

Sustainable Business Linkages in Brazil



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 PROJETO
VÍNCULOS

FUNDAÇÃO DOM CABRAL
FDC
DEVELOPING EXECUTIVES AND COMPANIES

gtz

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Foreword

The North and Northeast regions of Brazil present – each one – unique natural and cultural characteristics. Home to most of the Amazon Rain Forest, the Brazilian North Region contains the globally relevant natural wealth of forests, fauna and ores. There, most of the population lives in scattered urban centers or dispersed along the rivers. The occupation of the forest for business exploitation has been a reason for concern for governments, civil society and companies not only because of the risks offered to the ecosystem sustainability, but also due to the social structure that is built as a result of the enterprises and around them. As for the Northeast, its occupation occurred earlier. The natural conditions of the area have subjected those who live there to the extreme rigors of drought, but have forged a people that is culturally diversified and tenacious.

The Projeto Vínculos (Linkages Project), presented in this publication of the Ethos Institute – Business and Social Responsibility, aims at these two Brazilian regions. The project is a result of the shared vision and joint effort of the Ethos Institute, Dom Cabral Foundation (FDC), German Agency for Technical Cooperation (GTZ), on behalf of the German Government, and the United Nations Conference on Trade and Development (Unctad), and was designed to encourage the performance of Multinational Corporations in the sustainable development of the North and Northeast of Brazil.

The potential of influence of these companies lies in their economic power, in the effectiveness of their processes and in their international penetration. Such characteristics enable them to establish business relations with northeastern and northern small and medium-sized enterprises that consciously foster a socially equitable and environmentally responsible development, while generating benefits for themselves in the way they do business. Access to the knowledge of local populations, introduction of new raw materials in their production processes, and higher acceptance in international markets, to name a few, are benefits usually hidden behind the arguments of low labor cost and social awareness that have motivated the business linkages of large national and international companies with companies of these regions.

The main economic, social and environmental issues that affect all the peoples in the world are increasingly getting global. Initiatives such as the Global Compact and the Millennium Development Goals (MDGs) consolidate the awareness that only by strengthening the connections in the networks formed by nations, companies, local societies and international entities will we be able to cope with the responsibility of mankind with its present and with its future. When, in the Millennium Declaration, rulers of the whole planet reaffirmed their intention to "create an environment – both in national and global level – which is conducive to development and elimination of poverty", a commitment was made to create new forms of relationship that overcome the obstacles in order to reach fair and healthy living conditions for all humanity, integrated into the natural environment as one of the elements of the planetary evolution. If the complexity of the problems has proved greater than the governments' ability to solve them, then the other social actors should take their responsibility in full to contribute effective and comprehensive solutions.

Since 1998 the Ethos Institute has promoted socially responsible business management in Brazil, based on ethical principles and on values like solidarity and transparency. Putting into practice all our experience and knowledge of the country, its society and its companies is what motivates us in this project.

Dom Cabral Foundation

Pursuing the mission of contributing to society's development through education and training of executives, businessmen and companies, Dom Cabral Foundation (FDC) is a development center that builds educational solutions to generate teams capable of critically and strategically interacting within the companies. Created in 1976 as a non-profit institution, and later turned into a public interest one, FDC maintains a solid international articulation that allows access to major management technology development centers and modern currents of the business thought. Around 9,000 executives of medium-sized and large companies participate in its open or company-tailored programs every year.

FDC's activities are mainly focused on:

- open educational programs for professionals;
- close educational programs and for companies' consortia;
- partnership with groups of companies for management and organizational development; and
- knowledge development in business areas

GTZ

The German contribution to this publication is being managed by the German Agency for Technical Cooperation (Deutsche Gesellschaft für Technische Zusammenarbeit – GTZ – GmbH). GTZ is a non-profit private company owned by the German Federal Government, and it has been one of the main channels used by the German government to cooperate with governments of other countries and international entities, such as the European Commission, the United Nations (UN) and the World Bank, as well as with private companies.

The technical cooperation's core objective is to manage projects with positive impacts on political, economic, ecological and social development of country partners. GTZ conveys knowledge, develops capabilities, mobilizes and improves the conditions of use by country partners. Through its services, the agency supports complex development and reform processes and contributes to the sustainable development of the world.

Currently GTZ is present in over 130 countries and manages around 2,700 sustainable development projects and programs. GTZ has been in Brazil for 42 years.

Since 1996, when it was entrusted by the German government for this purpose, GTZ has developed a very successful program of public-private partnerships for sustainable development (sustainable PPP) in Brazil. In order to better respond to the corporate social responsibility (CSR) theme, GTZ created a CSR competence center together with the German-Brazilian Chamber of Commerce (AHK) and InWENT in São Paulo in 2005.

Ethos Institute

The Ethos Institute – Business and Social Responsibility is a non-profit Brazilian organization created by entrepreneurs, with the mission of mobilizing, creating awareness in and helping companies to manage their business in a socially responsible manner, turning them into partners in the construction of a sustainable and equitable society. As a center for knowledge organization, exchange of experiences and development of tools to help companies analyze their management practices and strengthen their commitment to corporate social responsibility, the Ethos Institute is nowadays an international reference. Its 1,060 associates – small, medium-sized and large companies from a range of sectors – have annual billings that account for approximately 30% of the Brazilian GDP, and employ around 1 million people.

The Ethos Institute aims to diffuse the practice of corporate social responsibility (CSR), helping organizations to gradually understand and incorporate the concepts that lead to an ethical and socially responsible behavior. From the understanding that the well-being of mankind increasingly depends on a local, regional, national and international cooperative action, the Ethos Institute encourages companies to become agents for the promotion of sustainable technological progress and economic development.

The Ethos Institute focuses its actions on 5 action lines:

- enhancing the CSR movement by mobilizing and engaging companies, media and business associations all over the country;
- deepening CSR practices, especially using the Ethos CSR Indicators and the International Conference it annually holds;
- influencing the markets and their key actors in order to create a CSR-friendly environment;
- articulating companies with public policy;
- producing CSR- and sustainable development-related information and contents; and
- promoting exchange and projects with international entities.

Unctad

The United Nations Conference on Trade and Development (Unctad) has been for 40 years the UN institution that seeks the integration of trade and development in the areas of investment, finance, technology and sustainable development. This entity promotes the integration of developing nations in the global economy and has been progressively recognized as a valuable actor in political debates and in development thinking, aiming to ensure that the domestic policies and the international action be mutual promoters of sustainable development.

In order to play its role, the organization develops three key functions:

- works as a forum for intergovernmental resolutions, organizing discussions with specialists and sharing experience, seeking to build consensus;
- carries out research, analyzes policies and collects data for the debates among government officials and experts; and
- supplies customized technical support for the specific demands of developing countries, with special attention to the needs of least developed countries and transition economies (when appropriate, gives technical support to other donor organizations and countries).

Unctad is present in fields as diversified as consumer defense policy, analysis of developing countries' debt, and electronic tourism.

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Introduction

With the advent of business globalization, world business leaders are realizing that enterprises in developing countries are critical for the long term competitiveness and success of their businesses. While about two thirds of the world population live in poverty, most companies fiercely compete for oversaturated markets in the other third. Multinational corporations (MNCs) can encourage local markets and help individuals of poor populations in developing countries to become active participants in the market, both as consumers and entrepreneurs. The creation of appropriate enterprise models to overcome this challenge will also open new paths for the growth of companies.

When MNCs start operations in developing countries, they find social and natural environments quite different from those existing in their country of origin. Economic and political systems in elementary stages of maturity are unable to guarantee the degree of stability found in developed countries. It is clear that consistent government actions, an active and organized civil society, and a progressive and quick political and legal apparatus are important to create an atmosphere that leads to effectively sustainable business linkages.

Reality has shown that, when promoting business linkages with small and medium-sized enterprises (SMEs) in developing countries, MNCs can contribute to the expansion of a competitive private sector. MNCs-SMEs business linkages can be one of the fastest and most effective ways of upgrading the standard of local companies, favoring the transfer of technology, know-how and skills, improving management practices, facilitating the access to funds and markets or even encouraging systemic improvements in supply chains. Strong linkages can foster efficiency, productivity and increased production in local companies, as well as management and technological capabilities and market diversification.

MNCs benefit from their linkages with local SMEs because they can cut costs, strengthen their access to tangible and intangible assets, increase their specialization and flexibility, and better and more quickly adapt technologies and products to local conditions. All of this facilitates their "rooting" in the local setting.

Nevertheless, the success of these linkages can depend on improvements in the vicinity of SMEs' operations. It can depend, for instance, on the conditions of business linkages in the SMEs' own supply chain, on the local communities' infrastructure and life. In extreme cases, MNCs should be concerned with basic aspects such as respect to human and labor rights, environmental conservation or prevention and fight against corruption and bribery. Otherwise, they run the risk of being accused of complicity in violations of such aspects.

In situations of social degradation and lack of control of environmental impacts, the responsibility of MNCs and SMEs for maintaining an ethical behavior standard motivated by their own values and beliefs increases a lot. By promoting greater engagement with the other social actors, the corporate social responsibility (CSR) principles present elements that support a philosophy that enables companies to operate in a continuous way, not only in developing countries, but also in developed ones.

"Corporate social responsibility is the management style defined by the ethical, transparent and solidary relationship of the company with all its stakeholders and by the setting of business goals compatible with the sustainable development of the society, preserving environmental and cultural resources for future generations, respecting diversity and promoting the reduction of social inequalities."

Ethos Institute

Finding the balance between the search for competitive efficiency and the creation of values for a sustainable society is the challenge faced by MNCs and SMEs. However, if the companies want the business linkages to become lasting and more transparent partnerships, then these linkages should guarantee the creation of economic, social and environmental value for the local and national communities.

It is clear that the most decisive factor for a business linkage to be sustainable is the actual desire of a MNC to really make a difference through its potential of influence and accomplishment. This can make it go beyond the legal requirements, the local government actions, and the strict contractual and business relations.

Sustainable Business Linkages' Expected Benefits

Sustainable business linkages do not just benefit the companies that create them. The surrounding communities and even the country in which the companies operate can significantly benefit from them.

See some of the benefits identified in Figure 1 below:



Project Description

When realizing the importance of integrating a set of actions aimed at strengthening the role of MNCs in the sustainable development of Brazil, the Ethos Institute – Business and Social Responsibility, the German Agency for Technical Cooperation (GTZ), the Dom Cabral Foundation (FDC), and the United Nations Conference on Trade and Development (Unctad) got together to create and implement the Projeto Vínculos, which started in the beginning of 2005.

The Ethos Institute and GTZ have been making efforts since 2003 to integrate public-private sector actions to fight hunger and poverty in Brazil, as can be seen in the several work fronts of the Zero Hunger Program. Unctad and FDC created in 2004 a study group comprising representatives of about 25 affiliates of foreign enterprises established in Brazil. This group, together with the six large foreign companies' affiliates initially contacted by the Unctad, identified in the North and Northeast regions business linkage opportunities to be developed with a sustainability perspective.

The team that is carrying out the project is comprised of a national director and a Steering Committee consisting of a representative of each partner, and is supported by some institutions. The work of the group is based on internationally tested and documented best practices.

The competencies of Ethos Institute, GTZ, FDC and Unctad are complementary. The extensive experience of GTZ and FDC in the development of productive arrangements, value chains and technology transfer to SMEs contributes to the project as much as Ethos Institute's focus on CSR and Unctad's international knowledge of foreign direct investments (FDI) and business development (Empretec). The information exchange with the network of foreign enterprises affiliates in Brazil, in turn, enables the project to assess needs and opportunities of additional linkages.

The Project is funded by the Federal Ministry for Economic Cooperation and Development (BMZ) of the German government.

Project's Objectives

The project aims to encourage MNCs affiliates to create and deepen sustainable business linkages with local SMEs, cooperatives and solidary entrepreneurships, etc. On the one hand, it aims to promote economic and social development and reduce poverty in the least developed regions of Brazil through the increase in competitiveness of local companies and the creation of job and income generation opportunities, thanks to their sustainable growth. On the other hand, it aims to benefit the MNCs with lasting and appropriate businesses linkages, which will assure the quality of their suppliers.

Main Project Guidelines

- Encouraging MNCs to create new and deeper sustainable business linkages.
- Improving the regulations for sustainable business linkages.
- Qualifying the SMEs, cooperatives and other production organizations through business service providers.
- Sharing the best practices of sustainable business linkages.
- Training development banks on sustainable business linkages promotion.

Methodological Strategies

The project will be developed in the North and Northeast regions. In order to articulate MNCs with SMEs and contribute to the creation of sustainable business linkages among them, the work strategy will be the following:

- Initially, identifying local companies and entrepreneurships to participate in the creation of business linkages.
- Identifying other relevant actors (social, governmental, and private ones) for appropriate creation of linkages.
- Promoting information exchange concerning potential partners and the project.
- Identifying needs of both sides.
- Promoting the connection of those involved in each linkage for mutual knowledge and possible training of both sides by consultants.
- Helping to promote the formalization of each business linkage based on CSR.
- Promoting articulation and discussions to make the necessary CSR-related adjustments in the implementation of the linkages.

Changes that the Projeto Vínculos Intends to Encourage

Business and Sustainable Development

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

Brundtland Report ¹

Despite its unquestionable success, the prevailing development model is short term-oriented and has been subject to growing resistance, well articulated ideological opposition, and social fights. This globalized economic model has been showing some disturbing signs of deviations, such as:

- the rapid pace of industrialization and trade and the competitive interests keep on harming the natural environment;
- the direction of economic growth and technical progress is more and more exclusively set by the "invisible hand" of the market - inequalities keep growing and poverty in the world is not taken into account;
- services critical to the common well-being are increasingly rendered by private companies, not always with the necessary vision of satisfying the public interest.

The economic development of a nation is a result of efforts of the society as a whole. While it is the governments' duty to establish the public policy to encourage it, companies do business, create jobs and build wealth. The third sector is in charge of promoting the inclusion of parts of the population not reached by the businesses, and fostering values to ensure equality and justice in relationships within the society. The companies increase their responsibility in the creation of social wealth as they expand the reach of their activities to rendering public services, such as education, transport, health, water treatment, electricity, and residues treatment.

Companies can offer better development conditions to billions of people, facilitating their access to the market, looking for new ways to meet their needs, and helping them to participate in the economic activities. Going beyond the conventional practices and working with new partners, they can, nowadays, take advantage of unprecedented opportunities to help entire populations to leave the poverty level and acquire market access while creating broader markets for their activities.

¹ Entitled *Our Common Future*, the *Brundtland Report* was published in 1987 by the World Commission on Environment and Development, under the coordination of Gro Harlem Brundtland.

Therefore, companies have the opportunity to respond to the growing pressures of society for a contribution to a more equitable division of the benefits of this new globalized world. Such pressures can be disregarded, fought or, on the contrary, faced as possibilities of new businesses, and also of showing that the business sector can act as a catalyst for a virtuous circle of human development. On the other hand, enterprises cannot deny their responsibility as far as, for instance, corruption or environment degradation are concerned.

The State of the World

Since 1984, the Worldwatch Institute has annually gathered a small group of researchers to report not only the challenges faced by the human society and the environment, but also the progress the world has made in tackling them. The result is the series of reports called *State of the World*, whose 2005 issue was published in 21 languages and in 26 countries.

The *State of the World* 2005 brings a foreword signed by Mikhail Gorbachev. He points out that any optimism regarding the recent human development must be tempered with the realization that gains in overall socioeconomic development, security, and sustainability do not reflect the reality in many parts of the world. Poverty continues to undermine progress in many areas. Diseases such as HIV/AIDS are on the rise, creating public health time bombs in numerous countries. In the last five years, some 20 million children have died from preventable waterborne diseases, and hundreds of millions of people continue to live with the daily misery and squalor associated with the lack of clean drinking water and adequate sanitation."

Urging humankind to make the twenty-first Century one of peace and security, Gorbachev says we must recognize the shameful global disparities and begin to address them seriously. He recalls the terrible tragedies of September 11, 2001, the 2004 terrorist attacks in Beslan in Russia, and the many other terrorist incidents over the past decade in Japan, Indonesia, the Middle East, Europe, and elsewhere to stress that we are not adequately prepared to deal with new threats.

He believes that today the world faces three interrelated challenges: the challenge of security, including the risks associated with weapons of mass destruction and terrorism; the challenge of poverty and underdevelopment; and the challenge of environmental sustainability.

The challenge of security must be addressed by first securing and destroying the world's arsenals of weapons of mass destruction.

He suggests that the world's industrial nations must commit greater resources to the poorest countries and regions of the globe. Official development assistance from the top industrial countries still represents but a tiny percentage of their gross national products and does not come close to the pledges made in 1992 in the Rio Earth Summit. "The growing disparity between the rich and the poor on our planet and the gross misallocation of limited resources to consumerism and war cannot be allowed to continue."

Regarding the environment, Gorbachev urges us to recognize that the Earth's resources are finite. To waste our limited resources is to lose them in the foreseeable future, with potentially dire consequences for all regions and the world. The destruction of forests and the global water crisis are two of the biggest threats facing humankind. "Most important of all: we must wake up to the dangers of climate change and devote more resources to the crucial search for energy alternatives."

Openness, transparency, and public dialogue on the part of nations, governments, and citizens must be the basis to build consensus around these challenges. Without international and individual solidarity and action we will not be able to meet the challenges of poverty, disease, environmental degradation, and conflict in a sustainable and nonviolent way.

See how he finishes his foreword: "We are the guests, not the masters, of nature and must develop a new paradigm for development and conflict resolution, based on the costs and benefits to all peoples and bound by the limits of nature herself rather by the limits of technology and consumerism".

The Purpose of Companies in the 21st Century Globalized World

*"Business is good for development,
and development is good for business."*

Ian Johnson²

In general, companies are still interpreted in restricted economic terms.

The American economist Milton Friedman made a famous remark: "Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible." Profitability is a necessary goal, but reducing the business activity to strict financial terms does not do justice to the companies' broad responsibilities and scope.

The financial definition of the business activity has been prioritized in management, under the hypothesis that the rules and standards of society are enough to structure the proper fundamental values for companies' conduct. However, we are living a transition period to a global economic system. Values, codes, social standards, and environmental management are different among countries and, for lack of effective global governance, we have not created standards and regulations to face this challenge.

The delivery of goods and services in exchange for profit continues to be companies' ultimate goal, but it is not the only one. Other responsibilities - such as the social and environmental impact of business - have become more clearly defined. Some companies have already integrated them into their public mission. Such responsibilities need to be met within the context of a globally integrated system. The commitments made by the company leaders must become a conviction that can be translated into global practice.

² Ian Johnson is World Bank Vice-President for Environmentally and Socially Sustainable Development.

Responsible and Sustainable Social and Economic Progress

Recently, in an initiative shared by the UN, the European Foundation for Management Development (EFMD), schools of business and companies from countries of the five continents proposed as a corporate objective to create economic and social progress in a responsible and sustainable manner. Economic progress is created by conceiving, developing and distributing products and services to make a profit to reward stockholders. Such function differentiates companies from other organizations, such as governments, unions, associations, NGOs and universities.

To fulfill its basic function, a company creates jobs, pays salaries and contributes to social security. These are the direct consequences of its economic role. Companies can also improve the working conditions, continuous professional learning, employability and development of their employees.

Its performance, however, does not finish there. When governments decide to transfer part of their activities to the

private sector, the specific role of companies becomes even broader, since they start to directly contribute in areas such as education, health and water supply, sanitation and electricity, among others. Such fact acknowledges a reality: the enhancement of the business mission and of its reach.

The world laws and regulations have not kept up with the steps of globalization. Yet, some companies have decided to acknowledge the responsibility they have for their impacts on the social and natural environments, and are ready to respond to the consequences of their operations. Such companies have crossed a threshold. They have accepted the fact that, besides making profits, their activities involve a political, social and environmental dimension that cannot be disregarded. And they stopped doing just what the laws prescribe. This means an active contribution to help correct deviations of the system and solve the main problems of the world, such as poverty, child labor, human rights, the use of science and technology, etc.

The North and Northeast Regions

In Brazil, it seems clear that poverty lasts because of inequality. At today's pace, it will take almost one century for the poorer to reach the current education, health and income level of the Brazilian elites. The regional inequalities are also huge. The Northeast Region, consisting of nine states where 30% of the population of the country lives, has a per capita income of only one third of that of the Southeast Region, the most developed one.

The North and Northeast regions, traditionally the least industrialized in the country, have been to the target of successive efforts in favor of their progress – such as the creation of regional development agencies and the adoption of tax incentive policies. Such efforts, however, have not produced an effective economic growth. That does not mean that there has not been growth. On the contrary, these areas have presented high economic growth rates, even higher than those of the Southeast Region, as happened in the Northeast. It can be explained: attracted by tax incentives, cheap labor and low level of union organization, several companies of the Southeast started operating in these regions. However, the key industrial competence factors – the scientific-technological complex and the suppliers – remained in the original area. Coupled with the little competence transfer and the insufficient public sector investment in infrastructure and education, such factors show that the rates are far from meaning a sustainable development boom.

The North Region has also the particularity of belonging to the Legal Amazon, national heritage whose influence in the future of the country can be decisive, which urges the promotion of its sustainable development, with social inclusion and without nature degradation.

The World of the Large Multinational Corporations and that of the Local Small and Medium-sized Enterprises

In the second half of the 20th Century, the power of the large companies increased dramatically. The business sector is today the most powerful in the society. It holds huge financial, economic, technological and information resources. Out of the 100 largest economic entities in the world, 49 are countries and 51 are corporations. In addition, the 200 largest corporations in the world hold 25% of the global wealth and employ only 1% of the workforce.

The current global trends show a favorable climate for investments of large companies in developing countries:

- many MNCs feel the need to expand their activities beyond mature markets;
- infrastructure in several developing countries is getting better every day;
- communication is getting faster and cheaper, and the world increasingly smaller;
- the public has changed their expectations of companies;
- support and investment, cooperation and competition are reinforcing one another.

One of the ways MNCs have responded to the changes in the economy is to focus on their core operations, supplemented by the external supply of operations in which they do not have a competitive edge. The strategy of establishing partnerships with local companies enables them to reduce transactions and management costs. As a result, many MNCs have built complex networks of small local suppliers.

In Brazil, like in other countries, small enterprises are often an informal shelter for small entrepreneurs or quick and cheap sources of solution for large corporations. The strength of small enterprises, however, is shown by the impressive figures regarding the formal and informal jobs they create, their wide production range, and the occupation of geographical spaces in the cities and in rural areas.

The living conditions of large and small enterprises are very different. However, what moves both is the entrepreneurship of their founders, leaders and employees. And what keeps them alive is the network of relationships they create in their business tasks and social performance.

Challenges for the Global Multinational Corporations

MNCs, without a doubt, have been urged to rethink their purposes in a broader way, so as to reflect ongoing changes in the organization of the international political, social and economic system. Due to

their ability to raise funds, their political weight and, above all, their economic power, they have a key role in the development of the modern world, which naturally makes them co-responsible for the social and environmental issues in the regions they operate. As large corporations, MNCs operate globally in a business environment developed by powerful private economic agents. The fight for markets and financial capital has made it increasingly difficult for them to reconcile the search for profit with the promotion of well-being. Sometimes, these intentions seem to be even in opposition.

Four Challenges for MNCs in Developing Countries

Understanding some challenges that a MNC faces when setting up business in a developing country helps to understand its motivations and constraints.

1. Defining the degree of affiliates' freedom

Allowing autonomy to affiliates ensures quick response to the customer, whereas centralization aims at global optimization. The objective of controlling is to ensure a higher level of forecast of what can happen in the relations with local partners. Reducing the need for control requires sharing risks, establishing equality relations, and increasing communication and cooperation with SME partners. Therefore, in their governance process, MNCs weigh risks and potentialities of their business linkages with SMEs, taking into account not only a likely result for the local society but also the maintenance of the global feasibility of their business. The balance between control and freedom is hard to establish, and the partners' positive attitude in a business linkage stems from an atmosphere of trust.

2. Establishing criteria to select suppliers

The selection of suppliers is a decision-making process based on multiple criteria. The cost of the supplied product, although still relevant, is no longer considered the most important criterion for many MNCs. In general, product quality and performance are considered much more important than the cost. Reliability in the delivery (the extent to which the supplier can deliver on time) is also considered more important than the product cost. Finally, the availability of the product is as important as the cost.

3. Establishing partnerships

With the emphasis given to quality in the past years, the relations among companies have been increasingly seen as strategic partnerships. Consequently, the fierce competition in negotiations and opposing relations has been replaced by long term agreements and single sources of supply. In order to be strategic, a partnership must be based on a mutual engagement relationship, not only committed to the future of the partners and the partnership but also of other communities and organizations it relates with. For this purpose, it is mandatory to learn and practice balanced power relations and conflict-solution mechanisms created based on the relationship and customized to accommodate emerging contingencies.

4. Behavior according to practices in the home country

The growing permeability of information in a global level makes social and labor advances in developed countries influence the demands in developing countries. MNCs become, therefore, subject to articulations of employees, and pressures from international and national organizations of the civil society, which require equalization, in developing countries, of social and labor laws to the levels reached in the home countries, regardless of the local legislation.

If MNCs intend to become global, they need products adaptable to each market reality, a broad and qualified input purchasing system, production controlled by centralized operative information, and a demand management based on integrated and centralized planning with good information flow, as well as an efficient order delivery system.

In the search for internationalization, MNCs face decisive regional differences. Aspects related to logistic infrastructure, availability of skilled labor, and compatibility among information systems can come up as critical elements. Cultural manifestations, convictions and values, customs and languages, all play a relevant role in the globalized business, and can deeply affect the negotiation and communication capabilities.

Keywords in the Globalized World of Multinationals

The **sustainability** of MNCs is increasingly dependant on the sustainability of their supply chain, the communities where they operate, and the natural environment.

Globalization opens new spaces for corporations and leads to gigantism. The economic and political power of MNCs is significantly greater than that of many governments and countries.

Competition takes place both globally and locally, and is not limited to the consumer markets, also reaching the supplier markets.

Cooperation in supply chains and with local and national communities has been pursued to improve the ability of MNCs of dealing with local and global issues that affect their own existence.

The **autonomy** of MNCs is growing in a world where financial, economic and political regulation is still very weak.

OECD Principles for Multinational Corporations

Currently with 33 member countries, the Organisation for Economic Co-operation and Development (OECD) provides an environment in which governments can compare political experiences, seek solutions for common problems, identify good practices, and coordinate domestic and foreign policies. Commitment to the market economy and democracy are the only indispensable prerequisites to be a member.

Through deep and relevant social economic studies, the OECD makes recommendations to the countries that can become formal agreements or turn into standards.

The growing importance of MNCs inspired OECD to create for them international standards of conduct. Despite adopting their own codes of conduct, MNCs realized the usefulness of this initiative, for they face varied social, political and legal environments in their business. "Internationally agreed principles can help prevent misunderstandings and build an atmosphere of trust between MNCs and the societies in which they operate", says OECD in its document. *The OECD Guidelines for Multinational Enterprises** are recommendations on responsible business conduct that do not replace or supersede the applicable laws.

The guidelines for MNCs are voluntary principles for responsible business conduct and aim to assure that the activities of these companies be aligned with government policies, so as to strengthen the bases of mutual trust between the companies and the societies in which they operate, help to improve the climate for foreign investments, and contribute to sustainable development.

In the middle of 2000, OECD undertook a deep review of its guidelines for MNCs. The text of the guidelines contains recommendations in the economic, social and environmental fields regarding child and forced labor, and also some that include the labor laws as a whole. A recommendation on human rights was introduced, and new chapters on combating corruption and on consumer interests were added. The environment section encourages enterprises to improve their internal environmental management, and do better contingency planning for environmental impacts. They should properly take into account public health and safety. The chapter on disclosure and transparency was also updated, encouraging social and environmental responsibility, according to the OECD principles of corporate governance. The companies are encouraged to assure periodic accountability of their activities, performance, financial situation, and management strategies. There is also a chapter on consumer interests. As for science and technology, the main recommendation is that multinational corporations guarantee that their R&D activities are compatible with the science and technology policy and plans of the countries where they operate. And, when necessary or possible, that they contribute to the development of the local and national innovation capacity. Finally, companies are also encouraged to refrain from actions which would adversely affect competition and comply with the taxes to be assessed (considering the need to be aligned with public finances of the host countries).

*The document can be found at www.oecd.org/dataoecd/56/36/1922428.pdf.

Challenges Also for Medium-Sized and Small Enterprises

The 4 million SMEs located in the urban areas of Brazil form a very dynamic economic segment, accounting for about 20% of the Brazilian GDP and 12% of our exports. In the rural area, according to the Ministry of Agriculture, there are 4.1 million small enterprises based on family agriculture. They account

for 21% of the cultivated area and 80% of the agricultural labor, totaling more than 50% of the food produced in the country. Besides the formally registered companies, there are in Brazil, according to the IBGE (Brazilian Institute of Geography and Statistics) estimates, around 9.5 million informal enterprises – practically all of them SMEs – generating approximately 13 million informal jobs.

Large Statistics of Small and Medium-sized Enterprises in Brazil*

An IBGE survey in the trade and services sectors showed that in 1998 the formally incorporated SMEs employed 5.5 million people (whether or not formally employed). This figure increased to 7.3 million in 2001, with a high average annual growth of 9.7%. Meanwhile, the number of jobs in the largest companies in the same sectors rose from 4.3 million in 1998 to 4.7 million in 2001. In other words, only 2.9% a year.

An indication that the establishment of SMEs has been a way the Brazilian society has found to respond to the challenges of the globalized economy is that, between 1999 and 2000, the number of companies with up to five employees increased 22.7% in the trade area and 27.1% in the services one. However, the mortality rate of SMEs in all sectors of the economy is still high: according to Sebrae (Brazilian Micro and Small Business Support Service), 39% of them close down during the first year of activity.

Data from the Ministry of Labor show that, from 1995 to 2000, SMEs accounted for the creation of 96% of job openings in the whole country. In the same period, the number of Brazilian companies increased by 477.4 thousand, of which only 0.04% were large ones. Currently, SMEs employ over 45% of the total formally employed workers. According to IBGE, almost half of the trade and services small enterprises are family businesses, which helps to explain why 40% of their jobs are not remunerated.

** Data taken from the Ethos Institute publication Como Fortalecer a Responsabilidade Social nas Relações entre Grandes e Pequenas Empresas (How to Strengthen Social Responsibility in Large-Small Companies Relations), 2004.*

Small enterprises are generally characterized by flexibility and ability to adjust to the needs of their major customers. Loyalty, creativity and promptness in decision-making processes and in the delivery of solutions are some of the virtues that give SMEs competitiveness to be successful in the current market conditions.

However, SMEs face many constraints for their good performance, among which tax burden, labor costs, unfair competition, and market restrictions. These companies are used to operating with reduced capital availability, liquidity problems, limited credit, low productivity, restricted access to markets, and low-scale production.

SMEs have been an instrument of social mobility, although not always of ascension. Recently, many of them were set up by workers that lost their formal job and decided to try their hand as entrepreneurs. In many cases, they earn less than they did when they were employees, and pay low salaries to their employees.

The heterogeneous range of SMEs includes very different enterprises with respect to organization, access to credit and markets, technology use, and ability to survive: from home-made businesses to high technology companies. Broadly speaking, the small enterprises are more sensitive to the economic crises. Factors such as decrease in sales, increase in interest rates, exchange variance, and increasingly fierce competition can make business continuity unfeasible.

Current Stage of the Large–Small Enterprises Relations in Brazil

Data from a research carried out by the Ethos Institute³ show that, although acknowledging the contribution of SMEs to their business, most large enterprises do not give them a specific treatment. And, although there is a progressive tendency to value aspects related to trust and sustainability of the partnerships, the requirements of large companies still focus on price and quality of products and services offered.

Therefore, a great deal of the high mortality rate of SMEs may be explained by the old-fashioned prevalence of the “survival of the fittest” in their relations with some large companies. From the point of view of small enterprises, these large corporations, demanding but not very loyal, eventually impose successive cost or markup reductions, hindering sustainability conditions for their small suppliers.

In fact, there are natural inequalities when a large international company links up with a local small one. For this purpose, business linkages tend to be more sustainable when both companies take the joint responsibility for the success of the linkage, and for the repercussion of their businesses in the local and national communities in which they operate.

Why MNCs Seek to Strengthen Business Linkages in Developing Countries

When creating business linkages in developing countries, MNCs consolidate their foothold in the local market. Their relations with local suppliers allow reduction of production costs, higher specialization level, flexibility, and better adjustment of products to local conditions.

MNCs can create several types of relationship with SMEs, ranging from the local supply of raw materials to highly integrated global chains. A commonly used configuration is, for instance, the so-called “offshore production”, in which the product is manufactured in a single plant abroad, being then shipped to warehouses in the home country of the MNC to be distributed and sold. In the case of a totally integrated global chain, the products are supplied, produced and distributed from several factories located in different parts of the world.

³ Como Fortalecer a Responsabilidade Social nas Relações entre Grandes e Pequenas Empresas (How to Strengthen Social Responsibility in Large – Small Companies Relations), Ethos Institute, 2004.

What Sustainable Business Linkages Are

Business linkages are the formal and informal relations created among companies aimed at doing business or improving the conditions of the parties involved in doing business. It can be done in any stage of the supply chain – research and development, raw material supply, components, services, production, distribution, marketing, consumption or recycling, technical support or after sales.

Sustainability and Competitiveness

The sustainability of a business linkage is not just built by the isolated competencies of the companies that form it, but by their complementarity, integration and synergy. A number of factors, from the entrepreneurs' personality to the country's (or countries') socio-cultural and economic-political macroenvironment, influences, more or less directly, the possibility of a business linkage being sustainable in the market. In order to understand how a business linkage is sustainably established, it is necessary to know the environments where such influences take place.

Firstly, for a business linkage to be viable, each company must be viable, their products and services must have quality, they must be able to meet deadlines, and set prices that will keep them competitive in the market they intend to enter. And the engagement in business linkages with other companies can enhance that ability, for instance, by opening new markets or allowing access to new technologies.

However, as every business linkage is part of a set of other business linkages, the sustainability of any business linkage also depends on the sustainability of the others. This imperative gets stronger to the extent that supply chains become integrated both regionally and internationally.

And, as the production technologies and the consumers' demands are constantly evolving, the sustainability of business linkages also requires that there be not only a permanent exchange between the companies, but also that each one knows how to access or develop new technologies, taking advantage of the potentials of each one's environment of them. The pace of this progress has to be at least as quick as the one achieved by competing companies and linkages.

In addition, in a world that is increasingly transparent and connected, the sustainability of business linkages is more and more dependent on the interaction with the communities where enterprises operate. A business linkage will hardly be sustainable in a community with a degraded social situation.

Furthermore, it is increasingly clear how strongly the human activities are impacting nature. Since the production and consumption activities are those which demand the most caution, there is a growing pressure from governments, third sector and market entities on enterprises so that they take more comprehensive roles in environmental issues.

Since sustainability is linked to the idea of conservation of living conditions in the present and the future, in order to align with the precepts of sustainable development, the business linkages should consider not only their economic results, but also their environmental and social results.

Therefore, sustainable business linkages are those that create value, simultaneously:

- for the enterprises involved, by increasing their competitiveness;
- for the supply chain and the production environment where the linkage takes place, increasing their effectiveness and dynamics;
- for the local and national communities with which the companies link, contributing to life quality improvement;
- for mankind and the planet, promoting the human rights and the ecology.



Figure 2 – A business linkage

Business Linkages in the Supply Chain

The development of a product or service involves an entire set of production processes – the supply chain. In the supply chain, the enterprises involved establish relations to follow a path that begins with the development of an idea to meet a need of some people, and is completed with the recycling of the materials used to meet this need.

The Experience of the Competir Project in the Northeast of Brazil

“Small and medium-sized enterprises gradually take the authorship of the Project and the definition of their products and services. The results show a significant enhancement of the effects and engagement of the other partners, also from the public sector. Besides the economic effects, environmental and social issues are being increasingly considered.”

Peter Feldman, GTZ

The Competir Project develops and systematizes a methodology that is appropriate to increase the competitiveness of supply chains of 9 states in the Brazilian Northeast. Starting from the practical experience, instruments and strategies that promote the economy and employment generation are identified.

Based on common and realistic objectives, partners Senai (National Service for Industrial Training), Sebrae and GTZ aim to reach short-term results with a long-term perspective. They have adopted some principles to guide the work:

- increase in competitiveness and economic growth of an area are largely determined by small and medium-sized enterprises;
- business action must be defined by the focus on the end consumer of each supply chain;
- economic development is not conditioned by mere administrative constraints, but by economic, social and cultural orders.

A representation of three dimensions of the supply chains helps identify the actors and plan interventions: a micro dimension under control of the businesspeople (management techniques, employee qualification, quality systems, and better market-oriented guidance); an intermediate dimension, which businesspeople can influence through structured processes of dialogue with universities, technology centers, laboratories, and local administrations; and a macro dimension, which comprises governments, national macroeconomy, laws and standards, factors outside the area of immediate influence of businesspeople, who can, at the most, induce changes.

Interviews and workshops with businesspeople and people that know the theme led to the choice of 4 supply chains, important for the generation of jobs and income in the local and regional economies. They were visualized through the identification of their links, financing channels, market, supply structures inside and

outside the area, geographic location, structures of power and cooperation, and know-how structure (universities, specialized laboratories, experts, etc.). A work group organized the results of this analysis in matrixes that relate problems and bottlenecks, and possible solutions.

New workshops with businesspeople resulted in Action Plans, with activities for a period of 4 to 6 months. For each Chain, a forum was created under the coordination of businesspeople with the function of monitoring the Action Plan, as well as identifying new partners and collaborators for future work.

Traditionally, a supply chain is basically represented by a sequence of stages, as shown in Figure 3.

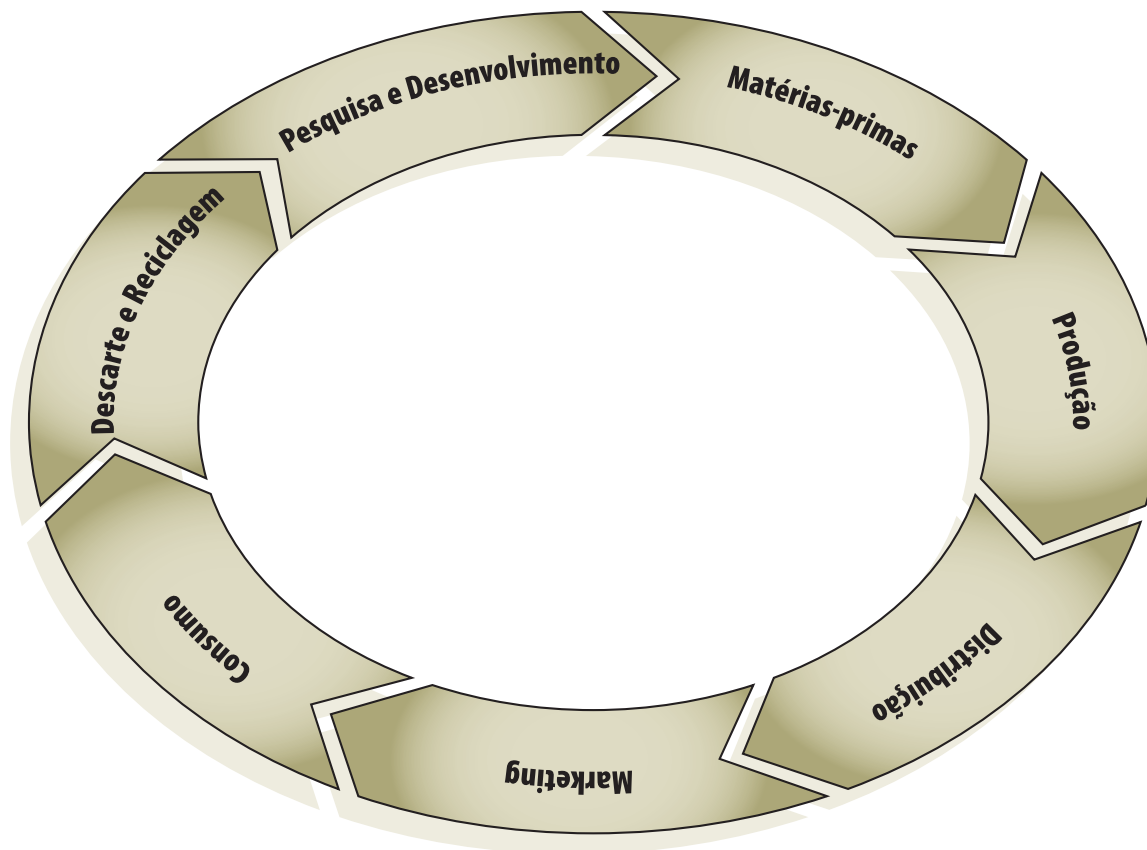


Figure 3 – Stages of a Supply Chain

Even not realizing it, both the enterprises and their business linkages depend on the effectiveness of this chain to achieve the results demanded by the market in which they participate. The management of a supply chain seeks more efficiency in meeting end consumer requirements, better relationships among the participants, and the production of positive impacts for the society and the environment in the areas where the activities are performed. It requires a high cooperation level among the participating organizations and the acknowledgement of the need for mutual benefits.

How to Increase Competitiveness of a Supply Chain

The complete visualization of a supply chain allows the identification of its potential, bottlenecks, and lack of links or defective links in its connections. It also facilitates a better understanding of the market and of the necessary services for the efficiency of the chain. Interventions for the improvement in a supply chain can be made by the adoption of better management techniques, employee qualification, introduction of quality systems, and establishment of guidance on the market and society needs.

However, the effectiveness of a supply chain does not depend only on internal factors. Business linkages that involve external actors are critical to improve the supply chain's economic structure, access to financing, and necessary conditions for innovation. For instance, tax incentives, public financing, and guidance are regarded as elements of governmental support to SMEs. Public policy can range from incentives to the creation of companies – including start-up support through loans, warranties and guidance, among other forms of support – to specific measures such as the promotion of research and development activities, technological innovation and diffusion, human resources training, assistance in the association/cooperation with large enterprises, export promotion, etc.

Business linkages in supply chains can be channels of know-how and skills transfer among the linked enterprises. A dense network of business linkages can foster production efficiency, productivity growth, increase in technological and management capabilities, and market diversification in the supply chains.

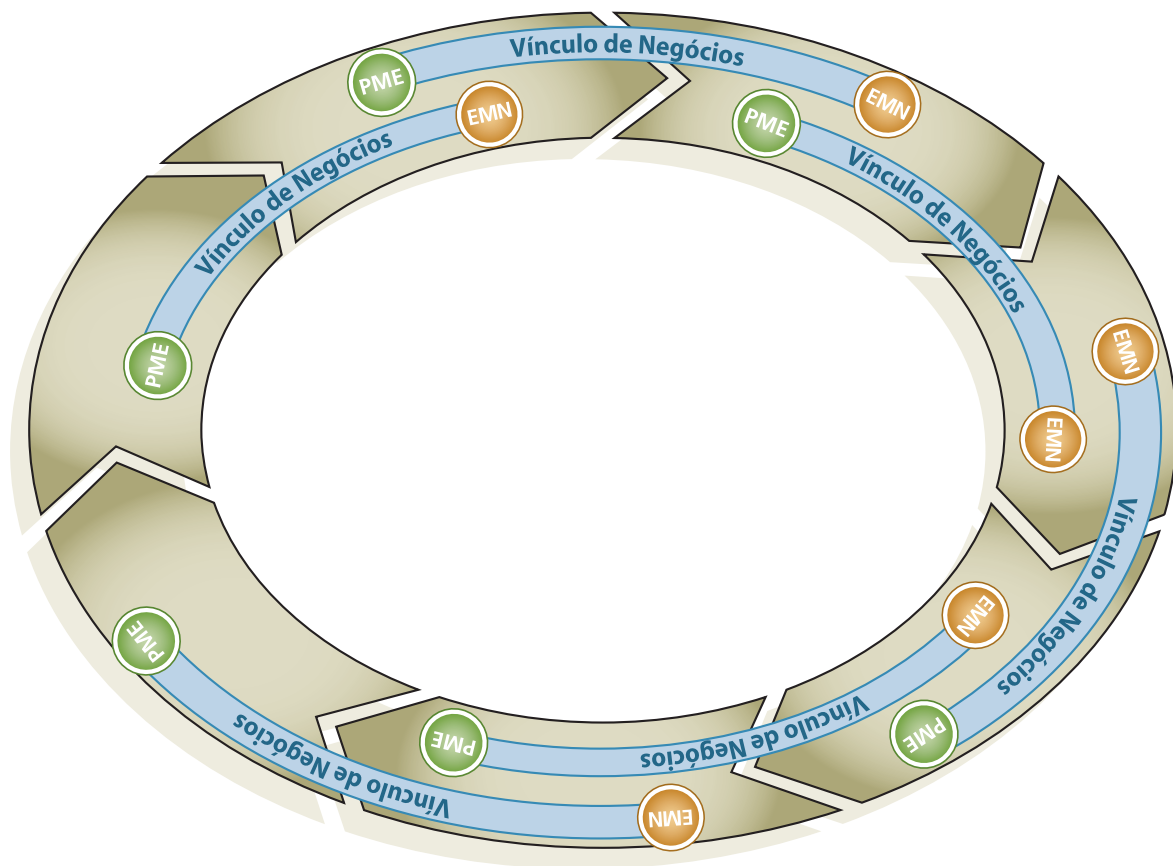


Figure 4 – Business linkages in a supply chain

An Overview of Supply Chains in Brazil

Although the Brazilian industry presents a satisfactory level of production capacity, it faces a serious constraint: the ineffective articulation of supply chains, both with suppliers and customers, and with producers as users of capital goods.

Directly addressing the need for governmental interference to promote the integration of supply chains, Unctad recommends governmental action aiming to create linkages that can produce a more positive effect of MNCs performance. The creation of new and stronger linkages of MNCs with local suppliers would lead to an increase in the effects of foreign direct investment. Furthermore, the stronger the enterprise relationship with its local suppliers, the greater the possibilities of maintaining its operations in the country.

To Brazil, this means a great potential, since many MNCs located here have created linkages with local suppliers, which could be further developed, especially in terms of technological intensity.

According to Unctad, there is a lack of a more systematic approach for the creation of business linkages that can make use of all the Brazilian potential. A regular exchange of experiences should be included among governmental agencies aiming to increase the competitiveness of SMEs. A business linkages creation program should include improvement in the information flow and in the development of partnerships, programs aimed at improving the technological capacity of SMEs, the promotion of suppliers associations, training, and access to financing.

The geographical aspect is also considered by Unctad. Business linkages happen more frequently among companies located in the same area or industrial park. For MNCs that arrive here with the purpose of reaching international markets, it is recommended the development of specialized training centers and other similar institutions in view of their higher quality requirements.

An Example in Brazil's Most Industrialized Region

Embraer developed a program to expand its supply chain called Program for Expansion of the Brazilian Aerospace Industry (Peiab). Its effort mobilizing function focuses on the following actions:

- encouraging foreign partners to install industrial capacity in Brazil through the implementation of own plants or in association with local companies;
- offering the services of its suppliers to foreign partners, encouraging them to hire part of its industrial packages with these Brazilian enterprises;
- developing incentives among federal, state and local authorities for the creation of technological capacity not available in the country.

As a result, Embraer stands out in the São José dos Campos (State of São Paulo) area as the production and technology center of the aerospace industry, being responsible for about 80% to 90% of the income of more than 50 medium-sized and small enterprises linked to its demand.

As business partners, SMEs can be totally or partially responsible for any of the stages of MNCs' supply chains. Thus, SMEs can join MNCs in:

- research and development, accessing local technologies resulting from know-how acquired by the communities;
- raw materials supply, more quickly identifying the services necessary for procurement, transport and storage;
- production, achieving higher rationality in the organization and maintenance of production elements in the area, more quickly identifying and minimizing risks to local environment;
- distribution, attaining capillarity in the use of channels and centers for storage and distribution of end products;

Nueva Group: Enabling Business in the Base of the Pyramid

In 2001, during the crisis in Argentina, the impossibility of importing certain products, such as irrigation, plumbing equipment and water systems, made Amanco, a company belonging to Argentine-based Nueva Group, develop business relations with small national suppliers. Attracted by the sales potential, these small suppliers got interested in the enterprises and industrial partnerships, which avoided Amanco's bankruptcy and allowed it to replenish their stock.

Such alliances continue to be of great value both to Amanco and its suppliers. Not only did it help them to survive in the market, but also made it possible for them to implement today environmental and quality standards similar to those adopted by Amanco.

In Central America, the search for sustainable survival projects motivated Amanco to work with Habitat for Humanity, a non-profit NGO that builds houses with the help of their future residents and then sells them, without making any profit, through interest-free loans.

Habitat used to buy building products in the retail market of the areas where it built. Working with Amanco, it started buying in the wholesale market from a single supplier, which, for being its partner, offers much lower costs. Amanco, in turn, increases its sales, serves a new line of customers, and opens new markets. By the end of 2005, a total of 25,000 houses will be built in this way in Central America.

Recently, the group has organized a contest among its employees to raise new ideas of sustainable survival projects. 250 ideas were submitted, nine of which are turning into business plans. Their success will only be visible in a few years, when the final results will be available for studies.

Coca-Cola: Local Entrepreneurs Become Salespeople

In 1999, the South African division of Coca-Cola started its Entrepreneur Development Program, designed to help local people to set up new profitable businesses.

Every year, promising entrepreneurs are selected for the program and trained on basic business skills. In 2000, the program generated 12,900 jobs. The bottling companies introduced creative innovations to meet the needs of the new entrepreneurs: special delivery bicycles, mobile mini-kiosks, and portable refrigerators for the sale of the soft drink on the streets, besides strategically located warehouses. As these very small enterprises grow, Coca-Cola provides them with support to move upwards in the distribution chain, thus increasing their profitability.

- in marketing, knowledge of the local market, allowing the penetration of products and services in a way that suits the reality of local consumers and communities;
- in consumption, ability to inform local consumers on the properties of products and services;
- in disposal and recycling, ability to collect and dispose product residues.

A New Technology Preserves the Environment

The Plasma Project, a partnership among Klabin, Tetra Pak, Alcoa, and TSL Ambiental, was the winner of the 2005 CNI Awards in the State of São Paulo and also in the country, in the category Sustainable Development, sub-category Cleaner Production. It is a technology that allows the total separation of aluminum and plastic components from aseptic packages.

This innovative process constitutes a significant enhancement to the current recycling process for carton packaging. The old process separated paper, but kept plastic and aluminum together. The plasma technology allows the return of the three packaging components to the supply chain as raw material. Seven years of research were necessary in order to develop it.

In May 2005, a carton packaging recycling plant was opened in Piracicaba, state of São Paulo, pioneering the use of this technology in the world. The main objective of the new factory is to further increase the amount of recycling of used packaging, and thus improve the recycling chain with job and income generation. It is estimated that, with the consolidation of the operations in the next two years, the new technology could increase the value of the ton of such used packaging paid to the cooperatives of collectors.

Business Linkages in the Production Environment

Every supply chain lives in environments that provide them with living conditions. Such environment includes other institutions, whether or not companies, that render support services or production training services.

Advertising, maintenance, surveillance, cleaning, and catering enterprises, for instance, are typical service providers. Promotions for customers, events, public relations, relations with local customers, sales, call centers, promotional activities in retail stores, e-business, updating of customers' websites, maintenance of computer hardware and software, training, recruitment, accounting, and data processing are examples of services rendered by these companies.

On the other hand, technical laboratories, consultants and consultancy firms, government agencies for business development, information centers, and professional training institutions are necessary to gather and update know-how and technology, while banking institutions are critical to enable the access to credit and financing and for the management of companies' financial resources.

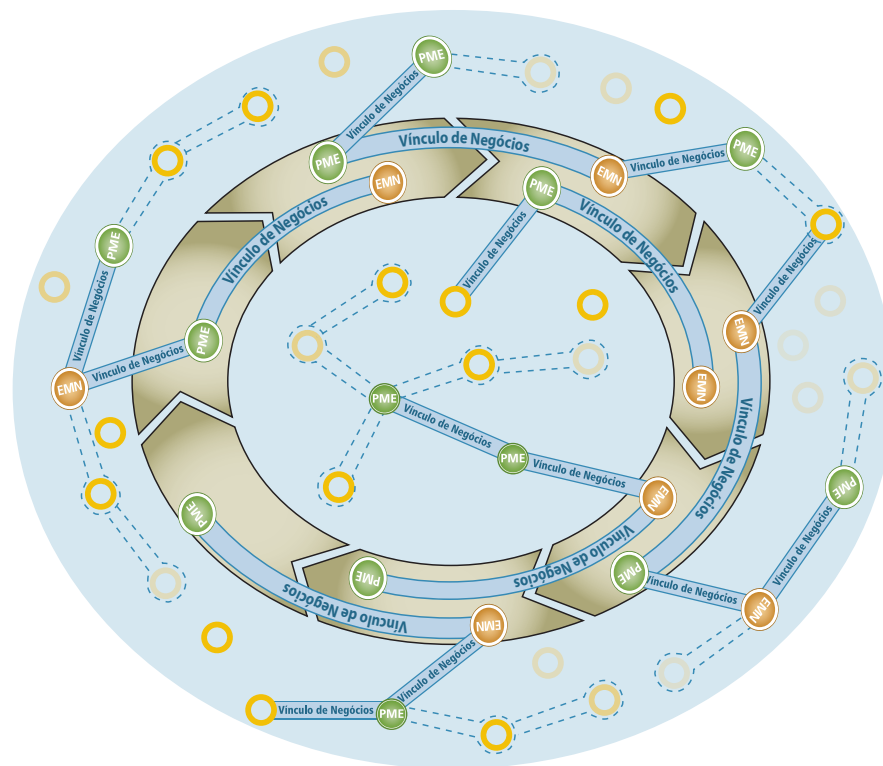


Figure 5 – Business linkages in a production environment

The strategies to improve supply chains necessarily include the improvement in this services network, which qualifies the production community of the chain to compete with other chains in the markets they participate. A classic toolkit to improve a production environment would be based on:

- installation of equipment and qualification of specialized laboratories;
- introduction of quality programs and training of systems auditors;
- installation of information centers with electronic support;
- provision of supplementary consultancy services.

As support service providers, SMEs enable MNCs to keep the focus of their operations on their core competencies.

The Experience of Saint-Gobain in India

When French industrial group Saint-Gobain decided to start operations in India, it found a scattered and disorganized market, and suppliers with limited technological capabilities and unable to reach minimum standards. Three years before its start-up, the company mobilized teams to promote the development of local suppliers. Such teams provided assistance to raw materials evaluation, engineering and IT services, and collaborated in the development of packaging material and in training a largely illiterate workforce. Four years after the arrival of the first team, 80% of the raw materials requirements were met locally, and many suppliers began selling to other multinationals in the country.

The Market, the Society and the Planet: Networks and Life

If so far we have addressed the business linkages as elements of a production system, in this chapter we are going to think of them as elements of much more complex groups, of which such production environments are a function: the market and the society. We are also going to explore a network to which we should turn our attention, because our life as human beings is part of it: our planet's natural environment.

The Concept of Network

In order to deal with the complexity of the market, the society and the planet, specialists are making use of a concept that until recently had been barely developed: the concept of network.

The basic reasoning is quite simple. To understand it, just compare the concept of network with the image of a tree, in which no part is more or less important than the others. Roots, sap, trunk, branches, leaves, fruits, and seeds are all important and play a distinct and vital role for the tree to live and reproduce. The notion of hierarchy changes: in a network the relationships among the elements are interdependent, without priority of interests for each unit or link.

On the other hand, a network exists because of the connections among its units, and such connections are very dynamic, being continuously established and renewed. And, the higher the number of connections, the more compact, integrated, united, and organic will the network be.

Understanding Enterprises within a Social Network

Recent studies detected that in the networks there are some links with higher connectivity than others. They are hyperconnecting points that work as shortcuts between two points, and for this reason they are even more frequently sought for connection. The more connected a point is, the higher the probability that it will make new connections. For instance, the more people an individual knows, the more people he is likely to meet, which makes him/her even more popular and able to make new connections.

Researchers realized that such centers are responsible for a great deal of the network "mesh". A hypothetical simultaneous elimination of 5% to 15% of the hyperconnecting could result in the collapse of the whole system. These links play, therefore, a key role in the networks, both for acting as a shortcut and for the fact that many times they are the only bridge between one network and another. Not only does a shortcut benefit an individual, but also all those linked to it, and all those linked to the ones linked to it, and so on.

The discovery of the importance of these hyperconnecting links can help us realize the role of enterprises in social networks. For concentrating many interests and resources, many companies are preferably chosen for connection by other companies, by professionals, and by public power and civil society organizations, which characterizes them as convergence and irradiation centers. In other words, they are hyperconnecting links.

Therefore, to build a dynamic and competitive business linkage, the whole network in which it is included must be taken into account, paying attention to:

- **Interdependence.** Not only getting what the market, the society and the environment have to offer to supply chains, but also returning to the environment what is required of them in terms of performance, impact, attention, and results. For instance, on the one hand, by identifying the financing channels and, on the other hand, by identifying the importance of the supply chain for the local and regional economies (through payment of taxes and offer of qualified jobs). Or even by developing partnerships with supporting institutions, universities relevant to companies, laboratories, and local administrations, and promoting ways of knowledge absorption by local agents. In broader terms, these actions can eventually and indirectly promote changes in public policy.
- **Connectivity.** The continuous establishment of connections among the network links strengthens these connections, creating integration, cohesion and organicity, thus enabling the development of the network. In other words, it allows expansion, gathering a growing number of actors that have some kind of involvement with its original purpose. Such expansion strengthens and reassures the purpose and continuity of the network.

"A network is an articulation among several units that, through certain connections, exchange elements among themselves, mutually strengthening themselves. They can multiply into new units, which, in turn, strengthen the whole group, to the extent they are strengthened by the group, allowing it to expand into new units."

Euclides Mance

The Market Network

The market is the environment in the society where companies compete for resources and customers. The organizations and people that use the forces of competition, such as enterprises, financial institutions, and the consumers themselves are the market agents.

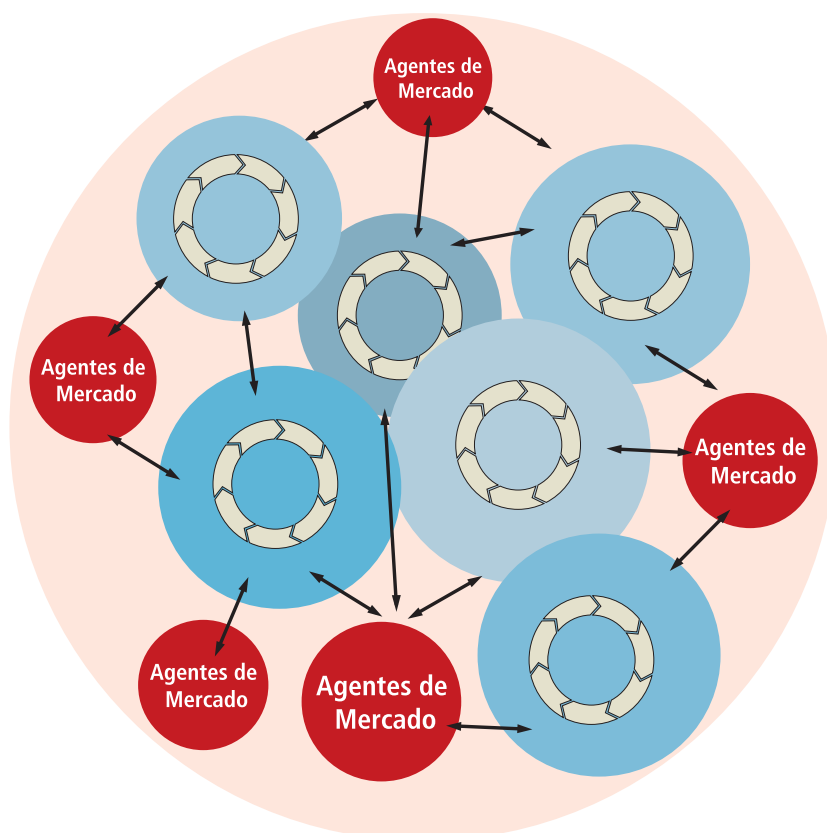


Figure 6 – A market representation

The sustainability of business linkages, like links in this broad network, depends on their ability to mobilize financial resources, and on creativity, people and relations that enable them to compete with other business linkages and supply chains. Moreover, it depends on a set of decisions that not always can be strictly planned and driven, as desired in a supply chain. Market relations are not “manageable”, although they are negotiable and subject to mutual influences.

The Society Network

In the most widely accepted definition, society comprises three major groups of organizations that differ according to the purpose of their actions:

- State (first sector). Includes the local, state and federal levels of government, which are organized in powers - Executive, Legislative, and Judiciary;
- Market (second sector). Gathers the companies operating in the competitive market, which remunerates the financial capital invested by them through the profit made in their operations;
- Civil society (third sector). Comprises the non-governmental and non-profit institutions, which represent the interests of communities and social groups, besides defending environmental causes.

The integration of these three sectors creates the society's ability to deal with its difficulties, challenges, and dreams.

A Mining Company Increasing Its Connectivity

A great deal of Rio Tinto's mining operations in Australia takes place in remote rural areas or adjacent to aboriginal territories.

Aligned with its global policy of support to sustainable development, Rio Tinto believes that its projects should foster the generation of local jobs through the integration of three actors: the enterprise itself, the government, and the community. Therefore, the company has made efforts in recent years to encourage the population adjacent to their mines to have a higher participation level in the economy, translating its efforts into several initiatives aimed at education, capacity-building, development of small entrepreneurships, and, more effectively, generation of direct jobs.

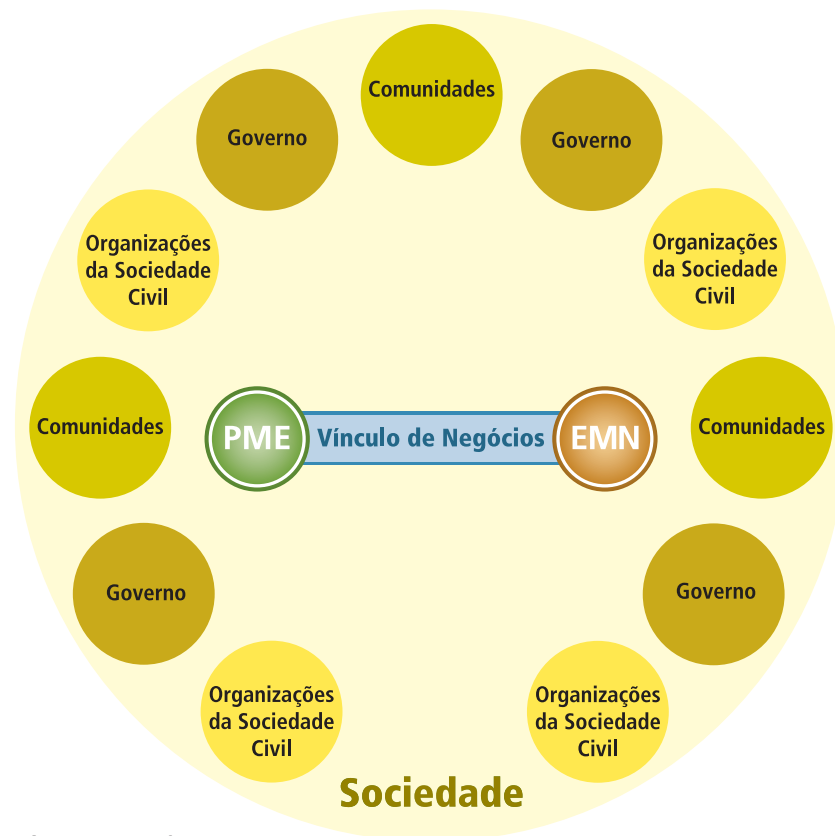


Figure 7 - The society network

The Government

What is discussed in relation to governments is not their role in the national development, but the degree of their intervention, which varies a lot from country to country, from time to time. Governments can be encouraging, creating catalytic processes, and processes to control development factors. At the other end, they can take an executive attitude towards the development process, even creating state companies to fulfill functions that are naturally performed by the private initiative.

With respect to the degree of intervention, the Brazilian business community does not expect a direct action of governments in market development (for instance, by coordinating programs, forming business linkages or integrating supply chains), but in the creation of a supporting structure. Such structure should address, on the one hand, labor qualification, and, on the other hand, financing and the establishment of rules and incentives to innovation. In Brazil, the government's action is necessary so that national companies can be given, firstly, more support and tools to develop the national production capacity, and, secondly, means to allow the development and diffusion of know-how and technology - important actions to integrate supply chains.

These are areas that strongly influence the development of business linkages, and more directly involve the government: training, innovation and financing. When this happens, it is the society that is investing through the government in its companies, believing in the return that this investment will bring to the society itself.

Government, training, innovation, and competitiveness

The international diffusion of innovations is neither primarily achieved by MNCs' parent company-affiliate relations nor purely by market transactions (purchase and sale of technologies), but through learning, to which the influence of the local development level is significant, as well as the collaboration with other local enterprises and institutions.

Once it was assumed that the performance of large MNCs, performers of research and development activities in several parts of the world, would lead to technology and know-how diffusion among countries. However, this assumption has not come true. Actually, what happens is that the innovation activity continues to be developed in MNCs' home countries according to strategies defined there. When that happens, there is no effective technology transfer, but adjustments of products and services to the local markets.

Therefore, governments must act through strong public policy, so that there can be a development of scientific, technical and infrastructure competencies in the country that allows the absorption of new technologies.

Intel: a Case in Costa Rica

The construction of an Intel plant in Costa Rica is regarded as a successful experience, which involved the government's coordination and negotiations for investment in infrastructure to make the entrepreneurship feasible. The active participation of the government was a key factor for the installation of the plant in the country. Its industrial policy covered the following points:

- Coordination of Intel's interests with local interests and demands;
- Infrastructure investments with own funds or in partnerships;
- Increased number of skilled workforce through a higher number of registrations in universities and the offer of training courses.

Among other positive results, the arrival of the company caused an increase in the number of direct jobs and in the level of these occupations, as well as in the volume and level of exports. The most important lesson, however, was that the plant installation resulted in a considerable growth in the value of domestic purchases. The operations also enabled the dissemination to other economic areas of the company's quality and requirements standard, with effects both upstream and downstream, and training of the workforce employed, thus raising the level of professional qualification. A possible "example effect" was also mentioned: Intel's installation can encourage other companies to do the same.

Governmental Incentive in Singapore

The government of Singapore launched the Local Industry Upgrading Programme (LIUP), which focuses on local knowledge-driven industries. MNCs are encouraged to enter into long-term contracts with local suppliers and help them upgrade their products and processes. As a result, local suppliers are encouraged to expand internationally by following their MNC customers when they establish plants elsewhere.

Government, economy and finance

Usually, governmental intervention in the economy is carried out through the correction of distortions that limit industrial development, even in a favorable macroeconomic environment. The government can, then, take measures to reduce the lack of information in other countries on the potentialities of its market, reduce the lack of political and business articulation to attract investments, solve structural problems of the country such as tax system distortions, reduce uncertainties as to the continuity of stability and infrastructure offer, and encourage the sophistication of the exports portfolio and import substitution.

An Example Coming from Ireland

An agency of the Irish Ministry of Finance has been operating various linkage programs designed to promote the integration of foreign enterprises into the Irish economy. The National Linkage Programme (NLP) functions primarily as a brokerage service to promote local sourcing by foreign affiliates. It aims to create conditions for domestic production, targeting industries such as electronics, metal and plastic components, engineering, and health care.

The Civil Society

The current historical moment accelerates the foundation of a global civil society, of which are outstanding expressions the Seattle, Prague and Geneva demonstrations against the World Trade Organization and the capitalist globalization, and the World Social Forum in Porto Alegre. In the same way that the development of the ICT has allowed the wild and uncontrollable flow of capitals throughout the planet, it has also speeded up the articulation of a wide range of social movements and civil society organizations – starting from the pioneering environmental networks.

Such networks, which previously emerged from the relationship between the social actors and the political situations that demanded a collective response, but had an episodic existence, have turned into one of the main forms of permanent organization of these new social movements. A multifaceted constellation of networks of NGOs, people and affinity groups has emerged in each of the areas of human political and social action – education, health, culture, social work, environment, gender, defense of rights, and solidary economy, among others. Although many of these articulations are informal or depend on the political climate to foster collective mobilization, they subsist for long periods of time as an instrument of organization of the fights. The networks have become the main form of collective expression and organization of NGOs and new social movements in the political sphere and in the articulation of far-reaching actions, both nationally and internationally.

This environment unveils new demands for companies to engage in issues that challenge the societies where they operate. Especially in poor countries and communities, there is a growing collective awareness that enterprises can make a huge difference in the life of the 4 billion poor and deprived people living in the world. Initiatives of several different origins are mobilizing the companies for the points that most hinder sustainable development.

Enterprises can take responsibilities for social issues for different reasons. One of them is realizing the risks of not getting involved. From the business point of view, including corporate citizenship or social responsibility in the agenda means managing risks well. Another reason is that it is good for companies and an element of good strategic management – both in the short and long terms. It is getting increasingly accepted the fact that it is impossible to keep an enterprise sustainably profitable in a decadent community – both locally and globally. A third reason is the company desire to take its responsibility for the society's healthy and sustainable development and influence its rules.

In Brazil, the phenomenon of network organization of social movements started in the sixties, due to the need for articulation of democratic political actors in the fight against the dictatorship, for democratization, and for human rights. However, only after the late eighties and early nineties, with the advent of pioneering computer-aided remote communication systems, network articulation achieved a new dimension, an explicit and recognized function, and a decisive political role in the attainment and maintenance of social rights in the country.

Two United Nations initiatives raise issues of society interest to which the companies are being urged to commit themselves: the Millennium Development Goals (MDGs) and the Global Compact.

The Millennium Development Goals

In the beginning of 2000, the United Nations brought together 147 Heads of State in a meeting later known as the Millennium Summit. The objective was to discuss the key social, economic and environmental issues that affect the nations, especially the ones that are home to the poorest populations in the planet. The Millennium Declaration, signed by the 189 member states, was a result of this meeting, and through it the rulers commit to seek solutions for the mankind's most serious problems. Objectives, goals and deadlines were defined to be achieved by 2015. The engagement and mobilization of the whole society are critical conditions so that this initiative can prove to be more than good intentions and become a reality.

The adoption of the Millennium Declaration in 2000 marked a decisive moment of global cooperation in the 21st Century. The document clarifies the roles and the common and individual responsibilities of the key participants in the process: for governments, achieving and allowing to achieve objectives and goals; for the network of international organizations, using their resources and experiences as strategically and efficiently as possible, and supporting and sustaining the efforts of partners globally and in each country;

for citizens, civil society and private sector organizations, fully engaging themselves in this pioneering task and putting into action their unique capacity of fostering motivation, mobilization and action.

Eight MDGs were set:

- MDG 1 – To eradicate extreme poverty and hunger;*
- MDG 2 – To provide elementary education universalization;*
- MDG 3 – To foster equality between the sexes and women's autonomy;*
- MDG 4 – To reduce infant mortality;*
- MDG 5 – To improve mothers' health;*
- MDG 6 – To fight against HIV/aids, malaria and other diseases;*
- MDG 7 – To ensure environmental sustainability;*
- MDG 8 – To establish a global partnership for development.*

Understanding them can inspire us on the issues that today are challenges to be faced by the society, including the companies, committed or not to the MDGs, for our entrepreneurial capacity as a civilized humanity.

The Global Compact

"There are many positive ways for business to make a difference in the lives of the poor – not through philanthropy, though that is also very important, but through initiatives that, over time, will help to build new markets."

Kofi Annan, UN Secretary-General

Conceived by the UN Secretary-General Kofi Annan, the Global Compact aims to reconcile the business world with the social and environmental needs of the planet. Each company in the world, whether large or small, is expected to integrate new principles into their strategic vision and into their daily operational decisions.

The origins of the Global Compact Principles are in documents accepted by all governments in the world. The human rights principles are those from the Universal Declaration of Human Rights. The labor principles derive from the Declaration on Fundamental Principles and Rights at Work, and the environmental ones from the Rio Declaration.

The Global Compact Principles are the following:

Human Rights

Principle 1: *Companies shall support and respect the protection of internationally proclaimed human rights;*

Principle 2: *Companies shall make sure they are not complicit in human rights abuses*

Work

Principle 3: *Companies shall uphold the freedom of association and the effective recognition of the right to collective bargaining*

Principle 4: *Companies shall uphold the elimination of all forms of forced or compulsory labor*

Principle 5: *Companies shall uphold the effective abolition of child labor*

Principle 6: *Companies shall uphold remuneration equality and the elimination of discrimination in respect of employment and occupation*

Environment

Principle 7: *Companies shall support a precautionary approach to environmental challenges*

Principle 8: *Companies shall undertake initiatives to promote a greater environmental responsibility*

Principle 9: *Companies shall encourage the development and diffusion of environmentally friendly technologies*

Anti-corruption

Principle 10: *Companies shall fight against all forms of corruption, including extortion and bribery*

Over 2,400 enterprises from all over the world have already subscribed to the Global Compact Principles. The responsibilities taken by them are increasingly more comprehensive in scope and global in nature.

Global Initiatives for Sustainable Development

The UN institutions are not the only ones committed to encouraging transnational changes in favor of sustainability.

In the financial sector, some important initiatives have influenced a more responsible behavior of MNCs in their business. The New York Stock Exchange, in the United States, for instance, has created sustainability criteria to rank companies that negotiate stock in it, the Dow Jones Sustainability Index. The companies that can meet these criteria comprise a special group of companies that has presented historical average earnings around 30% higher than the average verified in stock negotiations in this stock exchange.

The London Stock Exchange has a similar experience. It owns, together with the newspaper *The Financial Times*, the FTSE, an independent company founded in 1995 whose only business is the creation and management of indexes and associated data services in an international level. It is estimated that US\$ 2.5 trillion in stock investments are being managed with the use of FTSE indexes. This company created the FTSE4-Good index, including around 700 companies of the whole world whose shares are listed in the portfolio of Responsible Investment Funds and Ecological Funds. This index also considers the financial, social and environmental performances to rank companies.

In Brazil, Bovespa (São Paulo Stock Exchange) has followed the trend and created its Bovespa Corporate Sustainability Index (ISE), which aims to show the return given by shares of a portfolio of companies with recognized commitment to social responsibility and corporate sustainability, and also to act as a promoter of good practices in the Brazilian business sector. Several institutions – Associação Brasileira das Entidades Fechadas de Previdência Complementar (Abrapp), Associação Nacional dos Bancos de Investimento (Anbid),

Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais (Apimec), Instituto Brasileiro de Governança Corporativa (IBGC), International Finance Corporation (IFC), Ethos Institute and the Ministry of Environment – comprise a Deliberative Board presided by Bovespa, which is the body in charge of the ISE development. The Stock Exchange is responsible for the calculations and the technical management of the index.

In the banking sector, the Equator Principles stand out. They are an initiative of several world banks together with the International Finance Corporation (IFC), with strong common guidelines in support of the discussion of social-environmental issues and the financing of related projects. They set minimum criteria for credit extension and assure that the projects financed are developed in a socially responsible manner. The adoption of these principles is totally voluntary. The above principles apply to all projects with a total cost equal to or higher than US\$ 50 million.

Finally, the Kyoto Protocol, approved in 2005, has an important strategy on its financial side. The Protocol aims to reduce the emission of greenhouse gases and was voluntarily signed by 38 industrialized countries. The treaty created flexibilization mechanisms: the emissions trading among the countries (those who meet their own targets can sell "emission quotas" to those who did not meet theirs), the purchase of credits from Russia (known as "hot air") and the CDM (Clean Development Mechanism), in which credits can be acquired from the third world. Brazil signed the Protocol, but it does not have global reduction targets for being a developing country. However, its participation should be negotiated in a second round of reductions after 2013.

The Environmental Network

In an evolutionary process that already lasts 3.5 billion years, life in the planet has gone through intense changes, originated not only from the interaction of its geological forces, but also from spatial phenomena that only recently began to be understood and explained by man.

In the times we are living, the marks left by mankind in the terrestrial crust, in the atmosphere, in the fauna and flora are so important that there are authors that propose an era characterized by changes caused by the human action.

Man's interferences in the natural elements of the biosphere take place through:

- the extraction from the underground of substances that are not necessary for the natural vital processes, such as mercury and petroleum;
- the production of substances that exist in the natural environment (such as carbon gas), but altering the balance with other substances;
- the creation of new substances that are not part of the natural vital processes (such as some cooling gases);
- the change in the landscape of the terrestrial crust (e.g. by building highways).

As for plants and animals, we currently see an unimaginable rate of species extinction as compared to that of natural evolution. When venturing on the exploration of the very structure of biological life, man can cause unexpected impacts on evolution.

There is no way to dissociate companies from this process. All mankind's significant achievements result from the huge power of organizations, used by man to associate skills and desires of groups of people, largely enhancing their accomplishment ability. Business linkages are established among companies, and, if we want them to be sustainable, we should hold them responsible for their potential impacts (either to destroy or to create solutions).

The Network in Action

Agropalma creates new perspectives for the Amazonian communities

The Agropalma Group set up an alliance with the local government of Moju (state of Pará) and the Bank of the Amazon (Basa) to benefit 150 families that live in this town, which has 60 thousand inhabitants and is located 50 kilometers from Belém. Started in 2002, the Dendê Family Agriculture Program foresees one 10 hectare-lot for each family, donated by the Instituto Terras do Pará (Iterpa), besides machinery and agricultural equipment, dendê palm stems, and the teaching, by Agropalma, of appropriate techniques for the cultivation of this plant. The company also commits itself to buying the small farmers' entire production.

The oil extracted from the palm is broadly used by the cosmetics and food industries all over the world. As the plant takes about 36 months to start producing bundles, Basa monthly provides each family with the equivalent to a minimum wage for their subsistence and to acquire the necessary inputs to take care of the crop. The loan total value is paid back at an interest rate of 4% a year, with a seven-year grace period.

Those involved in the project with the farmers have clearly defined roles. The state government sees to the regularization of the appropriate areas for the project implementation. The city hall makes the families' selection and settlement, and provides infrastructure support, such as the choice of the area, topography and demarcation. Basa grants the supplementary funding to support the project until harvest, while the Agropalma Group provides the initial resources for the project implementation, renders technical and social support, monitors all palm development processes – area preparation, maintenance, fertilization, phytosanitary treatment, and harvesting – finally buying all the production.

The company also provides a team (one manager, one implementation supervisor and two field inspectors), adequate vehicles for the transport of fertilizers, inputs, tools and personal protection equipment (PPE). Over R\$ 2 million have been invested so far. The company has received as compensation from the State government the installation of 33.9 kilometers of electric power networks, through the Luz no Campo Program (Light in the Rural Area).

Part of the income obtained per family is kept by Basa to be used in the loan payment, thus ensuring the investment's productivity cycle. "As prices are defined by the international market, there is no way the company can set prices favoring anyone, which makes the process transparent", explains Agropalma's Sales Manager Marcello Brito.

The families are organized in an association, with an executive board elected by the farmers that follows the daily activities. A monthly meeting is held, in which the difficulties, improvements, and partnerships are discussed, as well as how each one can contribute experiences for the community's benefit. There, an evaluation is carried out of how each associate is addressing their area and an account is given to the program supporters. These meetings are attended by the associates, Agropalma technicians, and representatives of the other parties. Following the meetings, development plans are devised, and have already resulted in the construction of roads and one school, and in the implementation of a bus line, with resources supplied by the company.

The planting in the first stage of the project, in 2002 – carried out by 50 families in a 600-hectare area – is currently starting to yield, and a harvest of around 2,000 tons of fruits is expected in 2005. The 50 families will have an annual accumulated income of R\$ 85 thousand (an average of R\$ 750 a month per family). These amounts can double in 2006. The expected net income after the seventh year is of approximately R\$ 20 thousand a year per family.

The average family income before being incorporated into the project did not reach R\$ 60 a monthly – with the sale of flour, fruits, and coal – which caused intense forest degradation. At present, the third planting stage is in progress, covering the 1,600 hectares and totaling 150 families. The planting carried out in the second stage, in 2004, is expected to yield in 2007.

"The innovation of our project lies in the access farmers have to palm planting and harvesting technology, and to the development of a family agriculture project with an oleaginous once considered feasible only in intensive cultivation, thus bringing to the Amazon region the example of perennial cultures, with continuous harvest, with monthly income generation and settlement of the family in the area. The consequence is the rural exodus reduction. The greatest constraint faced is the non execution, sometimes, and the permanent delay in government-related issues", points out Brito. Among other problems mentioned, is the change in the population's culture, used to surviving on wood extraction and subsistence culture cultivation, such as manioc, corn, and beans.

Agropalma's Officer also says that new negotiations are underway with both the State of Pará government and the Ministry of Agrarian Development, so that new associations can be created in Inkra (Federal Land reform Agency) settlements.

Brasil Ecodiesel: Family Production of Castor Oil, and Social Inclusion

The different climate conditions of the Brazilian territory enable the production of fuels deriving from different oil plants such as sunflower, castor beans, palm oil, soybeans and pine nuts. However, few aspects of this potential have raised more enthusiasm and controversy in the sectors engaged in the sustainable rural development of the Brazilian Northeast than the prospects of biodiesel production leveraging family agriculture in the semi-arid region.

Aiming to foster production and use of biodiesel throughout the Brazilian territory, the Brazilian government launched in December 2004 the National Biodiesel Production and Use Program (PNBio). Since the beginning, the PNBio not only stood out for launching a completely new product and market in Brazil, but also for linking them with the greater objective of fighting rural poverty and reducing social and regional inequalities. The option that characterizes it is social inclusion in the use of the land, favoring the North and Northeast regions, the least developed in the country.

The set of fiscal incentives and the lines of credit offered by BNDES encourage entrepreneurs to put into practice actions to reduce the regional socioeconomic inequalities and to set the path for partnerships between biodiesel producers, unions and rural-based organizations to diversify the agricultural production and increase the income based on the Family Agriculture. They are considered when deciding on the types of relationships in the biodiesel chain, leading investors to choose social inclusion.

The Ministry of Agrarian Development - MDA consolidated the strong social inclination of the program by creating in 2005 the "Social Fuel" Seal, which is granted to the biodiesel producers that:

- buy a significant percentage of their raw material from the family agriculture;
- have agreements that guarantee the purchase from farmers at a set price,
- and provide technical assistance to these farmers.

The Brasil Ecodiesel began to implement, in the end of 2002, family agriculture production projects for oil extraction and castor oil biodiesel transesterification. Since the beginning, it linked its business guidelines to social responsibility principles.

The first project to follow the settlement model chosen was the Núcleo Santa Clara, in the town of Canto de Buriti, State of Piauí. It included economic and social infrastructure investments, such as minimum purchase price guarantee, sales support, technical assistance, good quality water, school, health care center, communication services, offer of cultural services and diversified social assistance. A second manner the company found to foster castor oil production within the structure of family agriculture were the contracts of castor oil purchase and sale agreements produced together with beans in areas from 1 to 5 hectares.

Negotiating with trade union federations, the company made way for partnerships aimed at the improvement in the company's insertion in the family agriculture and at the qualification and mobilization of producers and their organizations at the local and state levels. By involving in a partnership the federal government, state entities, rural workers' federations, the GTZ and the DED (German Development Service), Brasil Ecodiesel created appropriate conditions for qualification and technical assistance aimed at strengthening local leaders, the development and implementation of a monitoring system, and the facilitation of the dialogue among the Biodiesel Program parties. The partnership goals include the settlement of 20,000 family agriculture families in the main castor oil production areas; 100 agricultural technicians and 100 qualified community leaders.

The dialogue among the parties takes place in moments of regional and state level exchange: regional and state seminars on the importance and performance of the project, the PNBio, exchange of information and dialogue between producers and other government, non-government, and private sector actors. The Monitoring System for the agreements made is based on economic, social, environmental, and regional development indicators.

In the beginning of 2006, the program had over 20,000 agreements signed with family farmers in the semi-arid areas, mainly in the States of Bahia, Ceará, Pernambuco and Piauí.

Sustainable Business Linkages Responsibilities

For being part of networks, sustainable business linkages must observe their interdependence and connectivity with all components of these networks. Therefore, they must seek greater balance in their responses to other parties' requirements by promoting, besides their own sustainability and the sustainability of the participating enterprises, the sustainability of employees, market, society and environment.

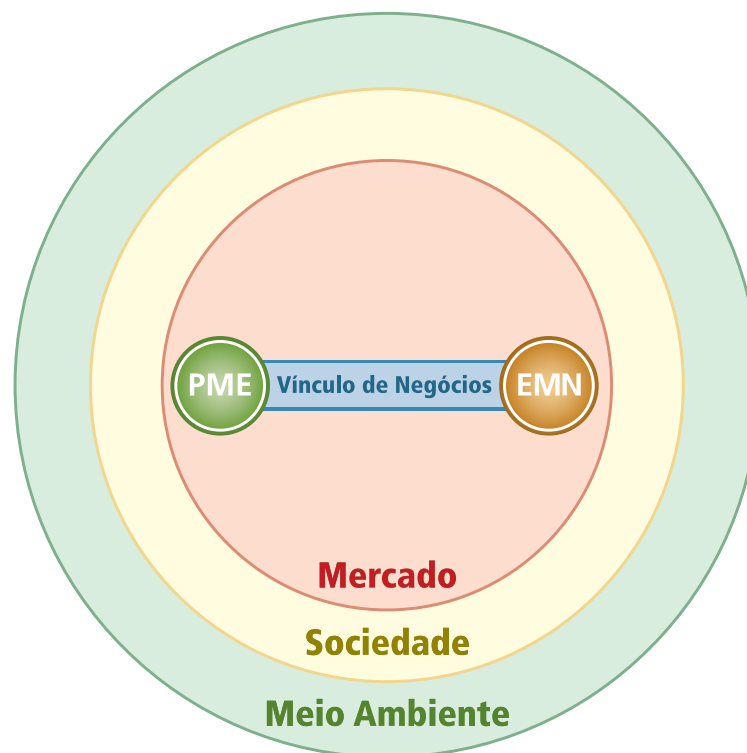


Figure 8 – Dimensions of sustainable business linkages responsibilities

Responsibilities for Partners' Employees

Enterprises expect dedication from their employees and commitment from their workforce, creativity and energy to generate adequate conditions for business mission achievement. Likewise, the enterprises' responsibility for their workers goes beyond the sheer payment of salaries. The capital-labor relationship has been reviewed in light of stronger linkages between companies and workers, based on mutual commitments to the achievement of goals, both by the company and employees.

When establishing business linkages, the partner companies should carry them out in such way that their mutual commitments are strengthened. Their relationships with workers should take into account the following aspects:

Dialogue and participation

- **Ethical commitments:** codes of conduct are instruments used for the achievement of the companies' vision and mission; they guide their actions, and express their stance to all those it relates with. The highest governance body's commitment to its diffusion and performance is critical for enterprises that are part of sustainable business linkages.
- **Participative management:** by encouraging workers' involvement in the solution of their problems, the enterprises that are part of a linkage allow their employees to share their challenges, thus favoring the personal and professional development, and the achievement of common goals.
- **Workers' representation:** the enterprises that are part of the linkage should favor their employees' organization, and align their interests to the workers'. Besides establishing negotiations with the unions seeking to solve collective demands, they should consolidate the practice of transparent dialogue with those entities around mutual objectives.

Respect for the individual

- **Commitment to the children's future:** the enterprises that are part of a linkage should not use, directly or indirectly, child labor (under 14 years of age), as set forth by the Brazilian law. On the other hand, the initiative of using youngsters aged between 14 and 16 as apprentices is positive. The Apprentices Act establishes strict procedures concerning these adolescents, including the requirement of their permanence at school. Children and adolescents have the right to education in order to develop their citizenship and become professionally qualified.
- **Valuing diversity and equal opportunity:** enterprises that are part of a linkage should not allow any type of discrimination concerning recruitment, access to training, remuneration, evaluation or promotion of their employees. Equal opportunities should be offered to the people, regardless of sex, race, age, origin, sexual orientation, religion, special needs, health condition, etc. Special attention should be given to members of minority groups.
- **Outsourced workers relations:** an important initiative for enterprises that are part of a sustainable business linkage is to diffuse their values along the supply chain and outsourced companies. As a result, they should demand outsourced workers conditions similar to those given to their own employees. They are responsible for avoiding outsourcing when cost reduction is obtained through working conditions and labor relations degradation.

Decent work

- **Remuneration, benefits and career policy:** the enterprises that are part of a sustainable business linkage should consider their employees as partners, developing a remuneration, benefits and career policy that value their employees' potential competences, and investing in their professional development. In addition, they should monitor salary levels aiming to avoid reinforcing mechanisms of bad income distribution and social inequalities generation, making adjustments whenever necessary.
- **Occupational health and safety, and working conditions:** awareness forms the fundamental basis for bringing the companies' intentions into actions that align their interests to the workers'. The search for international standards of labor relations is desirable, and the theme-related certifications (e.g. BS 8800 and SA 8000) are appropriate tools.

- **Commitment to professional development and employability:** companies must commit to investing in their employees' training and professional development.
- **Attitude to dismissals:** personnel dismissals should not be used as a cost reduction's first measure. When unavoidable, companies should carry them out with responsibility and criteria (temporary employees, employability, age of employee, married employee or with children etc.) and ensuring the benefits available. In addition, they can use their influence and access to information to help in the outplacement of dismissed employees.
- **Preparation for retirement:** companies should be strongly committed to their employees' future. The moment of retirement provides an excellent opportunity to show this. Enterprises should create mechanisms of pension supplementation seeking to reduce retirement impact on the income level and to encourage the participation of retirees in their social projects.

Responsibilities for the Market

Business linkages establish relationships among companies and people that act following market rules, That is, based mainly on exchange and competition. Beyond the commercial aspects, however, ethical requirements come up in the way these relationships take place in sustainable business linkages.

In their relations with stakeholders, sustainable business linkages should take into account the following:

With suppliers

Companies creating linkages should become involved with their suppliers and partners, fulfilling the contracts agreed, and working on the improvement in their partnership relations. They are responsible for conveying their codes of conduct values to all the participants in their supply chain, taking them as guidance in cases of conflicts of interest. Companies should be aware of their role in strengthening the supply chain, acting on the development of the weakest links and valuing free competition.

- **Suppliers selection and evaluation criteria:** Enterprises should encourage suppliers to engage in the commitments they (enterprises) made before the society. They should also use social responsibility-oriented criteria when choosing their suppliers, demanding, for instance, certain conduct standards concerning labor and environment relations.
- **Child labor in the supply chain:** specifically on the child labor issue, companies should encourage their suppliers and partners to join the movement of abolition of children's and adolescents' work exploitation. Firstly, there is the compliance with the law, moving on to even more proactive attitudes such as the mobilization of the whole production sector. Besides setting criteria for selecting suppliers, third parties and partners, it is necessary to monitor and verify their compliance.
- **Forced or compulsory labor in the supply chain:** enterprises should be aware of the non-existence of forced or compulsory labor in their supply chain and, besides including the respective prohibition in their agreements, should investigate, verify, assess, and require evidence

from their suppliers. Companies can also articulate, separately or together with the government or other organizations, programs and activities seeking to eradicate forced or compulsory labor in general.

- **Support to suppliers' development:** enterprises that are part of linkages can provide support to the development of small companies, prioritizing them in their selection of suppliers, and helping them develop their production and management processes. In addition, training can be offered to small suppliers' employees, in which technical know-how and ethical- and social responsibility-related values can be transferred. In order to seek the local community's economic development, companies can use entities linked to the community as suppliers.

With customers and consumers

Social responsibility for customers and consumers requires continuous investment in the development of reliable products and services that minimize the risks to the health of users and people in general.

Products and services advertising should ensure their appropriate use. Detailed information should be included in the packaging, and customer service should be ensured to the customer before, during and after consumption. Companies should align with the customer's interests, and seek to satisfy their needs.

- **Business communication policy:** enterprises produce culture and influence the society's conduct. Therefore, their communication actions should have an educational dimension, trying not to create expectations that go beyond what the product or service actually offers. They should not cause uneasiness or embarrassment to the public, and should correctly inform the potential risks of the products offered.
- **Customer service excellence:** sustainable business linkages are responsible for providing support to their customers/consumers, before, during and after the sale, preventing damage with the use of their product. The customer service quality is an important reference in this aspect, indicating the linkage's flexibility to adjust to the customers/consumers needs and demands.
- **Knowledge and management of products and services damage potential:** it is the duty of sustainable business linkages to develop improvement actions concerning reliability, efficiency, safety and availability of products and services. They should seek to know the potential damages their activities and products can cause and warn customers/consumers to this aspect in a continuous improvement process and complying with their respective technical standards.

With the competition

Social responsibility requires the search for a leadership position in the enterprise's business segment, in discussions aiming to contribute to the consolidation of high competition standards both for the specific sector and the market as a whole.

Responsibilities with the Society

Sustainable business linkages also follow ethical requirements in their relations with the communities in which they operate, seeking their development and well-being. However, they do not perform only social or philanthropic actions. More important than such actions are the consequences of the business linkages which ensure or contribute to the sustainable development of the communities while increasing the enterprises' competitiveness.

In Brazil, recent data show that most of the companies perform philanthropic actions through donations and social projects. But even these projects are no longer limited to plain support or one-off donations made occasionally, with little commitment to the final results and relying only on feelings, good-will and interest of top executives. The best competencies and abilities of the private sector have been used for projects in areas where actions are usually defined by possibilities, not by needs.

In their relations with the society, sustainable business linkages should take into account the following:

With the surrounding communities

The community in which the linkage operates provides it with infrastructure and social capital represented by its employees and partners, thus decisively contributing to the feasibility of its business. The investment made by the enterprises that are part of a linkage in actions that bring benefits for the community is a fair compensation, besides meaning gains for the organizational atmosphere and enhancing customers' perception of the company. Respect to local habits and cultures, and efforts towards education and dissemination of social values should be part of a community engagement policy as a result of the enterprise's understanding of its role as agent of social improvements.

- **Social and economic impacts management:** the insertion of the enterprises that are part of a linkage in the community presupposes that they respect the local norms and habits, thus developing a dynamic and transparent interaction with the local groups and their representatives. As a result, community problems or potential conflicts among parties can be negotiated and jointly solved.
- **Local organizations relations:** enterprises that are part of a sustainable business linkage take as a goal the contribution to the community's development. As a consequence, they should support or directly participate in social projects promoted by community organizations and NGOs, contributing to the diffusion of educational values and social conditions improvement.
- **Leadership and social influence:** it is the role of enterprises that are part of a sustainable business linkage to participate in associations, unions and business forums, fostering the joint development of proposals of public interest and social nature.
- **Engagement, funding and return of their social actions:** the social performance of enterprises that are part of a sustainable business linkage can be enhanced by the adoption of strategies to value the quality of the social projects promoted, the multiplication of successful experiences, the creation of service networks, and the invigoration of the social area public policy. Resources

can be allocated for the solution of specific social problems in which community entities and NGOs are engaged. Companies can also develop their own projects, mobilize their capabilities for the strengthening of social action, and involve their employees and partners in the performance and support to the community's social projects.

- **Social action funding:** the allocation of funds and resources to social institutions and projects will bring more effective results to the extent that it is based on a structured policy, with predefined criteria. A relevant measure is to ensure the continuity of actions, which can be strengthened by the creation of an institute, foundation or social fund.

With the governments

Enterprises that are part of a sustainable business linkage must keep an ethical and responsible relationship with the public power, complying with the law and maintaining dynamic interactions with their representatives, aiming at the constant improvement in the country's social and political conditions. The ethical conduct presupposes that the relationships between enterprises and governments are transparent for the society, shareholders, employees, customers, suppliers, and distributors. It is the companies' duty to maintain a political performance consistent with their ethical principles and aligned with the society's interests.

- **Participation in government social projects:** the dimension of social problems in Brazil makes the participation of companies indispensable in the effort to overcome them. Besides complying with their obligation of correctly paying taxes and duties, enterprises that are part of a sustainable business linkage can contribute to government projects and actions, and should prioritize the initiatives addressing improvement in public policy in the social area.
- **Anti-corruption and bribery practices:** the formal commitment to fighting corruption and bribery express the companies' opposition to either receiving from or offering to business partners or government officials any amount in money or kind besides what is prescribed in contract. This prohibition applies to direct and indirect offers, inside the country or abroad.
- **Transparency in contributions to political campaigns:** transparency both in the criteria and in the donations for candidates or political parties is an important factor in preserving the ethical nature of the enterprises' performance. They can also provide a space for citizenship development, enabling the conduction of democratic discussions that meet their employees' interests.
- **Citizenship development:** regarding their role in the citizenship development, it is important for companies to gradually take the role of citizen educators. Awareness-raising programs for their internal public and surrounding community on citizenship and the importance of voting are a great step towards a leadership role in the discussion of themes such as popular participation and corruption.

With regional and national communities

- Social and economic macro-impacts;
- Society's vision of the company;
- Human rights defense;
- Indigenous peoples' rights defense;
- Coherence with international organizations' sustainable development-oriented guidelines.

Suppliers Development with Social Development

In Indonesia, British Petroleum (BP) is operating in the gas sector, in partnership with the local government and other parties, in the training of suppliers through the implementation of the Strategy for Distributed Growth. The program aims to prevent the migration of enterprises and workers to remote exploration areas, which would not withstand the large scale flow of labor in search of employment and other benefits.

The strategy is to develop entrepreneurships in areas that have appropriate infrastructure, which would act as centers for regional growth – bases for personnel recruitment and payment and labor placement centers.

Responsibilities for the Environment

Enterprises relate with the environment causing impacts of different types and intensities. Enterprises that are part of a sustainable business linkage must manage their activities so as to assess these impacts, seeking to minimize those that are negative and enhance the positive ones. They must, therefore, work on maintenance and improvement in environmental conditions, minimizing their actions that are potentially aggressive to the environment, and disseminating practices and acquired know-how to other companies.

As far as the environment is concerned, sustainable business linkages should consider the following:

In relation to future generations

- **Commitment to environmental quality improvement:** as a consequence of the environmental awareness, companies should seek to develop projects and investments aiming at environmental compensation for the use of natural resources and for the impact derived from their activities. They should organize their internal structure so that the environment will not be an isolated theme, but will permeate all areas, and be taken into account for each product, process or service that the companies develop or plan to develop. This prevents future risks and enables companies to improve processes and explore environmental sustainability-oriented new businesses, besides reducing costs.

- **Environmental education and awareness:** enterprises that are part of a sustainable business linkage should support and develop campaigns, educational projects and programs aimed at their employees, the community and other stakeholders. In addition, companies should engage in initiatives to enhance environmental education within the society as a whole.

In relation to environmental impacts

- **Environmental impacts management:** an important criterion for enterprises that are part of a sustainable business linkage is the ethical and dynamic relationship with inspection bodies, aiming at improving the environmental protection system. Environmental awareness is the basis of a pro-active performance in defense of the environment, which should be accompanied by the diffusion of knowledge and intentions concerning environmental protection and prevention throughout the company, the supply chain and the community. Environmental awareness should follow national and international environmental protection standards.
- **Products and services life cycle management:** among the main outputs of the production process are the goods, their packaging and non-used materials, turned into potential air, water and soil pollutant agents. The development and use of recycled or biodegradable inputs, products and packaging, as well as the reduction of generated pollution are important aspects in environmental impact reduction. In the latter, the evaluation also includes the company's attitude towards recycling of compounds and residues originated in their operations.
- **Minimization of materials and inputs inflow and outflow:** one of the ways to have an environmentally responsible performance is being careful with the production process inflow. One of the main parameters common to all companies, is the use of necessary energy, water and inputs for production/services rendering. Reduction in energy consumption, water and inputs lead to the consequent reduction in the environmental impact necessary for their production.

Good Practices in Sustainable Business Linkages

As part of their regular business operations, many MNCs take various steps to develop sustainable business linkages between their affiliates and SMEs in host developing countries. Some MNCs provide assistance in a broad range of areas, while others may only support specific activities. As for SMEs, they should also take steps in favor of sustainable business linkages, aiming to create better conditions for their businesses, and to guarantee a social and natural environment conducive to local sustainable development.

The following recommended practices are the result of observation made on the conduct of MNCs and SMEs worldwide, but they are not all-inclusive.

Axis 1

Good managerial practices of MNCs and SMEs that improve the conditions for establishing sustainable business linkages



1. Establishing transparency criteria and procedures

Transparency is an essential element of relations based on trust and partnership, as desired in sustainable business linkages.

Most companies, whether large or small, see their values and principles statement as a strong ally in managing the organization's culture. In order to have values and principles comply with sustainable business linkages requirements, they should be established – if they have not been yet –, or reviewed. Nevertheless, in order to strengthen the dialogue and mutual trust, values and principles must be diffused and discussed internally as well as with sustainable business linkages partners. The compliance with ethical principles proposed by other organizations can be discussed and achieved. The Global Compact is an example. In this case, the enterprise should bring visibility to this commitment.

Strategic planning is an important tool companies have to address their main growth and improvement efforts. The participation of sustainable business linkages partners in its development can help add important strategic elements not noticed before. Its disclosure to partners can create an opportunity to clarify challenges to be jointly met and to strengthen commitment bonds.

2. Assuring internal commitment

Initiatives to establish sustainable business linkages can often be constrained by the little commitment level of the companies' high governance body and collaborators. This can occur because they are not involved in the development and implementation of a relations policy. Therefore, a good practice to obtain their engagement is clarifying their reasons and involvement in the establishment of sustainable business linkages.

On the other hand, an important strategy to raise people's awareness about social problems and have them contribute to sustainable development is the promotion of volunteering programs.

Usually, managers' and collaborators' vision is focused on their activity – mostly as a result of the companies' encouragement. The goals and targets set as a condition for career success encourage their specialization and the disregard for results that do not involve operational issues. In their recognition, remuneration and promotion policies, enterprises can encourage a responsible conduct of their collaborators and managers through the adoption of appropriate criteria.

Likewise, positive results of sustainable business linkages should lead to recognition of people, teams and departments involved. This recognition should be extended to all of those who somehow contributed, including technical personnel, purchase supervisors, and administrative staff.

3. Understanding sustainable business linkage-related issues

The low understanding or little concern for sustainability issues can be a constraint for the success of sustainable business linkages. In order to increase people's know-how, the companies should know more about:

Sustainable business linkages

- The MNC can, for instance, identify successful practices at the head office and in other affiliates, specifically to obtain internal consultancy on its success and on operational hindrances. It can also allocate its own resources to sponsor a sustainable business linkages unit, for instance by lending its own personnel to develop and document procedures.

The local business environment

- MNCs can survey the existing supplier networks, both domestic and foreign ones, in order to compare performance, evaluate efficiency, and identify problems. They can also carry out surveys on local suppliers' opinion and experience as for potential linkages with other MNCs' affiliates.

Social responsibility and sustainable development issues

- MNCs and SMEs can work together to research and identify the main issues that hinder the development of the local community and the national society. Sharing a closer vision, they will be able to take a more consistent stand on such issues. The compliance with public policy aimed at improving the population's

living conditions is one of the most significant channels of action in which the society is involved. The Millennium Development Goals are the most visible and comprehensive ongoing initiative, and the Ethos Institute, together with the United Nations Development Program (UNDP) in Brazil, has led the mobilization of Brazilian companies for actions towards the achievement of these goals.

4. Keeping focus on core competencies

Companies that focus on their core competencies are better prepared for innovation. This assures consistency between the company's activities portfolio and its sustainable business linkages, enabling the implementation of successful entrepreneurship in the future.

5. Adjusting the company management

Structural reorganizations can give visibility and focus to the efforts to create, expand, and improve sustainable business linkages. For instance, both MNCs and SMEs can appoint an area or a person to encourage the establishment and deepening of sustainable business linkages.

Besides, it is necessary to establish policies, criteria, and a typical management process for these linkages. The first action can be identifying and explaining the steps of the process. Partner MNCs and SMEs should know how the other party manages its own linkages.

Nowadays, management systems can be certified, such as those based on ISO 9000, ISO 14000, OHSAS 18001, SA 8000, and NBR 16001. ISO 9000 establishes the necessary elements for the company to produce quality products and services. ISO 14000 establishes the elements that ensure a production with environmental impacts control. OHSAS 18001 establishes a system that ensures occupational health and safety for those working in the company. SA 8000 seeks to ensure that the company who adopts it respects human, children's and labor rights. The adoption of these standards has proved a strong channel of improvement in both management and results – no matter the company size.

Certifications in the Agricultural Sector

In the agricultural sector, some certifications also stand out.

FSC - Forest Stewardship Council – is an international network that promotes good forest management practices. It gathers people to search for solutions to the problems resulting from bad practices and reward the good management. Through advisory processes, it establishes international standards and accredits third party organizations to certify companies and products pursuant to the FSC standards. In the last ten years, over 73 million hectares in more than 72 countries were certified while thousands of products have been made using certified timber and bearing the FSC seal.

IBD - Associação de Certificação Instituto Biodinâmico - is a non-profit Brazilian company that develops agricultural and cattle raising inspection and certification of extractivism, organic and biodynamic processing and products. IBD started its certification activities in 1990 and, since then, has operated in all the Brazilian

territory and in some countries of South America, supporting the development of a sustainable agriculture standard based on new economic, social and ecological relationships.

AAO - Associação de Agricultura Orgânica - is a non-profit non-governmental organization, founded in May 1989 by a group of agronomists, producers, journalists and researchers that had already developed organic agriculture and believed in its socioeconomic and environmental viability. More than diffusing practices and techniques, AAO defends people's right to a healthy and balanced food that preserves the man and the environment. In 1996, the entity launched its warranty seal, attesting the organic production of its certified companies. Today the AAOCert seal is broadly recognized in the domestic market and the entity is working on its recognition in the foreign market of organic products.

FLO - Fairtrade Labelling Organizations International - is a worldwide renowned fair trade certification organization. It enables more than one million producers, workers and their dependants to benefit from the Fairtrade label, because it guarantees that products sold anywhere in the world with its label contributes to the development of disadvantaged producers and workers.

Finally, it is necessary to use indicators for managing goals and results. Enterprises have been developing the capacity to evaluate their performance, creating and measuring indicators related to all their stakeholders. The Ethos Indicators on Corporate Social Responsibility are a tool broadly recognized as necessary for the management of companies' actions impacts on issues that concern the society. As a consequence of this capacity, companies disclose reports on their actions and results taking into account all stakeholders.

6. Improving sustainable business linkages management

In the case of MNCs, the criteria for contracting and evaluating SMEs should be specific, appropriate to their conditions, and known by all the parties involved. A supplier's ombudsman can be an effective channel for suggestions and complaints that will be forwarded to the people in charge of internal processes so that solutions and answers can be timely given.

SMEs usually find themselves vulnerable when there is discontinuity of contracts, whether of supply or purchase. MNCs should give special attention to contracts fulfillment, respecting their terms and conditions. Prompt payments should always be made - or in advance, if the company considers that it can help the supplier take advantage of some opportunity.

By allocating budget to create or improve linkages, the MNC effort can become much more stable and safer.

Social responsibility criteria, such as prohibition of child labor in the supply chain and adoption of environmental standards, besides compliance with the labor, social security, and tax laws, are minimum requirements that should be complied with by all socially responsible enterprises, regardless of size.

If an initiative cannot be measured, it will not be able to be evaluated either. Therefore, companies must measure the results achieved. One of the easiest ways to do that is by determining the annual financial

amount marketed in the linkage, and trying to increase this amount every year. The review of these data is equivalent to a performance assessment. Whether the objective has been achieved or not, from this moment on the enterprises will have references to determine what worked and what did not work.

Axis 2

Good managerial practices that transfer MNC–SME capabilities

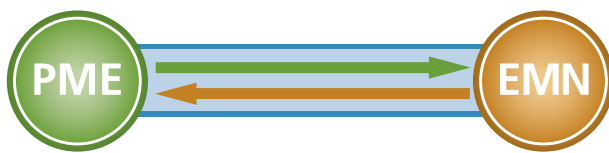


Figure 10 – Improving business linkages capabilities

1. Facilitating access to markets

MNCs can commit to ordering, as much as possible, purchase volumes from SMEs, monitoring them for some time to verify the orders fulfillment. MNCs can also provide SMEs with information about their purchase orders annual forecast, allowing them to plan in advance.

MNCs have through their business network more information on bids and contracts. Therefore, they can help SMEs in their access to markets, especially the international ones.

SMEs can share with MNCs their knowledge of the local community, in the sense of jointly identifying new opportunities for application or development of other MNC products and services.

2. Encouraging human development

Enterprises should pay special attention to this item. The following practices can be adopted:

- Conducting training sessions on the importance of international standards for exports, quality control, management practices or preventing corruption;
- Offering SMEs access to internal training programs;
- Sending experts to the partner company to provide in-plant training;
- Providing feedback, coaching and mentoring: not always managers of supplier companies are aware of their standards regarding customer service operations. Companies can develop feedback mechanisms, thus creating an opportunity for the discussion of grievances, constraints and problems.

An International Bank Providing Mentoring

In the effort to encourage the community and teach it how to do things, and getting away from emergency relief, HSBC invests in training community members, so they find the path for the achievement of actions of their own interest. When the bank does not have structure or resources to carry out a good project, instead of turning it down, the bank brings financial mentoring into action, through which its employees act voluntarily as consultants, teaching the project members to develop the strategic and financial planning of the project, as well as the cash flow control and the fund raising from the public sector.

This kind of action helps structuring the small entities, and encourages the bank employees to use their knowledge in favor of entities and community projects.

A company can periodically have open days for another company to visit and interact with specific areas, from production line to delivery systems. This provides social, environmental, professional and technical insights, besides being educational for all participants.

Basic training in application programs related to the companies' operations increases their operating capacity. When a SME does not have resources, the MNC can donate computers and facilitate the access to relevant databases and the Internet.

SMEs also play the role of explaining cultural differences and showing the local community's values. Sharing the community's habits and beliefs fosters integration, diversity of perceptions, and cultural enrichment of MNCs' managers and employees. A way of doing it is including suitable content in MNCs' collaborators' training programs.

3. Transferring product and process technology

MNCs have great capacity of both product and process technological development, and they can provide proprietary know-how.

In respect to product technology, MNCs can make design specifications available to help SMEs meet their specifications. Countless technology transfer experiences have been made through the supply of "specifications sheets" to which all products must conform. Providing advice and technical assistance to meet such requirements will help the transfer of relevant information and technologies. Inspecting and auditing of conformity requirements are also great opportunities for that. As for SMEs, they can offer to MNCs knowledge on local raw materials, local production conditions, workforce, and communication with trade union organizations and government.

If they want to cooperate even more, MNCs can offer consultancy or training to upgrade supplier products and operations through the transfer of product technology, such as know-how, design and manufacturing details, technical consultations in new technologies and feedback on product performance.

As for process, MNCs can provide technical support in production planning, quality management, inspection and testing to improve manufacturing processes, quality control and methods. If they visit each other premises, the companies can advise on factory layout, machinery installation, production planning and production problems.

4. Contributing to managerial improvement

Updated management techniques can also be transferred, such as, for instance, assisting with inventory management and the use of just-in-time and other systems to enable SMEs to meet the continuous supply needs of MNCs. The implementation of quality assurance systems, such as ISO 9000, ISO 14000, OHSAS 18001 and SA 8000, can also be encouraged and assisted.

On the other hand, SMEs can assist MNCs in understanding the implications of dealing with local employees, communication and means of encouragement. Even regarding the legal environment, for instance, briefing MNCs on legislation changes.

5. Assisting and giving time for adaptation to new requirements

MNCs' changes in guidelines, technology and requirements can impose great efforts on SMEs, including financial, to adapt to the new conditions. Dialoguing with SMEs before the implementation and even during the changes definition process can bring new light on other alternatives, and help them be prepared.

Axis 3

Good managerial practices that foster development of the production and market environments

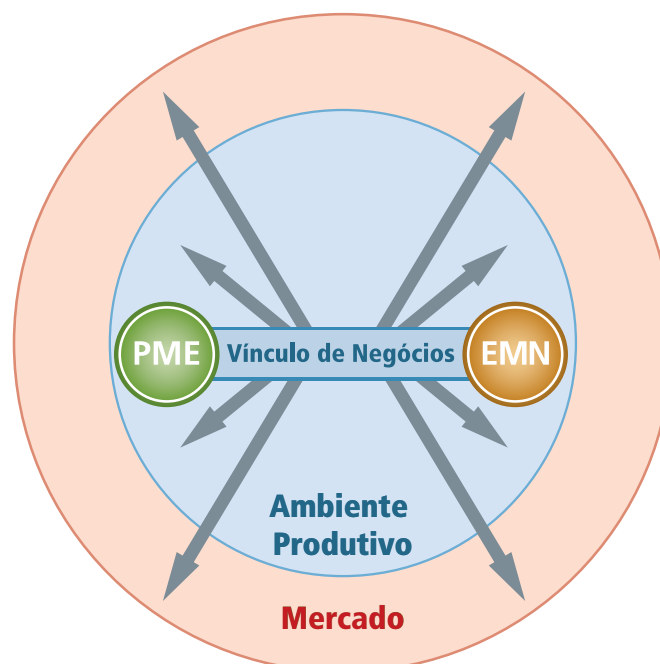


Figure 11 – Business linkage influencing the production and market environments

1. Initiating and providing support to sustainable business linkage-promoting programs

MNCs have resources and power to create a "Sustainable Business Linkages Fund", aimed at start-up SMEs in a specific area or economic sector. Other MNCs with similar conditions can be attracted to the project and contribute to the fund, which can be administered by a sustainable business linkages facilitator."

2. Providing support to and associating with governmental, sectoral and international development agencies' programs

When participating in programs that support the creation of SMEs, both MNCs and existing SMEs can provide advice on enterprise development and sustainable business linkages. If enterprises identify hindrances in the process, they can promote a public-private sector dialogue. By knowing well the local environment, SMEs will be able to provide policy advice on adjustment to the business environment. The chambers of commerce and industry federations are places where companies find rich elements to mature their proposals and initiatives, while strengthening the identification of local capabilities.

By making their supply requirements public – such as costs and quality, technological capacity, continuous improvement and delivery capacity – MNCs will provide important information for new small enterprises can focus their business.

For their experience, MNCs and SMEs that form sustainable business linkages can provide input into linkage development and strengthening, provide policy advice on training, monitoring and assessment of tools and methodologies, share information and data on best practices on sustainable business linkages, and share information on projects involving enterprise creation proposals and programs.

With their communication strength, MNCs can use their publicity campaigns and advertising in the media to strengthen the image of these initiatives of public nature.

3. Encouraging entrepreneurship

By encouraging in-house employees to set up their own SMEs, MNCs can add to the production environment their acquired knowledge, valuable for production, process management and quality and delivery needs.

Another important attitude is to include encouragement to entrepreneurship in the dismissal policies, encouraging former employees to create their own SMEs to meet the MNC's demands.

Initial financial support, as well as technical and loan guarantee can also be provided by MNCs to new SMEs.

IPromoting Entrepreneurship in Disadvantaged Communities

Richards Bay Minerals (RBM) is a mining and smelting company managed by Rio Tinto, situated in Northern of KwaZulu-Natal province, in South Africa. There, the company has implemented a successful program to create opportunities for economic enterprises developed by blacks, a portion of the population historically disadvantaged, who started to supply goods and services to RBM.

4. Contributing to strengthening supply chains

MNCs and SMEs that form sustainable business linkages can work in several ways to favor the effectiveness of supply chains. They can ensure regular evaluation of the supply chain management and conduct visits of other companies of the chain. The principle of using local know-how to find solutions to the supply chain problems can largely enrich the technology used.

They can promote their local presence through subcontracting promotion programs that diffuse information on infrastructure and financial facilities, combined with international seminars to attract potential foreign and domestic suppliers. They can also form cooperation clubs to strengthen local SMEs capabilities, through activities geared to diffuse information on the MNCs' production systems, quality control mechanisms, cost efficiency, quality assurance and delivery.

Finally, MNCs can encourage SMEs to join business associations, participate in fairs and facilitate networking.

5. Promoting linkages with non-business entities

The collaboration with universities, training centers, technological and research institutes, export promotion agencies and other official or private institutions are innovation sources often decisive in the production environment improvement. MNCs and SMEs that form sustainable business linkages can form these linkages, thus strengthening their own competitiveness in a sustainable way, once it is grounded on locally acquired and well mastered know-how.

Partnership between a Bi-national and Universities

Itaipu Binacional invests in several socio-environmental and development programs. One of the latest programs concerns technological research incentives.

The Itaipu Technology Park (PTI) was created in 2003 and currently reaches 20 thousand people in the triple border area Brazil-Argentina-Paraguay, through 21 projects developed in the three countries. PTI is the result of a partnership between hydroelectric Itaipu Binacional and the Automation and Information Technology Institute (Itai), which was set-up in the State University of West Paraná (Unioeste) campus in Foz do Iguacu (PR).

PTI's proposal is promoting the progress of the area in three sides: technology, business development and education. For this purpose, it encourages the development of small and medium-sized enterprises and cooperative associations, promotes exchange between design professionals and artisans from the triple border area, and develops works on digital inclusion.

6. Promoting fair trade relationships

Eliminating speculative mediations, ensuring fair payment to small producers, complying with labor laws, encouraging the creation of cooperative associations, and establishing transparency in pricing are some of the attitudes that can change the manner of doing business in an area or sector. The fair trade principles advocate respect to small enterprises' profit limit. Large companies cannot use their strength to sacrifice SMEs they negotiate with.

7. Rules and laws favorable to SMEs

The national legislation needs to be constantly reviewed in order to create viability and growth conditions to SMEs, so that they become exempt from administrative and financial costs. MNCs and SMEs that form sustainable business linkages can work together and use their influence to mobilize their business entities to assist the government in this task.

Axis 4

Good practices that promote socially responsible conduct and sustainable development

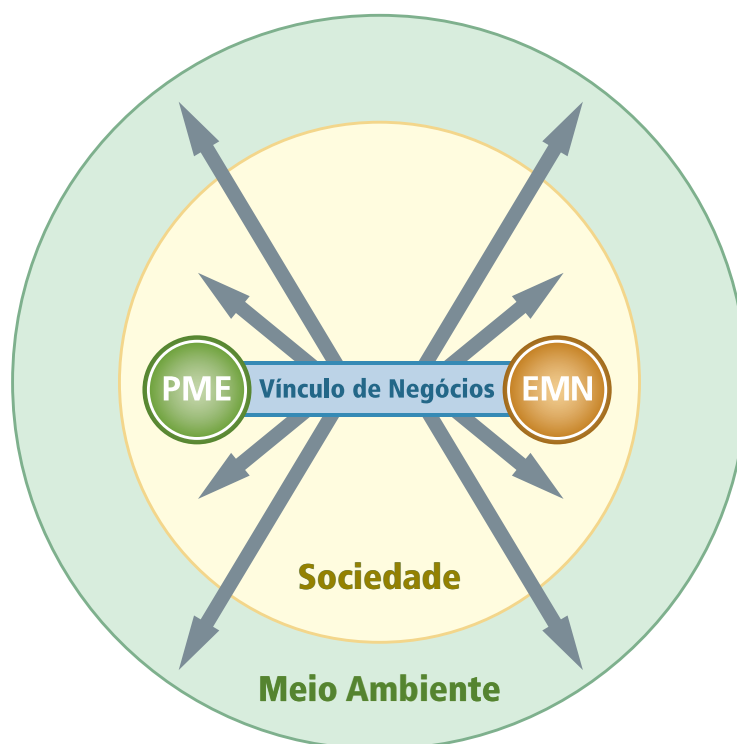


Figure 12 – Business linkages creating impact on society and environment

1. Promoting ethics and transparency

In order to encourage ethics and transparency in the society, enterprises can include in their contracts with third parties CSR-specific provisions with implicit commitment to the generation of positive social and environmental impacts and compliance with the law. Likewise, an agreement among companies can strengthen the development of programs aiming at the diffusion of ethical practices, such as the disclosure of social reports and the definition of ethical competition rules.

2. Promoting decent work

When verifying their suppliers' and partners' working conditions, enterprises may identify things such as labor legislation violations. Contract provisions can prevent these types of events, but a lot can be done to encourage compliance with labor legislation or with health and safety programs in the working environment. For instance, awareness-raising campaigns, or sectoral movements in local commercial and industrial associations can be made.

Among the proactive practices, on the other hand, are the promotion of principles of quality of life in the workplace, and encouragement to women employees to set up day care centers.

3. Ecology and environment

Through a joint planning, companies can promote safe residues disposal, minimizing negative impacts on the environment. Similarly, materials recycling and reuse avoid waste. The rational use of inputs, such as water and energy, has a favorable impact on nature.

If enterprises decide to expand their limits, taking to the surrounding communities their good environmental practices, such as selective waste collection, they can cause very significant positive effects in terms of environmental awareness-raising and education, not to mention the effective impacts on environmental conservation. Showing good practices in public schools is another commonly used channel to contribute to environmental education and integrate companies into the local social environment.

4. Relations with suppliers

Companies can use their supplier contracting criteria to encourage social inclusion and diversity, prohibit child labor in the supply chain, and demand compliance with the labor, social security, and tax laws.

5. Relations with customers and consumers

Enterprises must have an ethical conduct towards customers and consumers, especially in negotiations between large companies and small customers. When communicating with end users, companies can promote conscious consumption, and provide correct instructions on the use of products and services.

6. Communities development

Companies that form sustainable business linkages can jointly act in community social projects aiming to either minimize their operations' negative impacts or promote improvements in the communities. When an industrial or mining operation is installed, for instance, the infrastructure can be shared, small local companies can be encouraged, and assistance can be given to small local businesses.

Partnership between a Large Company and an NGO

Telephone carrier Vivo and NGO Pangea enabled the creation of the São Bartolomeu Dressmakers Cooperative, in Salvador, Bahia, literally launching them into the market. These dressmakers live in a trespassed area next to the São Bartolomeu Park, in an area known by its high unemployment rate.

An important measure to be taken by enterprises is to carry out a survey of the actual local social demands. This will guide funds allocation to their social projects, as well as the voluntary work, which can then be encouraged.

A fundamental practice is to establish partnerships with local third sector organizations. Results derived from well planned and implemented partnerships are much better than those obtained from isolated actions, because they enable the establishment of differentiated activity fields for each partner, as well as the exploration of different dynamics of the institutions, companies and NGOs involved.

7. Relations with government and society

The minimum requirement for a sustainable business linkage is legal conformity. Therefore, the enterprises involved must establish appropriate processes to become aware of local legislation and make sure their representatives comply with it. By rejecting and repelling corruption and bribery practices, the organizations involved render priceless service to ethics in social relations. Usually, companies should work together to establish a common code of conduct on this issue, providing transparent information during electoral campaigns, for instance.

Story-Telling: Cases of Local Development Promoted by Multinational Corporations

Nueva Group

Reaching out the Market

In 2002, Amanco Argentina, a Nueva Group subsidiary responsible for the manufacturing of pipes, plumbing equipment and water systems in that country, faced a great reduction in their sales of pipes and fittings to its usual large retail customers. The company was really threatened with bankruptcy. The Amanco Mobile Sales program was developed to face the crisis. It consisted of loading two trucks with company products and sending them to small plumbing and home repair stores of the poorest areas of Buenos Aires.

The program offered their customers over 50 items, which could be billed and delivered in a single transaction. The Mobile Sales allowed small customers to buy limited amounts and only the products that were out of stock in their stores, since they did not need to keep high inventories. Payment was made cash, at a fair price, still returning a

profit for both Amanco and the small stores customers, since there was no middleman.

Today, having beaten the crisis, Amanco keeps seven trucks in the program (five in Buenos Aires, one in Córdoba, and another in Rosario). With these trucks, the company reaches over 1,000 customers, who used to buy from distributors or re-distributors. Such approach doubled the number of plumbing fixtures customers. At present, the Mobile Sales accounts for 15% of Amanco Argentina's total sales, and 40% of its revenue.

Amanco understands that good enterprises can be implemented even in poor areas, where residents self-build and self-repair. The sales performed through the program generated enough cash flow to keep the Argentinean subsidiary from going bankrupt at the height of the crisis.

Cemex

Encouraging Communities to Save

Cemex, the giant Mexican cement company, set up in 1998 a company called Patrimônio Hoy to sell affordable building products to the deprived population living in Mexico City slums. At present, Patrimônio Hoy supplies around 120 thousand families, going to poor areas and organizing the people in small groups so that they save money by depositing in a bank account managed by the

company. If, for any reason, one of these families is not able to save the expected weekly amount, the other group members support it for a certain period. After some weeks, by proving it can save, the family receives the products they need and training for the construction works. Beneficiaries can expand their houses or improve them faster than if their money

were kept in a regular savings account – and spending 20% less.

The cost for the company is high: finding communities interested in working this way, and organizing the credit system so that people can pay for their house improvement takes time.

Patrimônio Hoy started working with the international NGO Ashoka, whose entrepreneurs have access to communities that would be perfect customers for the company. Through a new project called Hybrid Value Chains, Ashoka is working on new ways to join forces with companies like Cemex to develop enterprises that benefit the poor.

HP

Empowerment of Poor Communities

Hewlett-Packard (HP) has developed a growth-oriented strategy that is trying to introduce new products and services in India and South Africa, designed to meet specific local demands.

Case A

In India, HP decided to launch a new kit consisting of a solar-powered digital camera and printer, small enough to fit in a backpack. The company approached a group of women from Kuppam, a city with 300 thousand inhabitants in the south of the country, who were creating a pool to start their own small enterprises by joining their savings and taking small loans.

Two of those women were chosen to receive for free the HP equipment and training to become the city's official photographers. They then started to successfully provide government ID documents, capture key events and document public works. The news spread and today there are about 300 women in the area living as itinerant photographers.

Case B

In South Africa, HP established partnerships with local governments, non-governmental

organizations and communities to set up five Digital Community Center units. These centers allow residents to make telephone calls, use photocopy machine, fax and workstations equipped with computers. A virtual portal provides information on local services and online government programs registrations.

The centers were implemented with loans from a government program and the equipment was supplied by HP. The local entrepreneurs that run these centers were selected with the help of World Corp, an organization dedicated to generating jobs in developing countries.

Conclusion

HP believes that entrepreneurship aiming at these challenges allows the development of solutions that meet needs, satisfy customers, achieve corporate objectives, and are sustainable. Furthermore, by developing new products, HP is creating networking and becoming acquainted with these markets to an extent that will bring it a competitive edge in these regions.

Eskom

New Payment Methods

Eskom, is the South African power utility that provides 95% of the country's electric power. However, until 1994 only 12% of the rural population of South Africa had electric power at home. Eskom had committed to providing electricity to 1.75 million households from 1994 to 2000. Some of the problems it faced to achieve this goal included the high cost of the individual connection, the population's lack of understanding of the project scope, and the consumers' default during the program's initial phase.

The company developed actions to improve its community relations, acquired pre-paid meters and tokens to recharge them. Eskom stores sold the tokens and the company trained some people among the local population to install and maintain the systems, thus generating jobs within the communities and reducing its own costs.

In 1989 the first contracts were signed for the pre-paid meters supply and installation. The company endeavored its best efforts to keep the meters price as low as possible, since there would be a great demand. The initial contracts included the supply of 10 thousand meters, but this number kept increasing. Since 1994 the company has been installing 300 thousand meters a year, which means an average of over 1,000 new meters installed per working day.

Eskom has now about 2.6 million customers using the pre-paid system, and this number increases every day. Today, over 90% of the urban areas and over 40% of the rural areas have electric power.

Vodacom

Making the Access to Mobile Telecommunications Viable

Vodacom, a joint venture between the British Vodafone and the South African Telkom, has developed a shared service model for providing telecommunications services to the poor South African communities. What at start was a South African government requirement so that Vodacom could enter the most lucrative market segments turned into an important source of learning and an opportunity for future profitable growth.

In 1993, Vodacom was granted the license to build and operate a cellular network in South Africa. The following year, the new post-apartheid government requested revised terms to the license including the requirement to provide cellular communications to under-serviced areas. Vodacom should install 22

thousand lines in operation within five years, but the government granted total implementation autonomy. The strategy adopted consisted of setting up fixed stores and kiosks with several lines, all linked to the company's infrastructure through wireless connection.

In order to identify local entrepreneurs to run the telephone kiosks, the company evaluated their customers' cellular use pattern and concluded that those who most frequently used their phones were probably renting them call-by-call to friends and neighbors. This clever data interpolation allowed Vodacom to identify the potential village entrepreneurs, hire and train them to manage mobile kiosks using a franchise model to foster local

entrepreneurship, thus reducing startup capital requirements.

Vodacom recognized the value of partnership to develop its community services business, and the importance of tapping into local know-how and expertise to implement its franchise model, turning local entrepreneurs into managers and sales people. The company found that each cellular telephone store spawned five new jobs and unquantifiable spin-off economic gains. On the other hand, the communities also benefited from having communication services available. The contact among people became easier and local companies' management more effective, as well as the delivery services.

The cost of setting up a telephone store is equivalent to about US\$ 7,400. Vodacom spends about US\$ 3,950 to purchase and adapt containers to turn them into telephone stores. The

individual owners are responsible for purchasing the internal equipment and paying to the container-store transportation to its final site. The franchisee's total investment is approximately US\$ 3,450. In the beginning, Vodacom funded the initial investment, but, as the competition among franchisee candidates increased, it started to select only those with means to start the enterprise.

There are now over 23 thousand telephone lines installed in approximately 5,000 sites. Vodacom's total revenues in 2003 were US\$ 129.5 million. The company is paid two thirds, while the store owners keep the remaining one-third; in other words, each store accounts for annual gross revenues of US\$ 38.8 per year.

Holcim

Supplying to a Larger Consumer Base

In most countries, cement manufacturers sell their product to wholesalers and retailers, who, in turn, resell to building products stores. In developing countries, however, the population builds their own house.

Apasco, Mexican subsidiary of Holcim, global cement manufacturer, realized that the presence of middlemen in cement sale in bulk made prices go up exponentially. The company then decided to open new distribution centers in remote areas for the sale of cement in closed packaging, by the unit, providing technical guidance and safety training to self-builders. This strategy enabled their product to reach the poorest populations,

and the local communities benefited from the easy access to construction materials at lower prices.

In addition, Apasco started to provide consultancy on "do-it-yourself" construction techniques, thus ensuring that houses were built with quality and safety, as well as allowing residents to acquire solid know-how on construction. The lessons learned in Mexico are being analyzed by the head office, so that this model can be replicated in other places of the world.

SC Johnson

Sustaining a Business Relation

*In the last 50 years, the American company SC Johnson became one of the largest users of natural pyrethrum in its domestic use insecticides. The natural source of this biodegradable insecticide is a flower called pyrethrum (*Chrysanthemum cinerariifolium*), cultivated and supplied to the company by small farmers from the mountains of Kenya.*

In 1950, when launching Raid, the first aerosol insecticide in the world, SC Johnson, then a family business, inaugurated the use of pyrethrum as an active ingredient. From then on, the company became important for the Kenyan mountain regions communities, providing a way of living to over 200 thousand farmers and their families. Although cheaper synthetic alternatives have come up, SC Johnson decided to keep the natural pyrethrum in their products, as a way to value the old relationship with the farmers and with the Pyrethrum Board of Kenya (PBK), a quasipublic agency that supervises the pyrethrum production and processing in the area. In addition, the company focused its efforts on helping PBK become a more efficient producer.

PBK controls all the pyrethrum-related activities and enterprises in Kenya and manages the entire production in the country through a network of farmers' cooperatives. SC Johnson has been working directly with PBK since 1970, in a partnership that goes beyond the mere supplier-buyer relationship, being characterized by a continuous technology and know-how exchange.

The results of this everlasting and constant training effort have translated into better product quality and increase in the production standard. The quasipublic agency introduces continuous improvement in its quality control programs, and has obtained excellent evaluations in the audits conducted by SC Johnson and by Aventis, its main European buyer. The continuous improvement of the standards has led PBK to currently seek the ISO certification.

Kenya still presents precarious structural conditions for business activities, worsened by the lack of transparency, inefficient legal systems, corruption, and governmental bureaucracy. SC Johnson has been facing several problems in the flow of raw materials supply causing inventory losses.

The problems are not limited to Kenya. The North American Environmental Protection Agency (EPA) does not classify pyrethrum-based insecticides as natural, which makes it impossible to advertise these products with this characteristic in the American market and hinders the reduction in the high production costs assumed by SC Johnson.

The company's work in Kenya is part of a permanent strategy for Africa, which includes strengthening its operations in the area through social equality, commitment with the environment, and economic success. SC Johnson sells its production in around 110 countries, and is developing local products and strategies to help increase the continent's sustainable survival.

DuPont

Ensuring purchasing power

In order to enable Colombian corn farmers to acquire the agricultural inputs they need, DuPont helps them obtain credit or, more precisely, receive advanced payments for their crops.

The company established a partnership with the Ministry of Agriculture, the Agriculture Sector Fund (Finagro), the Agrarian Bank, the National Agriculture Board and the State House of Compensation and Security, among others, to develop a program that allowed upfront financing, so that farmers could afford to purchase the necessary inputs for the season to maximize their yields.

Created in 1999, the DuPont Integrated Agricultural Plan (Paid, in Spanish) aims to provide financial and commercial solutions, as well as technical

assistance to farmers, allowing them to maintain their financial liquidity during the growing season.

The contracts signed with the agro-industrial companies who buy the crops ensures to the farmers both price and fixed advanced payment dates, and to the buyers the supply at a fixed price.

The farmers are not forced to buy the DuPont products (such as agrochemicals), but the company soon introduced training systems, including safe use of farm chemicals, in order to attract the market attention.

Sustainable Business Linkages Assessment

Next, a sustainable business linkages assessment tool is presented, based on the practices shown in chapter "Good Practices in Sustainable Business Linkages" (see page XX). It consists of two tables with statements regarding the practices identified in the MNCs-SMEs responsible businesses linkages relationships. The tables are organized in four axes:

- the sustainable business linkages management quality within the companies;
- the capabilities transfer among companies in a sustainable business linkage;
- the effects of companies' conduct on the production environment and on the market; and
- the effects of companies' conduct on the promotion of corporate social responsibility and sustainable development.

After the MNC and SME that form sustainable business linkages have filled out the tables, the strong points and the areas for improvement in the linkages management are identified. From this perception, the companies can develop action plans to improve the sustainability of their linkages.

How to answer

The tables should be filled out by choosing for each statement a number from 1 to 6 and checking the corresponding box. The scale is ascending, according to the respondent's level of compliance with the statement presented, 1 indicating total disagreement and 6, total agreement. When the information is not applicable, the column N/A should be checked.

It can be filled out by the companies' representatives, jointly or individually. Other stakeholders can be invited to offer their contribution, answering in the same way to the issues they are involved in. By acting this way, the enterprises will be promoting a moment of dialogue that can be extremely valuable for exchange of ideas and clarification of doubts among different parties.

How to assess

From the numeric data, a simple and visually clear way is to insert the average values of each axis in a radar chart, like the one in Figure 12. Similar

studies can be made in each axis to obtain details that will help develop improvement plans.

The repeated use of the tool over time will provide a picture of the linkage quality evolution. The comparison with other linkages can help identify the best practices and start an experience exchange process.

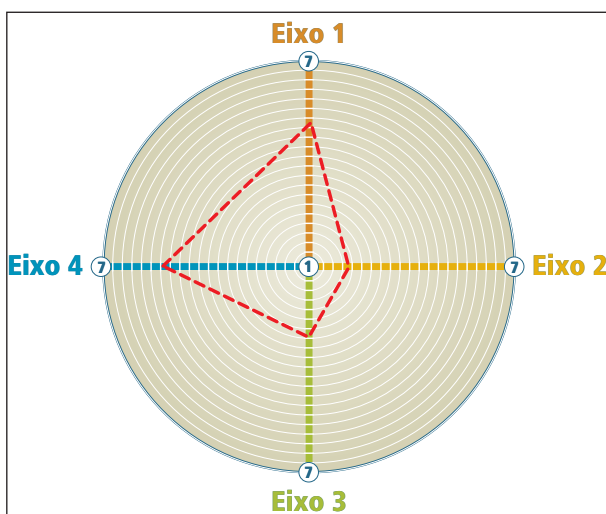


Figure 13 – Radar chart

Multinational Corporations Assessment Tool

Axis 1 – Assessment of how the MNC's managerial practices improve their conditions to establish sustainable business linkages

As for transparency criteria and procedures, the MNC:	1	2	3	4	5	6	N/A
clearly establishes, discusses, reviews and states its values and principles							
is a Global Compact signatory							
identifies, together with the SME, challenges to the business linkage deriving from its own values and principles							
complies with the OECD Principles for MNCs							
As for internal commitment assurance, the MNC:	1	2	3	4	5	6	N/A
explains to its personnel the reasons for establishing sustainable business linkages							
promotes volunteering actions for its personnel							
encourages responsible conduct of its personnel, integrating sustainability criteria in its recognition, remuneration and promotion policies							
encourages the sustainable business linkages' good results in its recognition, remuneration and promotion policies							
As for promoting the understanding of the sustainable business linkages success factors, the MNC:	1	2	3	4	5	6	N/A
studies, researches and diffuses know-how on successful practices of sustainable business linkages management							
seeks to become better acquainted with the local business environment							
studies, researches and diffuses the main issues that jeopardize the potential local sustainable development							
has formally committed to the Millennium Development Goals, and efficiently manages its actions and the results reached, aiming to support their achievement							
As for the type of activities performed in its business linkage, the MNC:	1	2	3	4	5	6	N/A
keeps focused on its core capabilities, allowing their continuous innovation							
As for its operations management, the MNC:	1	2	3	4	5	6	N/A
underwent a structural reorganization aiming to bring visibility and focus to the efforts to create, expand and improve sustainable business linkages							
established sustainable business linkages policies, criteria, and management processes							
has all its activities certified pursuant to ISO 9000							
has all its activities certified pursuant to ISO 14000							
has all its activities certified pursuant to OHSAS 18001							
has all its activities certified pursuant to SA 8000							
has all its activities certified pursuant to NBR 16001							
makes use of measurement systems for resources and results deriving from the linkage							
makes uses of the Ethos Indicators to assess its corporate social responsibility							
discloses annual social reports							
As for sustainable business linkages management, the MNC:	1	2	3	4	5	6	N/A
adopts specific appropriate criteria for contracting and evaluating SMEs							
keeps open communication channels with contracted SMEs, e.g. an ombudsman							
ensures contractual obligations fulfillment, respecting payment terms and conditions							
always makes prompt or, whenever possible, advanced payments							
includes in the contractual provisions requirements concerning corporate social responsibility-related issues							

Axis 2 – Assessment of how MNC's managerial practices transfer capabilities to the SME

As for facilitating access to markets:	1	2	3	4	5	6	N/A
the MNC commits to ordering SME's services or products aimed at other countries, and monitors the status of these transactions							
the MNC provides information and assists the SME's access to bids in other countries							
As for encouraging human development, the MNC:	1	2	3	4	5	6	N/A
conducts training sessions on the importance of international standards for exports, quality control, management practices or preventing corruption							
offers SMEs access to internal training programs							
sends experts to the SME to provide in-plant training							
provides their managers' feedback, coaching and mentoring to the SME's managers							
invites the SME to periodically visit its premises in order to interact with specific areas, from production line to delivery systems							
provides basic training in software applications related to its operations							
As for product and process technology transfer, the MNC:	1	2	3	4	5	6	N/A
makes design specifications available to help the SME meet their specifications							
exchanges advices and technical assistance with the SME							
provides the SME with relevant information and technologies							
when conducting inspections and audits of conformity requirements, it identifies technology transfer opportunities							
provides consultancy or training to upgrade supplier products, through the transfer of product technology, such as know-how, design and manufacturing details, technical consultations in new technologies and feedback on product performance							
provides technical support in production planning, quality management, inspection and testing to improve manufacturing processes, quality control and methods							
visits the SME premises, advising on factory layout, machinery installation, production planning and production problems							
Aiming to contribute to the SME's managerial improvement, the MNC:	1	2	3	4	5	6	N/A
transfers management techniques, such as inventory management and the use of the just-in-time system							
encourages and supports the implementation of quality assurance systems (ISO 9000, ISO 14000, OHSAS 18001, SA 8000, NBR 16001)							
When making new requirements to the SME, the MNC:	1	2	3	4	5	6	N/A
dialogues with the SME prior to implementing the changes							
assists the SME in adapting to the changes and gives time for adaptation to the process							

Axis 3 – Assessment of how the MNC's good managerial practices foster development of the production and market environments

In order to initiate sustainable business linkage-promoting programs, the MNC:	1	2	3	4	5	6	N/A
uses its resources and power to create a "Sustainable Business Linkages Fund", aimed at start-up SMEs in a specific area or economic sector							
attracts other MNCs							
As for governmental, sectoral and international development agencies' programs, the MNC:	1	2	3	4	5	6	N/A
N/A							
joins them							
provides advice on enterprise development and sustainable business linkages							
when it identifies hindrances in the process, it promotes a public-private sector dialogue							
provides policy advice on training, monitoring and assessment of tools and methodologies							
shares information and data on best practices on sustainable business linkages							
shares information on projects involving enterprise creation proposals and programs							
uses its publicity campaigns and advertising in the media to strengthen the image of these initiatives of public nature							
In order to encourage entrepreneurship, the MNC:	1	2	3	4	5	6	N/A
encourages in-house employees to set up their own SMEs							
encourages entrepreneurship in dismissal policies							
In order to contribute to strengthening the supply chains, the MNC:	1	2	3	4	5	6	N/A
ensures regular evaluation of the supply chain management							
conducts visits of other companies of the chain to its premises							
adopts the principle of using local know-how to find solutions to the supply chain problems							
creates subcontracting promotion programs that diffuse information on infrastructure and financial facilities, combined with international seminars to attract potential foreign and domestic suppliers							
forms cooperation clubs to strengthen local SMEs capabilities, through activities geared to diffuse information on the MNCs' production systems, quality control mechanisms, cost efficiency, quality assurance and delivery							
encourages SMEs to join business associations, participate in fairs, and facilitate networking							
The MNC promotes linkages with non-business entities:	1	2	3	4	5	6	N/A
by cooperating with universities, training centers, technological and research institutes, export promotion agencies and other official or private institutions							
In order to promote fair trade relationships, the MNC:	1	2	3	4	5	6	N/A
eliminates speculative mediations							
ensures fair payment to small producers							
promotes compliance with labor laws							
encourages the creation of cooperative associations							
establishes transparency in pricing							
respects small enterprises' profit limit							
As for legislation regarding SMEs, the MNC:	1	2	3	4	5	6	N/A
uses its influence to have it reviewed, creating more favorable conditions to the creation and viability of SMEs							

Axis 4 – Assessment of how the MNC's managerial practices promote socially responsible conduct and sustainable development

In order to promote ethics and transparency, the MNC:	1	2	3	4	5	6	N/A
includes in its contracts with third parties CSR-specific provisions with implicit commitment to the generation of positive social and environmental impacts and compliance with the law							
has an agreement on strengthening the development of programs aiming at the diffusion of ethical practices, such as the disclosure of social reports and the definition of ethical competition rules							
In order to promote decent work, the MNC:	1	2	3	4	5	6	N/A
establishes contract provisions can prevent labor legislation violations							
develops health and safety programs in the working environment							
conducts awareness-raising campaigns, or sectoral movements in local commercial and industrial associations							
promotes principles of quality of life in the workplace							
encourages women employees to set up day care centers							
Regarding the environment, the MNC:	1	2	3	4	5	6	N/A
jointly plans the promotion of safe residues disposal, materials recycling and reuse							
makes rational use of inputs, such as water and energy							
takes to the surrounding communities its good environmental practices, such as selective waste collection							
contributes to environmental education in public schools							
In its relations with suppliers, the MNC:	1	2	3	4	5	6	N/A
adopts contracting criteria that encourage social inclusion and diversity							
prohibits child labor in the supply chain							
demands compliance with the labor, social security, and tax laws							
In their relations with customers and consumers, the MNC:	1	2	3	4	5	6	N/A
has a spotless ethical conduct							
promotes conscious consumption							
provides correct instructions on the use of products and services							
In order to contribute to the sustainable development of surrounding communities, the MNC:	1	2	3	4	5	6	N/A
jointly acts in community social projects aiming to either minimize their operations' negative impacts or promote improvements in the communities							
shares its infrastructure							
encourages small local companies, and provides assistance to small businesses in the surrounding area							
guides the promotion of volunteer work and the allocation of its funds to social projects based on survey of the actual local social demands							
establishes partnerships with local third sector organizations							
In its relations with governments, the MNC:	1	2	3	4	5	6	N/A
maintains appropriate processes to become aware of local legislation and makes sure that its representatives comply with it							
rejects and repels corruption and bribery practices							
has a transparent conduct during electoral campaigns							

Small and Medium-sized Enterprises Assessment Tool

Axis 1 – Assessment of how the SME's managerial practices improve their conditions to establish sustainable business linkages

As for transparency criteria and procedures, the SME:	1	2	3	4	5	6	N/A
clearly establishes, discusses, reviews and states its values and principles							
is a Global Compact signatory							
identifies, together with the MNC, challenges to the business linkage deriving from its own values and principles							
As for internal commitment assurance, the SME:	1	2	3	4	5	6	N/A
explains to its personnel the reasons for establishing sustainable business linkages							
promotes volunteering actions for its personnel							
encourages the responsible conduct of its personnel, integrating sustainability criteria in its recognition, remuneration and promotion policies							
encourages the sustainable business linkages' good results in its recognition, remuneration and promotion policies							
As for promoting the understanding of the sustainable business linkages success factors, the SME:	1	2	3	4	5	6	N/A
studies, researches and diffuses know-how on successful practices of sustainable business linkages management							
seeks to become better acquainted with the local business environment							
seeks to become better acquainted with the MNC's business environment							
studies, researches and diffuses the main issues that jeopardize the potential local sustainable development							
has formally committed to the Millennium Development Goals, and efficiently manages its actions and the results reached, aiming to support their achievement							
As for the type of activities performed in its business linkage, the SME:	1	2	3	4	5	6	N/A
keeps focused on its core capabilities, allowing their continuous innovation							
As for its operations management, the SME:	1	2	3	4	5	6	N/A
underwent a structural reorganization aiming to bring visibility and focus to the efforts to create, expand and improve sustainable business linkages							
established sustainable business linkages policies, criteria, and management processes							
has all its activities certified pursuant to ISO 9000							
has all its activities certified pursuant to ISO 14000							
has all its activities certified pursuant to OHSAS 18001							
has all its activities certified pursuant to SA 8000							
has all its activities certified pursuant to NBR 16001							
makes use of measurement systems for resources and results deriving from the linkage							
makes uses of the Ethos Indicators to assess its corporate social responsibility							
discloses annual social reports							

Axis 2 – Assessment of how SME's managerial practices transfer capabilities to the MNC

As for facilitating access to local markets, the SME:	1	2	3	4	5	6	N/A
provides information and assists in the access of the MNC to bids in other countries							
shares its knowledge of the local market with the MNC							
As for encouraging human development, the SME:	1	2	3	4	5	6	N/A
offers access to internal training programs							
sends experts to the MNC to provide in-plant training							
provides their managers' feedback, coaching and mentoring to the MNC's managers							

invites the MNC to periodically visit its premises in order to interact with specific areas, from production line to delivery systems							
provides basic training in software applications related to its operations							
As for product and process technology transfer, the SME:	1	2	3	4	5	6	N/A
exchanges advices and technical assistance with the MNC							
provides the MNC with relevant information and technologies							

Axis 3 – Assessment of how the SME's good managerial practices foster development of the production and market environments

In order to initiate sustainable business linkage-promoting programs, the SME:	1	2	3	4	5	6	N/A
attracts other SMEs							
As for governmental, sectoral and international development agencies' programs, the SME:	1	2	3	4	5	6	N/A
joins them							
provides advice on enterprise development and sustainable business linkages							
when it identifies hindrances in the process, it promotes a public-private sector dialogue							
provides policy advice on training, monitoring and assessment of tools and methodologies							
shares information and data on best practices on sustainable business linkages							
shares information on projects involving enterprise creation proposals and programs							
uses its publicity campaigns and advertising in the media to strengthen the image of these initiatives of public nature							
In order to encourage entrepreneurship, the SME:	1	2	3	4	5	6	N/A
encourages in-house employees to set up their own SMEs							
encourages entrepreneurship in dismissal policies							
In order to contribute to the strengthening of the supply chains, the SME:	1	2	3	4	5	6	N/A
ensures regular evaluation of the supply chain management							
conducts visits of other companies of the chain to its premises							
adopts the principle of using local know-how to find solutions to the supply chain problems							
creates subcontracting promotion programs that diffuse information on infrastructure and financial facilities, combined with international seminars to attract potential foreign and domestic suppliers							
forms cooperation clubs to strengthen local SMEs capabilities, through activities geared to diffuse information on the MNCs' production systems, quality control mechanisms, cost efficiency, quality assurance and delivery							
encourages SMEs to join business associations, participate in fairs, and facilitate networking							
The SME promotes linkages with non-business entities:	1	2	3	4	5	6	N/A
by cooperating with universities, training centers, technological and research institutes, export promotion agencies and other official or private institutions							
In order to promote fair trade relationships, the SME:	1	2	3	4	5	6	N/A
eliminates speculative mediations							
ensures fair payment to small producers							
promotes compliance with labor laws							
encourages the creation of cooperative associations							
establishes transparency in pricing							
As for legislation regarding SMEs, the SME:	1	2	3	4	5	6	N/A
tries to influence its change in order to create more favorable conditions to the establishment and viability of SMEs							

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Axis 4 – Assessment of how SME's managerial practices promote socially responsible conduct and sustainable development

In order to promote ethics and transparency, the SME:	1	2	3	4	5	6	N/A
includes in its contracts with third parties CSR-specific provisions with implicit commitment to the generation of positive social and environmental impacts and compliance with the law							
has an agreement on strengthening the development of programs aiming at the diffusion of ethical practices, such as the disclosure of social reports and the definition of ethical competition rules							
In order to promote decent work, the SME:	1	2	3	4	5	6	N/A
establishes contract provisions can prevent labor legislation violations							
develops health and safety programs in the working environment							
conducts awareness-raising campaigns, or sectoral movements in local commercial and industrial associations							
promotes principles of quality of life in the workplace							
encourages women employees to set up day care centers							
Regarding the environment, the SME:	1	2	3	4	5	6	N/A
plans the promotion of safe residues disposal, materials recycling and reuse							
makes rational use of inputs, such as water and energy							
takes to the surrounding communities its good environmental practices, such as selective waste collection							
contributes to environmental education in public schools							
In its relations with suppliers, the SME:	1	2	3	4	5	6	N/A
adopts contracting criteria that encourage social inclusion and diversity							
prohibits child labor in the supply chain							
demands compliance with the labor, social security, and tax laws							
In their relations with customers and consumers, the SME:	1	2	3	4	5	6	N/A
has a spotless ethical conduct							
promotes conscious consumption							
provides correct instructions on the use of products and services							
In order to contribute to the sustainable development of surrounding communities, the SME:	1	2	3	4	5	6	N/A
jointly acts in community social projects aiming to either minimize their operations' negative impacts or promote improvements in the communities							
shares its infrastructure							
encourages other SMEs and provides assistance to small businesses in the surrounding area							
guides the promotion of volunteer work and the allocation of its funds to social projects based on survey of the actual local social demands							
establishes partnerships with local third sector organizations							
In its relations with governments, the SME:	1	2	3	4	5	6	N/A
maintains appropriate processes to become aware of local legislation and makes sure that its representatives comply with it							
duly pays its taxes							
rejects and repels corruption and bribery practices							
has a transparent conduct during electoral campaigns							

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Useful Websites

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Center for International Private Enterprise – www.cipe.org
Ethics Resource Center – www.erc.org
International Business Leaders Forum (IBLF) – www.iblf.org
International Chamber of Commerce (ICC) – www.iccwbo.org
Organisation for Economic Co-operation and Development (OECD) – www.oecd.org
Sustainability – www.sustainability.com
Transparency International – www.transparency.org
UN Global Compact – www.unglobalcompact.org
United Nations Children's Fund (Unicef) – www.unicef.org
United Nations Development Program – www.undp.org
United Nations Educational, Scientific and Cultural Organization (Unesco) – www.unesco.org
United Nations Organization – www.un.org
World Bank – www.worldbank.org
World Business Council for Sustainable Development (WBCSD) – www.wbcsd.ch
World Economic Forum – www.weforum.org

Environment

Associação SOS Amazônia – www.sosamazonia.org.br
The Earth Charter Initiative – www.earthcharter.org
Greenpeace International – www.greenpeace.org
Portal Ambiente Brasil – www.ambientebrasil.com.br
Portal SOS Mata Atlântica – www.sosmatatlantica.org.br

Human Rights

Human Rights Watch – www.hrw.org

Indicators and Management Systems

Centro de Estatística Religiosa e Investigações Sociais (Ceris) – www.ceris.org.br
Grupo de Institutos, Fundações e Empresas (Gife) – www.gife.org.br
Hazel Henderson – www.hazelhenderson.com
Instituto Brasileiro de Governança Corporativa (IBGC) – www.ibgc.org.br
Instituto Ethos – www.ethos.org.br
Instituto Observatório Social – www.observatoriosocial.org.br
Rede de Informações para o Terceiro Setor (Rits) – www.rits.org.br

Social Report

Accountability – www.accountability.org
Global Reporting Initiative (GRI) – www.globalreporting.org
Instituto Brasileiro de Análises Sociais e Econômicas (Ibase) – www.ibase.org.br
International Finance Corporation (IFC) – www.ifc.org

Glossary

AA1000. Launched in 1999 by the Institute of Social and Ethical AccountAbility (ISEA), London, the AccountAbility 1000 (AA1000) standard is the most comprehensive corporate social responsibility management tool. It comprises the data collection, auditing, and social and ethical reporting processes, focusing on the dialogue with stakeholders. The use of AA1000 as a working method provides a sound path for organizational learning, and management process implementation and continuous improvement.

Source: Fides. Available at www.fides.org.br/balanco_normas.htm

Corporate Governance. A system through which business entities are directed, administered and controlled involving the relationships among Shareholders, Board of Directors, Executive Board, Independent Auditing, and Fiscal Council. The good practices of corporate governance aim at increasing the entity's value, facilitating its access to capital, and contributing to its perpetual existence.

Source: IBGC. Available at www.ibgc.org.br

Corporate Social Responsibility. A way of conducting business that turns the company into a partner and co-responsible for social development. The socially responsible company listens to the stakeholders' (shareholders, employees, service providers, suppliers, consumers, community, government, and environment) interests and integrates them into their activities planning, seeking to meet everyone's demands, not only the shareholders' or owners'.

Source: Ethos Institute. Available at www.ethos.org.br

Corporate Sustainability. For the business sector, the sustainability concept represents a new approach to doing business that, simultaneously, promotes social inclusion (with regard to cultural diversity and interests of all stakeholders, directly and indirectly involved in the business), and reduces - or optimizes - the use of natural resources and the environmental impact, preserving the integrity of the planet for future generations, without disregarding the business economic-financial profitability. This approach creates value for shareholders and provides higher probability of business continuity in the long term, while contributing to the sustainable development of all societies in the planet.

Source: Bovespa. Available at www.institutopharos.org/home/questionario_ise.pdf

Global Compact. A United Nations initiative aimed at raising awareness, mobilizing and engaging the international business community around relevant issues in the areas of human rights, labor and environment. It gathers UN agencies, companies, trade unions, non-governmental organizations, and other necessary partners for the construction of a more sustainable and equitable society.

Source: Ethos Institute. Available at www.ethos.org.br

GRI. The Global Reporting Initiative is an independent institution whose mission is to develop and disseminate globally applicable sustainability reporting guidelines. These guidelines are for voluntary use by organizations for reporting on the economic, social and environmental dimensions of their activities, products and services. GRI undertakes this work with the active participation of corporations,

accountancy organizations, investors, environmental and social NGOs, research institutes, and other stakeholders worldwide. Convened in 1997, GRI became independent in 2002, being today a UNEP (United Nations Environment Programme) collaborating center.

Source: GRI. Available at www.globalreporting.org

Human Rights. Rights all people have, in virtue of their common human condition, to freedom and dignity. Everyone has the right to demand that they be respected, because they are universal, inalienable and indivisible. The human rights express a strong effort to ensure that all people have safety to enjoy the rights and freedoms required for a decent life.

Source: UNDP. Available at www.pnud.org.br/hdr/hdr2000/docs/Glossario_de_D DHH.pdf

Millennium Development Goals. In September, 2000, in New York City, the UN Heads of State leaders defined eight commitments to be achieved by 2015. These commitments comprise the Millennium Development Goals - MDGs - which aim to successfully accomplish the improvement in the living conditions of the population. It was established that by 2015 the collective effort should guarantee the reduction by half in the proportion of people living in extreme poverty, and without sustainable access to drinking water, universal primary education, and fight against Aids, malaria and other diseases, among other goals.

Source: www.nospodemos.org.br

Private Social Investment. Voluntary and planned allocation of private resources to social, environmental and cultural public interest

projects. They include the social actions of companies, foundations, and corporate institutes, or institutes created by families or individuals. The private social investors are concerned with the results achieved and with the community's engagement in the social action.

Source: FIEMG. Available at www2.fiemg.com.br/cidadania/content/noticia/1st_noticia.asp?nCodNoticia=522

SA8000. Launched in October, 1997 by former CEPAA – Council on Economics Priorities Accreditation Agency – (currently called SAI – Social Accountability International), a North American non-governmental organization, Social Accountability 8000 (SA8000) is the first international standard aimed at one corporate social responsibility aspect. It focuses on the improvement in working conditions, comprising the main workers' rights, promoting the standardization in all business sectors worldwide.

Source: Business Meet Social Development. Available at www.bsd-net.com

Social Report. A report annually disclosed by a company gathering a set of data on the projects, benefits and social actions aimed at its stakeholders. It is a strategic tool to assess and multiply the social responsibility performance. In the social report, the company brings transparency to the activities that seek to improve the quality of life for all. In other words, its main objective is to bring the corporate social responsibility to light, building stronger linkages among the company, the society, and the environment.

Source: Ibase. Available at www.balancosocial.org.br

Stakeholder. Stakeholders are defined broadly as those groups or individuals whose actions can reasonably be expected to affect the organization through their opinions and actions; or that can reasonably be expected to be significantly affected by the organization.

Source: FIEMG. Available at www2.fiemg.com.br/cidadania/content/noticia/1st_noticia.asp?nCodNoticia=522

Sustainable Development. The development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Source: Brundtland Report

Triple Bottom Line. – Expression used to translate a set of values, objectives and processes on which a company should focus aiming to add economic, social and environmental value, thus minimizing any damage resulting from its operations. This three-pronged approach states that the society depends on the economy, and the economy depends on the global ecosystem.

Source: Fernando Almeida, "O Bom Negócio da Sustentabilidade" (The Good Business of Sustainability)

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