Corporate Social Responsibility in Peruvian company: Creating shared value or a cosmetic virtue?

Master thesis

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Business Administration
International Management
August 2013

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Utrecht, August 2013

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‘‘You make a living by what you get; but you make a life by what you give.’’

Winston Churchill

Acknowledgements

This thesis has been a long time coming. Along the way there were many struggles but finally, my master’s in Business Administration at the University of Twente has come to an end. I want to thank the beauty company for giving me the opportunity to go to Peru and experience the beauty company. It has been an unforgettable journey. I also would like to thank my supervisor at the beauty company for his enthusiasm, interesting ideas and assistance during my stay. My colleagues’: thank you for making me feel at home at the beauty company, the fun during the lunch breaks and patience with my Spanish. Off course I would also like to thank my supervisors, Olaf Fisscher and Laura Franco Garcia, for their time, comments and advice during the writing of my master thesis. Finally I would like to thank my family and friends. Without their support I wouldn’t be at this point.

Maryse
August 2013

Abstract

Corporations are forced to be more ethical and more transparent in doing their business and are challenged to develop new business strategies that facilitate sustainable actions and growth. This is known as corporate social responsibility (CSR) and is based on the intersection between business and societal conditions which causes society to have certain expectations of business. Stakeholder theory tries to answer the question to whom the corporation is responsible. In the hope to achieve a meaningful social impact as well as strengthen the long-term competiveness of the organization, a strategic dimension is added to CSR: "creating shared value". Based on these points the following research question is formulated to drive this research project:

> *To what extend does the corporate social responsibility practices and stakeholder management of a beauty company case Peru contribute to create shared value?*

A multinational corporation with headquarters in an emerging markets was chosen to fill up the gap of traditional CSR research that (mostly) focuses on developed countries. A case study was carried out in order to gain a better understanding and be able to analyse in-depth the company's information (internal and contextually). Nine managers were interviewed face-to-face, through a semi-structured questionnaire. This latter was complemented by applying research participant observation techniques and documentation analysis to draw conclusions. These were the research methods used to approach the research question.

The research showed that the beauty company has a gradual, informal approach to CSR without high investments, most of the responsibilities that the company engages in can be seen as "ethical responsibilities". The involvement of stakeholders relies on goodwill and managerial discretion. The owners of the beauty company play a crucial role in the strategy of the company. The lack of governmental regulatory capacity drive the beauty company to CSR activities because they try to fill in the gap the government leaves. Also the influence of the international market drives the company towards CSR activities because they have to prove to the international community that they do business in a fair and responsible way. The beauty company is giving an opportunity to disadvantaged women and their families and this is how the company creates shared value. This is a form of reconceiving products and markets, because disadvantaged comities are served.

Even though the beauty company does make social contributions, findings have shown that the beauty company should come up with a more integrated corporate approach whereby stakeholders are involved if the beauty company wants to claim its CSR performance accordantly to the stakeholder management dimension of CSR. They should also make it clear for external stakeholders what their approach is. This latter more specifically for external stakeholders. In this way it can become transparent that the beauty company truly accepts their responsibility to work towards a sustainable future. The beauty company has proved to have a unique strategy to asses unattended markets. It seems that because of the contextual restrictions it has adopted an approach that creates value for the company as well as the society. Western MNC can learn some lessons from this way of doing business since the alignment of social value creation with corporate strategy is receiving more attention and this fields requires active research on findings ways how to do this.

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List of abbreviations

CSR	Corporate Social Responsibility
EHS	Environmental, Health and Safety
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
ISO	International Organization of Standardization
PPP	Purchasing Power Parity
MNC	Multinational Corporation
NGO	Non-Governmental Organization
UN	United Nations
US	United States

List of figures and tables

1. Introduction

This thesis presents a multinational in beauty products as a case to analyse whether a shared value approach can be found in their CSR practices. The case study was conducted in 2009 during a three-month stay in Peru during which the researcher obtained a profound understanding of the company. In order to research the shared value creation, firstly a literature review was conducted on the concepts and theories around the key components of this research: CSR practices, stakeholder dialogue and shared value. Also the context of the company is taken into account since this is a multinational that has its headquarter in an emerging market. Secondly the research methodology is described, after which the case is analyzed in light of the key components constructing this research. Finally the discussion, conclusions and recommendations are presented. This first chapter is an introduction to the central themes “corporate social responsibility” and “shared value”. Corporate social responsibility is an commonly accepted approach in organisations to enhance competition. But does this strategy actually create value for society as well as for the corporation? This research topic is elaborated via the background (1.1) of the research where is described why the topic is chosen. The rest of this chapter is dedicated to present the problem statement (1.2), the research objective (1.3) and the research questions (1.4). In the last part the thesis structure (1.5) is outlined.

1.1 Background

In recent years, pressure from society and government regulations have forced corporations to be more ethical and more transparent in doing their business in order to enhance competition and decline risks of harming image and reputation (van Marrewijk, 2003). Corporations are challenged to develop new business strategies that facilitate sustainable actions and growth which can be done by finding a balance in three different pillars, people, planet and profit (Elkington, 1997). This is know as corporate social responsibility (CSR) and is often described as any discretionary activity that furthers social welfare (Barnett, 2007).

An important question in prior research was: ‘Do firms well by doing good?’ (McWilliams *et al*., 2006) and tried to determine the relationship between CSR and financial and firm performance. The results from these studies were very inconsistent, since it is hard to determine if a one dollar investment in social welfare returns more or less than one dollar in benefit for the shareholder (Barnett, 2007). An important point made here by opponents is that CSR is beyond firm interest, and thus CSR is of no value to the firm and the shareholders (McWilliams and Siegel 2006). If this is the case, why should companies choose to invest their limited resources in CSR instead of efficiency investments or shareholders returns?

The basic idea of CSR is that business and society are interwoven rather than distinct entities which causes society to have certain expectations for business behaviour and outcomes (Wood, 1991). Stakeholders like consumers, employees and civil society demand the engagement of companies in environmental as well as social issues (Fisscher *et al.*, 2001). Therefore the concept of CSR is increasingly acknowledged by managers worldwide because this provides a strategy to meet stakeholder demands and exercise their responsibility with regard to social, environmental and economic concerns. Stakeholder management answers the question why not only shareholders have a rightful claim on the resources of a company and thus why companies devote resources to CSR (Barnett, 2007). Besides that, it also answers the question to whom the organisation is responsible and how far this responsibility extends because corporations cannot be held responsible for all social problems (Clarkson, 1995).

The reasons to engage in CSR differ; some organisations do this largely on moral or ethical grounds, others with a clear strategic rationale (House *et al.*, 2004). This caused differences in CSR related actions in corporations, some actions are not directly linked to a risk or the core business and have no strategic benefits. If corporations solely focus on stakeholders' views there is a thread that they end up with a CSR agenda that consists of short-term defensive reactions that is of minimal value to society. An other reason why there might not be a philanthropic effect is because CSR is used as a marketing tool by the corporation in order to strengthen their brand. An other threat is that programs are cut back in economic difficult circumstances since there is no evidence that these costs pay off. Recent research has focused on adding the strategic dimension in the social responsibility approach of organizations, in the hope to achieve a meaningful social impact as well as strengthen the long-term competiveness of the organization (Porter and Kramer, 2006). This is known as **creating shared value**.

Corporations have an important impact on the world economy as they globalize. Therefore multinationals play an important role in the area of CSR since it is nowadays a core part of any global strategy in order to face the challenges of responsible citizenship. CSR research has traditionally focused on developed countries; North America, Europe and to a lesser extend Asia. Where emerging markets were covered, foreign subsidiaries or multinational corporation (MNC) were involved rather that local companies (Muller and Kolk, 2009). Corporations do not display the same eagerness to appear as social responsible across countries and also use diverse motivating principles, CSR processes and are committed to different stakeholder issues in their social responsibility policy (Maignan and Ralston, 2002). Past research (Longsdon *et al.*, 2006) has shown that CSR reflect particular social and political context. Foreign corporations will deal with CSR in a different manner than local companies, which have links to other institutional forces and stakeholder pressures. The identities, interests and motives of stakeholders vary cross-nationally and they shape the way corporations are governed in CSR. The way corporations treat their stakeholders depend on the institutions in which they operate (Campbell, 2007; Matten and Moon, 2008).

1.2 Problem statement

Although CSR initiatives are more and more becoming common good in western economies, corporations in developing countries are far less interested and active in showing off their good deeds. But CSR activities do take place, especially where multinationals have their operations. Multinationals have a major impact on social and environment conditions globally and are forced to behave in a responsible way because of the international pressure. A lot of multinationals have their headquarter in western economies where CSR is part of the day to day business, but what about multinationals that have their headquarter in an developing country? Do they show the same eagerness to contribute to the welfare of society and are they able to do this in a strategic way that pays off for both the corporation and society? And how do these multinationals involve their stakeholders in their CSR initiatives? In order to answer these questions a case study is done at a beauty company. This is a cosmetics and jewellery producer that is headquartered in Peru and sells its products in the Latin American market and also in Spain. The research problem is thus how MNC's with their headquarter in emerging markets come to a CSR strategy that is successful in creating shared value.

1.3 Research objectives

The purpose of this research is to create a better understanding of how MNC's create shared value in an emerging market. This is done by the exploration of how corporate social responsibility is implemented in the corporation. The effects of the stakeholders on the CSR

strategy are examined via the dialogue that the corporation has with their stakeholders. Additionally the created shared value of the CSR strategy will be identified.
Even further this research tries to expand existing studies on CSR in MNC's by examining a MNC with its roots in an emerging market. The beauty company has its headquarter in Peru, and has its most important markets in Latin-America but it is also active in Europe and the United States. Besides this, the field of creating shared value strategies is an relatively new field and this research aims to generate new empirical knowledge. And finally with such knowledge the theory can be confirmed, contradicted or refined.

1.4 Research question

This research is centred around the relationship between CSR and shared value in an emerging economy. The following research problem is formulated:

> *To what extend does the corporate social responsibility practices and stakeholder management of the beauty company case Peru contribute to create shared value?*

In order to answer the main question, a number of sub-questions were formulated:

1. In which cultural and economic context does the beauty company operate?
2. What are the CSR practices of the beauty company?
3. How are stakeholders involved in CSR initiatives at the beauty company?
4. Does the beauty company create shared value?
5. What are the recommendations of the research results at the beauty company for multinational corporations and how they create shared value?

1.5 Thesis structure

This thesis contains seven chapters. The first chapter is an introduction to the topic of the thesis. It explains shortly the background and what can be expected in the following chapters. The second chapter gives the theoretical foundation of the thesis. It explains the concepts, variables and relationships that are important for this topic and concludes with a model that will be used in the research. The third chapter contains all elements related to the design and execution, including the method of data collection. Chapter two and three together form the research framework of this thesis. The fourth chapter presents the research findings. The empirical data from the beauty company is presented here. The fifth chapter provides a discussion of the findings and the sixth chapter presents the answer to the research question. The seventh chapter concludes the thesis with recommendations based on the research findings and the direction for further research. An overview of the thesis structure is presented in figure 1.1.

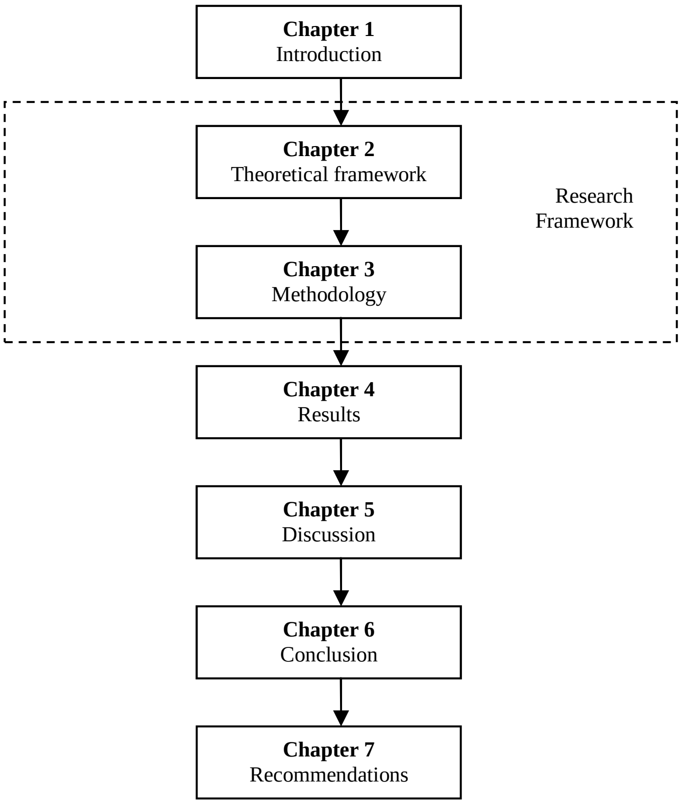

Figure 1.1: Thesis structure

2. Theoretical framework

In this second chapter the concepts, variables and relationships are explained that support the theoretical foundation of this research. The basic framework of this research is shown in figure 2.1. The chapter starts out with the explanations of the CSR domain in order to make clear how CSR practices can be determined and identified. This is followed with a section dedicated to stakeholder dialogue that explains why CSR differs throughout corporations, who the corporation is responsible to and how this can be managed. The third section explains the importance of the international context of the corporation that is engaged in CSR and the Latin American market more specifically. The fourth headline in this section explains the concept shared value, how corporations can create a strategy that uses this principle and how shared value can be identified. This chapter concludes with the analytical framework that will be used in the empirical part of this study.

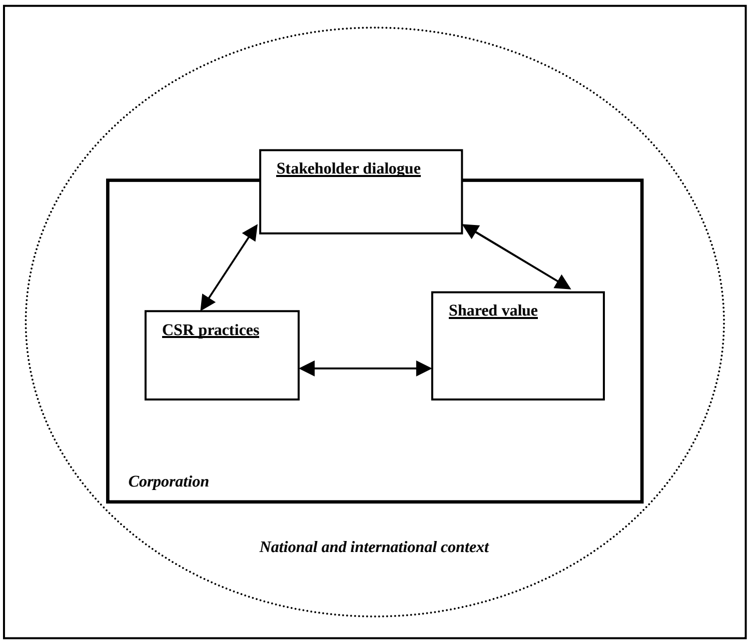

Figure 2.1: The research framework

2.1 Corporate social responsibility practices

This section starts out with one of the core constructs of this thesis: corporate social responsibility. In this part it is important to make clear which role CSR plays in a corporation and how this can be assessed. In the first paragraph the definition and theoretical background of CSR is given. In the second part the reasons why corporations engage in CSR are explained. This is followed by an sub-section that describes how CSR practices can be identified.

2.1.1 The concept CSR

It was around 1950 that CSR started to develop and gained the attention of researchers (Carroll, 1999). Different scholars have proposed a variety of definitions of corporate social responsibility (CSR), making theoretical development and measurement difficult (Carroll, 1979; De Bakker et.al, 2005; McWilliams et al., 2006). Theoretical frameworks, measurement and empirical methods are still under development, and scholars do not yet agree on which paradigm to use (Lockett et al., 2006). It is hard to define CSR since it is based on values and has no application rules, it is often used as an umbrella term and the term is dynamic in nature because of the interaction with society (Matten and Moon, 2008). There is a lack of consistency in the use of the term, some just consider the ethical aspect, others think of a charitable contribution and still other relate it to environmental policy (Carroll, 1979). When asking what corporate social responsibility is and what it is not, the most important notion is that firms cannot be held responsible for all social problems and don't have the same responsibility as governments (Clarkson, 1995). Davis (1973) formulated the iron law of responsibility, which held that social responsibilities of businessmen need to be commensurate with their social power. Carroll (1979) proposed four main responsibilities that represent the core of most of the definitions of CSR: economic, legal, ethical and discretionary. Economic responsibility is about the obligation to be productive and profitable and the most basic responsibility, legal responsibility about doing business within the framework of legal requirements, ethical responsibility requires that business commit to prevailing standards defining appropriate behaviour and finally discretionary or philanthropic responsibilities requires that business are involved in the betterment of society. The responsibilities must be met simultaneously (Carroll, 1991).

Research on the definition of CSR by Dahlsrud (2006) showed that more recent definitions include five fundamental dimensions: the environmental, social, economic, stakeholder and voluntariness dimension. Most of the different definitions are predominantly congruent, although they are phrased differently (Dahlsrud, 2006). The most cited definition that incorporates all the dimensions is the one from the Commission of the European Communities (2001) 'the integration of social and environmental concerns in business operations and in their interaction with their stakeholders on a voluntary basis'.

Table 2.1: Dimensions and definitions (Dahlsrud, 2006, p 4)

Dimensions	Definition of the phrases
The environmental dimension	The natural environment
The social dimension	The relationship between business and society
The economic dimension	Socio-economic or financial aspects, including describing CSR in terms of a business operation
The stakeholder dimension	Stakeholders or stakeholder groups
The voluntariness dimension	Actions not prescribed by law

Businesses thus have some kind of responsibility to work for the wider societal good, but the precise direction and manifestation depends on the discretion of the corporation (Matten and Moon, 2008). It is important to highlight the fact that the most important aspect of CSR is that it makes a direct contribution to social welfare. Financial gains are by-products of CSR (Barnett, 2007). There are a lot of examples of concepts that are closely linked to CSR and extend the theory and practices in this field such as corporate social performance, corporate sustainability, corporate citizenship, corporate governance and the field of ethical behaviour. Recent studies still use CSR as a core construct, but it is often transformed into alternative constructs (Carroll, 1999).

2.1.2 Drivers of CSR

There are three main motivations based on these arguments for organizations to commit to CSR: (1) CSR helps to achieve performance goals, (2) CSR is used to conform to stakeholder norms and (3) CSR is self-motivated by the organization and a part of the corporate image (Maignan and Ralston, 2002). Recent research has shown that CSR can be used to enhance the legitimacy and develop positive social responsibility images of the firm (Maignan and Ralston, 2002). This can help in the ability to attract and retain employees and customers.

Also it can differentiate a firm (McWilliams and Siegel, 2006) and thus lead to a competitive advantage, serve as a buffer from disruptive events and reduce transaction costs (Barnett, 2007). In short, the most important potential benefits of CSR are:

- competitive advantage
- improved reputation
- maintenance of employees' morale, commitment and productivity
- improved relationship with investors, governments, the media, suppliers, customers and the community

Corporations nowadays face many factors that are driving this move towards corporate social responsibility (COM, 2001):

- new concerns and expectations from citizens, consumers, public authorities and investors in the context of globalisation and large scale industrial change,
- social criteria are increasingly influencing the investment decisions of individuals and institutions both as consumers and as investors,
- increased concern about the damage caused by economic activity to the environment,
- transparency of business activities brought about by the media and modern information and communication technologies,
- other organisations and competitors that engage in CSR
- regulations of government

2.1.3 Identification of CSR practices

CSR is mostly about issues that concern human rights, welfare of employees, corporate ethics, community relations and the environment. These practices can be classified as internal, external or environmental (Vives, 2005).

- ***Internal responsibility*** refers to socially and environmentally responsible behaviour that relates to workers and suppliers. It is expressed in concern for the health and well-being of workers, training, equality of opportunities and work-family relationship (Vives, 2005). It pays attention to social issues within its operations (Gutierrez and Jones, 2005).
- ***External responsibility*** is defined as support for social and cultural community activities, as well as community development and other related issues (Vives, 2005). These social initiatives are not directly linked to a particular business. These social initiatives can categorized in three different groups; philanthropy, where there is limited dialogue between donor and recipient; social investment, where activities are a response to needs and seen as an investment with social returns; and finally business integration, where vulnerable populations are directly integrated into the regular business practices (Gutierrez and Jones, 2005).
- ***Environmental responsibility*** covers activities geared toward the reduction of the environmental impact of their operations, including such things as reducing waste and the consumption of natural resource, recycling, putting in place environmental management systems and the like (Vives, 2005).

In classifying CSR practices, important questions that must be answered are:

- What activities are completed to fulfil social expectations?
- How are these activities carried out?
- What is the scope of the activities?
- Who is the target of the activities?

(Gutierrez and Jones, 2005)

The Global Reporting Initiative (GRI) tries to develop a framework for sustainability reports that is universally applicable internationally. Valuable information about sustainability related issues becomes more transparent if organizations use such guidelines world wide. In this way stakeholders will be better informed. The GRI offers reporting principles, standard disclosures and an implementation manual that can help prepare sustainability reports. Important categories and aspects that are important to describe in those reports are also provided. In table 2.2 GRI aspects are reframed in the categorization of internal, external and environmental CSR practices in order to make more clearer what kind of practices are important in these categories.

Table 2.2: Aspects of CSR practices (adapted form GRI G4, 2013)

Internal	External	Environmental
• Economic performance • Market presence • Indirect economic impact • Procurement practices • Employment • Labour/management relations • Occupational health and safety • Training and education • Diversity and equal opportunity • Equal remuneration for women and men • Supplier assessment for labour practices • Labour practices grievance mechanisms • Customer health and safety • Product and service labelling • Marketing communications • Customer privacy • Compliance • Investment • Non-discrimination • Freedom of association and collective bargaining • Child labour • Forced or compulsory labour • Security practices • Products and services	• Indigenous rights • Assessment • Supplier human rights assessment • Human rights grievance mechanisms • Local communities • Anti-corruption • Public policy • Anti-competitive behaviour • Compliance • Supplier assessment for impacts on society • Grievance mechanisms for impacts on society	• Materials • Energy • Water • Biodiversity • Emissions • Effluents and waste • Compliance • Transport • Overall • Supplier environmental assessment • Environmental grievance mechanisms

2.2 Stakeholder dialogue as a component of CSR

With the growing focus on CSR it is seen as more important to include corporate stakeholders in the development of sustainable strategies that are related to social concerns. In the first part of this sub-section it is explained why stakeholder theory is important for CSR. This is followed by a second part that tries to make clear why it is important for a corporation to manage stakeholders. In the last part a tool that can and is often used by managers, stakeholder dialogue, is explained in more detail.

2.2.1 Stakeholder theory

Freeman's publication (1984) 'Strategic Management: A stakeholder approach' is a landmark in stakeholder research and formed a new way of managerial understanding and action. Stakeholder theory states that managers should not only focus on the needs of shareholders but also on other actors that can influence the firm outcomes. Otherwise these stakeholder groups can withdraw their support. Besides this mostly economic argument, also the ethical and moral arguments are considered in this theory (McWilliams *et al*., 2006). If firms base their transactions with their stakeholders on trust and cooperation they have an incentive to be honest and ethical while they also reduce transaction costs because of the strengthen relationship (Barnett, 2007). Stakeholders can be defined as 'persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future that are the result of transactions with, or actions taken by, the corporation, and may be legal or moral, individual or collective' (Clarkson, 1995). Stakeholders are (1) the source of expectations or norms of corporate behaviour, they (2) experience the effect of this behaviour and they (3) evaluate these two aspects in a judgement on which they (4) can act in turn (Wood and Jones, 1995). It is important to note here that these four activities do not need to be done by the same stakeholder group. Stakeholder groups can complement each other or advocate issues that do not affect their own welfare, e.g. consumers that condemn child labour (Maignan and Ralston, 2002).

Stakeholders can be categorized into primary and secondary stakeholder groups (Clarkson, 1995) based on their relative power, legitimacy and urgency (Barnett, 2007). Primary stakeholders are one without whose continuing participation the corporation will be seriously damaged or would be unable to continue existing. There is a high level of interdependence between the corporation and its primary stakeholders. They typically consist of shareholders, investors, employees, customers, suppliers and public stakeholders: the governments and communities that provide infrastructures and markets and that have some kind of formal power over the organization. Communities can be identified as communities of geography, of identity and/ or interest, depending on the importance of locality (Gutierrez and Jones, 2005). Secondary stakeholder groups are those who influence or affect or are influenced or affected by the corporation but are not engaged in transactions with the corporation and not essential for its survival. They can influence the public opinion of the firm. Typical examples are the media and special interest groups.

The notion that organizations have a responsibility towards their stakeholders is the basis to engage in CSR (Doh and Guay, 2006) and answers the question to whom the organization is responsible to (Wood and Jones, 1995). This is also noted by Carroll (1999) who states that as the definition of CSR developed, the term society was replaced by stakeholders. This puts emphasis on the fact that social issues are represented by stakeholders to the organization and makes CSR more tangible (Wood, 1991; Clarkson, 1995; Carroll, 1999; De Bakker, 2005). Clarkson (1995) goes as far as saying that managers do not tend to try to manage social issues, but only focus on stakeholder issues, which in turn contain social issues. Issues that are given attention by the organization are of concern of one or more stakeholder groups, but these issues are not necessarily of concern to the society as a whole. As corporate performance will be influenced by one or more stakeholder groups, this performance should also be measured with this notion in mind. Financial measures are thus incomplete, since the corporate performance will not only focus on creating wealth for shareholders (Wood and Jones, 1995).

Using the stakeholder perspective makes CSR differ from company to company. Firms must examine their own unique position and environment to ascertain their social responsibilities. Wood and Jones (1995) found empirical evidence that highlights this. With a stakeholder approach to CSR the positive effect of CSR on firm performance can be explained. By the strengthened relationship with the stakeholders firms can reduce transaction cost and risks.

For example better labour relations can lead to increased employee retention rates and so decrease labour costs. It can also attract new customers, new investment possibilities and give the firm the opportunity to charge higher prices (Barnett, 2007). Although stakeholders' views are important, it must be acknowledged that these groups can never fully understand a corporation's capabilities, competitive positioning, or the trade-off it must make (Porter and Kramer, 2006). The thread is that the organization ends up with a CSR agenda that consists of short-term defensive reactions that have no strategic benefit and is of minimal value to society. So in the end, managers should take this into account and make a CSR policy that is strategic.

2.2.2 Stakeholder management

Stakeholder management is very important for corporations that engage in CSR since the relationship between a corporation and its stakeholders has shifted from essentially transactional to truly relational. The survival of corporations and their success depends on the ability of managers to build and maintain sustainable and durable relationship with all members of its stakeholder network and engage them in strategies (Clarkson, 1995; Sachs *et al.,* 2002; Miles *et al*., 2006). This relation is strongly affecting the creation of organizational wealth and is thus an essential asset that must be managed. Policies with a stakeholder oriented perspective are nowadays widely accepted by managers (Sachs *et al.,* 2002).

Stakeholder management is a complex task because of divergent and sometimes conflicting expectations between stakeholders, contextual complexities that exist because of for instance varying interpretations arising out of different geographical regions and cultures and the challenge of identifying the best practice and communicating this to the stakeholders (O'Riordan and Fairbass, 2008). Stakeholder theory states that all stakeholder matter and that corporations should integrate their needs in their operations. In practice, stakeholder needs must be balanced due to limited resources and bounded rationality (Jamali, 2008). The literature provides several stakeholder analysis tools, such as stakeholder mapping, which can support managers in identifying key stakeholders, determining levels of interaction with stakeholders and develop adequate strategies and tactics.

Key questions in stakeholder management are:

- Who are out stakeholder?
- What are our stakeholders stakes?
- What opportunities and challenges do our stakeholders present to the corporation?
- What responsibilities (economic, legal, ethical, philanthropic) does the corporation have to its stakeholders?
- What strategies or actions should the corporation take to best handle challenges and opportunities?

(Carroll and Buchholtz, 2003)

2.2.3 Stakeholder dialogue

Stakeholder management can be done through stakeholder dialogue which means actively managing stakeholder interests in a corporation through an open and active dialogue with those stakeholders (Mathis, 2008). Stakeholder dialogue is the interaction between the firm and its stakeholders to identify and debate about what each of them regard as appropriate business behaviour in relation to economic, social and environmental matters (O'Riordan and Fairbass, 2008). It can be used as a key vehicle for the exchange between the corporation and the stakeholder through CSR offerings. The corporations offers something of value with a social benefit to a stakeholder group and in turn receives the approval and support of this group (O'Riordan and Fairbass, 2008). This active management has a threefold function, firstly it provides a corporation with crucial information about their business environment that can be used to detect potential upcoming opportunities, problems and gaps in perception. Secondly, it provides external stakeholders with more and better access points to the company leading to a better bargaining position. The corporation can adapt their strategy to these outcomes in order to enhance organizational performance with the support of their stakeholders (Miles *et al*., 2006; Mathis, 2008).

Stakeholder demands are prioritized according to instrumental and/ or normative considerations. This is usually done on the basis of ***managerial discretion***, top management in particular, and their specific instrumental or normative inclinations (Jamali, 2008; Mitchell *et al*., 1997). The role of managers is thus vital for stakeholder dialogue. Besides that, also the ***relational attributes*** of the stakeholder are important, namely power, legitimacy and urgency. Power is 'a relationship among social actors in which one social actor A, can get another social actor B, to do something that B would not have done otherwise' and can have a coercive, utilitarian or normative base. Coercive power is based on the physical resources of force, violence, or restraint; utilitarian power is based on material or financial resources; and normative power is based on symbolic resources (Mitchell *et al.*, 1997). Legitimacy is 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed systems of norms, values, beliefs, definitions' and can have an individual, organizational or societal base. Urgency is 'the degree to which stakeholders claims call for immediate attention' and can be based on time sensitivity or criticality. In figure 2.2 the typology of the different stakeholders is illustrated.

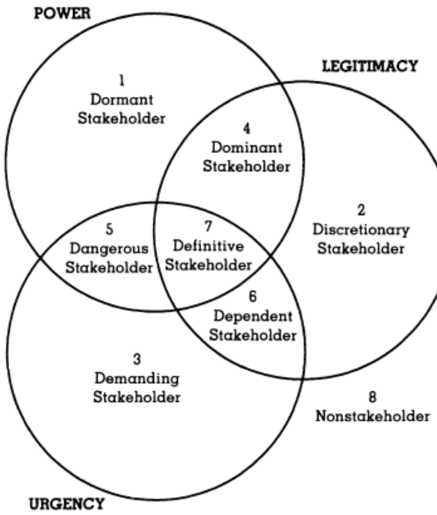

Figure 2.2: Typology of the different stakeholders (Mitchell et al., 1997 p. 874)

Because of the prioritizing of stakeholder interests, not all stakeholder groups can be equally satisfied. This makes stakeholder dialogue even more important, so stakeholders can be confident that corporations are dealing with their interests with the necessary care (Kaptein and van Tulder, 2003). Opinions are exchanged, interest and expectations discussed and standards developed with respect to business practices. Stakeholder dialogue promotes greater transparency, information sharing and inspires society to work together. It can shift the relationship between the company and the stakeholders from one of confrontation and competition to one of consultation and cooperation.

2.3 CSR in an international context

This third section tries to explain the importance of the context of the corporation which engages in CSR. First it describes the global trends in CSR that influence corporations. In the second part it is explained why and how CSR in Latin America differs from CSR in other parts of the world.

2.3.1 Global trends in CSR

The globalization and the development of communication technologies are two major factors in the rise of CSR (Mathis, 2008). The process of globalization is the integration of social, political, economic, cultural and technological among countries worldwide that characterize the setting of business transactions and lead to an explosive growth of MNC's (Carroll, 2004). The 500 largest MNC's account for about 2,5 percent of world product, nearly half of the world trade, 41 percent of world's manufacturing output, and 80 percent of technological and royalty fees (Sachs, 2009). This gives MNC's a lot of power. They have the potential to increase innovation, transfer technology, raise productivity and have impact on the wealth creation for millions of people, including their living standards and quality of life (Spitzeck and Chapman, 2012). Concerned about the implications of this increased power stakeholders try to pressure corporations to care for the environment and society (Campbell, 2007). The emergence of communication technologies, such as the internet and social media, made it easier for stakeholders to exert pressure on the corporations (Mathis, 2008).

In an international setting bargain dynamics become more complex, rivalry between different legal, cultural, institutional, value and societal systems exist and issues and potential crises are harder to predict and manage because of the differences in value judgements. It has become increasingly important to incorporate the stakeholders and social and environmental reporting into the day to day business (McWilliams *et al.*, 2006; Mathis, 2008; Torres-Baumgarten and Yucetepe, 2009). In order to make CSR internationally applicable multilateral agreements have tried to design implementable principles, codes, rules and regulations. Examples of these initiatives include UN Global Compact, the Global Reporting Initiative and ISO 26000. Since there is no compulsory application and verification on these initiatives, CSR strategy is still very divers, as priory explained. For MNC's that do engage in CSR an important question regarding their CSR strategy is whether a subsidiary should adopt a CSR program of the home country's headquarter or whether subsidiaries should tailor their CSR responsiveness to the host country context in which they are located. An important research finding is that around 70% of the corporate spending on CSR is done in the local community of the headquarter of the firm (Marquis *et al.*, 2007). This indicates that local community of the firm is still very important and influential, even for multinational corporations.

2.3.2 CSR in Latin-America

Research in developing countries indicates that important forces in the adoption of CSR are weak drivers on the supply and demand side, limited CSR advocacy and awareness raising, limited regulatory capacity, community organizations that are still in their infancy and macroeconomic constraints that diverts the attention of the corporation to basic economic viability issues (Jamali, 2007). In Latin America CSR is a growing movement but still in its infancy (Peinado-Vara, 2006). The research of Torres-Baumgarten and Yucetepe (2009) on US based MNC's in Latin America made clear that CSR programs are lacking relative to the volume of business contributed by this emerging market region. The Latin American countries can be divided into three categories of CSR involvement: the group that is 'catching up' with the developed countries, this includes the most developed countries such as Argentina, Chile and Mexico, where the private sector activity on CSR is significant, the government involvement is low and the public awareness relatively vibrant; the 'walking' group, that includes the rest of South-America, where private sector involvement in CSR is low, although multilateral organisations try to increase CSR, there is minimal government involvement and public awareness is medium, leaning mostly on NGO's and universities; and the 'stalled' group, that includes Central America and the Caribbean, where all the levels of CSR activity are low (Haslam, 2004). According to Vives (2005), there are encouraging signs that CSR practices may expand in Latin America. Most of the organisations in Latin America have a gradual, informal approach to CSR, that does not involve high investments (Vives, 2005). Current trends are the transformation of social responsibilities into business operations, the extension of CSR practices to small and medium-size suppliers, an increase in cross-sector alliances, and the building of relational capital through the development of grassroots organizations (Gutierrez and Jones, 2005).

It seems that CSR in Latin America has grown through community investment, opposed to developed countries such as the U.S. where CSR developed through business operations. Because of the weak enforcement and limited legal frameworks, the private sector stepped in. In order to have a stable society where they produce and sell their products, corporations invest in communities (Gutierrez and Jones, 2005). There are also some cases of corporations that influenced government regulations, in order to enhance the impact of CSR activities in local communities (Gutierrez and Jones, 2005). Regulations that drive organisations to social actions are less common in Latin America than in developed countries because of the lack of pressure from the society. There are no formal worker organisations or social groups like unions that demand fair labour and business practices. Besides that, often corporations have more power and wealth than the government itself (Haslam, 2004; Gutierrez and Jones, 2005). An other downside of the lack of pressure from society is that organisations feel that their efforts cannot be recovered trough social marketing. There is a need to improve the institutional capacity of governments, civil society and the investment climate. These issues do not only slow the overall social and economic development and affect the creation of a strong private and public sector but are also hindering the development of CSR.

Organizations that export to the international market are more likely to commit to CSR practices (Haslam, 2004; Vives, 2005). Latin American CSR seems to be heavily influenced by international NGOs, guidelines from multinational headquarters and multilateral institutions, which can lead to a lack of local ownership of CSR initiatives. Where there are regulations in place, like along the Mexican-US border, there is a lack of enforcement (Gutierrez and Jones, 2005). In order to make CSR initiatives more effective they should be adapted to the country specific social and economical features (Peinado-Vara, 2006). Multilateral agencies have asked all sectors of society to contribute their share, especially the private sector that caused expectations to rise. A support system is being developed so that the private sector can fulfil these expectations: multilateral agencies are investing more resources in the private than in the public sector; universities offer new programs for social enterprises; coalitions of civil sector organizations are forged; volunteerism is on the rise; and the mass media gives increasing attention to social initiatives (Haslam, 2004; Gutierrez and Jones, 2005).

The research of Vives (2005) made clear that the drivers for small and medium enterprises in Latin America to engage in social corporate responsibility differ from the drivers in developed countries. The most important driver were ethics and religious values. This is also highlighted by Gutierrez and Jones (2005), who state that the driver of CSR in Latin America is altruism and solidarity, dating back to the regions Catholic background. Especially family owned organisations in Latin America describe their commitment as just ‘doing the right thing’. Because organisations in Latin America tend to be privately owned, the influence of the owners and the management is larger then in stock owned organisations. It is also common for partners of the owner and their families to participate in the workforce. The extend to which the organisation will engage in CSR will thus depend heavily on the values, character, attitudes, education, background and the likes of the owner or entrepreneur (Vives, 2005). Where owners are managers, CSR will have mostly altruistic motives (Gutierrez and Jones, 2005). Corporations have a somewhat paternalistic view of society but projects are mostly on a ad-hoc basis, CSR practices are often not strategically linked to the business (Peinado-Vara, 2006). An other important driver is maintain good relations with clients, suppliers and the community (Vives, 2005). Gutierrez and Jones (2005) describe this driver as managing risks, to prevent negative reactions and strikes organisations are willing to work with the community. The remaining drivers found by Vives (2005) are concerns for their employees and the desire to improve profits. Profits were not seen as more important than the other drivers, and pressure from civil society and public sector incentives is not seen as an important driver. A remarkable result, since organizations do believe that society in general is demanding more and more responsible behaviour (Vives, 2005). Gutierrez and Jones (2005) mention two other drivers: firstly the search for competitive advantage (social actions can be explained by the need for improvement of a firms image or market share) and secondly the lack of investment of the government in the local resources that are required for the organisation to keep in business.

There are also some challenges in outing CSR into practice in Latin America. One is meeting the needs of the traditionally unattended costumers (Peinado-Vara, 2006). An other is challenge is that because of the history of exploitative relationship, exclusion and distance there is a lot of distrust between organisations and community leaders (Gutierrez and Jones, 2005). The most important reason for Latin American organisations not to participate in CSR is lack of knowledge, especially on the welfare of the firm and the perceived lack of impact (Vives, 2005). Limitations in human resources, time and public support are not seen as obstacles while lack of resources in general is.

The influence of the national and international stakeholders on corporations in Latin America are described in figure 2.3.

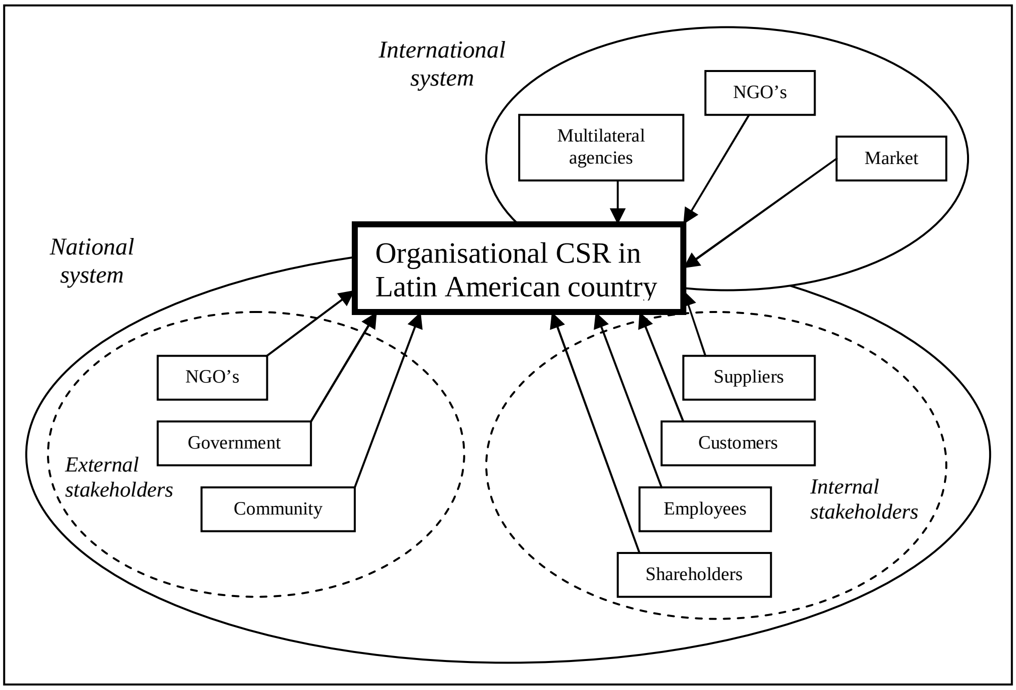

Figure 2.3: (Inter)national pressure on CSR in a Latin American country (derived from Haslam, 2004)

2.4 Strategic CSR, creating shared value

This final section describes an other core construct in this research, shared value. The goal is to move beyond just engaging in philanthropic CSR activities to examine the strategic role of CSR. Often CSR is used to generate goodwill, boost employee moral and gain positive publicity. When CSR is a part of the strategy of the corporation, it can create value for the corporation as well as for society. In the first part the background and theoretical development of shared value is explained. This is followed by a part that makes clear how a shared value strategy can be formulated and the three main ways there are to create shared value in order to create a deeper understanding of the construct. This is followed by the final sub-section that articulates the key elements that are part of this concept.

2.4.1 Definition of shared value

It has long be recognized that profitability and social responsibility are not necessarily incompatible. Unfortunately contributions to CSR often reflect the personal believes and values of managers or employees, rather than being tied to well thought-out social or business or social objectives (Porter and Kramer, 2002). Jamali (2007) made a new conceptualization of the responsibilities of a corporation, based on the categorization of Carroll (1979) in order to make a clear distinction between different kind of responsibilities. The in sub-section 2.1.1 explained responsibilities proposed by Carroll (1979) economic, legal, ethical and discretionary are put in a pyramid. The discretionary responsibility is divided in altruistic and strategic responsibility, whereby altruistic responsibility is seen as the fulfilment of an organization's philanthropic responsibilities, irrespective of whether the business will reap financial benefits or not, and strategic responsibility as fulfilment of philanthropic responsibilities that benefit the bottom line (Jamali, 2007). These last two responsibilities are truly CSR because they are voluntary, see also figure 2.4

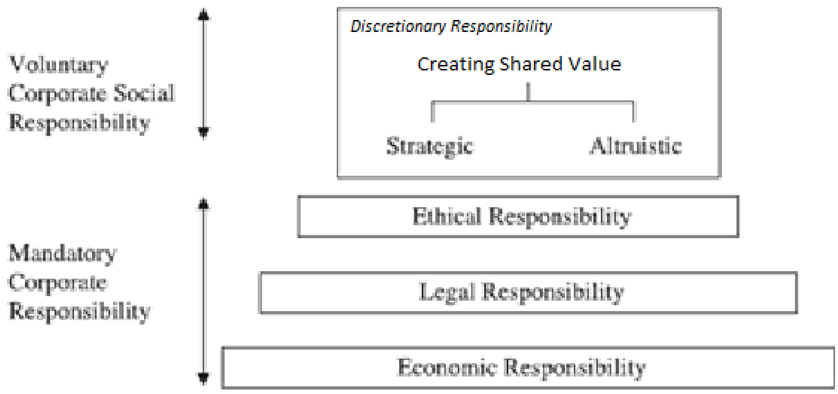

Figure 2.4: Distinction between different kind of responsibilities (Jamali, 2007, p.22)

Porter and Kramer (2002) have suggested an approach requiring companies to use their unique attributes to address social needs in the corporate context. Instead of focusing on the friction of business and society, corporations should look for intersection. Besides economic needs, societal needs also define markets, which is known as the competitive context of corporations. Social harms or weaknesses can for example create internal costs (Porter and Kramer, 2011). If corporations address these needs, there is a convergence of interests between business and society and the reconciliation of social and economic goals. A symbiotic relationship can be formed, where the success of the corporation and the success of the community become mutually reinforcing (Porter and Kramer, 2002). This is known as shared value, value that is not about personal values or sharing value that is created, but about expanding the total pool of economic and societal value (Porter and Kramer, 2011). This thinking represents a new way of understanding customers, productivity, and the external influences on corporate success and will be an important force driving growth in the global economy (Porter and Kramer, 2011). Especially in developing countries pioneers of shared value can be found. Those corporations often work in business settings with limited resources and had to innovate to meet the opportunities (Porter and Kramer, 2011).

The most recent definition of shared value proposed by Porter and Kramer (2011, p.66) is: "The concept of shared value can be defined as policies and operating practices that enhance competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. [. . .] Value is defined as benefits relative to costs, not just benefits alone." Any philanthropic activity that results in long term gains, whether tangible or intangible, falls under this definition (Jamali, 2007). Spitzeck and Chapman (2012) emphasize the importance of two points that follow from this definition of shared value. First is that shared value is concerned with the efficiency and effectiveness of societal outcomes relative to investment. Second is that the strategies will be data driven, clearly linked to defined outcomes, well connected to the goals of all stakeholders and tracked with clear metrics.

2.4.2 Creating shared value as a core activity

To create shared value, corporations should integrate a social perspective into the core framework that guide its business strategy (Porter and Kramer, 2006). The focus should be upon enhancing the competitive context. If CSR activities are connected with the strategy and core competences, it can be seen as a core activity of a corporation. This will lead to new business opportunities. The strategic social perspective can be put into practice by following three steps:

1. Identifying the points of intersection, that can take two forms:

a) Inside-out linkages, all the activities in the value chain create positive or negative social consequences on the communities.
b) Outside-in linkages, the influence of external social conditions on the corporation. The health of a competitive context is a key factor in carrying out the strategy and consists of four areas that can be opportunities for CSR initiatives:
    i. Input conditions: the quality and quantity of available business inputs.
    ii. Context for the strategy and competition: the rules and incentives that govern competition.
    iii. Local demand: the size and sophistication of the demand.
    iv. Supporting industries: availability of supporting and related industries.

2. Choosing which social issues to address; each corporation must select issues that intersect with its particular business. These social issues should be sorted for each of the business units and locations, and ranked in terms of potential impact. Social issues can be divided in three categories:
    a) Generic social issues: social issues that are not significantly affected by a company's operations nor materially affect its long-term competitiveness.
    b) Value chain social impacts: social issues that are significantly affected by a company's activities in the ordinary course of business.
    c) Social dimensions of competitive context: social issues in the external environment that significantly affect the underlying drivers of a company's competitiveness in the locations where it operates.
3. Creating a corporate social agenda; finding ways to reinforce corporate strategy by advancing social conditions. The social agenda must be responsive to stakeholders, but should also look beyond community expectations.
    a) Responsive CSR: acting as a good corporate citizen, attuned to the evolving social concerns of stakeholders, and mitigating existing or anticipated adverse effects from business activities. A good corporate citizen initiative is specified in clear, measurable goals and track results over time. Corporations need a proactive and tailored internal process. The value chain can be used to identify systematically the social impact of the units activities in each location.
    b) Strategic CSR: a small number of initiatives whose social and business benefits are large and distinctive and create a unique position which enhance competiveness.

Porter and Kramer (2011) describe three distinct ways to create shared value that are mutually reinforcing. The first one is by *reconceiving products and markets*. Here unmet social needs can be stratified and disadvantaged communities served (Porter and Kramer, 2011). The basic argument is that economies of scale can be created for offering essential products and services at reasonable prices to disadvantaged communities, thus fostering their inclusion within the formal economy (Spitzeck and Chapman, 2012). Besides that, it also lead the corporation to new ways of innovation. The second way to create shared value is by *redefining productivity in the value chain*. Here a holistic evaluation of the value chain productivity in terms of energy use, logistics, resource use, procurement, distribution, location and employee productivity is carried out (Spitzeck and Chapman, 2012). Shared value thinking can transform the value chain by offering new ways to innovate and unlock new economic value which lead to competitive advantages (Porter and Kramer, 2011). The last way to create shared value is by *building supportive industry clusters at the company's locations*. Clusters can be build to improve company productivity while addressing gaps or failures in the framework conditions surrounding the cluster (Porter and Kramer, 2011). Clusters enhance innovation, competitiveness, knowledge exchange and improve environmental and social performance. Applied to local development context that depend on the interaction and alignment of several players such as suppliers, service providers, educational institutions, NGO's and local governments in order to attain to local development goals (Spitzeck and Chapman, 2011). When a corporation builds clusters in its key locations, it amplifies the connection between its success and its communities success through the multiplier effect.

2.4.3 Aspects of a shared value strategy

From the above description of a share value strategy the following basic conditions can be obtained:

- ***Centrality:*** it should fit the mission (Burke and Logsdon, 1996) and be linked to the corporate policy or operating practices (Spitzeck and Chapman, 2011).
- ***Competitiveness:*** it should enhance the competitiveness of the firm (Spitzeck and Chapman, 2011) by capturing private benefits (Burke and Logsdon, 1996).
- ***Social aspect:*** it should improve the social conditions in the community (Spitzeck and Chapman, 2011).
- ***Pro-activity:*** it should be planned in anticipation of emerging social opportunities and not because of a crises or compliance requirements (Burke and Logsdon, 1996).
- ***Visibility:*** it should use clear metrics related to stakeholder demands (Spitzeck and Chapman, 2011) so the stakeholders can give observable and recognizable credit to the corporation (Burke and Logsdon, 1996).

2.5 Analytical framework

The three components shown in figure 2.1 were broken down accordantly to the literature revision and evolved into the analytical framework represented in figure 2.5. Also the relationships and influences between the construct is graphically displayed. The relationships are dynamic in nature because the outcomes of the different constructs influence each other, one cannot been observed without the other. CSR practices and the creation of shared value take place within the context of the corporation as can be seen in figure 2.5. Stakeholder dialogue is influenced by stakeholders from within the corporation (the internal stakeholders) as well as stakeholders outside the corporation (the external stakeholders) and thus is graphically presented on the border of the context of the corporation and the national and international context. In this chapter it becomes clear that the national and international context of a corporation are important in considering CSR and strategy, which is why this is also included in the model.

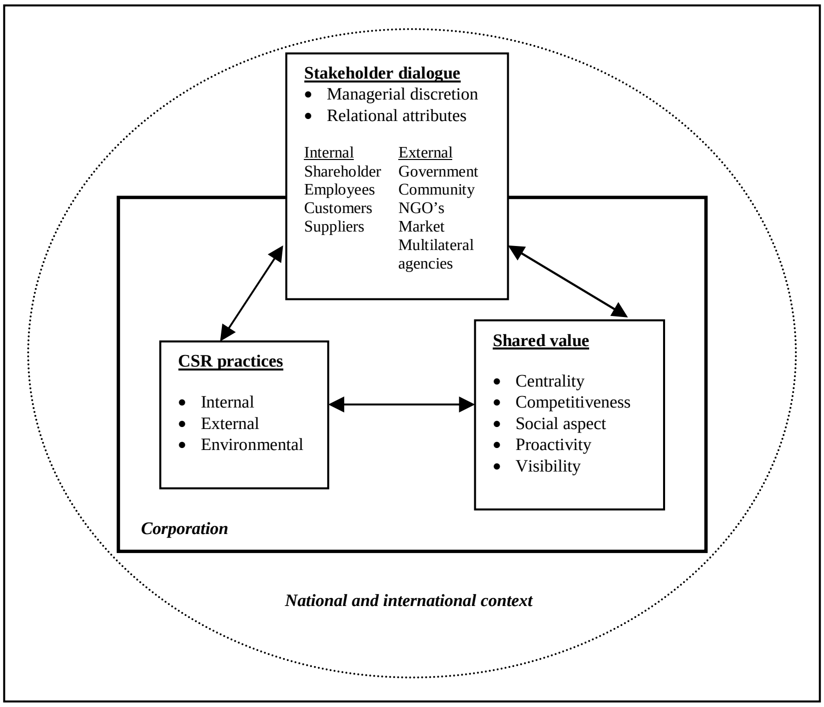

Figure 2.5: Constructs, elements and relations of the analytical framework

3. Methodology

In this chapter an overview of the methodology used to answer the research questions is given. The chapter starts with the explanation of the research strategy. After that, it is made clear why this specific case was chosen. In the next section the operationalization and data collection methods are discussed in more detail. The chapter concludes with the discussion of the data analysis.

3.1 Research strategy

This research was deductive and explanatory in nature. In explanatory studies a situation or problem is studied in order to explain the relationship between variables (Saunders *et al.*, 2007). In this research existing theories were used to develop a suitable approach to conduct the research and analyze the organisation in order to explain if and how shared value is created by a MNC in an emerging economy. The relationship between CSR practices, stakeholder dialogue and shared value was examined in order to come to this explanation. This was an important part of the research since in current literature there is not much known about this particular relationship. A qualitative study was carried out in order to gain a better understanding and an in-depth experience of the actual situation and research context. At the beauty company a single case study was conducted during September, October and November 2009, using in-depth interviews. This research was thus cross-sectional since the interviews took place at a single point in time. Various research methods were combined such as face-to-face, semi-structured in-depth interviews, researcher participant observation and document analysis (internal documents, publicly available material and previous academic publications on the beauty company).

3.2 Case selection

A case study is an appropriated research strategy if a how or why question is addressed about a contemporary set of events, over which the investigator had little or no control (Yin, 2003). The boundaries between the phenomenon being studied and the context within which it is being studied are not clearly evident (Yin, 2003). For this research, the main two factors in choosing a case were the size of the company and its location. In order to answer the research question the case was required to meet some important criteria. Firstly, it needed to be a MNC, which means that it should receive 25 percent or more of its total sales revenues from outside the home country, have an influence in national cultures, policies and economies while being managed as an integrated system (Daft, 2006). Secondly the case must be located in a emerging market. This because according to Porter and Kramer (2011) especially in developing countries pioneers of shared value can be found. Besides that this will help to create more insight in how these MNC's differ from MNC in western economies, considering CSR. Thirdly the MNC should engage in some kind of CSR in order to study what role this plays in the corporation.

The single case used in this research is a beauty company, located in Peru. The beauty company is one of the leading global direct selling organisations (Ragland, 2012). This is thus a representative case since it is a MNC with its headquarter in an emerging economy while making an impact in different countries. The location of Peru is chosen since here the headquarter of the beauty company is stationed and corporate policy is designed here. Theory states that headquarters still have a huge impact on how the CSR policies are shaped across the MNC. Because of this it is important to study the headquarter in more detail. Also all the divisions are present in the Peruvian headquarter, there is a cosmetic as well as a jewellery manufacturing plant and the communication and marketing departments are also stationed here. The case is further described in chapter 4.

3.3 Data collection

In this part the operationalization and data collection methods are further described. There were three main data sources, the interviews, documents and participant observations by the researcher.

3.3.1 Interviews

The interviews provided the primary data in this research and were held with the managers of the main divisions of the beauty company in Peru since there is no CSR department or manager. The managers that were interviewed were from the engineering department, the finance department, the quality department, the manufacturing department, the planning department and the purchasing department. These managers were in charge of the Peruvian production plant in Lurín, Lima. Also the corporate training manager, the corporate manager of the environmental, health and safety management system and the corporate communication manager were interviewed. The interview questionnaire was designed to gain a deeper understand of the role of CSR, which role stakeholders play and which strategy is followed at the beauty company. Managers were chosen to be interviewed since they have the power to influence the values in the organization and also represent those values as they develop the corporate strategy and allocate resources. Personal values play a role in their decision making. Also the managers should promote the corporate strategy. Thus managers represent a key factor in the CSR process and actions in the organization (Aguilera et al., 2007). Besides that, they have a good overview, insight and knowledge of the important policies that are related to CSR in their respective departments. An other important reason was that the managers are concerned with the interaction with stakeholders. A more practical reason to choose to interview the managers was that the company requires the managers to speak English. When managers had trouble with the English language a company translator was present during the interview, in order to avoid misunderstandings.

In-depth interviews took place in order to give the respondents the chance to give a more profound perspective on CSR and their experience, opinions and attitudes with CSR at the beauty company. Interviews have been claimed as the best method of explanatory research (Saunders *et al.*, 2007). McWilliams *et al.* (2006) specifically recommend direct methods, such as interviews, for CSR research to obtain more insight in the motivations for CSR activity. In this research a semi-structured interview was used in order to remain flexible during the interview. Additional questions and clarifications could be asked when considered necessary so respondents could explain and build upon their responses. A list of themes and questions that needed to be covered was generated, but the sequence of the questions depended on the flow of the conversation in order to encourage participants to share information in a style they were comfortable with. Each interview started with the provision of information about the interview's purpose and the explanation of the term CSR. This latter was a preventive measure to avoid misunderstandings which helped to keep the interview in line with the research model. The interview consisted of three parts, in the first part the CSR practices were discussed (section A of the interview). The questions were about which internal, external and environmental CSR practices could be found in the company and more specifically in the department. The second part of the questionnaire was about the involvement of the stakeholders (section B). The stakeholder and the relationships that were studied are; employees, shareholders, consultants, customers, suppliers, government and other public stakeholders. Naturally there was a focus upon the stakeholders that are important for the department that was interviewed, for example during the interview with the manager of the purchasing department suppliers were discussed in detail. In the last part of the questionnaire the value managers gave to CSR was discussed. Their opinion on the CSR strategy to be followed by the company was also asked (section C). The questionnaire was designed to take about 45 minutes. Interviews were recorded and transcribed for further revision post meeting, also to make sure no information could be lost. The outline of the interview is included in annex 1.

3.3.2 Document study

Scholars agree that data collected for other purposes, either raw data or published, are secondary data sources. Most organizations collect and store a variety of data to support their operations (Saunders *et al.*, 2009). Previous research done at the beauty company by other scholars, as well as company documentation (e.g. corporate policy) and published documents (e.g. promotional material and website) could be used to analyze. When using documents it is important to consider their value. The documents were selected under the criteria proposed by Babbie (2004) that addresses several questions to make sure the documents are of value for this research:

- Who composed the documents and why is it written?
- Is there a bias in the documents and how might you go about checking them?
- What kind of key categories and concepts are used by the writer of the document to organize the information presented?
- What sorts of theoretical issues and debates and issues do these documents cast light on?

Previous published sources that were used in this research are the final report of the *Centrimundo studytour* (2008*), Propuesta de programmas* (2008), the reviews of *Making Up the Difference: Women, Beauty, and Direct Selling in Ecuador* (2012), *Multiplying themselves: Women cosmetic sellers in Ecuador* (2011), *Institutional theory and cross-national differences in international market selection for direct selling* (2012) and the interview of the owner done by PricewaterhouseCoopers for *7th South American CEO survey*. The secondary data is used in order to support the primary data.

3.3.3 Participant observations of the researcher

Saunders *et al.* (2009) described participant observation conducting a research while the researcher attempts to participate fully in the lives and activities of subjects and thus becomes a member of their group, organisation or community. In this way a deep understanding of what is going on is created because what is happening is not only observed but also felt. In this way delicate nuances in feelings can addressed and the symbolic world understood. The role of the participant observer depends on whether the identity of the researcher is revealed and if the researcher takes part in the activity. Based on these two criteria there are four possible roles; complete participant, complete observer, observer as participant or participant as observer (Saunders *et al.*, 2009).

During the research at the beauty company the role of the researcher was revealed and the researcher was located at the manufacturing department in the area of the system management. The researcher was participating in the day to day practice in the company. Besides working on the research, the researcher was also involved in the establishment of a new CSR project. The aim of the project was to help the community in the area where the manufacturing plant is located. In order to come up with a good project meetings in the local community with employees, the church and the government were set up. Also the community itself was visited.

3.4 Data analysis

For the data analysis the research framework of figure 2.5 was used. The different blocks in this framework represent the different sub-research questions.

The first sub-question about the cultural and economic context of the beauty company was studied through a PEST analysis. Hereby the political, economic, social and technical in the macro-economic environment were considered. The sources of information used were available documents made by international accepted institutions like the World Bank. This context was further investigated through the clarification of the micro-environment, namely the corporation itself. The data used for this were internal documents that were used as corporate communication mechanism such as posters, company agenda and the website. However, the interviews were used to confirm and support the findings on this question.

The second sub-question that tries to identify the CSR practices was primarily studied through the interviews. To answer the second sub-question the CSR practices were identified by using the research framework. During the interviews, the respondents elaborated upon the CSR in the beauty company. Whenever a respondent mentioned one of the aspects described in table 2.2, this was highlighted in the transcription. Subsequently the CSR practice was labelled with a quote in an excel sheet with a short description of the label, indicating which manager mentioned the CSR practice. After that the CSR practices were grouped and categorized in internal, external or environmental. The identified practices, how often they are cited and by which departments are shown in annex 2.

The third sub-question about the involvement of the stakeholders was answered through categorizing the mentioned stakeholders by the respondents as follows: employees, shareholders, customers, suppliers, government, consultants, NGO's, community and competitors. Whenever a stakeholder was mentioned by the respondent, this was highlighted in the transcription of the interview. These citations were then summarized in how the respondents see the company's interaction with the particular stakeholder. Secondary data was used to expand these results in order to create a better overview of the actual situation.

The fourth sub-question, about if the beauty company creates shared value, was answered through the analysis of the previous findings. There was a detailed assessment made on how the identified CSR practices at the beauty company score on the share value elements: centrality, competitiveness, social aspect, pro-activity and visibility (see figure 2.5).

In order to answer the fifth and final sub-question about which recommendations derive from the research results, the previous sub-questions were used. The outcome was compared with the literature findings and presented as recommendations.

4. Results

In this chapter the findings are presented in accordance with the research analytical framework (figure 2.5). First the context of the case is discussed, followed by information on the case itself, the beauty company. This corresponds to the outermost circle of the research framework and the biggest rectangle within the circle. This is followed by a section on the analysis of the stakeholder dialogue within the beauty company. In the last section of this chapter the existing CSR practices at the beauty company are enlisted. This is followed by a discussion of whether these practices can be seen as a shared value creation strategy and if not, what kind of classification can be given to the practice based on figure 2.4.

4.1 The beauty company and its context

In order to determine the creation of shared value it is important to understand the economic and social development issues of the Peruvian business context. This is done through a PEST analysis, which takes the political, economic, social and technical environment into consideration. Also the organizational characteristics must be taken into account. An overview of the company profile is also here given.

4.1.1 Peru

The history of Peru is rooted in the Incan culture and heavenly formed by the occupation of the Spanish from the 16th century until 1821. The Peruvian government is constitutional-republic, the legal system they use is the civil law system. The president is the chief of state as well as the head of government. The president serves a 5 year term and the current president since 28 July 2011 is Ollanta Humala Tasso.

The economy of Peru is very locally focused. This is caused by the economic history, in 1982 Latin America was facing a crisis. The Peruvian government created in a reaction to this crisis an inward-bound economy in order to protect themselves. Import and export to the rest of the world was restricted. This led to stagflation, a combination of high inflation and recession. It was not until the 1990’s that Peru changed the economy to outward-bound. Peru opened up its market and expanded trade with different countries around the world. This resulted in a free trade agreement with the United States in 2006. This agreement led to more security and a predictable legal framework for foreign investors to do business in Peru. Peru is also part of Unasur, a Latin American Union and has trade agreements with Mercosur states, Mexico, Canada, China and some countries in Europe.

The Peruvian economy keeps on improving, the average growth rate is 6.4% per year since 2002. The Peruvian economy is stable with a small appreciation in the exchange rate with low inflation. PPP is $332 billion (US) and GDP per capita $10,900 (2012). The major industries of Peru are mining, agriculture, fishing and tourism. Despite Peru's strong macroeconomic performance, poor infrastructure hinders the spread of growth to Peru's non-coastal areas. Peru's rapid expansion have helped to reduce the national poverty rate by 23 percentage points since 2002, but inequality persists and continues to pose a challenge.

Around 81% of the Peruvians are roman catholic and religion plays a big role in the day to day live. There are high poverty rates and unemployment rates, especially in the remote Andes and among the indigenous people who don’t speak Spanish, accelerated by the existed class-differences. School attendance has improved, but there are still problems with educational quality. About a quarter to a third of Peruvian children aged 6 to 14 work and many poor children drop out of school to help support their families. Corruption, insufficient infrastructure, child labour and low capacity of the local government are key problems in Peru.

In Peru there are 3.688 million main telephone lines in use (2011) which ranks the country in comparison to the world on a 43rd place. There are even more mobile cellular phone, 32.461 million in 2011 that ranks the country in a 33rd position. Internet is also widely spread, 9.158 million users which gives Peru a ranking on a 31st place.

4.1.2 The beauty company

The beauty company was founded in 1967 by the a family in Lima, Peru. It was the first company in Peru that manufactured cosmetics and perfume. Taking advantage of the government rule that prohibited the import of cosmetics, they expanded in the local market rapidly. After the death of founder in 1984 the beauty company separated in two independent companies. The son of the founder still leads the company today, together with his daughter. In Peru the company sells its products under a different brand name then in the rest of countries. The beauty company has five different product lines; skin treatment, make-up, fragrances, personal care and jewellery which generates more than 250 different beauty products, and focuses on the middle and upper middle class costumers. They sell products for woman, men, young adults, children and babies. The products are sold in eight different countries; Peru, Colombia, Ecuador, Venezuela, Bolivia, Mexico, Guatemala and Spain. There are five different production plants located in Peru, Ecuador and Colombia. Besides that there are research and development centres in the United States and Switzerland. There are plans to expand their market in Italy and Germany.

From the beginning, the company wanted to give Peruvian women an opportunity to improve their standard of life and help them in their economic development. In order to make this possible, the beauty company established a system of direct sale by catalogue, which is released every four weeks, under the concept of ‘door-to-door’ sale. These consultants are women in the age range of 18 to 50 years old and through the so-called ‘stairway of success’ they can grow into directors. The beauty company has over 4,000 employees and more than 300,000 sales representatives.

The mission is to raise the standard of living of women and of all who are part of the family the beauty company, offering the best economic development, professional and personal opportunities, with the support of worldwide quality beauty products. Its vision is to be the most competitive and prestigious direct selling beauty company in Latin-America based on the principal ‘prosperity for all’. The beauty company does not want to be the biggest participant in the marker, but wants to be the most profitable one. In the countries where the beauty company is active, it is in the top three of the market leaders. In 2007 the revenues were around USD 550 million with a profit margin of 15%. The average growth was 25% in the last three years and due to a marketing strategy change the jewellery line experienced a growth of 60%. The total production capacity of the beauty company is 100 million units per year. In 2007 92 million units were sold, in 2008 75 million units and the expected number of 2009 is 88 million units.

The values of the beauty company are:

- Integrity
- Honesty
- Equity

- Loyalty
- Commitment to quality
- Respect for people and family life
- Service attitude
- Responsibility

The principles of the beauty company are:

- Always act on the foundation of ‘prosperity for all’
- Prioritize the common good over the individual good
- Encourage teamwork
- Promote continuous improvement
- Promote the development and skills of our team
- Recognize the achievements at all levels
- Encourage open and free communication
- Provide service excellence
- Provide social support to our community

4.2 Stakeholder dialogue at the beauty company

In this part the stakeholders that are of importance for the beauty company are discussed. Firstly a description of the stakeholders is given. Then the dialogue between management and stakeholders deriving from the empirical data is stated. Besides this managerial discretion, also the relational attributes between the stakeholders and the company are important in considering the dialogue with the stakeholders. These attributes are also discussed. Finally an overview of the interaction with the stakeholders is presented.

4.2.1 Internal stakeholders

Shareholders

The company is owned by a family. The owner is president of the company owns about 95% of the shares and his daughter is vice-president. They set out the strategy and their focus is on the profitability and continuity of the company. They also play an important role in the contacts with the consultants. The quality manager says: *“For the owner quality is very important and according to him the quality is in the product and in the consultants. He keeps very close contacts with the consultants. He is also very involved in the product line, he is the one that can approve the manufacturing of a new product”.* All the strategic decisions are made by the owners and if managers have an idea they have to convince the owners of this idea.

It can be stated that the shareholders have high power, legitimacy and urgency over the company. They have high power because they can force managers to follow their strategy, they own the financial resources and they have prestige. They also have a legitimate claim on the company since they own the company. Finally urgency is also present since it is critical for the company to react immediately on their claims. Shareholders are thus definitive stakeholders.

Employees

The employees work in various specialties in the departments of manufacturing, marketing, communication, finance, purchasing, quality and human resources. Their demands are mostly in the labour related subject as career plans, work environment and a like. The managers have annual meetings with the employees to talk about how the process can be managed better, to talk about the corporate objectives and how personal objectives are aligned with the future of the company.

The employees have legitimacy over the company because they have a formal relation with the company. They also have symbolic power over the company. The company does engage them in policy making. Employees are dominant stakeholders of the company.

Consultants

Consultants form a special stakeholder group in the beauty company since they are not under contract but work freelance on the basis of a commission. Earnings depend on the amount of products sold and sellers recruited. The consultants are normally women between 18 and 50 years old. Most of them start on a part-time basis, but can grow from that through the so-called ‘ladder of success’ to directors that have different consultants working for them and even become a manager of a district. The relationships between the consultants and directors are analogized to family roles. If consultants climb the ‘ladder of success’ they can obtain bonuses. The bonuses become bigger when climbing on the ladder. In every country there are two main events, the national convention, where consultants are invited if they reached certain targets and consultants of all the different steps on the ladder are invited, and the glow on the stage event, where only the best consultants are invited and where the cars are given to the consultants. There are also small events where the workshops are given, mostly these events are per area and under the leadership of a director. There is also once a year an international event called Galaxy, where the best consultants of the eight countries are invited to. Together with the owner they go for a trip to an European capital during this event. There is also an intermediate trip, where consultants that reached certain targets are invited to. On this trip the president isn’t present. For the consultants it is important that the product they sell are innovative, of a high quality and competitive so they can achieve a high commission. New products are evaluated every four weeks with the consultants in focus groups. CSR practices are not communicated with the consultants, unless they play an active role in the practice.

The consultants have normative power over the company since they are an important asset of the company. Beside that they have a legitimate claim over the company since they sell its products. As stated above, the company engages the consultants in their policy making. Consultants are dominant stakeholders.

Suppliers

The suppliers provide the company mainly with glass, plastics, metal and cardboard. Most of the suppliers are headquartered in European and American, followed by Brazil. Raw materials are purchased by the department of the beauty company in Florida, United States and then shipped to the production plants in South America because of the purchase benefits in this location. The management of the beauty company has close contacts with the suppliers in order to guarantee a high level quality of all products. The quality managers explains: *“The quality of the raw materials are checked in four different laboratories that are for quick analysis in order to take action in situations that don’t accomplish the parameters or characteristics that are defined in the specifications. These controls gives information about the supplier.”* The engineering manager states that in the interaction with the suppliers they are motivated to try to align the objective of the supplier with the objective of the beauty company. During meetings important objectives are discussed.

Since the suppliers provide the company with materials they have a high utilitarian power of the company. Suppliers could make an urgency claim on the company since the delivery of their supply's are often time sensitive. Also often suppliers engage in a formal relationship through contracts with the company and could have therefore a legitimacy claim. As stated above, the company engages suppliers in decision making. Suppliers are thus a potential dangerous stakeholder, but right now dormant stakeholders.

Customers

The consumers can be divided into different target groups; women, men and young adults. For customers it is important that the products meet their expectations. Especially the quality of the products is important for them at competitive prices. There is no formal company communication on how the company tries to build a better society. Neither are internal improvements communicated to gain a better brand image.

The customers do not engage directly in the company. Most market research is done through the consultants. They do have a power claim based on utilitarian and symbolic power. The customers are a dormant stakeholder group.

4.2.2 External stakeholders

NGO's

NGO's in Peru that try to influence companies focus heavily on environmental aspects, especially in the mining and petrol business. The cosmetic plant of the beauty company is in Lurín. This is a protected ecological area because one of the last not polluted river of Lima is running through this valley and this is an important agricultural area for Lima. There is a NGO named Grupo GEA active to keep this area non polluted. The Lurín plant of the beauty company was founded in 2004 and in order to receive the approval of the NGO the EHS management system was introduced. Grupo GEA made a partnership with the government in order to legitimate their claims. This partnership is also involved in the evaluation of the EHS management system, which takes place twice a year. The beauty company participates in order to learn and contribute their knowledge to improve the surrounded environment. An other aspect Grupo GEA bargained was the employment of at least 30% of the workforce from the local community. Grupo GEA prevented the establishment of the jewellery plant in Lurín because this production process is too polluting according to them.

Grupo GEA has a legitimate claim on the company, since they are an accepted group to in the community that prevents environmental harms. Also their claims are urgent, if the company does not address them immediately, this can cause serious problems. The company does engage them in their policy making, but the NGO needs other stakeholders to make the company listen to their claims (the government and the community). This make Grupo GEA an dependent stakeholder.

Government

The government seems not very committed to the environment yet, although they did set up a new environmental ministry. At this point the laws are not very strict according to the quality manager of the beauty company. In the beauty company there is a special team that put new legal requirements into practice. This consultant team works together with a legal government bureau to exchange information and to receive advice. As the ESH manager explains: *"If the government makes a new law, they specify this on a website. The consultants see this and ask for the opinion of the technical area. With this opinion they go to the government."* The government is working together with Grupo GEA in a partnership in order to create a sustainable environment in Lurín, which gave a legitimate basis for the initiatives of the NGO. Besides that there is also an experienced lack of intervention of the state. School, hospitals, highways are missing.

The government has a legitimate claim on the company since it is the institution that makes the rules in which the company operates. Also they have a high coercive power claim over the company since the government can force the company to engage in some kind of action by law. The company does not experience an urgency in the claims of the government and does not feel a lot of pressure to act in a responsible manner because of the government. The government can be considered a dominant stakeholder.

Community

The beauty company is related with the families of the employees, the community the company has its manufacturing facilities and society at large. For the community it is important that the company gives them development opportunities without contaminating the environment.

The community has a legitimate claim on the company since the company produces in their habitat. Although their claims are legitimate, they have no power or urgency claims over the company. The community is thus a discretionary stakeholder.

Competitors

The beauty company is following the products and innovations of its competitors. Some of the competitors have recently introduced green products, that are produced and packaged with natural ingredients in order to reduce emissions. Other competitors adopted a philanthropic cause and raised money for this cause, for example Avon's breast cancer foundation. This development in the market is closely watched.

The competitors do not have a power, legitimacy nor urgency claim over the company. Competitors are monitored by the managers to watch market changes and gain information but competitors are non-stakeholders of the company.

4.2.3 Involvement of stakeholders

At the beauty company there is not a formal stakeholder management tool. The management of the stakeholders is highly dependent upon managerial discretion. The company does try to create a strong corporate image across countries by the use of a coherent house style and a corporate anthem with a dance. In the figure below the stakeholders are classified according to their relational attributes. The most important stakeholders of the beauty company are the shareholders, followed by the dominant stakeholder consultants, employees and government and then the dependent stakeholder Grupo GEA. The dominant and dependent stakeholders should be considered in policy making and are in a formal way active in information exchange with the company. The dormant stakeholders suppliers and customers could have a higher influence on the company. The beauty company does try to manage them but not very actively. The community can be seen as a discretionary stakeholder. They depend on the goodwill of the company to asses their needs. Finally the competitors are non-stakeholders. They are only monitored and do not have no direct power over the beauty company.

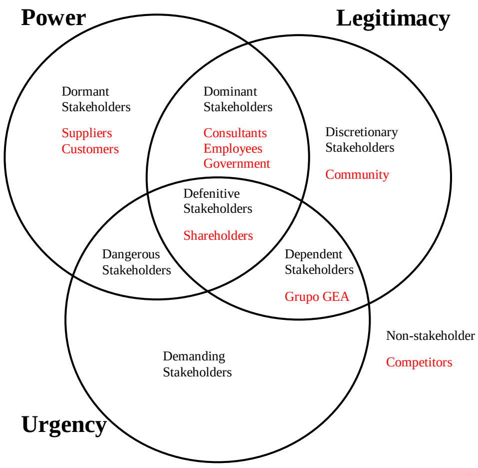

Figure 4.1: Classification of stakeholder (adapted from Mitchell et al., 1997)

4.3 Practices and their strategic value

In this part the CSR practices that were found in the empirical data are described. The CSR practices are categorized in internal, external and environmental practices in accordance with the analytical framework (figure 2.5). When appropriate, quotes about the CSR practices from the interviews are given in order to enrich the description. After the description the strategic value of these individual practices is examined by the five elements that emerged from the analytical framework (see figure 2.5). Finally the CSR strategy at the beauty company is discussed.

4.3.1 Internal practices

Environment, Health and Safety management system

The beauty company works with the Environment, Health and Safety (EHS) management system that considers environmental protection, occupational health and safety at work. This management system has two main objectives: to reduce the negative impact the company has on the environment and to prevent work related health and safety problems. They try to achieve this through the use of prevention programs, training, environmental scanning and by the use of work manuals. Twice a year there is a health campaign where the health of all the employees is checked. As the corporate EHS manager states: *"This cascade process starts at the top and goes to the bottom of the company. In every step there is a responsibility to improve our leadership and commitment in order to protect the EHS in all the operating area's. This is very important. Caring about this must become a custom in the company."*

Since the environmental practices of the EHS management system are discussed in more detail in the environmental sub-section, there will only be here elaborated upon the strategic value of the health and safety aspects of this management system. As far as the centrality of this practice goes, there is not a direct fit with the mission. There is a link with the value 'respect for people and family life', since the system is about the health and safety of the employees. There is also a link with the company principle 'promote continuous improvement' since the system tries to make improvements in the area of health and safety. The competiveness of the company can benefit from this practice, since the program should prevent problems. The private benefits will not be very large though, since such a system is quite common and easily adopted by competitors. The social conditions improve through this practice, there are better working conditions. It scores thus positive on the social aspect. Also this practice scores negative on pro-activity since it emerged because Grupo GEA forced the beauty company into this action. The visibility of this practice is positive, the system is evaluated with Grupo GEA and the government, two stakeholder groups. The system contains clear metrics. Overall, this CSR practices does not create shared value. There is some value created for the company, but not for society. Based on figure 2.4 this practice can be defined as an ethical responsibility since it is a common practice. It is about preventing social harm which society can expect from the company and ‘doing what is right’.

Table 4.1: Shared value scores of the EHS management system

Aspect	Centrality	Competitiveness	Social aspect	Pro-activity	Visibility
Score	+/-	+/-	+	-	+

The best laws

In the EHS management system the laws are integrated into the company’s policies. Each country had its own laws, not all the laws apply in all the countries where the beauty company manufactures and sells its products. They decided to create a corporate law, based on the reproduction of the most demanding laws in all the countries. These include also laws of the European Union since the company exports to Spain. Because of this the plants have either a ISO 9001 or ISO 14001 certification. As the EHS manager explains: *“For example in environmental laws Colombia has the best level. Is a good level? Yes. Is best for the company? Yes. Then we follow in all the countries.”*

This practice scores negative on centrality. There is not a fit with the mission. It can be linked to the principal of ‘promote continuous improvement’, because this practice does lead to improvement but there is not a very strong link. There is a fit with competitiveness because this practice may lead to a first-mover advantage in the countries where the laws are not mandatory. Beside that, it can also lead to a positive image of the company. There is a social benefit of this practice because the operations of the company are of a higher level. There is also a strong link with pro-activity, it is not mandatory to engage in it and it will enhance the level of manufacturing. This practice has a negative score on visibility because there are no clear metrics the stakeholders can use to evaluate this practice. It is hard to determine for the stakeholders if the company actually does introduce these laws in all the plants. Although this practice does add value for the beauty company and there is also societal value, there is no strategic foundation for this and also metrics to evaluate this practice are missing. This practice can be considered an ethical practice since it is good business to apply a law to all the subsidiaries that is mandatory in one of the plants.

Table 4.2: Shared value scores of the best laws practice

Aspect	Centrality	Competitiveness	Social aspect	Pro-activity	Visibility
Score	-	+	+	+	-

Training and education of employees

The beauty company finds its employees very important, they guarantee the quality of the products most of all. The employees are given the opportunity to grow and be educated in to develop better qualifications. In this way they can become better professionals that can grow in the company. The quality manager gave an example: *“We have persons that only have finished high school, and now they are studying for a degree.”* Also the training manager sees this as an important responsibility of the beauty company: *“Education is very important. You can’t imagine how the public schools are here. They are very bad. The difference in opportunities that people have are enormous. There is a big gap on what is needed and what is offered, and the majority of people don’t have the money to pay for it themselves.”*

This practice is clearly related to the mission of the beauty company, it is part of the creation of professional opportunities. The practice thus scores positive on centrality. It has a link with the competitiveness of the company since the quality of the products is guaranteed by the employees according to the beauty company. As long as the employees remain at the beauty company, the private benefits are also secure. There is a chance that employees will stop working for the beauty company and start working for a competitor, which would have a huge impact on the competitive gain. There is also a positive score on the improvement of the social conditions in the community since in this way members of the community can receive education. Otherwise these employees would probably would not have the opportunity to receive education. The practice did not emerge because of requirements. It provides a social opportunity in that the beauty company creates a more educated workforce. There is some visibility, since for the employees the training and education will probably be very observable. For other stakeholders this practice might not be so easily observed, and there are no clear metrics to evaluate this practice. Although this practice does create value for society, it does not have a very direct link to the creation of value for the company itself.

Table 4.3: Shared value scores of training and educating employees

Aspect	Centrality	Competitiveness	Social aspect	Pro-activity	Visibility
Score	+	+/-	+	+	+/-

Training and education of consultants

The consultants of the company are given the chance to follow formal career training in a programme that is called the University of the beauty company. In all the stages of the ‘ladder of success’ there is training on competences available that can teach the methodology to become successful that was developed with educational psychologists. Training can be attended upon request, a corporate agenda is made available so consultants can see when and where training takes place. The company provides these training without charge, participants only have to pay for materials. If necessary these can be paid in parts. The training managers declares how this can have an impact: *“We feel proud that a director or an consultant that starts as an person that haves only the process of selling and gives services to the costumers in selling, if she wants she can become an multi level entrepreneur in an X amount of years that is well trained. With the impact on her personal live, in her professional live and in an economical sense as well.”*

See for a detailed explanation of the aspects the elaboration in the practice of the training and education of employees.

Table 4.4: Shared value scores of training and educating of consultants

Aspect	Centrality	Competitiveness	Social aspect	Pro-activity	Visibility
Score	+	+/-	+	+	+/-

Supply chain audits

The beauty company performs audits to ask and measure its suppliers if they work in accordance with the government regulations. Besides that also labour practices are audited in the supply chain. As the purchasing manager says: *“When we do an audit we visit the factory of the supplier to see if they use safe equipment, if they use uniforms, if the have personal hygiene facilities, if there is a canteen. The beauty company is a company that respects all these points related to the working environment. We also want our suppliers to respect this because we want to have a good influence on the supply chain.”*

This practice does not have a fit with the mission. It can be linked to the principle 'prosperity for all'. There is a link with the competitiveness of the company, because in this way they can improve the quality and productivity at the supplier. There is some social aspect in it since it addresses the environment of workers at an other employer. Besides that when suppliers improve the impact on the environment will be less. There is a positive score on pro-activity since the company engages in this voluntary. There is a positive visibility since the audits are described in detail and it is clear how the company measures these. This practice is closely related to shared value creation. But because the company does not to try to help the suppliers in changing their practices, they only evaluate them, there is no true value created. This can be seen as an ethical responsibility, doing what is right.

Table 4.5: Shared value scores of supply chain audits

Aspect	Centrality	Competitiveness	Social aspect	Pro-activity	Visibility
Score	+/-	+	+/-	+	+

Employment of the local community

With the establishment in the Lurín area, the beauty company became an important employer for the local community. The target is to recruit thirty percent of its workforce from the local community. By doing this, the company attempts to contribute to the development of the community in order to let them share in their wealth.

This practice partially linked to the mission. The company does not state clearly if the community is also part of the beauty company family. Besides that there is a link with principle 'provide social support for our community'. There is no link with the competitiveness of the company, besides that the company will gain community support through this practice. It does have a link with a social aspect, it provides a betterment in social conditions through employment. It also has a negative link with pro-activity since Grupo GEA bargained this practice. There is a clear metric for the evaluation of this practice for the stakeholders. This can be seen as a altruistic responsibility.

Table 4.6: Shared value scores of employment of the local community

Aspect	Centrality	Competitiveness	Social aspect	Pro-activity	Visibility
Score	+/-	-	+	-	+

Anti-corruption

According to the Finance department, there is a strict anti-corruption policy in the company. They try to reduce the impact of corruption by not taking part in it. If governmental officials ask them to pay more than is official they do not do that. The finance manager explains: *"We don't make business under the table. We are very formal, we try to protect our image in the community. Not only the business community but also with the community in general. We don't make moves to obtain more gains than other companies. If we need pay more money for governmental permission, we are not paying. Not outside the norms."*

This practice is not directly linked to the mission. There is a link with the values of the company 'integrity', 'honesty' and 'equity'. The competitive position of the company will not directly improve through this practice, although it is an important value to have for a multinational corporation. Especially the international community will find this an important point. The social conditions will not improve directly by having this practice, although the practice can lead to a more honest and equally treating government which can improve social conditions. The practice is pro-active, it is not mandatory. There is not a clear metric to measure if the beauty company indeed does not engage in corruption. It is hard for stakeholders to check this. This can be seen as an ethical responsibility, doing what is right.

Table 4.7: Shared value scores of anti-corruption

Aspect	Centrality	Competitiveness	Social aspect	Pro-activity	Visibility
Score	+/-	+/-	+/-	+	-

4.3.2 External practices

Raise the standard of living of women

The beauty company is very proud of the fact that everyone can become a consultant. Even the poorest people in the most rural area's are given the opportunity to change their lives. Latin American women are given the opportunity to be economically independent, self sustaining, receive education and experience an increase in self esteem. If consultants climb on the 'ladder of success' they can make a lot of money. The communications manager explains how this can been seen as CSR *"I think the social impact of the beauty company in the community, particularly in women is enormous. Just the notion of being here and offering the opportunity to women to change their lives through our product. I have been in contact a lot with the consultants. I would say in essence our brand in itself has an social impact. And we have so many testimonies that can prove that. (…) People thank us, for the social work we do because they think we provide social help for the consultants. The beautiful thing about this business is it has an commercial side, but also a very altruistic social side."* The training manager explains how this works for her: *"The problem for me was, how can we let poor people sell cosmetics to other poor people? I went to live for two months in a family that worked for the beauty company in one of the poorest regions. It changed my live, I understood that you need to sell whatever you can in order to stay alive. Cosmetics make a change in the spirit if you have nothing else. I became in love with the changes that I saw, it is a beautiful thing we do. After that I was convinced, I am going to help the owner to change the lives of these women with his vision."*

This practice has a positive centrality, it is clearly related with the mission of the beauty company, it is part of the mission. There is also a positive score on competitiveness since the company uses a direct selling method that can not easily be duplicated by other companies. Because of this method they can sell their products even in the most rural area's. There is also a social aspect in this practice, since it brings employment in poor area's. These women would otherwise not have the chance to become educated and be self-sustaining. On pro-activity there is also a positive score, because there is not crises or requirement for the company to engage in this practice, but there is a social opportunity. The opportunity lies in the attendance of the population with low chances. This practice has a moderate visibility, the stakeholders can easily give credit to the company for this. The outcome is very observable in terms of effects, the women who are given the opportunity and are successfully can be easily identified. A clear metric to measure these results is still missing though. Overall, this practice is very closely related to creating shared value. There is a clear gain for the company as well as for society.

Table 4.8: Shared value scores of raise the standard of living of women

Aspect	Centrality	Competitiveness	Social aspect	Pro-activity	Visibility
Score	+	+	+	+	+/-

Raise the standard of living of the beauty company family

About ten years ago, the beauty company made it possible for husbands and children to also receive some training. This training is particularly in the administrative part. Nowadays husbands can become entrepreneurial partners, which can help their wives to grow more within the company. The training manager elaborates on how the company sees its impact in the community: *"Success impacts not only her, but also her family and also the district. Because where the director lives is 30 or 40% of her sales force. A very good example is in the poor district of Puno. This lady, Damiana who is now a director, entered the beauty company. She sold toys, worked like 18 hours a day because they really needed the money. She found out about our opportunity and in three years time she is earning a lot of money and has earned 4 cars. There are 10 or 12 directors reporting to her. And she has changed her live, her family's live and the life of the directors that she recruited. Last year she earned the title queen of all the consultants. She surpassed the goals and the volume sales of the whole corporation in growth. Success stories like this we have a lot, that impact the community, throughout the whole corporation. They include stories about people that went from a slum to now owning a second beach house. Their children can become professionals."*

See for a detailed explanation of the aspects the elaboration in the practice of raising the standard of living of women.

Table 4.9: Shared value scores of raising the standard of living of the beauty company family

Aspect	Centrality	Competitiveness	Social aspect	Pro-activity	Visibility
Score	+	+	+	+	+/-

Partnership Special Olympics

Since five years ago the beauty company is a main sponsor of Special Olympics in Ecuador. This organization provides sports training and athletic competition in eight different Olympic sports for children older then 8 years and adults with intellectual disabilities. The beauty company wanted to share their success with society and sees a good cause in this vulnerable group that is given little attention in society. They do this because women are very important for the beauty company and for women children are very important. They work together in a project called 'Building a better future' to provide better special education in Ecuador. For this project Christmas cards that are made by children with special needs are sold by the consultants in order to raise money. Sometimes additional products are sold like candles and chocolates. At this moment there are seven special schools set up throughout the country. In the future they hope to set up at least one school per province. There is also a programme to promote corporate sponsorship where the subsidiary of the beauty company in Ecuador serves as an example to hire disable people. The subsidiary of the beauty company in Ecuador has three employees with a disability working in the plant at this moment.

For this practice there is not a direct link with the mission of the company since the disabled children wouldn't be part of the beauty company family without the support of the company. There is a link with the principle 'prosperity for all', 'prioritize the common good over the individual' and 'provide social support to our community' though. There is no link with the competitiveness of the company, the company does not gain private benefits. There is a clear link with the social aspect, since this group is otherwise ignored and neglected. On pro-activity is also a positive score, the company is voluntary active in this partnership. There is also a clear metric for the stakeholders to measure the results, since there can be seen how much schools are build and how many disabled people are working at the plant. Since there is no value created for the company by this practice, it can not be considered as shared value. There is a clear social value though, that is why it can be seen as a altruistic responsibility.

Table 4.10: Shared value scores of partnership special Olympics

Aspect	Centrality	Competitiveness	Social aspect	Pro-activity	Visibility
Score	+/-	-	+	+	+

Child care centre

In Colombia the beauty company started in 1995 a foundation that tries to help the parents in Factativá (the place where the plant in Colombia is located). At the time there were almost no alternatives for the care of children when it comes to health, nutrition and psychological stimulation. The mission of the foundation is to meet the needs of the community through recreation programs, education and promoting community service. The community now has a child care centre that takes care of 83 children, 50 of whom are children of the employees of the beauty company. The beauty company thinks that they benefits from this because the employees are willing and able to work harder if their children are doing well. Besides this the children represent the future of Factativá and in this way they can help to magnify this future.

For a detailed elaboration on the aspects of this practice see the description at the special Olympics practice.

Table 4.11: Shared value scores of child care centre

Aspect	Centrality	Competitiveness	Social aspect	Pro-activity	Visibility
Score	+/-	-	+	+	+

El sensor de la mujer

The beauty company works together in Bolvia with an research organization in a project that is called ‘El sensor de la mujer’. For this project the needs of the Bolivian women are studied. Questions that are asked are what the role of women in Bolivia is, what perceptions, feelings and ideas characterize Bolivian women and how women can take part in the area’s that are traditionally dominated by men. At this point there have been done five different studies. The training manager explains: *“Now we are in top of mind of how these women think about the beauty company. They know that they can become something by the beauty company, so the brand is becoming more powerful. They know now what the beauty company’s vision is and what they actually do. This is one of the most important opportunities of the company, that explains that we are also an expert and leader on changing the live of women and converting them in successful entrepreneurs.”*

On centrality the score is moderate since there is not an improvement of life through this practice. There is a link with the women and how their needs can be assed. There is a negative score on competitiveness. It is possible that this leads to a better brand image, but this result will be hard to capture in private benefits. Besides, the results of these studies may lead to competitive advantages if used, but there is no indication that the company does this. The social conditions in the community are not improve through this practices. The company does engage in this practice voluntarily. Also the results of this practice is very visible and easily measured by the stakeholders. This practice can not be seen as shared value creation, but as an altruistic philanthropic responsibility.

Table 4.12: Shared value scores of el sensor de la mujer

Aspect	Centrality	Competitiveness	Social aspect	Pro-activity	Visibility
Score	+/-	-	-	+	+

4.3.3 Environmental practices

Green manufacturing practices

The guidelines of the green manufacturing practices are integrated in the EHS system. The goal of these practices is to reduce the impact on the environment caused by production and not to contaminate the environment. The focus is upon the reduction of water, energy and raw material use. The part of this program about the reduction of emissions and waste is mandatory by the government because of the type of products that the beauty company produces. The water recycling system that is bought and the reduction of energy use is voluntary. Employees receive special training in these practices four times a year. Because the beauty company feels that it should be part of the nature of the employees to reduce water and energy they try to make an effort to integrate these practices in the daily life of the employees as well. This is done through a competition between the employees. The company will pay the energy and water bill for person that is able to make the biggest reduction in the energy and water use at home.

For this practice, there is not a clear fit with the mission of the company. There is a link with the principles 'prosperity for all', 'prioritize the common good over the individual good' and 'promote continuous improvement'. Because reduction of energy, water and material lower the costs of the beauty company, there are private benefits captured. There is thus a positive score on competitiveness. The score on social aspect is moderate since the prevention of pollution improves social conditions. Since a lot of the actions are mandatory, the score on pro-activity is negative. The practice is introduced because the company needs to this. The visibility of this practice is positive because these practices are part of the EHS management system that is evaluated with Grupo GEA and the government. This practice can not be considered as a part of a shared value strategy. Because it has partially to do with legal requirements this is a legal responsibility. The reduction of water and energy is more about doing what is right and can be considered an ethical responsibility.

Table 4.13: Shared value scores of green manufacturing practices

Aspect	Centrality	Competitiveness	Social aspect	Pro-activity	Visibility
Score	+/-	+	+	-	+

Green packaging

Recently the package engineering department started a project to design a package with materials that have no or less impact on the environment. The goal is to design product packaging that is less polluting, uses no toxics, or not recyclable metals or plastics. The most important reason for this is cost reduction. When there is no or less packaging there is more economical gain. An other reason is that they started to think about the environment. As the engineering manager says: *"For now this is a little step but in the future it will make the difference between one company and the other."*

In this practice there is no link with the mission of the company. There is a link with the company principles 'prioritize the common good over the individual good' and 'promote continuous improvement'. The competitiveness of the company can be improved through the cost reduction that this new packaging will achieve. His can be enhanced through marketing. Social conditions can be improved because the environment will be less polluted. There is no compliance requirement for this practice, the company wants to do this based on there own principles. If there is a way of packaging found that is less polluting this would probably be very observable for the stakeholders. This practice can be seen as a shared value strategy if it is introduced and aligned with the strategy.

Table 4.14: Shared value scores of green packaging

Aspect	Centrality	Competitiveness	Social aspect	Pro-activity	Visibility
Score	+/-	+	+	+	+

4.3.4 CSR strategy at the beauty company

There is not a formal CSR policy or strategy at the beauty company. There are some CSR initiatives, though these initiatives are very fragmented and lack a common goal. CSR activities are gaining more attention, especially environmental concerns. Stakeholders play and important role in putting the environmental concerns on the company agenda, mostly because of the location of the production plant in Lurín. Especially the owners of the company play a key role in the CSR policy, since the company is very centralized. An other important influence on the company is the international market. Because the company is a MNC, it has the opportunity to create corporate laws on the basis of the best laws of the countries they do business in. Also the European laws are an important factor, this has lead to the fact that the plants have either a ISO 9001 or ISO 14001 certification. Most of the responsibilities that the company engages in can be seen as ethical responsibilities. Doing the right thing in society is an important value for the company and its owners. There are also some altruistic responsibilities, but these activities are country specific. Most managers say that they would like to see a more integrated company philanthropy, they feel that it is the obligation of the company to give back to society. They would like to see a company cause that is related to either women or children to support company wide. Although most managers seem to agree on this, it is not high in the corporate agenda and it will probably take some more years for the company to develop this. There are also some practices that can be considered as a shared value creation strategy. These practices, raising the standard of living of women and of the beauty company family, are clearly aligned with the strategy of the company. There is also a corporate gain by doing this, as well as a gain for society. The practice green packaging is a potential shared value strategy. If such a packaging is indeed introduced it depends on the interpretation of this green product whether it is truly a concept of shared value.

5. Discussion

The shared value creation strategy of the beauty company is that they raise the standard of living of women and of the beauty company family. By giving women in with relative low levels of education, in pour areas with high unemployment rates the opportunity to engage in business through the selling of cosmetics and jewellery, they make a social impact. Direct selling does not take much capital to start, there are no rigid entry requirements and the provision of products in areas that are isolated from the city's network of formal sector retailers guarantees at least some clients. But although this seems like a very good deed, it is not a panacea, there are some limitations and negative effects of this strategy in practice.

First of all, the husbands are not always supportive, sometimes the women experience jealousy and opposition (Kang, 2012). Due to cultural gender roles, this opposition can be very strong. Although women are responsible for making the ends meet in the household, and man and women, sometimes even their children, must work together to maintain their household, men have not accepted this state of affairs yet. Women often have to ask for the permission of their husband to work (Connell, 2012). Usually, women's income are seen as supplementary. That is why men that are unemployed or underemployed often resist letting their wife work because of this. Although this also brings opportunities for the direct selling method the beauty company uses, because this is not a formal job and thus experiences less opposition, this form of employment to women can bring stress on their relationships anyway (Masi de Casanova, 2011). Especially for women that are growing in the company and thus make a considerable income and have to go to more trainings, the relationship with their husbands comes under pressure. Because besides their work for the beauty company, women remain responsible for the household and child care, which can be hard to balance with their selling activities. The results of the study of Masi de Casanova (2011) indeed suggested that the most enthusiastic about the direct selling method are women with only a few children, women with supportive spouses and women which can count on help with child care and domestic tasks.

An other important point is that the beauty company uses the appearance of feminine, middle-class, white-mestiza women in advertising as well as in the prescription of the grooming of the consultants (Kang, 2012). Many of the consultants, including the most successful ones, do not fit this description. Especially in the poor and rural area's it is hard for women to comply to these norms since people look more indigenous then western. This is in a contradiction with the corporate ads telling the women to be proud of their Latin American background (Connell, 2012).

The third point is that the beauty company markets its products as luxury items and as necessities, appealing to class aspirations as well as essential household needs. Especially the acceptance of the necessity of the products by consultants and customers that explains why these products can thrive in a difficult economy. Beauty products are seen as essential to appropriate feminine gender performance (Connell, 2012). Often consultants work with payment plans to make expensive products more accessible.

Finally, direct selling falls under informal self-employment, which is why consultants cannot claim any formal privileges like health care that formal workers have. This places them in less advantages positions.

6. Conclusion

The question driving this research project was: *To what extend does the corporate social responsibility practices and stakeholder management of the beauty company case Peru contribute to create shared value?* After carrying out the research methodology explained in chapter 3, the following highlighted conclusions can be derived:

a. The beauty company has a gradual, informal approach to CSR without high investments.
At the beauty company there is no formal CSR strategy and practices seem to be fragmented. The initiatives that are present focus mainly on internal and external practices but miss a strategic link with the company. There are operation investments as well as community investments that do have a link with CSR, mostly filling in a ethical responsibility. Environmental practices are gaining more attention but are mostly still based on legal responsibility. Overall it can be stated that CSR at the beauty company is growing, the company wants to engage more in CSR but their focus is still on altruistic investments.

b. The involvement of stakeholders relies on goodwill.
In the beauty company there is not a corporate management approach to engage in stakeholder dialogue. The interaction with stakeholders are highly dependent on managerial discretion. Only the NGO Grupo GEA and the government seem to put claims on the company that they cannot ignore. Although Grupo GEA had an important role when the company settled in Lurín, nowadays their influence seems to be less persuasive. There is no pressure from the community to engage in CSR, nor labour unions or other types of formal working organisations. The involvement of the other stakeholders seems to be more related to the goodwill of the company and their will to remain good relations.

c. The owners play a crucial role in the companies CSR.
The shareholders or owners have a crucial role in the beauty company due to the centralized management of the company. Their vision and values are extremely important for the strategy of the company. There is a lot of respect for them among employees and consultants, they have a kind of heroic status. This is typically at Latin-American companies, which are often privately owned. The owners make the betterment of society an important part of the company, because they believe that this is the best thing to do. This finding is in line with the research findings of Gutierrez and Jones (2005) that ethical and religious drivers are the most important in engaging in CSR for Latin-American companies.

d. The lack of governmental regulatory capacity leads to CSR
In this case there is some evidence that because of the lack of regulatory capacity of the government the company engages in CSR. This is mostly seen in the voluntary practice of auditing their suppliers on government regulations. But also because institutions for education, child care and disabled people are missing or not available for all the citizens. The company tries to fill in this gap by helping to set up such institutions by giving money and resources. Also the company tries to make child care and education available for its employees. The governmental involvement is minimal throughout society and because of that the company takes over part of this role. This can also been seen in the CSR practice to adopt the best laws of the countries the beauty company operates in throughout the entire company.

e. The influence of the international market drives the company towards CSR
There is a strong link between the international market and the drive for the company to engage in CSR. Because the beauty company is a MNC, it does not only have to deal with its

domestic government, but also with the governments of the countries in which its subsidiaries are based and governments of the countries they export to. This had led to the practice that there are corporate laws formulated based on the most demanding international laws that apply to the beauty company. The European laws are an important factor, this has directed to the fact that the plants have either a ISO 9001 or ISO 14001 certification. Besides this they also monitor their international competitors and are because of the activities of their competitors triggered to also engage in social actions.

f. The strategic value creation is giving a opportunity to disadvantaged women.
The strategic value creation of the beauty company lies in the reconceiving of products and markets. In the business of the beauty company is an opportunity to include disadvantaged communities in the economy. They raise the standard of living of women and of the beauty company family by giving women with relative low levels of education, in pour areas with high unemployment rates, the opportunity to start a professional career. There are no entry requirements nor much capital necessary to start as a consultant. These women can become educated if they are able to set up a business and support their family. Also their families can receive some training. Through this practice the beauty company tackles a challenge in CSR in emerging market, because traditionally unattended costumers became part of the business strategy. The approach of the company can be classified as ‘innovative’ compared to other companies.

7. Recommendations for practitioners and further research

The beauty company made some important steps in involving CSR in their business activities in recent years. There are positive indicators on strategic value creation, but there is a need to come up with a more integrated corporate approach. The value that is created for the company should be clearly linked to strategic objectives, making use of the unique capabilities of the company in its specific context. In order to do this the involvement of stakeholders in this process will be important. The biggest challenge for the company lies in the communication of their added value to society. At this moment they are not making an effort to communicate their practices. Especially external stakeholders might not be aware that this practice is part of the company culture. By making this more profound there could be a better brand image created. In this way it can become clear that the beauty company truly accepts their responsibility to work towards a sustainable future.

In this research a MNC is considered that engages in CSR with its headquarter in an emerging market. Most research is done in developing countries or western based MNC in developing countries. By doing this research it was highlighted that the approach of the MNC under study is different, because it had a gradual and informal style. Besides this notion it is clear that the MNC has a unique strategy to asses unattended markets. It seems that because of the contextual restrictions of the MNC it has adopted an approach that creates value for the company as well as for the society. In developing countries reconciliation of societal interests and bottom-line performance cannot afford to be overlooked. Western MNC's can learn important lessons from this way of doing business since the alignment of social value creation with corporate strategy is becoming more important. Western MNC's are in an active search how to do this and they can learn from MNC's in emerging markets. This is even more important in doing business in developing countries, since in those countries they often have to deal with scarcity of resources and less favourable contextual conditions.

This research does an important contribution by trying to find empirical evidence for strategic value creation, creating practical evidence for the concept of shared value. The author is aware that a single case study is not sufficient to confirm an emerging theory, so more empirical studies need to be done in this field in order to provide robust evidence. Besides this, generalizations cannot be easily made by the use of a single case study. This can be done through more in-depth case studies as well as longitudinal studies of Latin-American organizations in different industries that engage in CSR. When this is carried out these results can be compared and give a more profound explanation of shared value creation strategies in this context. Comparison with evidence from other geographical regions are also recommended. Another limitation of this research is that it may contain a social bias in the responses of the respondents.

Future research could be upon the question how stakeholders need to be engaged in the creation of shared value strategies. Maybe the stakeholders can be integrated in a management system so that their needs are aligned in the strategy. An other interesting research area would be to see how national culture and context determine strategic CSR. As noted earlier the context plays a role in how the company sees its role and which opportunities arise. An other interesting line of research would be how the company motives impact the shared value strategy. Is there a difference if the motive is intrinsic or extrinsic in nature? The creation of shared value can be more profoundly explained if these type of research are carried out.

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Annex 1: Interview

Introduction

- Who am I
- What is the purpose of the interview
- How is the interview structured?
- What is my definition of CSR?

EU: 'the integration of social and environmental concerns in business operations and in their interaction with their stakeholders on a voluntary basis'

- *employees*
- *environment*
- *community*

Section A: CSR strategy

- What is the CSR policy?
- Which initiatives are taken for the community?
- Which initiatives are taken for the environment?
- Which initiatives are taken for the employees?
- How are (possible) CSR issues indentified?
- If there is an CSR issue indentified, how is it handled?
- Who is initiating CSR activities?
- How is decided which initiatives are carried out?

Section B: CSR and stakeholders relation

(employees, shareholders, customers, suppliers, government, non governmental organizations, consultants)

- Which stakeholders are involved in the CSR decision making?
- How are the interests of stakeholders considered in decision?
- How are the initiatives communicated towards the stakeholders?
- Do stakeholders try to influence decisions?

Section C: CSR and importance

- Is it important that CSR is aligned within organizations?
- What kind of CSR do you think is most important to engage in?
- Who should be responsible for social issues?
- What do you think about the CSR at the beauty company?
- What place do you think CSR should take at the beauty company?

Annex 2: Mentions of CSR practices

	Department or other source										
CSR practices	EHS	Quality	Training	Communication	Engineering	Planning	Purchasing	Manufacturing	Finance	Centrimundo report	Number of citations
EHS management system	1	1		1		1	1		1	1	7
The best laws	1				1					1	3
Raise standard of living of women		1	1	1	1	1		1	1	1	8
Green Manufacturing Practices		1		1				1	1	1	5
Special Olympics			1	1	1	1			1	1	6
El sensor de la mujer			1			1			1		3
Child care centre			1	1		1		1	1	1	6
Training employees	1	1	1	1	1	1				1	7
Training sales force			1	1		1					3
Raise standard of living family			1	1	1						3
Green packaging					1	1	1		1		4
Supply chain audits		1					1				2
Employment local community									1	1	2
Anti-corruption									1		1