

Table 1:
Responsible Competitiveness Vectors

FOCUS ON CSR ACTIVITY	SPECIFIC COURSE OF ACTION
1. Community Involvement and Improvement Engagement in community programs that respond to shared corporate interests and promote a positive social environment.	Home building and improvement, as well as development of infrastructure in communities.
2. Employee Quality of Life Enhancement Commitment to ensure the best possible conditions to foster employees development.	Training for self-employment and Education
3. Environmental Protection and Preservation Essence of sustainable competitiveness, that guarantees a continuous improvement in environmental relationship through its conservation and rehabilitation.	Environmental Sustainability
4. Business Ethics Warranty that corporate behavior will be guided by the core values of the company, through their communication and implementation.	

Source: CEMEX 2005 *Responsible Competitiveness Report*, p.3.

CEMEX has developed a practical CSR matrix (Table 2) that allows it to track CSR results and impacts through various indicators. Nevertheless, since companies do not become model citizens overnight, CEMEX has worked diligently to advance through what has been called the “stages of organizational change,” moving toward the civil, and last stage, to directly promote industry opportunities in CSR (Zadek, 2004: 127).

Table 2:
CSR Matrix

VECTORS	INDICATORS	DESCRIPTION
1. Community Involvement and Improvement	1. Prosperity building 2. Quality of life improvement 3. Education and culture	<ul style="list-style-type: none"> Contribute to infrastructure improvement in communities at the base of the pyramid Build alliances for the development of social initiatives that contribute to the improvement of the well-being of local communities Promote educational excellence, encourage fine arts development and facilitate access to cultural assets
2. Employee Quality of Life Enhancement	1. Encourage the implementation of best working conditions 2. Work place security 3. Diversity significance 4. Knowledge for development and innovation	<ul style="list-style-type: none"> Enforce the creation of favorable conditions for employee engagement in corporate objectives, including CSR activities Promote a job security culture Guarantee the enforcement of equal opportunities and conditions Develop and strengthen capacities and abilities
3. Environmental Protection and Preservation	1. Maximization of environmental benefits 2. Harmonious relationship with the environment 3. Environmental management performance	<ul style="list-style-type: none"> Ecoefficiency Program Air Emissions Control Program and Waste Materials Management Natural Resources Conservation Program
4. Business Ethics	1. CEMEX values embedment	<ul style="list-style-type: none"> Resolution of cases by the Mexico Ethical Committee
5. Social Innovation	1. Innovate to add value 2. Best practices communication 3. Open communication to new ideas	<ul style="list-style-type: none"> Develop sustainable social solutions which add business value and benefit stakeholders Build alliances for CSR best practices dissemination Maintain an open and successful communication with external stakeholders

In 1997, CEMEX adopted a “continuous improvement philosophy” that led to a dramatic change in the way CEMEX addressed its supply chain management, as well as its market by focusing not only on production efficiencies, but also on meeting customers needs.

In terms of supply chain improvement, CEMEX has developed a very close relationship with clients, distributors and retailers. In order to enhance value to customers, CEMEX provided the products customers wanted at the needed time and location, which led to important structural changes in the management of the supply chain. CEMEX not only expanded its product lines beyond cement into construction materials, but also provided technical building assistance and efficient and comprehensive building solutions to their customers (e.g. *ConstruTips*)*. This way, CEMEX was able to leverage its global industry knowledge to deliver customized solutions to each local market, sector and channel. This had a positive impact on the satisfaction and diversification of customers, which included architects, homeowners and engineers in addition to the previous primary group of customers, the bricklayers (Hoyt, 2005: 11).

These learning experiences with customers helped launch programs such as “Patrimonio Hoy”, where low-income families were organized into self-financing cells and which facilitated do-it-yourself home building. This meant that for more than 160,000 Mexican families the dream of home ownership had become a reality. Community action went even further through the implementation of the “Piso Firme” Program. Under this program, CEMEX helped more than 200,000 disadvantaged families create a clean and healthy environment by replacing their dirt floors with unique antibacterial concrete. This program was implemented in partnership with federal, state and local governments in Mexico, and was starting to be implemented in Colombia for the poorest residents in the economy.

CEMEX developed several communication initiatives to stay close to their distributors. For instance, a group of distributors in each region met with the CEMEX staff to discuss new ideas and analyze the evolution of the programs. These forums proved to be very useful learning mechanisms, since the distributors who attended the forums cascaded down what they had learned to the other distributors in the region.

CEMEX also shared information on the latest technological devices with its distributors, training them on managerial skills and the usage of new tools, to avoid potential product shortages and provide superior service to customers.

The implementation of “Construrama” in 2001 allowed CEMEX to have a closer relationship with its distributors. Under this initiative, the company developed a very successful branding program embracing a large number of independent retailers. Distributors thus became part of a large and solid network, rather than being simply single, small local businesses. CEMEX offered training courses on basic business functions, helping distributors to improve their overall enterprise performance. They also provided computer access to advertising, insurance programs and financing. This way, Construrama retailers were able to adopt standard business practices that helped them transform and improve dramatically their business performance. This has resulted in a win-win situation, with stores sales of CEMEX cement increasing exponentially. This program demonstrates how a large firm successfully extended its benefits to small distributors and preserved local and regional employment as well.

CEMEX and other businesses in Mexico are realizing that their overall CSR strategy is critically dependent on the behavior of distributors, suppliers and clients along the value chain. Large companies can influence SMEs to implement CSR. As more SMEs are motivated to act accordingly and achieve direct benefits, more small enterprises will likely be convinced of its positive impact and will be interested in implementing CSR measures, thus generating a virtuous circle. This interrelationship is aptly demonstrated in the IDEARSE project.

* *ConstruTips* is a series of simple brochures that gives step-by-step instructions for tasks such as plumbing, electrical or concrete construction projects.

Large Corporations Supporting SMEs: Partners for Sustainable Development (The IDEARSE Experience)

In January 2004, the Inter-American Development Bank (IDB) announced that the Anahuac Institute for Business Development (IDEA, for its Spanish acronym), a think-tank of the Business Economics Faculty at Anahuac University in Mexico, had been chosen as the executing agency for the program "Implementing Corporate Social Responsibility Measures in Small and Medium Enterprises in the Value Chain". IDEA saw this as a great opportunity to promote a systematic adoption of CSR measures among Mexican SMEs.

While working on the draft of the project, we were convinced that improvements in competitiveness and sustainability of SMEs in the long run could only be achieved by embedding CSR practices in their daily operations and strategies. It was our intention to develop a managerial model based on quality and centered on values, that would allow SMEs to visualize tangible results from the adoption of CSR actions, beyond their merely legal commitments.

This was anticipated to be a difficult and challenging task, since this would require working closely with SME owner-managers and convincing them of the benefits to their business of being socially responsible. We also needed to ensure that these owner-managers understood that in order to obtain business gains, it was important to engage in CSR in a systematic, rather than in a sporadic, unstructured way.

We also had the challenge of overcoming the belief that only large companies had a role to play in CSR practices. It was crucial, therefore, to disseminate successful cases of socially responsible SMEs in Mexico and in other parts of the world. We had to demonstrate to them that, due to their financial, human and technical realities, these companies could actually adapt easier to different situations and could be more innovative and creative in the social arena.

We faced a basic question: how could we appeal to a great number of SMEs so they would adopt CSR principles that are embedded in the proposed managerial model, but in a more systematic way?

We started by recognizing the significant attributes that SMEs have: adaptability, innovation capacity, and first and foremost, community connections and local confidence. Since the beginning, we recognized that several obstacles might impede CSR efforts, such as: conflict of interests in allocating time and other scarce resources; strong pressure to deliver immediate results; lack of know-how and "know-who"; strong dependence on external consultancies, which were often outside of the reach of economic reality; and a misunderstanding of what CSR actually means which prevents them from having a more structured approach to its implementation.

Large companies can be important allies to SMEs in reinforcing the implementation of CSR measures and supporting their active role in the value chain. Their participation will also encourage SMEs to regard social and environmental responsibilities as fundamental aspects of their business practices. Furthermore, the large companies can serve as mentors sharing knowledge and information, which can lead them to adopt better business practices (OECD, 2001: 57-63).

The project submitted to the Multilateral Investment Fund (MIF) at the IDB, proposed a pilot initiative that incorporated the participation of 10 large companies and 100 SMEs (each large firm with 10 SME participants from their value chain) totaling 110 enterprises. The ten large selected companies had to have economy-wide and global recognition for their CSR reputation, had to be committed to provide the financial support, and were willing to collaborate and assist their selected SMEs, and help disseminate their best CSR practices among them. The intent was not only to seek a variety of economic activities and geographical diversity among the participating firms for appropriate representation but also to make sure that the large enterprises were from different parts of the world, including Mexico.

For Anahuac University, one of the top five private academic institutions in Mexico, the project meant reinforcing its social commitment, an issue it has always been identified with. In its more than 40 years of existence, Anahuac had a built-in reputation for the formation of leaders of positive action, and was socially recognized as a substantial contributor to the transformation of poor communities in Mexico and other parts of the world.

Since the foundation of the university in 1964, the Business Economics Faculty has worked hard to develop the entrepreneurial capabilities of young Mexican men and women. In 1996, when IDEA started operating with the main purpose of linking academics with the real world, it was clear for the university authorities that neither financial nor natural resources were enough to achieve Mexico's needed economic development, and that the creative and ethical initiatives of entrepreneurs were the most important engines to achieve it.

The project "Implementing Corporate Social Responsibility Measures in Small and Medium Enterprises through the Value Chain" added to a series of efforts of the public and private sectors in Mexico to encourage SMEs to adopt CSR as a corporate strategy and to highlight the benefits that could be derived from doing so. Needless to say, the entrepreneurial and social character of Anahuac University was strengthened by carrying out this important project that could have a positive impact on the future evolution of CSR in Mexico.

The Search for Committed Enterprises

In 2005 after nearly a year of planning and organizing, the operational and administrative unit for the program, IDEARSE (IDEA's Corporate Social Responsibility unit) started operations.

The main objective of the program "Implementing Corporate Social Responsibility Measures in Small and Medium Enterprises through the Value Chain" was to strengthen competitiveness and market opportunities for SMEs affiliated with participating corporations. Thus, the first stage was to find the 10 large enterprises that would participate and constitute the backbone of the program.

IDEARSE established relationships with two business associations. It signed a cooperation agreement with the American Chamber of Commerce of Mexico (AmCham), wherein AmCham would disseminate and promote the program, while IDEA would offer information to AmCham members on CSR best practices and would share learned experiences and applications derived from the program. The Japanese Chamber of Commerce and Industry had to send information on the program to their members and invite them to participate.

In this initial process, the Mexican Foundation for Innovation and Technology Transfer (FUNTEC, for its Spanish acronym), the SME brand at the Federation of Industrial Chambers of the United States of Mexico* (CONCAMIN, for its Spanish acronym), played an important role in promoting the program. FUNTEC led the development of the "Industry Ethics and Values Award**", which is a well-recognized award among private sector companies in Mexico. FUNTEC joined in the effort by inviting companies to participate in the program.

Two enterprises joined the program early on. The first one, Novartis, a European firm, is a leader in scientific research and pharmaceutical products that protect, improve and save lives. The second one, the Coca-Cola Company, an American firm, is the world's leading manufacturing, marketer and distributor of non-alcoholic beverages, concentrates and

* Institution constituted in 1918 that gathers all the industrial chambers and associations in Mexico, by the law of Business Associations and Confederations.

** This award was created by the Federation of Industrial Chambers of the United States of Mexico, to promote a culture of values and ethical behavior in industry, in general, and to publicly acknowledge to organizations, chamber associations and enterprises, committed with ethical and urgent community demand.

syrups. The third enterprise that became part of the project was Santander. The Spanish bank was one of the first banks to provide financial products to SMEs in Mexico, and the Board believed that the institution had a role to play in the implementation of CSR among SME suppliers and clients. Wyeth, the fourth company to incorporate into the program, is a very well-recognized American pharmaceutical company whose CSR staff had always had good relationship with Anahuac right from the beginning. The Japanese company, Sony, was the fifth to join the program; this enterprise received the invitation letter of its chamber and was interested to know more about the program.

Up to that moment, we had confirmed a group of five participating corporations, after having visited more than 40 leading enterprises in CSR. Hence, the executing agency had derived some learning experiences on how CSR was envisioned in the entrepreneurial community in Mexico, and how it was managed. Without question, CSR was recognized as one of the most important issues among the entrepreneurial community in Mexico, but the concept was still at the awareness stage, or at most was still going through an evolutionary process towards its adoption as a systematic business practice.

In some cases, we encountered a misunderstanding of what precisely CSR meant and the commitment it embodied. Nevertheless, it was perfectly clear that enterprises were expected to take greater responsibility for managing their impacts on society, although they did not know exactly what these impacts were, or even how to measure, control and evaluate them. It was even more surprising to learn that the Global Reporting Initiative (GRI) was only being applied by a few companies and remained unknown to most.

Consequently, we learned that CSR practices were different from firm to firm, and the process was emerging in very diverse directions, from merely philanthropic actions to being a major focus of the business strategy. In many cases, the implementation of CSR measures was a mandatory policy from headquarters located in other countries and transferred through standards and common codes of conduct, which typically included some business principles related to workplace safety, human rights, transparency and anti-corruption issues, consumer protection and environmental management.

In general, Mexican companies focused on a single area to implement CSR activities, particularly where they have identified the highest vulnerability. In addition, CSR engagement was lodged in different departments (Human Resources, Public Affairs, Marketing, among others), and only in a few cases was it considered an integral strategy that cut across all areas and levels of the company. Nevertheless, it was evident that CSR actions could only be effectively implemented when there was commitment from top management.

Partnerships and alliances especially those that involved the government, the academe and the business associations were seen as powerful mechanisms to help firms become more socially responsible and generate a positive business climate and a sense of mutual benefits.

In general, some corporations declined to adhere to the program, not because they considered CSR irrelevant, but because of time and staff constraints and a lack of development in CSR areas. So it was quite clear at this stage that there was a long way to go before we could build a culture and promote systematic adoption of CSR among companies operating in Mexico. But at the same time, IDEARSE was concerned about the lack of large Mexican companies participating in the program. This was unacceptable, considering that the program was being led by a Mexican entity within Mexico.

The Consolidation of the Group: Mexican Firms Momentum

The second group of five large enterprises consisted of CEMEX and the following: FEMSA, the largest integrated beverage company in Latin America; Grupo Modelo, the leader in the production, distribution and retailing of beer in Mexico; Grupo Zapata, a large firm leader in wrapping and packaging; and Homex, a large company belonging to the construction sector. The first three went through a long authorization process before

becoming part of IDEARSE, but once incorporated have played very active roles in the project.

Grupo Zapata's decision to join IDEARSE was due to the enthusiasm of one of the members of the Board who attended the second CSR Symposium devoted to the project diffusion and was impressed by the testimony of the two participating SMEs of the Coca-Cola and Santander projects. She informed the president and the CEO of Grupo Zapata that she wanted to meet again with the executing unit to understand better how IDEARSE would be implemented and what benefits could be derived from it.

Homex incorporation was made possible because one of the firms tapped to join the group was unable to join the program. Homex was referred to IDEARSE by one of its most important consultants while the company was seeking advice on how to improve its CSR practices. The methodology of SME intervention proved to be very interesting and a step forward in its efforts to adopt a coherent socially responsible strategy. Homex was the last firm to join IDEARSE which had by then visited 86 enterprises. Although its participation legally materialized only in February 2007, Homex sensitized and selected its 10 SMEs in a record time of one month.

CEMEX formally joined the IDEARSE program after a long period of presentations and interviews with various executives. When CEMEX signed its incorporation into the program in its headquarters in 2006, the CEO of the company who was there to sign the document gave a message to the Board of directors and Anahuac University authorities, represented by the Principal and the Dean of the Business Economics Faculty. One of his principal messages was that the signed agreement endorsed CEMEX's commitment to build a better future, and that its stakeholders were witnesses and participants of the company's vision. This was reflected in policies, practices and programs governing the daily ethical behavior of the company. By joining IDEARSE, CEMEX reinforced its commitment to support and mentor the development of SMEs and its social responsibility engagement. (For detailed description of CSR activities of each company, see **Appendix 1**).

The CEMEX Case: Making CSR Happen in the Value Chain

From what has been discussed it is obvious that CEMEX is an outstanding company based on its financial and commercial performance, providing the best working conditions for its associates, supporting the development of local communities, strengthening its relationships with its stakeholders and promoting the conservation of greater environmental responsibility.

In joining IDEARSE, CEMEX was attracted by the prospect of finding a systematic way to facilitate the development of its SME suppliers and retailers by sharing with them the company's CSR best practices. At the same time, the SMEs documented in a systematic way the CSR best practices standards included within the IDEARSE model that would help CEMEX obtain an accurate diagnosis of the extent by which CSR practices have been embedded in its own business strategy.

The levels of CSR established by the IDEARSE Model are: **Level 1 - Process not started** - in which the company does not have any evidence of the use of a methodology for implementing CSR measures; **Level 2 - Focus** - at this level the owner-managers are interested in CSR topics and implement them in an informal way; **Level 3 - Implementation** - the company has a well-established methodology that allows it to accomplish certain CSR practices in some of its areas or departments; **Level 4 - Improvement** - at this stage the company has a systematic methodology that consolidates the main CSR topics through all the areas.

The first task was to gather all relevant information that sustained CEMEX's CSR commitment. The objective was to analyze each action, taking into account the model principles of self-regulation, human rights, labor aspects, stakeholders, environmental responsibility, and community development. For each principle, various matching guidelines were formulated. For example, corporate core values were part of the first principle. At the same time, each guideline followed a concrete action, such as the elaboration of a code of conduct, as indicated in the example above.

In order to obtain all the necessary information to undertake this study, the IDEARSE consultants reviewed all the evidence related to sustainability and social responsibility reports. They also studied the self-diagnostic document submitted to CEMEFI, which constituted the basis for earning the emblem as a "Corporate Social Responsible Enterprise" in Mexico. In addition, the consultants met with the staff in charge of CSR in CEMEX, to understand better how the firm managed CSR programs and projects.

When this stage was completed, we were all clear that CEMEX was a leader in CSR having established policies, indicators and reports involving its stakeholders - the community and the environment were involved.

According to the IDEARSE Model, CEMEX is at the highest level of CSR maturity referred to as "improvement." At this level, the organization is considered as "outstanding", since it consistently adheres to its CSR practices and is able to share its best practices with its stakeholders. Two of the most important findings during this period were the recent initiatives undertaken by CEMEX - the development of a sustainability management system (SMS) and its participation in the Cement Sustainability Initiative (CSI). SMS is a tool that allows the firm to monitor the responsible management in the social and environmental aspects, allowing innovation and flexibility in each of its operating plants and among its other business units. CEMEX is among the core members of CSI, along with nine other major cement companies. The company is responsible for managing the initiative, identifying companies' commitments, defining and funding the work program and inviting new members. CSI was formed to help the cement industry address the challenges of sustainable development. Its main purpose is to identify and facilitate actions that companies can take as a group and individually to accelerate the move towards sustainable development.

Once the analysis of the main CEMEX CSR principles had been concluded, the next step was to invite a group of SMEs in its value chain to participate in the IDEARSE project. Just like in the search for the large firms, the selected SMEs must have a strong commitment and willingness to work towards managerial improvement to develop an integral approach to CSR.

Since the beginning, the IDB has established an annual sales limit of US\$5 million to categorize a firm as an SME and to participate in the program. CEMEX itself added some selection criteria in order to invite key SMEs, facilitate the recruitment process of its distributors and suppliers, and allow them to obtain a representative universe of the SMEs in its value chain. It intended to constitute a group having close relationship with CEMEX, preferably a long-term one, which recognizes that CSR could provide tangible benefits for them and that it requires more than a goodwill approach. Finally, it was considered important to have SMEs representing different economic sectors.

This was a great challenge for CEMEX because the company had to pre-select a group of SMEs from its large list of suppliers and distributors, without knowing in some cases their level of sales. The CEMEX personnel involved in the project then realized that the company needed a more efficient database, one which would allow the different departments to obtain more and better information on its stakeholders, especially its distributors and suppliers.

CEMEX and IDEA invited the pre-selected firms which met the criteria stated above. Each SME was invited to participate in an event, where the pursued objectives and benefits of the project were pointed out. Forty SME enterprises attended the event and reacted in various ways. Some owner-managers ignored the discussion on CSR topics; others were dubious about all the good things CSR could bring to their business; others appeared concerned due to their human resource and financial constraints. However, some SMEs readily accepted the invitation to participate in the project.

After visiting each firm, presenting the project information and responding to their inquiries, CEMEX selected 10 SMEs. These firms were into home-building, building materials, printing, personnel recruitment and outsourcing businesses.

CEMEX then organized a special event to formalize the incorporation of the SMEs into the project and to announce the next steps to be undertaken. Some small entrepreneurs and communication firms attended the event. An agreement among CEMEX, Anahuac University and the 10 SMEs was signed which clearly established the commitments and responsibilities of each. The vice-president for Institutional Relations and Communication of CEMEX thanked the SMEs for participating in the project. He invited them to take advantage of the opportunity to return some of the benefits they had received from their communities and establish businesses in which both parties could obtain benefits. He also affirmed CEMEX's continuing support to the project.

Soon after, CEMEX started working with the 10 selected SMEs. The first step was to run through an induction session with all the project participants. These sessions eased the initiation of the project and marked the beginning of the long path to be taken with these firms. We announced the objectives of the projects and the steps that were going to be followed: a) development of the baseline study, b) diagnosis of CSR actions, c) development of the plan for changing, e) plan implementation, f) impact evaluation and g) documentation. The sessions also established an appropriate work environment and secured the commitment of participants to play an active role in the project throughout the different steps. In other words, the evangelization process continued, but it was now focused on the SMEs and their people working in them.

Since the beginning, SMEs had been committed to the program and had been appreciative of CEMEX support for their participation. They were enthusiastic and helpful in collecting relevant information on their companies to facilitate the work of IDEARSE consultants.

In doing the baseline study, we were looking for the SME's financial data, organizational environment and leadership and business relationships with CEMEX, in order to develop a SWOT Analysis (Strengths, Weaknesses, Opportunities and Threats) for each SME. This analysis allowed us to have a good grasp of each business and its operations and personnel management. As a result of these initial analyses, we were able to determine certain characteristics that could be considered as common to all SMEs in Mexico. These included some positive attributes such as flexibility and capacity to respond quickly to customers' demand, and innovation and creative capacities in the business. But it also demonstrated some weaknesses such as the lack of structure and organization which had negative impact on the company's efficiency and prevented owners from doing short and medium-term planning.

By that time, we had already identified several value generating areas that were discussed with each of the owner-managers of the SME's in order to develop different activities that would improve their daily performance. In general, their main concerns were improving financial performance, building a labor environment that guaranteed clients satisfaction, and involving human resource in this new organizational culture.

During this analysis, we witnessed the excellent relationship that CEMEX maintained with its stakeholders, and the good opinion that the stakeholders had of the company. The vast majority of the SMEs participating in the project were CEMEX distributors who considered themselves part of a large network. The suppliers who were invited were also aware of CEMEX's interest in enhancing value-added aspects of their activities. It was not surprising then that CEMEX provided its SMEs additional consultancy beyond those offered by the project in critical areas, such as the business code of conduct elaboration and the development of health and safety activities.

Later on, in order to obtain a complete CSR diagnosis, further information gathering technique called Diagnosis Matrix was used. The matrix is divided into the six main principles established by the IDEARSE model, known as: self-regulation, human rights, labor aspects, stakeholders, environmental responsibility, and community development. For each principle there are various guidelines, and for each one of those, there is a concrete action that follows. Consultants hired by IDEARSE showed how the instrument could be effectively used. Upon application of the instrument, the owner-managers realized that their respective companies had already implemented several CSR activities, but not in a holistic and structured way. This was a turning point, as SME owner-managers began to understand the benefits to their business of being socially responsible.

Upon being shown the matrix results, many owner-managers became enthusiastic in implementing corrective actions immediately. Others however had to wait until the entire group was analyzed since the process had to be finished together, in order to achieve economies of scale. As was expected, firms reacted differently. Some of them immediately helped the consultants complete the Diagnosis Matrix, while others took their time according to their priorities and responsibilities.

The subsequent step required each SME to work on its Plan for Changing. This was specifically designed to fulfill the needs identified in the diagnosis process. In this step, the owner-managers were deeply involved in formulating a plan that fit their requirements. They shared and discussed the plan with their staff in order to identify immediate actions that would have a positive impact on the company.

The positive attitude and motivation of owner-managers have been fundamental factors for the development of the project. Their active participation in each and every activity hastened completion of some stages of the project.

The findings reinforced the interdependence of certain activities within the value chain, which provide CEMEX distributors and suppliers a competitive advantage in the market. The techniques that these companies used to conduct logistics, service delivery, marketing, human resource management, etc., were tailored to offer a unique added value. By adopting best CSR practices, these companies will attain a superior performance, as each company is expected to reach a superior level of CSR, or at least have initiated the process, by the time the project is finished.

Learning Experiences in SMEs

Working with SMEs throughout the value chain of huge corporations has been a very gratifying experience, both for the consultants and for IDEARSE. This is not only because of the learning experiences obtained from the project, but also of the transformation towards a quality model based on values that the enterprises have achieved.

The results drawn from the SME analysis reflect several problems with their internal organization. We found that a lot of enterprises lacked the basic elements of a business plan, such as mission,

vision and short and medium term objectives and goals. They also had to overcome the lack of clarity on human resource performance and responsibility. Most of the SMEs participating in the project demonstrated only an anecdotal way of communication and did not have in place a well-established system with embedded standards. A lot of companies also showed that their inefficiencies in managing their business were, to large extent, caused by family-related issues (small Mexican firms are generally family-run businesses), which limited the strategic development of the business.

In general, the lack of a strategic focus is a serious obstacle for the future of the company. The inadequacies that SMEs face in terms of time, resources, etc., cause their operational processes to inhibit their strategic directions, frequently impeding the possibility of obtaining results and growth.

A lot of SMEs showed a proactive attitude when shown the results of the CSR analyses. Many of them started to implement some measures even before the Plan for Changing was started to counteract the negative impact that family relationships could have on management. They tried to understand better the negative consequences of family relationship and the essential changes needed in order to enable their businesses to operate under higher corporate governance standards. Some enterprises, however, demonstrated some resistance to change. This was specially true when an investment was needed to transform them, even if the financial resources needed were not significant. Sometimes, this represented a critical point among consultants and owner-managers were encouraged to use more creative methods of communicating, or ways to resolve these financial shortages through government and state funding.

We also found that a lot of duties were concentrated in a few workers, which limits SMEs from responding effectively to their clients (including large enterprises) and ensuring the quality required in the process. This reality, along with the lack of strategic planning related to achieving the targeted objectives, were key factors that affected the individual SME's performance and future prospects.

In most of the enterprises, we found a general openness for new ideas and flexibility to adopt the required change; however, enterprises showed more resistance to the processes which they did not fully understand or posed a higher risk.

In every single one of the value chains, the SME participants were very satisfied with the support of the large enterprises, and were thankful that they were invited to be part of the IDEARSE program. It is interesting to note that when the large enterprise showed great flexibility in transmitting its best CSR practices, the SMEs responded faster.

The SMEs requested that IDEARSE establish more communication channels among them so that they could learn from the experiences of other enterprises. Consequently, IDEARSE designed a monthly newsletter containing relevant news about the participating SMEs, highlights of CSR issues, and successful cases of firms that have adopted CSR measures.

It was very gratifying to see that by joining this CSR project with large firms, IDB and Anahuac University, some enterprises were able to obtain new contracts. Market acceptance was, in this sense, a good ally for stimulating SMEs' interest in implementing the identified corrective measures.

It is clear that CSR is a long process and in many cases it requires courage to take action, even when the social return cannot be seen in the short run. Nevertheless, when the process of change is initiated, the possibility of entrepreneurs sharing their experiences with other SME owner-managers from different industries has a lot of value, and encourages them to continue in this path.

It is also important to point out that beyond the strategic value due to the competitive advantages gained by the firm, the multiplier effect of the IDEARSE program was evident. Many SMEs, for example, were interested in transferring the recently adopted CSR principles to other small businesses in their value chain.

The *modus operandi* of a program of this kind requires a large amount of input from consultants, but multilateral organisms, large enterprises and SMEs, academics, chambers and associations, which have complementary federal and state funding can be strong engines of change. Enterprises, being value and wealth generators, when operating under CSR principles can be turbo engines of growth and sustainable economic development.

Appendix 1

IDEARSE Program: The Other Nine Large Companies Committed to CSR*

Novartis

Novartis, a leading Swiss pharmaceutical company, has maintained a long-standing relationship with IDEA, as its academic partner in the creation of its corporate University, UNO. For Novartis, entering the project represented a step forward in its corporate citizenship commitment, as an active player in CSR practices which has led the company to achieve important recognition, such as: the “Great Place to Work” and the “Industry Ethics and Values” Awards, and to obtain the emblem “Socially Responsible Enterprise” awarded by the Mexican Center for Philanthropy. CEMEFI is a non-profit private institution, founded in 1988, whose mission is to promote philanthropy and social responsibility culture in Mexico, as well as to strengthen organized participation of society.

The Coca-Cola Company

The Coca-Cola Company, a recognized leader in CSR, decided to enter the project, because it perfectly fitted into its Corporate Citizenship Principles, all of them integrated in its business strategy.

The success of the Coca-Cola Company depends on every employee in the organization and sustainable growth for the firm means ensuring that each member of the Coca-Cola family continuously grows as a member of a team that works together for a common purpose. In Mexico, Coca-Cola Export is one of the three largest employers. Its remarkable commitment to the micro-distributors of its products, not only help them to build their capabilities, serving as enablers, teachers and coaches, but also transferring learning experiences, technological support and effective sourcing strategies to them. The environmental management system is critical to the company’s interests. Because of the main impacts of the business, the organization has concentrated a significant portion of their efforts on ozone protection, water resource and energy management, and post-consumer recycling.

When the IDEARSE program began it was understood that, aside from the benefits that the 10 large companies would achieve through their participation, this initiative would also provide a benchmark for clear mechanisms that would measure the impact of social actions in SMEs. In addition, it was expected that large firms could share learning experiences of different CSR approaches with other businesses in other industries. The IDEARSE program would also help to extend their CSR experiences and practices at the local level. Coca-Cola Export, for example, started an interesting initiative among the group of large companies, by sharing its Quality System. The Coca-Cola Quality System (TCCQS) embodies the requirements of globally recognized standards for quality, safety and environment. This is what was expected from the IDEARSE program, that is, that the network would provide a powerful mechanism for helping firms to become more socially responsible. It was made clear from the initial conversations with the large firms, that the program did not want donors, but committed organizations.

Santander

Santander, a Spanish financial institution, not only established a specific area to offer services to SMEs, but was also very innovative in the conformation of a portfolio of financial instruments that gave more flexibility and credit access to these entities. But Santander has also distinguished itself, because it supported a variety of programs for the educational and cultural development of young students, through well-established programs, such as “Portal Universia.” “Portal Universia” is an initiative of Grupo Santander Central Hispano, created in 2000, in Spain. Its main objective is to provide an academic network that includes universities, professors, researchers and students, generating a favorable environment for communication between young people, in 10 economies where the program operates. Unlike the other two enterprises, Santander contacted IDEARSE staff following the advice of the IDB. When the program was presented to several bank authorities, the decision to join the IDEARSE project was automatic. The financial institution focused on developing an efficient risk management system, as a mechanism to generate value in a permanent way. This would imply, among other things, a rigorous application of CSR practices. Thus, the IDEARSE program was in line with their thrust.

* Companies are listed in the same order as they were incorporated into the IDEARSE Program.

Wyeth

Wyeth, a leading American pharmaceutical company, had integrated a very experienced team that had led the organization to achieve recognition in business social accountability. Wyeth is acknowledged as an organization that stands out because its employees are proud of their work. Its Human Resources best practices are recognized because of leadership in processes, design, implementation and continuous improvement. The company also distinguishes itself for its relationship with the community and care for the environment. During the implementation stage of the project, Wyeth decided to finance a cluster of medium enterprises that, because of their size, did not fit into the program category established by the IDB for SMEs (annual sales of US\$5 million). This initiative went beyond the original project and Wyeth demonstrated again its commitment to support their suppliers who had shown a lot of enthusiasm towards the project. The cluster would work in parallel with the other 10 SMEs thereby activating the program's desired multiplier effect.

Sony

In Sony, an outstanding Japanese manufacturer of audio, video, communications and information technology, CSR had been integrated into three main areas: leadership, environmental management and commitment to the community. To pursue its commitment to the community, Sony Mexico has developed two outstanding programs: "SomeOne Needs You" and "SHARE" (Sony Helps Around Enterprises). The first one is a program of voluntary service, designed to improve community outreach that contributes to enhance the quality of life and help disadvantaged residents and victims of tragedies. This program is adapted to community needs, and personnel participation is motivated. The second one consists mainly of sharing the company's best practices with their stakeholders. The project "Implementing Corporate Social Responsibility Measures in Small and Medium Enterprises in the Value Chain" perfectly fitted with "SHARE" objectives. When Sony signed the agreement with its 10 SME suppliers and distributors, the CEO of the company led the event, reinforcing the belief that CSR is a valued asset in the life of the company, and that this is shared by all throughout its value chain.

Femsa

Founded in 1890 in Monterrey, Mexico, FEMSA is comprised of three complementary business units: FEMSA beer, Coca-Cola FEMSA and FEMSA Commerce. Its main brands are: Sol, Carta Blanca, Tecate, Dos Equis, Coca-Cola and Sprite, among others. FEMSA has been very active in promoting the continuous improvement of the quality of life and living standards of its employees, reducing to the minimum negative environmental impact of its operations following standards beyond those required by the law, and generating positive impact. Femsa has social investments in a variety of programs. For example, "Designed Driver" or "Responsible Waiter" were established in order to promote more moderate alcohol consumption and car accidents reduction. These actions have made FEMSA a well-recognized and awarded firm in CSR.

Grupo Modelo

Grupo Modelo, a Mexican leader in producing, distributing and retailing beer in Mexico, has developed a very successful branding system. It has at least 10 trading marks, with global, economy-wide and regional character. One of its products, Corona Extra is dubbed as "the most sold Mexican beer in the world". With presence in more than 150 economies, Grupo Modelo has been very active in promoting Mexico and its cultural values in the world. Grupo Modelo has developed specific CSR programs that go beyond its legal obligations. Filantropia Modelo, A.C., founded in 1998, was the result of a solid company history of commitment to ethical values and its contribution, particularly, to social vulnerable groups, and its search for a more efficient way to manage resources provided by the different firms of the Group.

Grupo Zapata

Grupo Zapata, founded in 1926 as a small Mexican family business, has evolved to become a large firm leader in wrapping and packaging. The present administration is taking a more strategic approach in its CSR efforts by adopting a business model that is based on these principles and on ethical values. The company has recently modified its structure and established a specific unit that coordinates the CSR initiatives. Grupo Zapata sees its workforce as its main stakeholder; hence, it does not only preserve workers' rights and provide them fair pay and a safe working environment, but also actively supports in training them so that the workforce can obtain certain qualifications and capabilities. Its

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social responsibility activities are also extended to other important stakeholders, such as workers' families and local communities. Its incorporation into the IDEARSE program reflects Grupo Zapata's belief in SME suppliers as important drivers of CSR principles in its value chain.

Homex

Homex is a firm belonging to the construction sector, with headquarters in Culiacan, in the State of Sinaloa, in the northwest region of Mexico. Although Homex is a recently constituted Mexican enterprise, its growth, along with its built-in reputation for being socially responsible has been phenomenal. Homex is truly committed to improve the quality of life of its workforce and its families and develop the local community through the provision of quality home-building at affordable prices. Other key CSR issues involve the adoption of equal opportunity policy in hiring. The enthusiasm that exists in the company has spread to the staff and has made them more committed and productive as seen in reduced cases of staff turnover and absenteeism.

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