Latin American Emerging Multinationals Facing the Region's Social Challenges

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LOURDES CASANOVA, JAN 14 2013

The new power of emerging markets has been widely discussed but much less attention has been paid to the emergence of new multinationals from the Latin American part of the world. The supremacy of American and European multinationals is being challenged in different industries. For instance two Chinese companies, Huawei and ZTE, are among the five biggest telecom equipment makers in the world. The Brazilian Vale is the number one iron-ore exporter, the Mexican Cemex is number three in cement and the Chilean Codelco is the biggest copper mining company in the world. A total of 126, almost one in four of the companies listed in the 2012 Global 500 ranking of the magazine Fortune come from emerging countries while only 47 were represented in 2005. At the same time the social challenges in those countries such as extreme poverty and inequality are enormous and sit alongside environmental issues such as pollution in the cities and in the country side. Social issues are a priority in the agenda's of governments. Uruguayan President Mujica mentioned in October 2012 that the 'big war' in the continent has to be against inequality and poverty because the lack of societal mobility triggers the social peace of a country.

Recent economic crisis have questioned certain practices of the private sector all over the world. Admiration to big companies has turned into disrespect and suspicion as these corporations are seen as machines on search of big profits without consideration of the good of societies where they operate. Emerging multinationals born in these societies have a responsibility to be part of the solution and need to integrate as part of their strategy policies to give back to their societies in order to make them more prosperous for all.

The strong economic growth in Latin American since 2002 has been very beneficial for the poor and the size of middle classes in the region has increased. The percentage of people living on the poverty line has decreased almost 20 percent in the last 20 years but is still at 30% and extreme poverty at 12.8% of those, which represent around 175 million people. In Brazil alone, over the last eight years, almost 50 million people have increased the ranks of the middle and middle-upper classes; of which 13m moved up in just in the last two years.

Conditional cash transfer program such as *Bolsa Familia* in Brazil or *Oportunidades* in Mexico have been given to the most vulnerable segments of the population and have been key in improving the lives of the poorest. But Latin America is still today one of the most unequal regions in the world. Emerging multinationals from Latin America have thrived during these boom times and want to engage in poverty alleviation programs and sustainable development. Many of the poor work in the informal economy; these employees in the informal sector have no rights and their work is necessarily part of their survival.

Latin American multinationals from Mexico to Brazil feel the need to engage with their communities and societies. Thus it is not surprising that we can find a number of local multinationals where ethical values have been integrated into their business strategy. The Mexican company Bimbo is well known for its policy of avoiding lay-offs even in times of crisis and for introducing various incentives to strengthen loyalty and build the notion of common interest among its staff.

The same goes for the Brazilian cosmetic company Natura Cosméticos, an ecological brand. Natura operates one of the largest direct sales networks with over 1 million sales consultants, mostly women, spread across South America.

Natura's value proposition is seen in two pillars. The first one is ethics, transparency and open communication channels with all the publics who interact with the company. The other one is the establishment of targets compatible with the sustainable development. Natura's dream is to contribute to build a better world. The success of this model lies in Natura's sustained investment in developing strong relationships, training, and empowering women, resulting in strong loyalty and brand recognition. Natura wants to create value for society as a whole, integrating economic, social and environmental dimensions.

Astrid & Gastón is motivated by profits but equally dedicated to improving social well-being of all Peruvians. What started as 'Astrid y Gastón', a French restaurant in Lima has now become a Latin American restaurant chain with global presence. Representing "new Peruvian cuisine", their restaurants are present in Quito, Santiago de Chile, Bogotá, Caracas, Mexico, Madrid and Panama. Astrid & Gastón promote indigenous agricultural products by using traditional and locally sourced ingredients; training street vendors to meet required health standards, and contributing to Peru's youth with a Chef School in one of the poorest areas of Lima. They believe its success derives from taking advantage of what they call "a treasure that belongs to all Peruvians" referring to the great variety and excellent quality of local Peruvian agricultural products and its rich cuisine with roots in the indigenous population.

One of the most important social deficits of Latin America is the deficient quality of education, which impedes sustainable growth. Thus companies are being compelled to improve the level of education of their employees. For example, the biggest Brazilian private bank Banco Itaú-Unibanco has made education projects as the priority of their social policies. Through their educational program 'Raizes e Asas (Roots and Wings)' the bank invests US$12,000 per student. The Inter-American Development Bank has launched an employability program 'Entra 21' with the International Youth Foundation and partners from the private sector. Enova in México designs, builds and operates more than 42 small educational centres (RIA, Red de Innovación y Aprendizaje *Learning and Education Network)* for low-income urban communities.

Some companies such as the Mexican building materials company Cemex are able to combine moral concerns and help the entrepreneurial spirit of the poorest segments of the population. In 2000 Cemex launched 'Patrimonio Hoy (Patrimony, today)'. The initiative combines a micro-credit to help low-income families to improve their houses and gives free advice by Cemex employees and fixed-price building materials. Almost 265,000 families have received a total of US$135 millions in loans in Mexico, Colombia and other Latin American countries.

Petrobras, the largest company in Latin America by market capitalization and the 8th in oil exploring worldwide and based in Rio de Janeiro signed the Global Compact in 2003, and is part of the Dow Jones Sustainability initiative. She is also part of the Brazilian Business Council for Sustainable Development (CEBDS) and uses the Ethos Institute indicators (A Brazilian association of companies interested in developing their activities in a "socially responsible manner"). The company created a policy 'which brings social environmental results to society and aggregates social technologies, without risking 'profitability'. Petrobras also included their entire social project in a single program: Petrobras Zero Hunger. During the past years this program has assisted 11 million people. The Petrobras Development & Citizenship program wants to contribute to local, regional, and national development helping to insert people and groups that live under conditions of social risk in Brazil. The program has invested US$710 million in social projects from 2007 to 2012 and has touched the lives of 4 million people. Petrobras has won several awards as the Company of the Dreams of Young People and Brands of Trust. All this social work led by Petrobras and other Brazilian multinationals have made the country a world leader in implementing social programs.

Corporate scandals in the US and Europe as well as the current economic crisis in these places has put western companies under increasing media scrutiny and has resulted in public distrust. There needs to be a broad consensus on the future of corporate responsibility in Latin America. Businesses, public and private sector and civil society, should collaborate to make growth in the region more equitable.

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