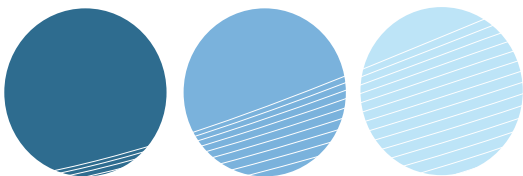


CSR of German Companies in Latin America



Global Compact Network
Germany



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1. CSR of German Companies in Latin America

1.1. Introduction

The following report analyzes how German Global Compact Companies integrate the CSR practices following Global Compact principles into their business activities in Latin America. It provides strategic recommendations on how companies can maximize their impact on the triple bottom line in relation to development goals in Latin America.

The broad acceptance of initiatives – such as the UN Global Compact – demonstrates that companies are willing to align their operations and strategies to undertake responsibilities in the areas of human rights, labour, environment and anti-corruption. However, research showed that many companies do not know how to address their corporate responsibility strategically in line with the promotion of local development needs and priorities in the regions they are active in.

As a response to these key challenges, the German Global Compact Network proposed an in-depth study of the main challenges and concerns of German companies investing in Latin America, a region characterized by its cultural, social and political diversity and high levels of inequality. The main objective of this analysis has been to maximize the potential German companies have enhancing development goals, social cohesion and environmental performance in Latin America.

1.2. CSR in Latin America

The growth of civil society, an increasing activity of the state and the need to make Latin American products and services competitive on international markets has had a great impact on the transformation of a company's role in society and its CSR practices in the region.

Originally, CSR practices in Latin America were closely related to the practices of philanthropy, voluntary implementation and corporate donations (financial and non-financial) oriented normally towards NGOs and social activities ⁱ.

The arrival of the concept of strategic CSR in Latin America was due to three different factorsⁱⁱ :

- ◆ The presence of multinational companies with higher standards that forced national companies to invest in CSR to be more competitive.
- ◆ Emblematic cases of national companies that suffered the consequences of not having acted in a socially responsible way; with huge setbacks for their reputation and brands, and their consequent financial impacts.
- ◆ The promotion of CSR, its practices and benefits through local and regional organizations making CSR a topic of discussion within business organizations, NGOs, the media and other bodies, adding it to the political agenda and providing follow-up activities.

However, studies show that Latin America needs to strengthen the institutionalization of CSR. Good governance can still be improved and generally, the climate for promoting CSR is not very favourable in the region.

Three general tendencies towards CSR are observedⁱⁱⁱ:

- ◆ There is relatively low activity in the private sector and most work is implemented via business organizations.
- ◆ The implication of governments and the promotion of CSR are relatively low and are not integrated to the design of development policies. International organizations in the region are sometimes perceived as promoters of these concepts.
- ◆ Awareness programmes and the diffusion of good CSR-related practices are not very extended. The media does not cover CSR related topics as extensively as in other regions and its integration in universities is still limited

Since one of the major impulses for strategic CSR has been the presence of multinational companies in the region, it is relevant to question if the tools, social management systems, evaluation mechanisms and sustainability reports used by these companies should be identical to those used in Europe.

The differences between Latin America and Europe can be divided into various groups. As illustrated in Figure 1, a recent study differentiated the two regions according to their eco-

nomical, geographical, social and political differences, as well as within the associative movement^{iv}.

<i>Europe</i>	<i>Latin America</i>
<i>Economic Differences</i>	
<ul style="list-style-type: none"> - Mature economies - Good infrastructure - High incomes - Credible private sector - High capacity of human resources 	<ul style="list-style-type: none"> - Emerging and subsistence economies - Isolation of certain sectors, introspective and not orientated towards internationalization - High inequality levels that generate instability and determine consumption patterns.
<i>Geographic and resource-related differences</i>	
<ul style="list-style-type: none"> - Small territory and dependence on primary resources from other regions - Societies that are consumption-intensive, with high requirement to save and recycle 	<ul style="list-style-type: none"> - Wide territory, rich in resources and low population density - Less requirement for conservation and less pressure to promote saving and recycling - Strong differences between rural areas and megacities.
<i>Social and political differences</i>	
<ul style="list-style-type: none"> - Solid regional policies (health, welfare, environment, labour etc.) - Social pressure to promote good governance - Stakeholder participation - Broad and efficient public services - Long history of political/economical stability 	<ul style="list-style-type: none"> - In some cases Instable policies, poor and limited regarding sustainability - Little coverage of social welfare - Access to fundamental rights is not guaranteed and the legal system is fragile - Inefficiency tolerated and high level of systematic corruption. - High institutional fragility - High level of insecurity
<i>Differences in the social movement</i>	
<ul style="list-style-type: none"> - Pressure on governments by interest groups to promote and guarantee sustainability - Promotion of CSR on the European level 	<ul style="list-style-type: none"> - Little independence of the social movement - No independent groups exist that exercise political pressure or demand CSR actions from companies

Figure 1 : Differences that determine CSR in Europe and in Latin America^v

1.3. German Companies in Latin América

The number of German companies operating in Latin America has been steadily increasing in recent years. In 2008, 1470 German companies were operating in Latin America, generating a turnover of 83.5 billion Euros and employing a total of 419,000 staff^{vi}. In the decade between 1998 and 2008 the overall share of German FDI in the region was 5%^{vii}.

German FDI ranks third in Latin America, behind investments from the USA and Spain. The most important sector for German FDI is the manufacturing industry, accounting for almost 90% of total German investments in Latin America and occupying the second rank behind the USA^{viii}.

Activities of German companies in Latin America can be traced back many decades and a considerable number of companies have a long tradition of more than a hundred years on the continent.

German companies can generally be differentiated from their competitors in terms of long-term investment perspective. German companies witnessed the economic peaks and troughs in Latin America, but in general maintained their operations in the region^{ix}, and consolidated their reputation as reliable partners for Latin American countries.

There is a clear trend towards increasing German investments in the region, after a period of rare new investments since the 1980s. Moreover, medium-sized companies are considering producing in Latin America as local production facilities are seen as a crucial way to enter into local markets – especially in the larger Latin American countries such as Argentina, Brazil, Colombia or Mexico^x.

The importance of Latin America for German companies also derives from the fact that Latin America is the only region outside Europe where German companies occupy key positions in certain sectors, such as the automobile and car parts, chemical, pharmaceutical, electronic technological, and mechanical engineering industries.

Furthermore, in Brazil, German companies produce around 10% of national industrial production and in Mexico the figure is only slightly lower. Therefore, German industrial companies are generally market leaders or have a significant market share.

Latin America is a lot more important for German companies as an industrial base than as a simple trading partner. German exports into the region correspond to only a quarter of the

value of German industrial production in the region. In other words, the total value of the production of goods and services by German daughter companies in the region is four times the value of German exports into the region^{xi}.

1.4. How are German companies perceived in Latin America?

There are several studies that evaluate how Latin American civil society considers both German companies and the country as a whole. Generally they coincide to emphasise its good reputation and image in the region.

A study of Reputation Institute that evaluates the image of Spain for the rest of the world and uses Germany as a control group gave the following results:

- ◆ Germany and its companies have a positive image in most of the areas studied, besides cultural appeal and natural environment.
- ◆ Factors evaluated as particularly positive are related to German companies and the German economy, including Products & Services, Brands & Companies, political and legal institutions and the economic environment^{xii}.

The results of a perception study published in the *BIELA – Barometer of the Image of Spanish Companies in Latin America*^{xiii} show that overall, German companies have the best reputation in Latin America in comparison to companies from other countries (Brazil, Spain, France, UK, Japan, China, US, Netherlands and Italy). The study was an analysis of the image of Spanish companies in Latin America and used companies from Germany and other nationalities as control groups^{xiv}.

- ◆ Germany was rated highest for its economic transparency, labour quality, real information and environmental responsibility.
- ◆ Germany was rated above average, although a little less than its overall perception, for its social action and philanthropy, the contribution to the development of the country and the creation of employment.

The results of the two studies^{xv} reflect the statements given from experts interviewed and the participants of the workshop that took place in Bogota on the 3rd of June, 2010. They confirmed that German companies have stayed in the region throughout the variable economic and political ups and downs of the last decades, which alongside the provision of high quality products and modern production standards of German companies, constituted their solid reputation as reliable partners for Latin American countries.

1.5. Searching for a balance – adapting CSR of German Companies to a Latin American context

The fact that poverty and inequality are major problems in the region means that there are certain aspects that do not feature among the CSR priorities in Western countries but should be of major importance in the relation between companies and society in Latin America.

- ◆ Research shows that German companies are applauded for implementing CSR within their internal processes and to encourage sustainable development, in particular with regards to managing environmental impact, but with less emphasis on advancing development in the region.
- ◆ Human rights, responsibility for the supply chain and compliance beyond local standards were the CSR related topics that experts highlighted as key priorities for the region.
- ◆ While it is the direct responsibility of companies to comply with the Global Compact principles and to guarantee a maximum positive impact from their business operations, it is crucial to develop a common strategy between all stakeholders with a strong participation of public authorities in order to have an impact on development goals.
- ◆ A company cannot perform successfully in a society that is characterized by poverty and inequality in the long term, and given the specific situation in Latin America in terms of the lack of social cohesion, it is of strategic interest to German companies to participate in strengthening the region and improving social development.
- ◆ While it is the task of governments to tackle these problems and implement strategies for fulfilling development goals, German companies can contribute by aligning their CSR activities to local development priorities and National Development Plans.

2. How German Companies manage CSR activities in Latin America

2.1. Implementation status of CSR of German Companies in Latin America

This study analyzes the CSR performance of German companies in Latin America, with special emphasis on the implementation status of the 10 Global Compact principles in the areas of human rights, labour, the environment and anti-corruption (see figure 2).

<i>Human Rights</i>	<p>Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and</p> <p>Principle 2: make sure that they are not complicit in human rights abuses.</p>
<i>Labour Standards</i>	<p>Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;</p> <p>Principle 4: the elimination of all forms of forced and compulsory labour;</p> <p>Principle 5: the effective abolition of child labour; and</p> <p>Principle 6: the elimination of discrimination in respect of employment and occupation.</p>
<i>Environment</i>	<p>Principle 7: Businesses should support a precautionary approach to environmental challenges;</p> <p>Principle 8: undertake initiatives to promote greater environmental responsibility; and</p> <p>Principle 9: encourage the development and diffusion of environmentally friendly technologies</p>
<i>Anti-Corruption</i>	<p>Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.</p>

Figure 2: The Global Compact Principles

The activities of German companies in the areas of stakeholder engagement, CSR communication, social investment and adaptation to the local context and development goals are also analyzed, as they are identified as further key issues to achieve CSR goals.

As defined by European Commission ^{xvi} CSR is “*A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.*”

For a more detailed description of the methodological approach, and further information on the companies and experts interviewed refer to Annex 1.

2.2. Human Rights

Introduction

Human rights is the most universal aspect of the Global Compact whilst being the area where companies have the least experience and knowledge. As stated by the director of US-AID in Colombia, Ken Yamashita: “The most important challenge in relation to human rights is the missing knowledge about the topic”^{xvii}.

Human rights impact is in many cases only indirectly linked to internal business operations and its principles are perceived as the broadest and most difficult to implement.

Major challenges identified by companies are integrating business responsibility within cultural contexts with a different understanding of human rights and the implementation of human rights strategies in environments with a weak legal framework.

Corporate performance

- ◆ In the field of human rights, the implementation of management systems is the lowest of the four Global Compact areas. Of the 44 companies analyzed, at least 57% have a special human rights strategy in place. However, only 32% implement measures to report complaints in this area.

- ◆ On the other hand, companies stated that in certain key areas human rights factors were integrated adequately and regional experts have a positive opinion of German companies’ integration of such principles (see Figure 3).

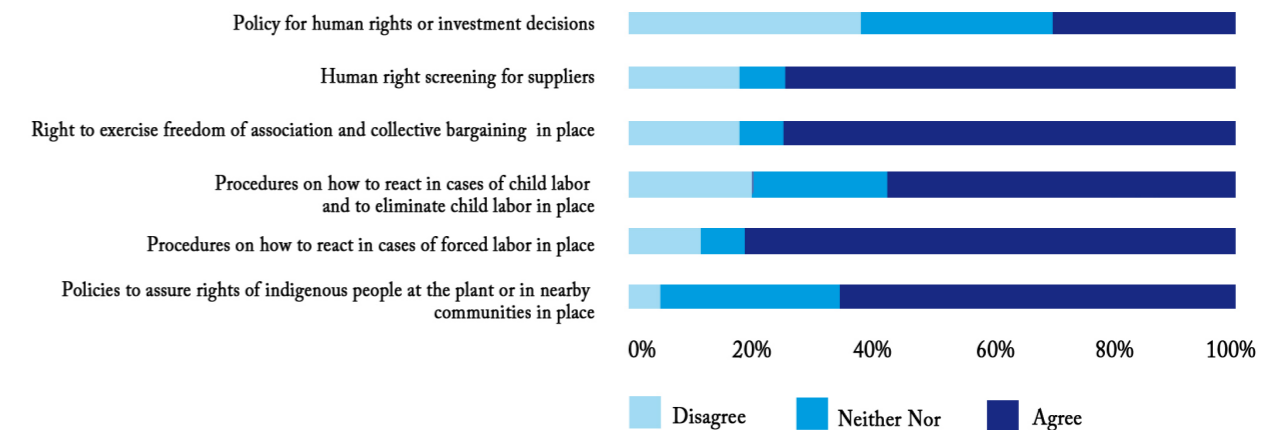
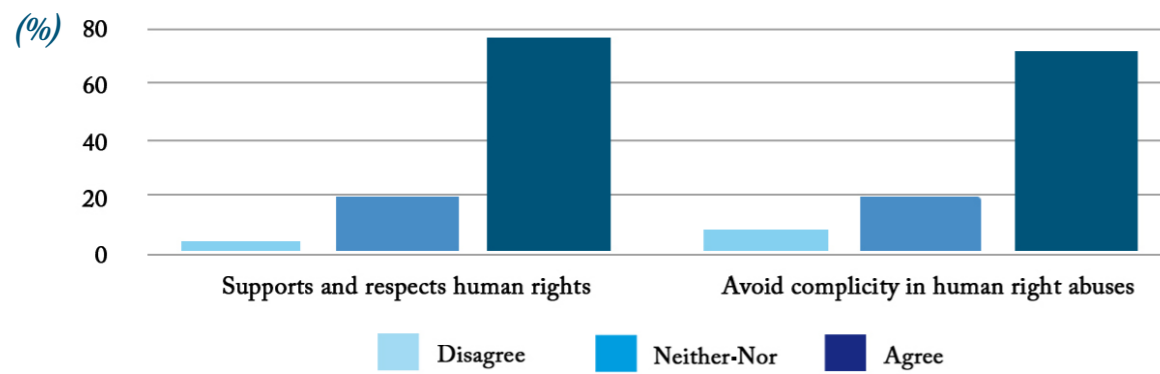


Figure 3: Implementation of Human Rights Policies in Latin America

- ◆ A large majority of companies affirm they are developing areas such as the integration of human rights screenings for suppliers (more than 80%) and procedures for how to react in cases of child or forced labour (more than 75% respectively).
- ◆ In addition, some companies also confirm they have designed human rights policies for taking investment decisions (around 65%).
- ◆ Furthermore, 60% of companies state that they have established procedures on how to react when the right to exercise freedom of association and collective bargaining may be at significant risk and have established the necessary action to support these rights.
- ◆ Specific policies to ensure respect for the rights of indigenous people is one of the areas least incorporated within the companies analyzed. Almost 40% of companies confessed they do not integrate such policies, although company representatives also emphasised there is very limited contact with the indigenous population, if any.

Experts' perception

The positive testimonial of the corporate integration of human rights by German companies is complemented by the perception regional experts have on how German companies support human rights and avoid complicity in human rights abuses (Figure 4).



- ◆ 76% of experts think that German companies support and respect human rights
- ◆ 72% would agree that German companies avoid taking part in human rights violations.

Figure 4 : Perception by regional experts on Human Rights integration of German companies

Note of interest

Although only a few companies implement measures to report complaints in the area, German companies have successfully implemented policies and procedures to address these issues. In addition regional experts have a positive opinion of how they are integrated and supported.

Box: Henkel: Compliance Line

Henkel, a member of the German Global Compact Network, published its globally binding social standards in 2006. The application of these standards is pursued through presentations, training courses and e-Learning programmes, and compliance is checked by audits in selected sites.

Additionally, a mechanism to report violations anonymously by employees and external stakeholders has been installed. In 2007, Henkel set up its Compliance Line which is currently available in 38 countries. The hotline is run independently on behalf of Henkel by an external provider, guaranteeing the confidentiality of information and preserving the integrity of employees.

In Brazil, the “Disque Henkel” line is operated by an external company, the question is answered and the reply is made public, without stating the employees’ names. Also in Colombia, the option of reporting irregularities through the Compliance Line is given.

The company states in its report, however, that generally very few complaints are reported via the hotline but rather through established internal reporting channels and that direct contact points in the company are used much more frequently.

2.3. Labour

Introduction

Initiatives to support labour rights through CSR are normally fostered in countries with inexistent or weak legal framework conditions^{xviii}. CSR activities in labour rights in developing countries need to address many more fundamental questions as problems differ greatly. Freedom of association and collective bargaining, for example, may not be ensured by law.

Problems of labour rights in Latin America generally reach beyond the companies’ own facilities. Whilst labour rights may be ensured and promoted within a company and labour standards may be above average, the monitoring of labour rights in supply chain companies is a much more complex task that needs an additional management approach.

Corporate performance

- ◆ In terms of the labour performance of the German companies analyzed, few of them provide labour-related data on their operations (working hours, number of accidents etc.). However, all companies interviewed confirmed the use of systematic management systems to manage labour relations (see Figure 5).

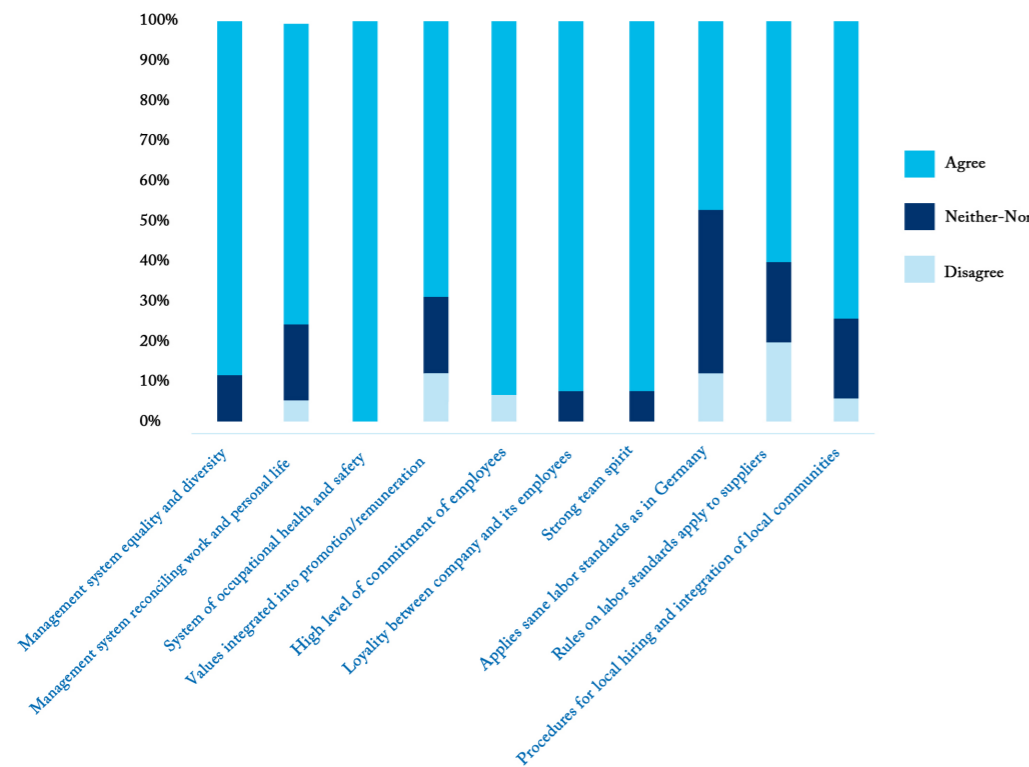


Figure 5 : Human Rights related to Labour Rights

- ◆ Around 90% of companies believe they have mutual loyalty with their employees and that members of the company have a strong team spirit.
- ◆ More than 90% of companies consider they have an efficient management system to address diversity and equality and an efficient system to manage occupational health and safety.
- ◆ Moreover, most companies offer company members the possibility to make suggestions (86%) and in more than 75% of the interviewed companies, employees can participate in the formulation of strategy and improvement plans.

- ◆ Around 80% of companies confirm their management systems combine working and personal life and integrate their values into promotion/remuneration.
- ◆ Furthermore, 73% of interviewed companies claim they have procedures for local hiring and the integration of local communities into the workforce.
- ◆ Additionally, 73% of companies have reaction procedures in cases of forced or compulsory labor and measures to contribute to their elimination. (see Figure 6).
- ◆ However, only 57% of interviewed companies have reaction procedures for situations where the right to exercise freedom of association and collective bargaining is at significant risk, or supporting action established.

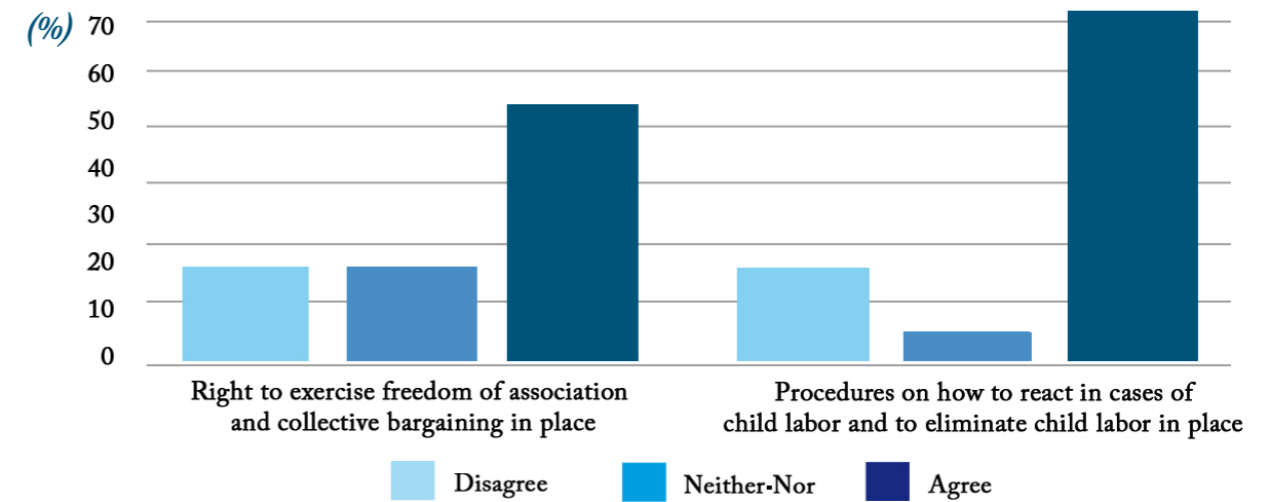


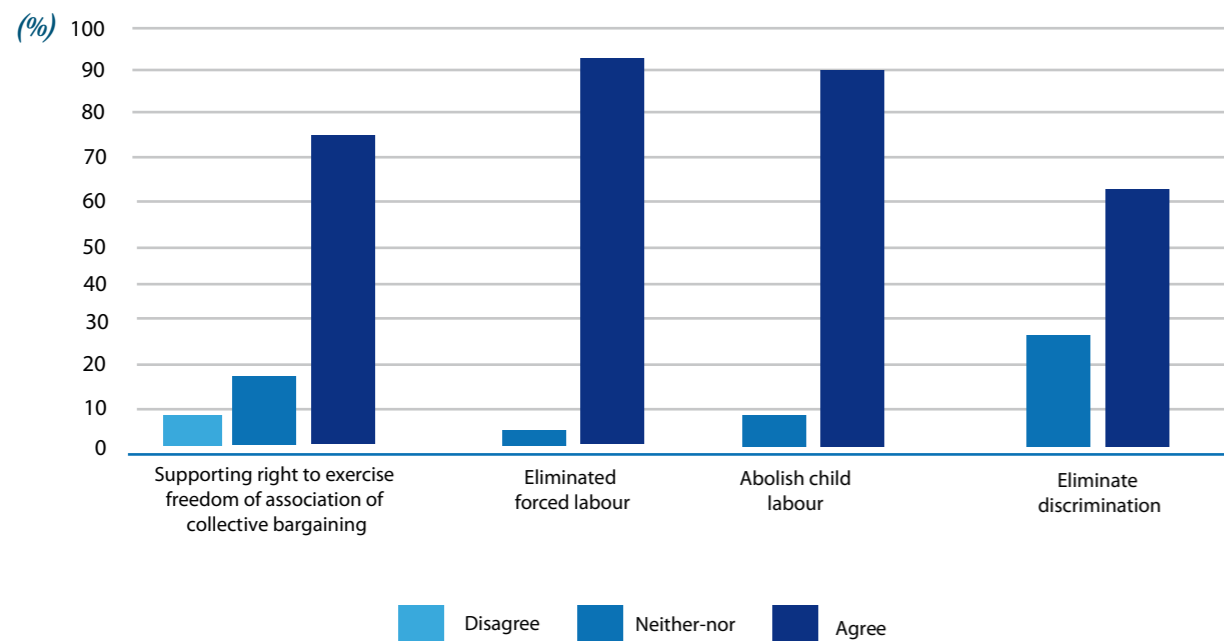
Figure 6: Human Rights related to Labor Rights

- ◆ Another less incorporated aspect is the integration of human rights protocols in the supply chain. Only 60% of all interviewed companies ensure their labour standards also apply to their suppliers.
- ◆ During the interviews companies confirmed that implementing Global Compact principles guaranteeing freedom of association and the conflicts between national and German laws and regulations, in particular when related to trade unions, were

some of the more difficult aspects. Moreover, the workshop with German companies in Berlin identified the integration and monitoring of local suppliers and the relations with local government as major difficulties related to labour standards.

Experts Perception

Experts generally have a positive opinion of how German companies integrate aspects of labour management. 90% of them believe German companies work on the elimination of forced and child labour and more than 76% believe they strongly support freedom of association and collective bargaining (see Figure 7).



- ◆ More than 90% of experts believe German companies work on the elimination of forced and child labour.
- ◆ 76% of experts agree that German companies promote freedom of association and collective bargaining.
- ◆ However, only 64% of the experts feel that German companies work on the elimination of discrimination.

Figure 7 : Perception by regional experts on labour management of German companies

Note of Interest

An issue that generated great debate among corporate representatives and regional experts was the implementation of the same labour standards in Latin America as in Germany. Companies considered they complied with national and international standards, such as the World Bank and ILO regulations, although very few actually provide the same conditions as in Germany. German Company representatives reiterated that the implementation of German regulations in Latin America is not possible due to the fact that laws and regulations in Germany cannot be exported to another cultural and legal context. However the regional experts did not share the same opinion, claiming they had certain expectations that the same standards were applied in both regions.

2.4. Environment

Introduction

Good performance and the know-how of German companies on how to reduce environmental impact is one of the benefits of a strong environmental regulation in Germany.

However, whilst German companies are traditionally strong in managing direct environmental impact, there is still a lot to be learnt on how to manage the impact on biodiversity or how to adapt to climate change, especially in more vulnerable communities.

In developing countries, where legal environmental regulations tend to be weaker or not fully implemented, it is crucial for companies to comply with, and to voluntarily go beyond the local standards as a commitment to sustainable development in the country.

German companies have an excellent capacity and experience that enables them to have a positive impact and act as a good example to other companies. As has been stated by BASF in an interview with CSR WeltWeit, *“Germany has a lot of experience in environmental issues and they have very good technology. The German companies in Brazil are very well recognized by our population. German companies have much more responsibility to really do the same as they do outside Brazil”*^{xix}.

Corporate performance

- ◆ German companies in Latin America generally show good performance in integrating environmental standards into their operational business activities (see Figure 8).

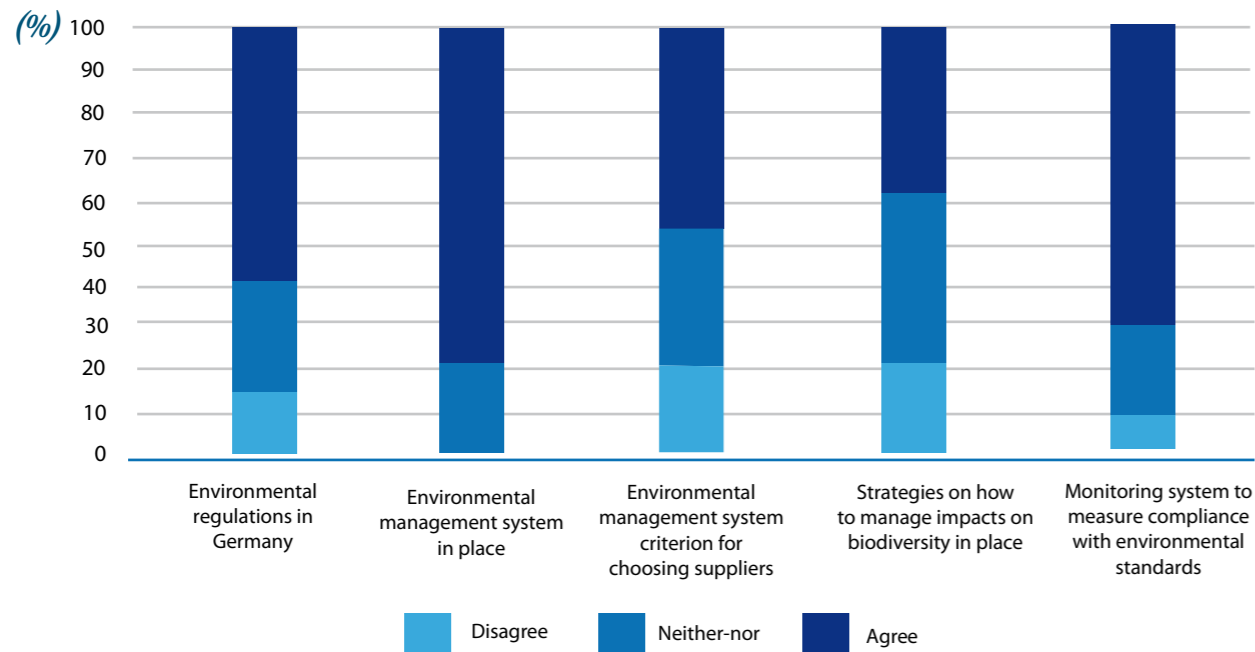


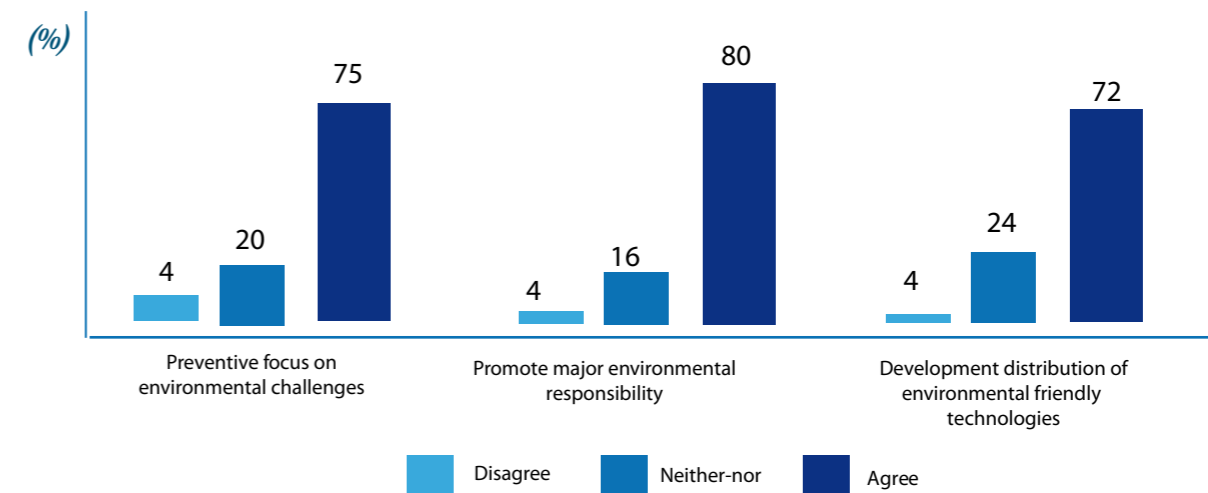
Figure 8: Implementation status of environmental Global Compact Principles

- ◆ Almost 80% of all participating companies stated that their company has an efficient environmental management system in place, and 72% have a monitoring system to measure compliance with environmental regulation in Latin American countries
- ◆ Furthermore, at least 77% have a measurement system for environmental impact and 66% implement a strategic plan to reduce environmental impact ^{xx}.
- ◆ On the other hand, German companies generally perform weaker in areas related to their surrounding environment and the external impact of their operations.
- ◆ For example, only 40% of companies have defined strategies on how to manage impact on biodiversity (although a number of companies foresee development in this area)

- ◆ Additionally, an approximate 50% of companies confirmed that the existence of an efficient environmental management system is one of their criteria for choosing suppliers in Latin America.

Experts perception

This information contrasts with the regional expert opinion on the integration of environmental aspects by German companies (see Figure 9).



- ◆ 80% of experts agree that German companies promote increased environmental responsibility in Latin America (80%).
- ◆ Likewise 75% of all experts also agree that German companies apply a preventive focus on environmental challenges.
- ◆ In addition, 72% feel that German companies use their competitive advantage in environmental technologies to promote the development and the transfer of technology

Figure 9: Perception by regional experts on environmental integration of German companies

- ◆ As illustrated, the experts perceive German companies as efficient in promoting environmental responsibility in the region and applying a preventive approach towards environmental challenges.

- ◆ The two aspects with the biggest potential for improvement are the management of impact on biodiversity and the application of environmental criteria for choosing suppliers in the value chain.
- ◆ In addition, it is noteworthy that there was a considerable difference in environmental management between larger companies with a longer history in the region and those with smaller operations in Latin America. Due to their size and experience the latter tend to integrate less environmental aspects in their line of operations.

Note of interest

There seems to be a certain discrepancy of perception over the extent to which German companies apply the same environmental regulations and standards as in Germany. While 65% of companies state that they apply the same regulations, regional experts believe that companies in the region do not integrate the same environmental aspects as in Germany. Interviews with corporate representatives confirmed this situation, stating that the key challenges in these areas were the poor enforcement of local environmental laws and the difficulty of applying western environmental standards to the region without losing competitiveness in the market.

Box: BASF: “Espaço Eco” Foundation

Located close to one of the BASF production sites near São Paulo, Brazil, the “Espaço ECO” Foundation promotes sustainable development through the transfer of know-how and technology in the areas of eco-efficiency, environmental education and reforestation. The foundation was created in 2005 as a Public-Private Partnership between the German member of Global Compact BASF, the GTZ and local partners and is the first Excellence Center of Applied Sustainability in Latin America.

Companies (and other interested organizations) are offered the possibility of an eco-efficiency study that assesses the environmental and economic impacts of products, processes or services throughout the life-cycle and provides the argument for including environmental efficiency aspects into company decision-making.

Environmental education programmes are carried out for small and medium-sized enterprises as well as with BASF’s own employees, and reforestation activities are undertaken in protected natural areas and in the urban environment.

Operating as an independent organization, the foundation is able to create and maintain good relations with different groups of interest, and also facilitates the dialogue between BASF and its stakeholders. The foundation is financially self-supporting and has already broken even.

Further information: <http://www.espacoeco.org>

2.5. Anti-Corruption

Introduction

Anti-corruption is regarded as the most difficult of the Global Compact areas to implement and overall performance is still unsatisfactory^{xxi}. Corruption is a major challenge for companies operating in developing countries, and some companies complained that refusing corruption in certain cultural environments lead to economic disadvantages or more difficult market access.

Throughout Latin America, corruption is a major challenge and “weak institutions, poor governing practices and the excessive influence of private interests continue to undermine the best efforts to promote equal and sustainable development”^{xxi}. Most Latin American countries have a very poor rating for corruption, and only Chile and Uruguay score over 5 out of 10, indicating a fair performance.

Corporate performance

- ◆ German companies consider corruption as one of the major challenges when investing in Latin America and it is an issue all consider crucial when defining their business strategy (see Figure 10).

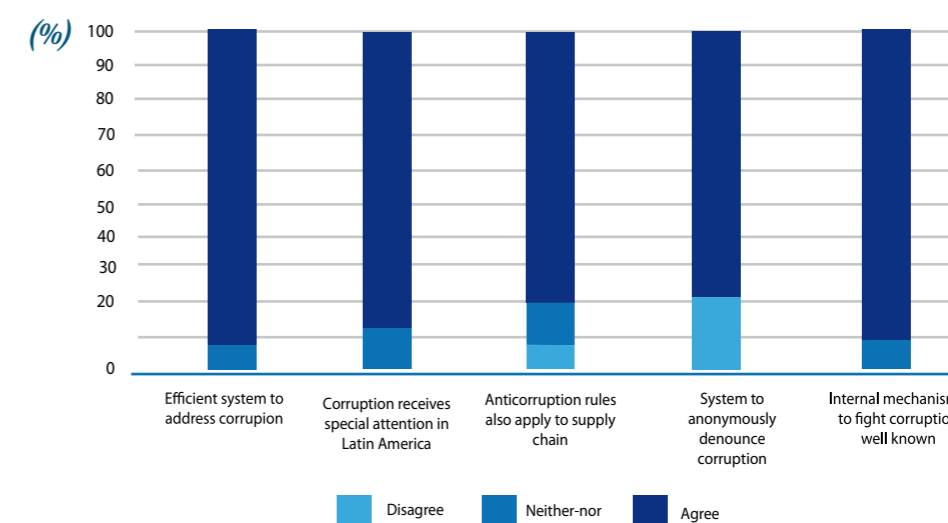


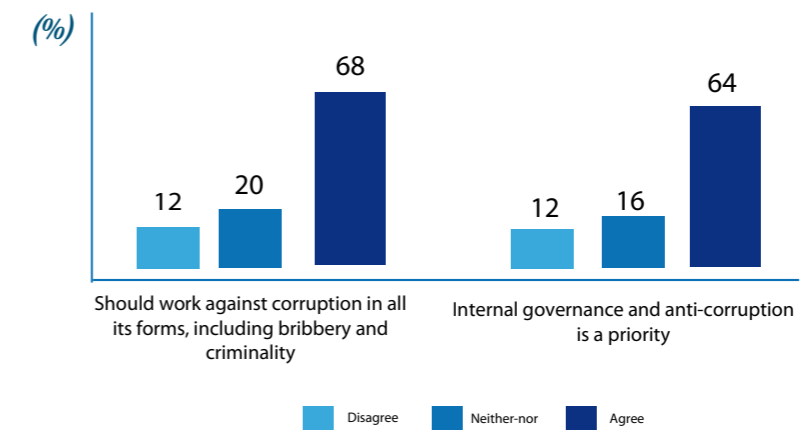
Figure 10: Implementation of anti corruption policies

- ◆ The large majority of companies has implemented global anti-corruption guidelines that apply to Latin America, and 86% state that the issue of corruption receives special attention in the region.
- ◆ Companies rate their personal performance on anti-corruption very highly; the majority of interviewed companies (93%) declare that their anti-corruption system is efficient and that the internal mechanisms to fight corruption are well known to all employees.
- ◆ 80% of the interviewed companies state that anti-corruption rules also apply to the supply chain demonstrating the relevance of the topic in Latin America, as this is the only GC principle where the supply chain has been integrated systematically by the vast majority of companies.
- ◆ Furthermore, analysis of CSR reports shows that at least 75% of the 44 analyzed Global Compact member companies have anti-corruption guidelines in place (codes of conduct, business conduct guidelines etc.) and 61% report the provision of a system of anonymous denunciation related to corruption, via telephone, internet or an external ombudsman.

However, in spite of the positive consideration German companies have on the issue, the current relevance of the topic is due to bad experiences in the past. Previous corruption scandals in certain companies have encouraged them to react proactively and according to representatives, has led to the establishment of a positive anti-corruption system and extensive training possibilities for employees.

Experts' perception

As was the case for the other three Global Compact principles, experts generally consider that German companies are addressing anti-corruption measures correctly, although some were of the opinion that more should be done to address all aspects, including extortion and criminality (see Figure 11).



- ◆ 68% of experts would like to see companies working in a more comprehensive way against corruption, in all its forms (including extortion and criminality).
- ◆ 64% of all experts see anti-corruption as one of the priorities of CSR in German companies.

Figure 11: Implementation of anti corruption policies

Note of interest

Corruption was not considered among the major recommendations for improvement in German companies and generally German companies are considered as value oriented and transparent in business operations.

2.6. Stakeholder engagement and Partnerships

Introduction

Stakeholder and cross-sector partnership management have become an essential aspect of daily business activities, and companies that excel in their sectors all share the common feature of developing an efficient management procedure to deal with stakeholders through strategic partnerships.

The only way to efficiently impact development goals is by forging synergies and promoting partnerships for development with the different relevant stakeholders. This situation has special relevance in Latin America due to the great challenges of social cohesion (Latin America still manifests the highest levels of inequality in the world) and the large number of organizations and platforms dedicated to CSR and similar issues.

As well as business associations like Forum Empresa or the Business Council for Sustainable Development in Latin America (BCSD), there has been a growing trend towards social and academic associations dedicated to promoting awareness and evaluating CSR aspects in the region.

Corporate performance

- ◆ In relation to stakeholder management and the creation of partnerships among German companies in Latin America, the research revealed that companies do not have a standardized system of managing stakeholders and that they normally follow a more informal approach. However, most companies agreed that it was of crucial importance to understand stakeholder's interests in the region and that the tendency was to formalize and standardize their relations with key stakeholders.
- ◆ All interviewed companies admitted that it was crucial to base their relations with stakeholders on mutual trust
- ◆ In addition, more than 80% of companies confirmed that whenever possible, products and services were sourced from local suppliers

- ◆ Furthermore, over 80% of companies interviewed consider that transparency is a key feature of business relations with stakeholders, and to know and meet the needs and requirements of communities in the areas surrounding their operations, and therefore, consider it essential to promote collaborative relationships with their stakeholders

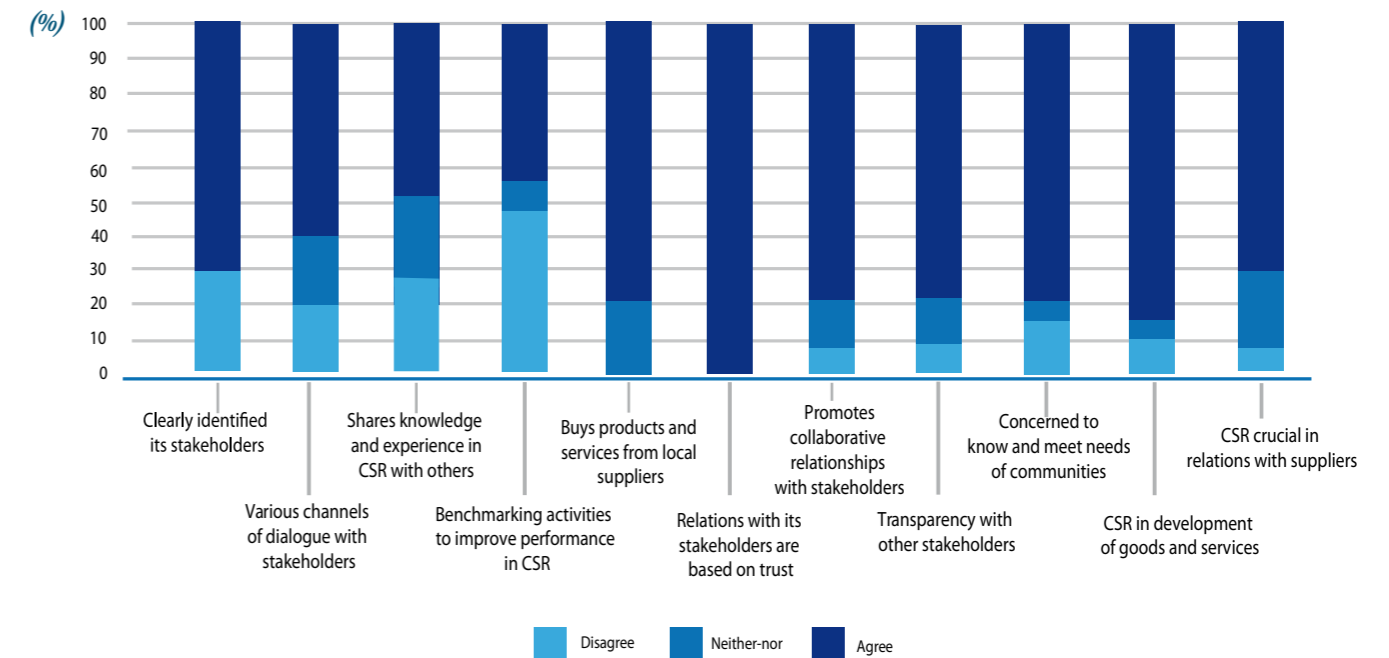


Figure 12: Relation of German Companies with stakeholders

- ◆ However, there are many areas in stakeholder management that German companies can improve and both the companies and the regional experts agreed it is an area that should be managed more formally, as well as incorporating standardized mechanisms for relationship building. The following assertions were revealed by the research study:
- ◆ 40% of companies have no formal channels of dialogue with their stakeholders
- ◆ Only 50% of companies in the region share their knowledge and experience in CSR with other companies and interested organizations
- ◆ 45% of companies have not implemented benchmarking activities among their stakeholders to improve CSR performance

Tchibo: 4C Association

The German Global Compact member company Tchibo is a founding member of the “4C Association”, an association in which coffee producers, trade and industry and civil society are involved. Officially founded in 2006, 4C works towards greater sustainability in the coffee sector worldwide. The association was initiated by a partnership between the public sector and the coffee industry in Germany, with the GTZ as the implementing agency. The association has since then grown far beyond the German context and today brings together partners from all around the world.

In Latin America, the 4C association holds regional offices in Nicaragua and in Brazil. Brazil also hosts a Sustainability Forum in which the different actors in the Brazilian coffee sector exchange experiences and define the future strategic direction of the 4C Association in the country.

A code of conduct, rules of participation for trade and industry, support mechanisms for coffee farmers, a verification system and the participatory governing structure are the basis of 4C’s work to promote sustainability in the coffee sector.

Further information see: <http://www.4c-coffeeassociation.org>

2.7. Communication of CSR in the region

Introduction

Strategic communication is an important instrument to synchronize companies’ goals with the expectations of society and to guarantee coherence and consistency between a company’s declarations and action, internally and externally.

The need for responsible communication is gradually becoming more recognised as an open and dynamic process integrating the roles of transmitter and receiver with the complementary purposes of persuading and learning

Cultural and social change in Latin America – i.e. changing consumer demands and an increased awareness among society of companies and their responsibilities – requires an adapted approach in the communication of CSR. Multinational companies in particular

are facing this challenge, and emphasize the need of strengthening trust between partners to create a fertile ground for possible collaboration.

Corporate performance

Interviews with German companies revealed that there is a broad division in terms of the strategic approach they are adopting concerning CSR communication (see Figure 13).

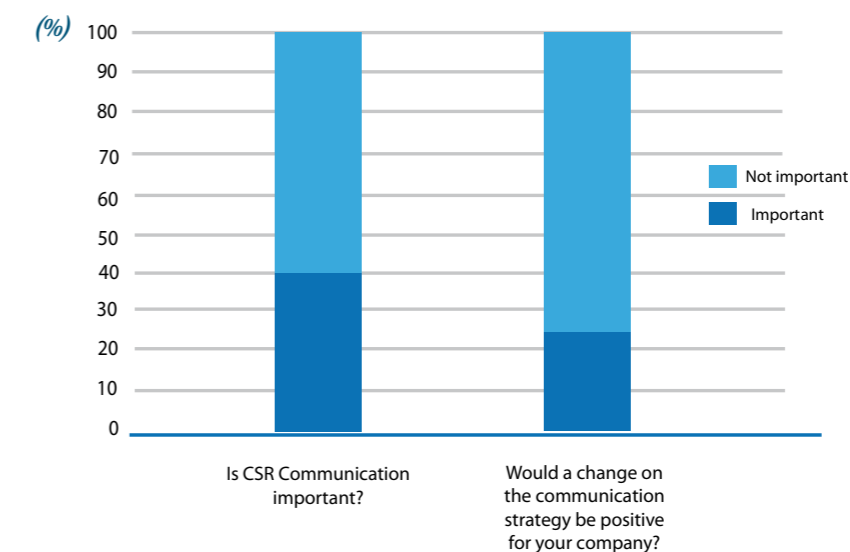


Figure 13: Relevant aspects concerning CSR communication of German companies

- ◆ 54% of companies interviewed considered communication as a powerful tool, essential for corporate strategy and a key aspect to engage stakeholders in an open dialogue, to have constant feedback and to establish an interactive relation with society.
- ◆ However, the other 46% considered that communication was not that relevant and did not have a specific strategy to create direct communication with stakeholders.
- ◆ In addition, 60% of companies stated that a change in their communication strategy would not make any significant difference to their business operations.

The lack of prioritization of a CSR communication strategy in the region is confirmed with the fact that only 8 out of the 44 companies analyzed have either published a CSR report in Latin America or a report available in Spanish or Portuguese. Interviews with corporate

representatives revealed that publishing a CSR report on their activities was neither a priority nor considered a relevant issue.

Expert's perception

Experts believe German companies should communicate much more and should publish a CSR report in Spanish if they are operating in the region (see Figure 14).

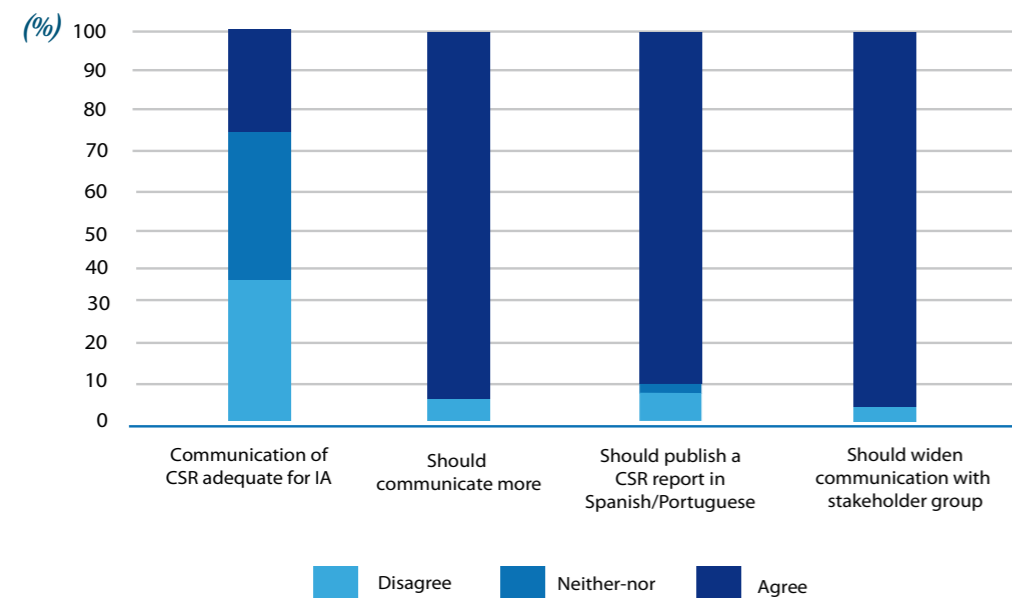


Figure 14: Relevant aspects concerning CSR communication of German companies

- ◆ As illustrated, only 25% of experts believe the CSR communication of German companies to be adequate for the region
- ◆ More than 90% believe German companies should broaden their communication with stakeholders and other groups.
- ◆ Furthermore over 90% believe German companies should communicate their CSR activities and impact more and 84% believe they should publish a CSR report in Spanish or Portuguese.

Note of interest

It can be concluded that there is a gap between the current communication patterns of German companies and the expectation with regards to communication from the experts. Whilst German companies generally give relatively little importance to communicating or publishing the results of CSR activities in Latin America, CSR experts in the region expect them to do so, and to adapt their messages to the Latin American context. The Colombian-German chamber of commerce offers the possibility to publish information on the activities of CSR in the region, but stated that only one German company has used this service.

2.8. Social investments and impacting the development goals

Introduction

In general, companies that contribute to social causes on a regular basis have historically been somewhat reluctant to get too close to the organizations they support. One of the main fears was the negative publicity generated in those cases where programs do not work or do not generate the expected results.

However, given the growing complexity of global challenges, companies are increasingly requested to provide solutions to such challenges, and there is an evolutionary trend to integrate these aspects in the corporate strategy and core operations. This situation is specifically relevant in Latin America, the region with the highest levels of inequality, and including 10 out of the 15 most unequal countries in the world.

Corporate performance

- ◆ In the case of German companies operating in the region, the research revealed that whilst the implementation of the Global Compact Principles is managed globally in most of the companies, local activities and projects are functioning rather independently from the headquarters and are implemented following the individual needs and motivations of local subsidiaries.

- ◆ In many cases, headquarters are not necessarily always informed about social projects that are being implemented locally. This applies especially to those companies that have a strong international presence, where normally companies provide general guidelines on the focal areas to be implemented, but do not follow up individual projects and spending, or even leave the decision on social projects completely to employee initiatives.

Of the 44 analyzed Global Compact member companies, information on social investments was obtained from 32 companies through published reports, information on corporate websites and conducted interviews (see Figure 15).

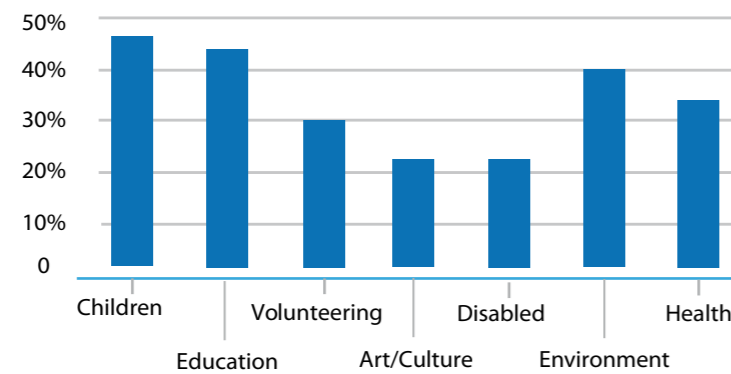


Figure 15: Relevant aspects concerning CSR communication of German companies

- ◆ Of the 32 companies that provided information, at least 46% have made social investments in relation to children and at least 44% to education.
- ◆ Investments in environmental projects have been made by at least 40% of the companies.
- ◆ 34% undertake or have undertaken investments to promote health and 31% are active in volunteering activities.
- ◆ Investments promoting art and culture are carried out by at least 22%, the same percentage as for investments promoting projects with disabled people.

Experts' perception of corporate performance on social investments and their impact on development goals

As mentioned earlier, one of the biggest priorities in the region of Latin America is to enhance the contribution from the private sector towards development objectives. While experts agreed that German companies are supporting the formation and training of professionals and generating quality employment, they stated that the support to the social cohesion of the region, contributing to reaching the Millennium Development Goals or enhancing local and national development plans was not part of the priorities of German activities and impacts in these areas were not as high as they would expect. (see Figure 16)

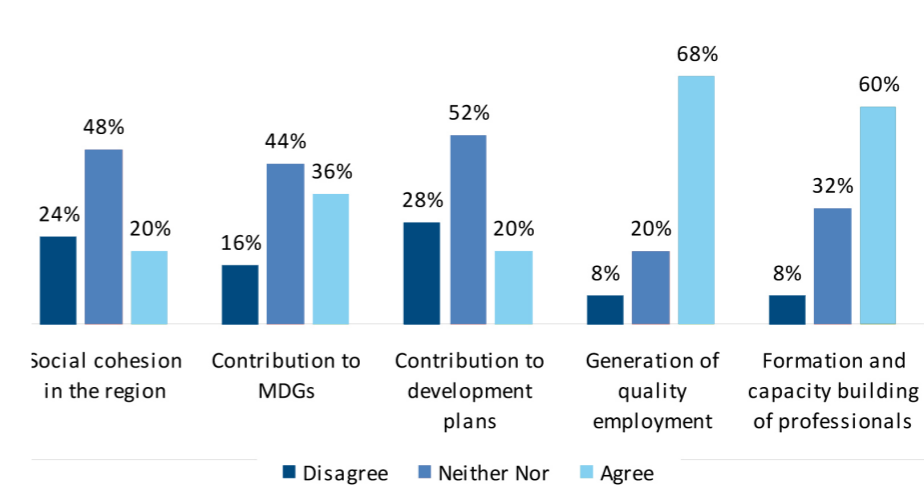


Figure 16: Relevant aspects concerning CSR communication of German companies

- ◆ 68% of experts agreed that German companies generate quality employment and 60% that they invest in capacity building of professionals
- ◆ However, only 20% would agree that they contribute to the social cohesion of the region or development plans and only 36% that they contribute to the achievement of the MDGs.

In addition, experts also stated that they considered knowledge was lacking on how to adapt CSR strategies to local conditions and on how to act in favour of local development (see Figure 17).

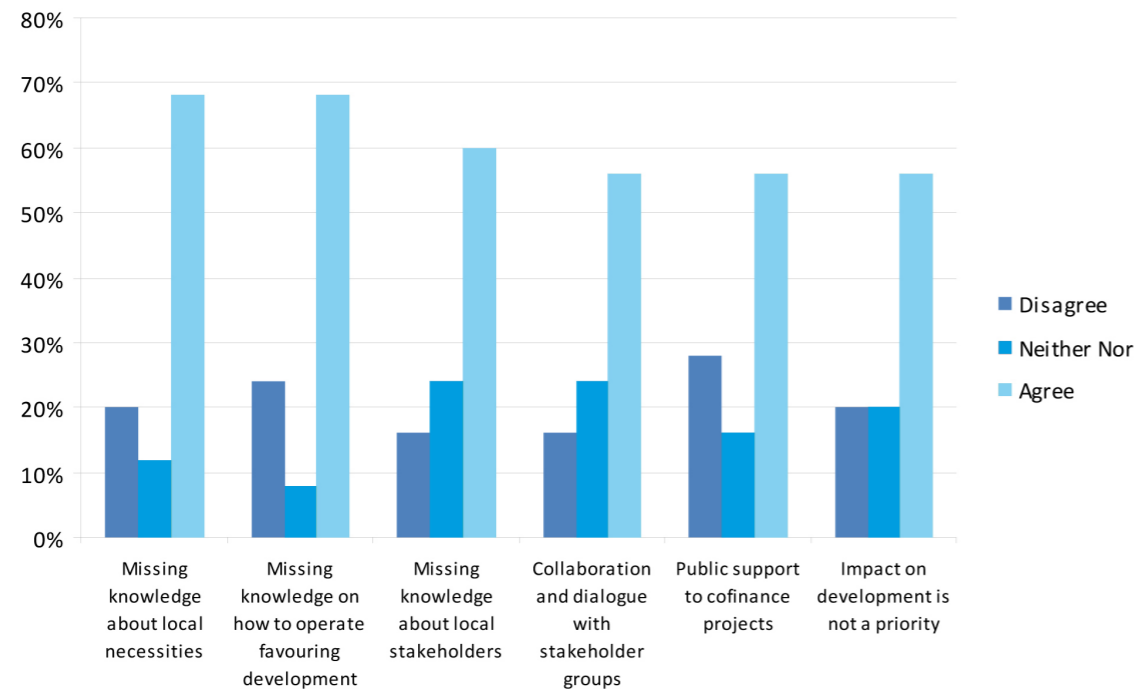


Figure 17: Major obstacles to the development of adapted CSR strategies in Latin America

- ◆ Missing knowledge on local necessities and how to operate for a positive impact on development are the two areas identified as the main obstacles to adapt the CSR of German companies in Latin America (both rated with 68%)
- ◆ The lack of knowledge regarding stakeholders is also considered a significant obstacle (60%)
- ◆ Other obstacles identified are the lack of dialogue with stakeholders, public support to co-finance projects and the fact that impact on development is not a priority for German companies.

Note of interest

During the expert workshop in Colombia, it was emphasized that German companies often do not understand the need to invest in social development in the region. It was debated that German companies would ideally need to integrate their CSR activities and social investments to National Development Plans to create synergies with government programmes and to increase transparency of programmes with other actors, as well as to avoid duplicating efforts and funds.

3. Towards excellence in sustainability of German Companies in Latin America: conclusions and recommendations

Based on the results of the analysis conducted throughout the first three chapters, and a survey among CSR experts from different countries in Latin America, the following chapter summarizes the main conclusions derived from the research, and provides strategic recommendations on how German companies could improve their performance towards excellence in sustainability and CSR.

3.1. General conclusions of CSR performance of German companies in Latin America

- ◆ German companies with a presence in Latin America greatly vary in size, type of sector and years present in the region. While a number of companies can look back over a history of one hundred years, others have recently initiated operations in the last few years. Also companies vary from SMEs to large multinationals that operate in several countries. Such characteristics will influence how CSR is integrated.
- ◆ In most cases, CSR is managed centrally with a strong focus on local and regional implementation. While in most of the companies the implementation of the Global Compact Principles is streamlined internationally through codes of conduct, management systems and minimum standards, country subsidiaries are responsible for the implementation of social projects.
- ◆ At least 86% of the 44 companies analyzed have different types of management systems in place that provide the possibility to follow-up the implementation of Global Compact Principles. Most of the management systems are managed globally and only very few companies report additional systems specifically adapted to the Latin American context.

- ◆ German companies are generally considered efficient in the implementation of internal standards that can be easily transferred from the German to an international context, such as OHS or environmental management systems. They are less active in those areas that require an adaptation to the local context or external actors.
- ◆ CSR experts from Latin America saw the major strengths of German companies in the internal perspective of their CSR activities. Areas such as environmental management, quality management, technology transfer and the implementation of ethical codes and codes of conduct are seen as key strengths of German CSR activities.
- ◆ In addition, German companies are perceived as having a positive performance in implementing labour codes, defending and promoting human rights and creating mechanisms to prevent corruption.
- ◆ German companies are seen as weaker in the areas of social and philanthropic action and their impact towards development goals in the region. The latter can be confirmed by the general perception from other studies, such as BIELA, and from the opinions of the companies interviewed during the course of the study.
- ◆ Another general weak point of German companies is the integration of their CSR activities through the supply chain. The challenge of integrating CSR towards the supply chain has been identified for all four areas of the Global Compact and company representatives agreed that it is one of the main areas that need to be improved.

3.1.1. Human Rights performance of German companies in the region

In general, it can be stated that German companies have successfully implemented policies and procedures to address human rights issues. Experts in the region have a positive consideration on how companies are integrating human rights issues in their line of business and ensuring there is no participation or toleration for human rights abuse.

Positive performance

- ◆ Most German companies working in Latin America perform human rights screenings for suppliers (80%) and have reaction procedures for cases of child or forced labour (75%).
- ◆ A considerable majority of companies (65%) declare to have designed policies for human rights when taking investment decisions and have established procedures on how to react when the right to exercise freedom of association and collective bargaining is at significant risk. (60%)

Key challenges

- ◆ One of the key areas of improvement for German companies is the need to develop specific policies to ensure the rights of indigenous people and other minorities are respected in the decision-making process of their line of business.
- ◆ Additionally, the development of specific human rights protocols independent of corporate labour codes has also been identified as a key challenge for improvement.
- ◆ The integration of human rights protocols and specific procedures, alongside first human rights screening within the supply chain and distribution channels is another challenge identified that could generate a positive social impact in the region.

3.1.2. Labour Rights performance of German companies in the region

In general German companies consider they have good practices integrating labour standards, and regional experts similarly expressed a good opinion of German performance in these issues. Although few companies provide labour-related data on their operations (working hours, number of accidents etc.), all confirmed the use of systematic management systems to manage labour relations.

Positive Performance

- ◆ The relations between employees and companies are generally qualified as good. Companies believe they are loyal to their employees and confirm the existence of an efficient management system to address diversity and equality, and an effective system to manage occupational health and safety.
- ◆ In addition, companies recognized the use of established management systems that balance a working and personal life; have procedures for local hiring and the integration of local communities in the workforce; and reaction procedures in cases of forced or compulsory labour.
- ◆ Most companies offer company members the possibility to make suggestions and have established procedures for them to participate in the formulation of strategy and improvement plans.

Key Challenges

- ◆ The main areas of improvement are to establish reaction procedures for a situation where the right to exercise freedom of association and collective bargaining may be at significant risk (few companies admitted having such procedures).
- ◆ Another key area is the integration of more detailed labour codes and standards in the supply and distribution chain.
- ◆ Furthermore, as is the case for environmental performance, another key challenge is the implementation of the same labour standards in Latin America as in Germany. Experts expressed this as a relevant issue for the region. However, company representatives felt that the same labour procedures were not possible due to the fact that laws and regulations in Germany are unable to be exported to another cultural and legal context.

3.1.3. Environmental performance of German companies in the region

German companies in Latin America believe they have a good performance in integrating environmental standards into their operational business activities, and experts consider they promote environmental responsibility and apply a preventive approach towards environmental challenges.

Positive performance

- ◆ Most companies believe they have an efficient environmental management system for Latin America (almost 80%) and a monitoring system to measure compliance with environmental regulation in Latin American countries (around 72%).
- ◆ Furthermore, many have a measurement system to quantify environmental impact (77%) and implement strategic plans to reduce the same (66%).
- ◆ In general, German companies are seen to promote positive environmental responsibility, with a preventive focus on environmental challenges, and use their competitive advantage in environmental technologies to promote the transfer and development of technology.

Key Challenges

- ◆ One of the key challenges identified to potential improvement in this area is applying a specific strategy to address the impact on biodiversity and integrate it within business operations.
- ◆ Another key challenge to potential improvement is applying environmental criteria when selecting suppliers in the value chain.
- ◆ Experts highlighted that the same environmental standards should be applied to the operations in Latin America as in Germany to generate a positive impact in the region.

3.1.4. Anti-Corruption performance of German companies in the region

German companies consider corruption as one of the main challenges when investing in Latin America and it is an issue that all companies consider crucial when defining their business strategy. Given certain recent cases of corruption, it is a very sensitive issue. However, regional experts consider that German companies are addressing anti-corruption measures correctly and their reputation is positive in this respect.

Positive performance

- ◆ Most companies consider their anti-corruption system to be efficient and that internal mechanisms to fight corruption are well known to all employees.
- ◆ Moreover they ensure the implementation of global anti-corruption guidelines for Latin America and provide a system of anonymous denunciation that can be applied via telephone, internet or an external ombudsman.

Key challenges

- ◆ Given the delicate situation of corruption in the region, and following the opinion of experts and CSR practitioners, it is expected that German companies work in a more proactive way against corruption and become an active voice denouncing all its forms.
- ◆ As is the case in the other Global Compact areas, another key challenge is to apply anti-corruption measures to the supply and distribution chain of businesses.

3.1.5. Stakeholder management and partnership building of German companies

German companies do not have a standardized system of managing stakeholders and normally follow a more informal approach forging partnerships for development. Company representatives confirm they value the relevance of understanding stakeholder's interests in the region but procedures to create an open dialogue with them are not well established. This

is one of the areas where there is a need for improvement to achieve excellence in sustainability and social responsibility.

Positive Performance

- ◆ All companies interviewed consider it crucial to base their relations with stakeholders on mutual trust and mention transparency as a key feature of business relations with other stakeholders.
- ◆ Companies also state that they are concerned to know and meet the needs and requirements of communities living near their operations, and therefore, they consider it is essential to promote collaborative relationships with its stakeholders
- ◆ Additionally, they mention that wherever possible they buy products and services from local suppliers.

Key challenges

- ◆ An obvious challenge is for German companies to formalize and build more stakeholder management and partnership by incorporating standardized mechanisms for relationship building and formal channels of dialogue.
- ◆ Another key challenge is to increase the knowledge of the needs and requirements of stakeholders and perform benchmarking activities to promote efficient partnerships and improve CSR performance.
- ◆ Additionally, there is a request from the region to engage German companies in sharing their knowledge and experience in CSR with other organizations in order to create a common know-how that is beneficial to the social development of the region.

3.1.6. CSR Communication management of German companies in the region

There is a broad division among German companies in terms of adopting a strategic approach to CSR communication. Some consider it a very relevant and crucial aspect. Others believe it is not an essential aspect for their performance in the region.

Positive Performance

- ◆ Approximately half of the companies interviewed consider communication is a powerful tool, essential for the corporate strategy and a key aspect to engage stakeholders in an open dialogue.

Key Challenges

- ◆ Experts believe German companies should communicate much more and should publish a CSR report in Spanish if they are operating in the region
- ◆ However, 46% of companies stated communication was not that relevant and there is not a specific strategy in place to create direct communication with stakeholders. 60% felt that a change in the communication strategy would not bring any significant change to their business operations.
- ◆ Also, corporate representatives declared that publishing a CSR report on their activities was not a priority (only 8 out of the 44 companies have published a CSR report for the region).

3.1.7. Social investments and contribution to local development goals

One of the biggest priorities in Latin American is to enhance the contribution of the private sector towards development goals. While experts agreed that German companies are supporting the formation and training of professionals and generating quality employment, they stated that their support to the social cohesion of the region, contribution in reaching the Millennium Development Goals or enhancing local and national development plans were not developed to the level required. Expectations from society in this respect were much higher than the results achieved. It is therefore considered one of the most important areas for German companies to improve in the region.

Positive Performance

- ◆ German companies are recognized as generating quality employment and investing productively in the capacity building of professionals.

- ◆ Almost all companies analyzed made social investments to improve areas such as education, child support or environment.

Key Challenges

- ◆ German companies are seen to contribute very little to the social cohesion of the region and their impact with regards to development goals or MDGs is much lower than expected.
- ◆ Companies are also perceived as not integrating their CSR strategies into National Development Plans and as not creating synergies with government programmes or other actors to avoid duplicating efforts and funds.
- ◆ There is the feeling that German companies lack knowledge regarding local necessities or the way to operate for positive impact on development.

3.2. General recommendations towards excellence in sustainability

These sets of recommendations reflect on the role that a German socially responsible company should play in the region and highlights the possible priorities for promoting economic growth aimed at providing better social cohesion and improved local development.

The following four areas have been highlighted as of crucial importance to promote excellence in sustainability and CSR for the region (see Figure 19):

- ◆ Adaptation of CSR activities to the local context and alignment with regional and local development goals
- ◆ Integration of the value-chain when promoting sustainability and CSR in the region
- ◆ Creation of multi-sector partnerships with public, private and civil society organizations

- ◆ Communication of CSR activities and impacts and stakeholder dialogue



Figure 19: Recommendations towards excellence in sustainability

3.2.1. Adaptation to the local context and alignment with development goals

Latin America is a highly diverse region that has experienced important changes over the last few years. Political, socio-economic and cultural differences do not only exist between the different countries, but also within each country independently. The CSR strategies of German companies need to be adapted to the Latin American reality.

In general adaptation also means a more social focus than German companies are used to. High inequality, a lack of social security and the lack of coverage of other basic needs in communities surrounding companies' operations or even between the family members of the work force, all reinforce the necessity to increase social projects aimed at solving basic development needs.

To ensure that this does not lead to mere philanthropic projects with little long term impact and sustainability or to the duplicity of efforts and funds with other actors from government or NGOs, it is necessary to align social projects with international development goals and to integrate them into national development plans.

To align CSR activities to a broader local context, it is necessary to thoroughly analyze the local context, as well as existing government programmes and projects with the aim of improving the coverage of basic social and environmental services, especially at a local level. A gap analysis of the positioning of the company's activities within the regional context can help to identify personal strengths and areas where the CSR strategy can be adjusted to reach higher impact.

An in-depth understanding of community needs and demands is a further requirement for effective CSR implementation. The identification of vulnerable groups such as indigenous communities or marginalized groups of the population is necessary to address the most pressing social issues and to guarantee the best possible impact.

This process will lead to greater integration in the local territory/region and to a more strategic support of local development plans and other aspects to develop local municipalities in different areas.

Recommended steps for adapting CSR to the local context

1. Identify national or local development plans and other relevant official reports that define key national needs (National Development Plans, MDGs national report, World Bank's PRSPS, etcetera)
2. Perform a needs evaluation assessment of the region and identify development goals linked to business activities the company is interested in.
3. Perform interviews with stakeholders to identify possible active partners in the process of local CSR adaptation
4. Design a strategy to link business operations and activities in the country with the

CSR strategy and the development goals the company has selected

5. Create an open dialogue with key local stakeholders to receive feedback and integrate them in the design and formulation of the CSR strategy

3.2.2. Creation of cross-sector partnerships

The improvement of development impact is not possible with just one organization and can only be maximised through cooperation with other actors from the private and public sector and civil society. Possible partners are manifold and reach from other companies, via local or national governments, national and international NGOs or organizations. As mentioned beforehand, there is a wide number of possible actors and organizations in Latin America to partner. Strategic partnerships are crucial to adapt the company's CSR strategy to its specific regional context.

German companies profit from partnerships by gaining knowledge and insight into the local situation. Local partners can help in evaluating the existing CSR activities of German companies and their impact, and play an important role in the implementation of CSR programmes.

German- Latin American chambers of commerce, as well as the local GTZ offices can be a valuable entry point when defining local partnerships and adapting CSR strategies to the local context. Both organisms have made a name in promoting sustainability and social cohesion in the region and can provide a number of important contacts and experience in the area.

Recommended steps for building partnerships

1. Identification of development goals and key priorities of CSR strategy
2. Map and identify key actors and organizations with relevant mandates that might contribute to the same social goals and their appropriate selection.
3. Create common agreement on the purpose and objectives of the partnership
4. Elaborate a map of resources and define the functioning structure of the partnership

5. Define the implementation of the action plan and a road-map considering all the different phases.
6. Design a communication strategy including internal and external aspects of the partnership
7. Establish a management framework for identifying risk alerts and conflict resolution procedures

3.2.3. Integrating CSR and sustainability into the value chain

One of the aspects defined as a major challenge during the research, and outlined by both German company representatives in Latin America and CSR experts, is the integration of social and environmental aspects into the value chain to improve the impact of CSR activities. German companies should support the formalization of work and promote the concept of dignified employment throughout the whole value chain. This would include incorporating design, production, marketing, distribution and support services from suppliers up to the final consumer. Additionally local communities should be integrated in different operational areas of the companies. The integration of these concepts and the guarantee of decent employment have huge potential to improve the four Global Compact principles in company operations.

In order to enhance this integration, it is frequently necessary to provide capacity building, training and technology transfer to companies and the communities they are working with. The latter should guarantee quality standards of products and services and other professional needs, but certain social aspects need to be included to increase their relevance.

Recommended steps for CSR and sustainability in the regional value chain

1. Define the life-cycle of the production process that categorizes all phases of the value chain.
2. Identify core community groups and local SMEs that might participate in specific phases
3. Analyze the socio-economic situation of local communities and identify training

needs and capacity-building requirements to fully engage them in the value chain and its economic processes.

4. Elaborate an engagement strategy for the local communities and SMEs that considers the pace and levels of engagement
5. Establish a monitoring and evaluation system for tracking results and expectations

3.2.4. Communication of CSR activities and impacts and stakeholder dialogue

German companies should focus more on adapting their communication strategy for CSR activities to the Latin American context. As outlined in previous chapters, German companies are well known for their products, technology and know-how, but are perceived as under communicating their CSR strategy and their social and environmental impact. A broader and more adapted communication strategy would give German companies a leading role in providing good examples and practices of CSR and enable the exchange of relevant experiences.

A continuous and open dialogue with stakeholders is seen as a prerequisite to better adapt CSR strategies to the local context and its necessities. Stakeholders should be integrated in the design, implementation and evaluation of CSR strategies.

Aspects to be considered when defining a CSR communication strategy

1. Maintain an open, honest, transparent and respectful attitude, listening to partners, finding out their needs and understanding their views and demands.
2. Be prepared for continuous learning and improvement through the internal and external communication process and dialogue with engaged parties.
3. Build trust, which is an intangible asset and whose construction requires time and integrity. As indicated above, it requires keeping an open mind and open learning process with partners and employees.
4. Become aware of the development challenges and needs of the region and establish a communication strategy according to those needs.

Annex

Annex 1 : Methodology

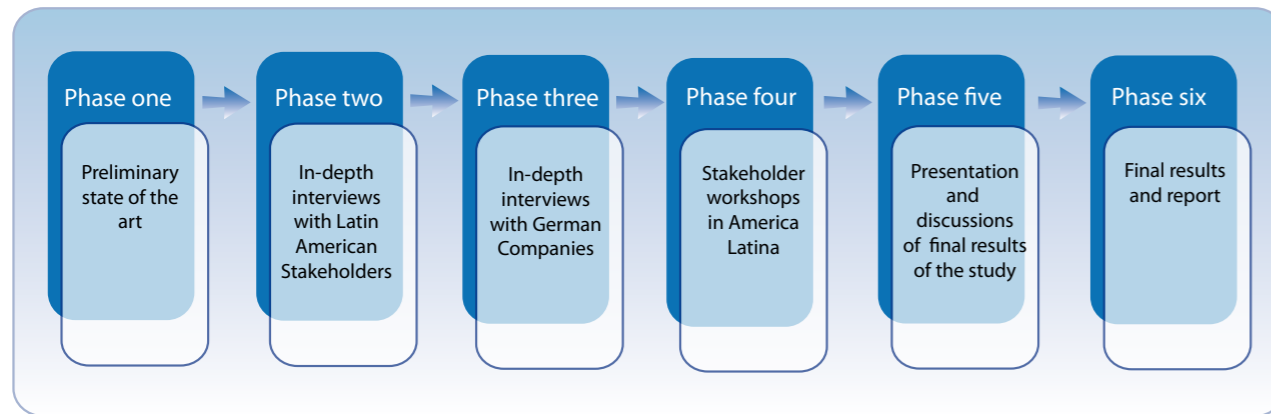


Figure A1-1: Methodological phases of the study

The results of the study are based on in-depth research as outlined in Figure 1. Empirical results of the study are based on research of all Global Compact companies with a presence in Latin America, as well as on questionnaires and interviews with CSR experts from different Latin American countries. A workshop was conducted in Colombia and involved experts from different fields, as well as from different Latin American countries.

Preliminary state of the art

This was composed of interviews with expert practitioners, secondary source research and analysis of general trends of CSR in Germany, as well as Latin American perceptions of German investment in the region.

Questionnaires and in-depth interviews with Latin American Experts

The study performed primary research to evaluate the perception of Latin America experts towards German companies and German investments in the region. The countries analyzed are the following: Brazil, Argentina, Chile, Mexico, Colombia and Peru. A questionnaire has

been sent out to a broad number of key experts from government, NGOs, international organizations and private organizations on how they perceive German Companies and their CSR activities, as well as on their expectations towards them. Additionally in-depth interviews with selected key experts took place.

From a total of 123 questionnaires sent to relevant experts, 25 answered the questionnaire. Also, it is noteworthy to mention that a total of 26 stated that their knowledge concerning CSR practices of German companies in the region was not sufficient to differentiate the behaviour of German companies from other multinational or local companies.

As it can be appreciated, 28% of experts belong to Colombia, 20% to Argentina, 16% to Brazil, 12% to Peru and Mexico respectively, and 4% to Chile. The remaining 8% belong to regional organizations (see Figure A1-2).

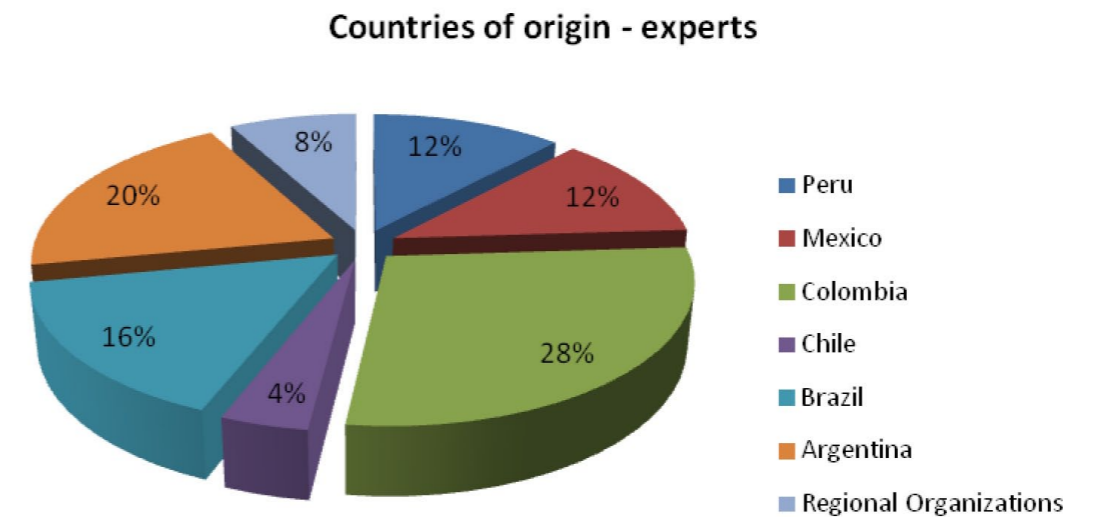


Figure A1-2: Percentage of experts from different Latin American countries

On the other hand, relevant experts are either CSR professionals or work in relevant universities and research institutes, chambers of commerce, international organizations or governments dealing with CSR related issues (see Figure A1-3).

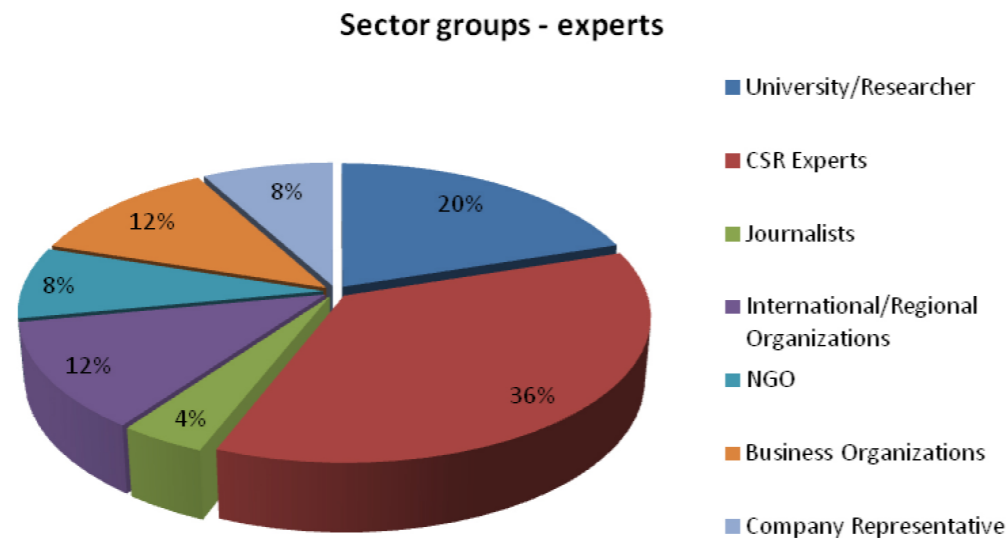


Figure A1-3: Percentage of experts per sector group

In-depth analysis of German companies

In order to analyze the current status and strategies for German Global Compact member companies in the region, a questionnaire was designed. Selected companies were provided with the questionnaire beforehand by e-mail and were asked to assign a responsible officer to conduct a phone interview.

The CSR activities of all 44 companies with activities in Latin America were analyzed and in-depth interviews were conducted with 19 of the 44 companies. All companies that were analyzed are considered big companies, although number of employees and countries in which they operate in the region vary significantly. As it can be appreciated, 25% of the companies analyzed have more than 100.000 employees and only 14% have less than 5000 (see Figure A1-4).

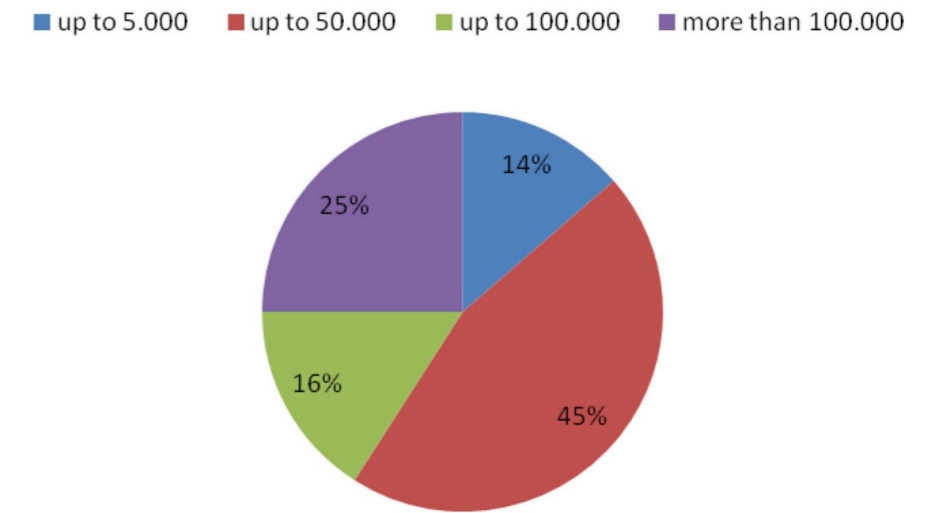


Figure A1-4: Number of employees (global) of the 44 German Global Compact companies in Latin America

In addition, German Global Compact member companies in Latin America represent a variety of different sectors, such as industrial technology and engineering, chemical industry, automotive industry, consumer goods and financial services to name just a few (see Figure A1-5).

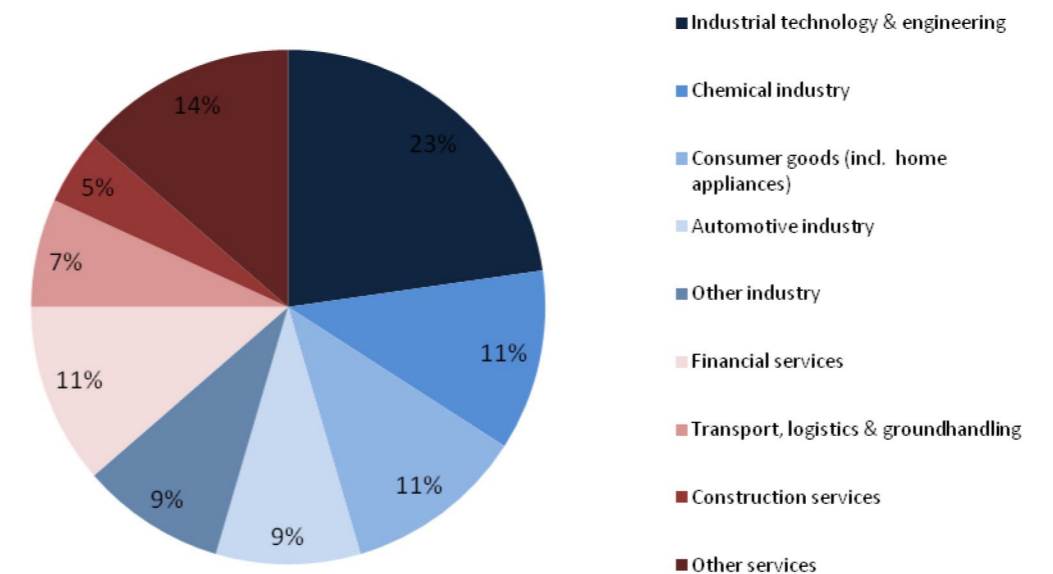


Figure A1-5: Distribution of Global Compact Companies in Latin America by sector

The interviews analyzed two different areas: on the one hand, the implementation status of the Global Compact principles in Latin America, and on the other, CSR activities and strategies, as well as current partnerships and stakeholder management of the companies.

Besides the interviews and the analysis of the companies' activities, a kick-off workshop was organised on November 3rd in Berlin. The workshop took place during the Global Compact Network Meeting and was directed at German companies investing in or interested in investing in developing countries. The main objective of the workshop was to obtain a first impression of where the major challenges with regard to strategic CSR lie and how German companies can improve their development impacts in developing countries.

Stakeholder workshop in Colombia

The objective of the workshop was to contrast the results of the analysis of the questionnaire and the in-depth interviews, as well as to identify major challenges for German Companies related to a strategic CSR in the region. The workshop took place on July 1st in Bogotá, Colombia.

The workshop was divided in two parts, while the morning was dedicated to CSR experts discussing possibilities on how to improve CSR; the afternoon focused on business organizations and companies. It was organized as an open debate about possible means to improve the situation and challenges that companies are facing in Latin America and especially in Colombia.

Annex 2 : Results of Perception Analysis in German Companies in Latin America

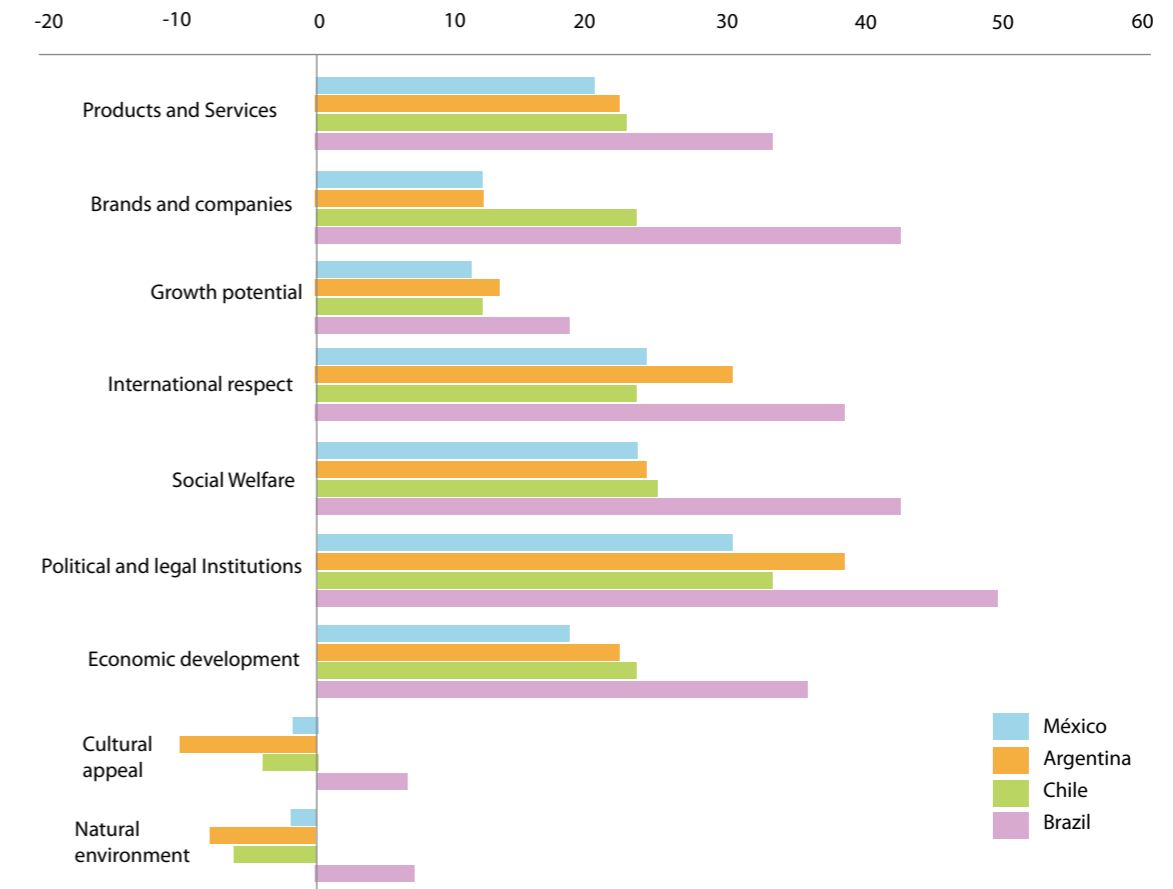


Figure A2-1 : Perception of Germany (Source : Reputation Institute)

Environmental Responsibility

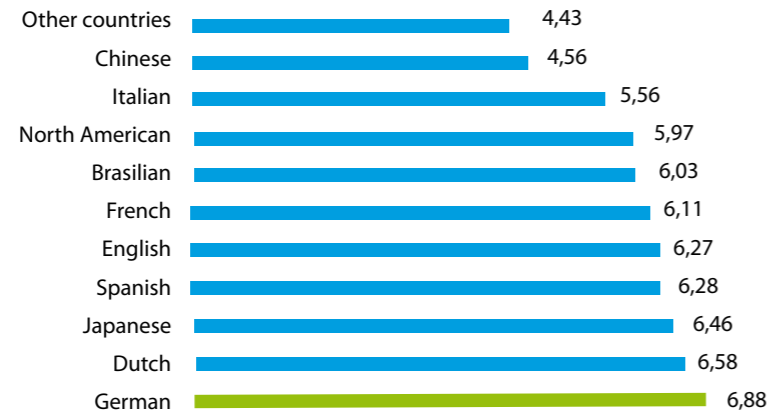


Figure A2-2 :Environmental Responsibility of German Companies in Latin America (average score on a scale from 1-9)

Social Action and Philantrophy

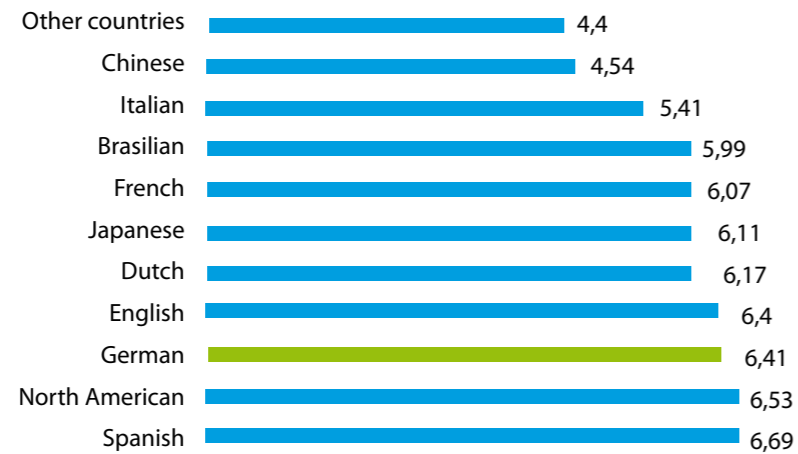


Figure A2-3: Social action and philantrophy (average score on a scale from 1-9)

Contribution to the development of the country

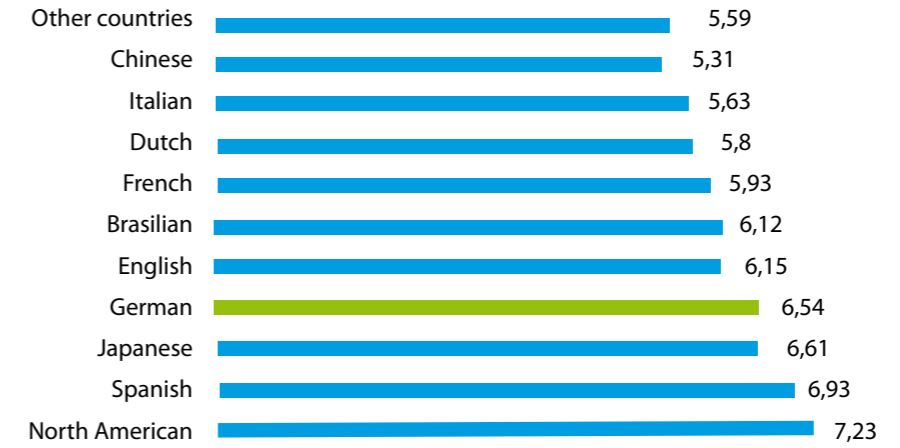


Figure A2-3 Contribution to the development of the country (average score on a scale from 1-9)

Contribution to the creation of employment

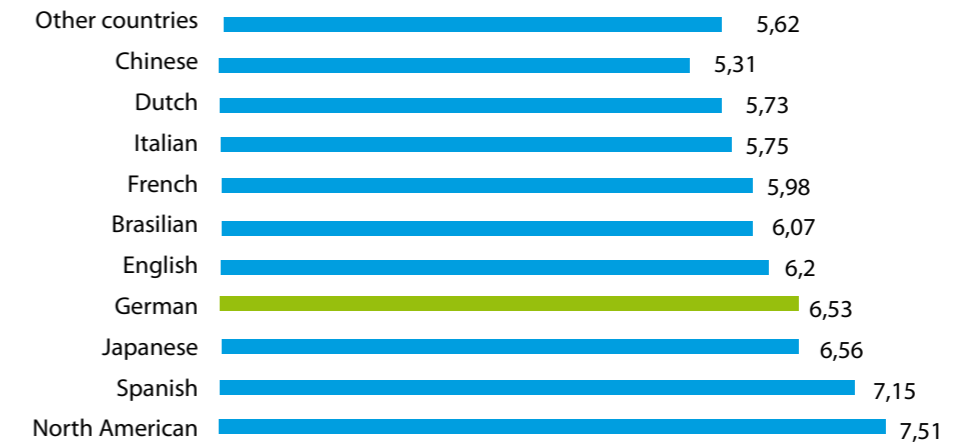


Figure A2-4: Contribution to the creation of employment (average score on a scale from 1-9)

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- i Vives, Corral and Isasi, 2005
 - ii Casado and Roser, 2009
 - iii Pratt and Fintel, 2002; Chong et al., 2003; Peinado-Vara, 2006; Haslam, 2004
 - iv Vives, 2008
 - v Adapted from Vives, 2008; Casado and Roser, 2009
 - vi German Federal Bank, 2010
 - vii According to data by the Economic Commission for Latin America and the Caribbean (ECLAC, 2009),
 - viii Lateinamerika Verein (LAV), 2006; Rösler, 2008
 - ix See also Jungnickel, 2004
 - x Personal communication by Peter Rösler, vice director and country analyst of the Lateinamerika Verein
 - xi Personal communication by Peter Rösler, vice director and country analyst of the Lateinamerika Verein
 - xii Based on the RepTrack Methodology of Reputation Institute, which considered the factors: cultural appeal, natural environment, products and services, brands and companies, political and legal institutions, economic environment.
 - xiii Villafañe & Asociados, 2008
 - xiv The following areas have been analyzed under the BIELA perception study: Commercial quality, Labour quality, Environmental responsibility, Philanthropy and social action, Contribution to the development of the region, Contribution to the creation of employment, Economic and fiscal transparency, Service orientation, Ethical conduct, Innovation and Technology, True information, Management capacity
 - xv For further information on the two Studies, please see Annex 2
 - xvi European Commission, 2001
 - xvii CERCAPAZ, 2010
 - xviii BDA/BDI, 2001
 - xix CSR WeltWeit, 2009
 - xx Data refers to CSR reports and company websites, and to personal information for those companies that were interviewed. The numbers therefore indicate the percentage of companies that report to have some kind of environmental management system or a strategic plan in place.
 - xxi UN Global Compact Office, 2009
 - xxii Transparency International, 2009