

A cry for help

Reflections for a More Salient Catholic Social Doctrine

Pablo Paras

Throughout the course of her history, and particularly in the last hundred years, the Church has never failed, in the words of Pope Leon XIII to speak the words that are hers' with regards to questions concerning life in society.
Angelo Card. Sodano

The paper explores the potential impact of the Catholic Church on wealth distribution by analyzing the influence of the Social Doctrine of the Church (SDC) on Corporate Social Responsibility (CSR). The discussion is centered on the principle of *justice* in the context of the Mexican economy. Mexico is relevant from a theoretical point of view for three reasons: (a) it is one of the countries with the largest catholic population in the world; (b) it is a good example of an economy that has recently and aggressively been inserted into the world economy; and (c) it can be viewed as being representative of the developing world and/or of countries with highly unjust distribution of income and opportunities.

The paper is structured in the form of a policy briefing divided in three sections: diagnosis of the problem, discussion of an alternative solution, and conclusion. The diagnosis is conducted by discussing five interconnected factors relevant to our interest. A theoretical reflection of each factor is provided and whenever possible complemented by statistical indicators. Unlike most policy briefings, only one solution is offered; this proposed alternative derives from a case study of an economically successful and socially just business enterprise. The case under study is a medium size service company founded 36 years ago; it has been a very profitable enterprise with unique profit sharing policies. While the diagnosis presents a 'bird's eye view of the forest', the case under study describes a *different* kind of tree –apparently not endemic to the forest– that should be viewed more as a solution than an anomaly.

Ours is mainly an *Ethical* theory approach to CSR as we are concerned with normative stakeholder theory, sustainable development and the common good. However we are also interested in *Integrative* theories, particularly in regards to societal demands and how these can be articulated by institutions outside the market such as the Church. The discussion includes the four dimensions of CSR research: values, profits, social demands and community performance (van der Putten 2005). Justice –as it is conceived in the SDC– is viewed as the value that drives considerations, actions and performance of these dimensions; thus we take a value driven approach to CSR applied to specific needs at the local level. In a larger context the discussion should be placed within goal one (Eradicate extreme poverty and hunger), goal two (Achieve universal primary education) and goal eight (Develop a global partnership for development) of the UNDP Millennium Development Goals.

A general diagnosis of the factors relevant to the research

The following are the five interconnected factors that present a partial diagnosis of today's prevailing conditions in Mexico in relation to our variables of interest. These serve as input for a general diagnosis and to guide the discussion of consequences as well as alternative solutions.

1. Dominance of the globalization paradigm over the sustainable development paradigm.

There are two key arguments to be made here. The first is that there are clear and relevant differences between the globalization and the sustainable development paradigms that have a direct impact on societal outcomes. While globalization is concerned exclusively in the market structures that are favorable to corporations (liberalization, deregulation and market access mainly) sustainable development has a social vocation. Sustainable development is viewed as incorporating "the needs of all countries (big or small); a commitment from the strong to help the weak; a concern both for the environment and development; and a realization that the state and the international community must intervene on behalf of the public interest to attain greater social equity and bring about more sustainable patterns of production and consumption" (Speth 2003). It is our belief that in a general sense, companies can be classified to be globalize oriented (concerned with 'bottom line' profit maximization) or socially committed (as described by the sustainable development definition above). We do not want to imply any negative connotations by the term *globalize oriented*. The distinction between the two has to do only with their perspective and orientation. While globalize oriented economic units lack CSR and/or have a shareholder CSR perspective, socially committed are CSR active with a normative perspective. The differences will be further elaborated in the next paragraphs.

The second argument relevant to our discussion is that globalization is the dominant paradigm. We have no evidence to sustain this argument. We can only infer it from the economic conditions of today's world. The logic is simple: if most economic units operated under the sustainable development paradigm we would be experiencing both a substantial transfer of resources from the strong to the weak and would have healthy environmental world conditions. We will not get into the environment discussion because our interest lies more within businesses, specifically with employees. Suffice to say that the growing concerns about global warming, deforestation and other environmental problems are taken as evidence of the small impact of the sustainable development paradigm. Transfer of resources is seen here as having a direct and strong impact on distribution of wealth and opportunities. An elaboration of the unequal distribution of resources for Mexico is presented later. For now we can say that "current world market conditions further widen the gap between rich and poor"¹ (Martens 2005, 5); a clear echo the words of Paul VI "One must avoid the risk of increasing still more the wealth of the rich and the dominion of the strong, while leaving the poor in their misery and adding to the servitude of the oppressed" (*Populorum* 33, Pope Paul VI).

2. Corporate Social Responsibility actions unfocused on the necessities of third world economies.

Egels (2005) provides a very helpful review of the business ethic literature; he identifies six commonly used concepts within the umbrella of international ethics research: Stakeholder

¹ Examples of such conditions are subsidies in industrialized countries, unfair trade practices, escalating of tariffs and decline in commodity prices.

Theory, Corporate Social Responsibility, Corporate Citizenship, Corporate Social Performance, Sustainable Development and Business Ethics. The author concludes that even though they are different in terms of context, perspective and content, they can be viewed as similar concepts. For our purposes they are taken to be similar concepts. According to Egels, beyond the choice of term, it is more important to identify the perspective and content used in the research. There are two types of perspectives: shareholder (profit maximization) and normative (also includes non-shareholders perspectives). In terms of content there are two important types mentioned by Egels that are relevant to our discussion: focused on *to whom* companies should respond to; and focused on *for what* companies should be responsible.

The argument made here is that in an economy dominated by the globalization paradigm, most of the CSR actions take a shareholder perspective with a focus on the *for what*. Hence they do not necessarily attend the major needs of local communities and/or of other rightful stakeholders. In this line of reasoning CSR actions become more of a *makeup* issue for companies as they stride to generate positive press coverage and appear as socially oriented and socially responsible enterprises. We are not in anyway against this; any action that socially contributes in anyway should be recognized and encouraged. However we do believe that a discussion regarding return on investment of any dollar spent on CSR actions needs to take place. Within such discussion three questions need to be addressed: Who is benefited from such action? How much does that person/group benefits? What is the long-term return on investment for society as a whole?

With such questions in mind, and from a SDC point of view, we believe that we should clearly favor a normative perspective with focus on the *to whom* companies should respond to. This is what was done by the company presented as a case in section two; and we believe is what the Catholic Church should promote. We propose that the most useful CSR approach in terms of the return of investment for the developing world should take the form of normative stakeholder theory as stated here:

Normative stakeholder theory is based on the acceptance of: a) that stakeholders “are defined by their interest in the corporation, whether the corporation has any corresponding functional interest in *them*” ... and b) that the interest of each group of stakeholders should be considered for their own sake and not solely because of their potential to further interests of other stakeholders, e.g. shareholders. Hence the normative interpretation implies that corporations have a moral obligation to consider the interest of all stakeholders regardless of their possibility to effect corporate performance goals. The foundation of the normative interpretation is moral reasoning and it opens up for an elaborate discussion on how to prioritize different stakeholders claims and how companies should act towards stakeholders. (Egels 2005, 9)

It then becomes evident that the main task is to identify which stakeholder (and which claim of that stakeholder) should CSR actions favor. There are six different groups of stakeholders: investors, employees, business partners, customers, community and environment (SVN 1999). Using importance to the firm, proximity to the firm (concentrically criteria), and income criteria we identify employees as the most important to the company. Guided by the principles of SDC and by long-term interest of corporations, we proposed to give preference to selected needs of employees; mainly because this would imply a targeted allocation of resources that could favor the most needed within a corporation. It also has advantages from a micro (increases satisfaction and productivity) and macro perspective (augments the size and purchasing power of consumers

increasing the demand for goods and services). But mainly it can trigger a more just growth and development of countries.

3. Terribly unjust distribution of wealth and opportunities.

Distribution of wealth is viewed as one of the main causes for many of the problems and structural deficiencies in Mexico today. A group of twenty *opinion leaders* met during three (Delphi type) sessions to discuss the biggest problems that Mexico will face in the coming years. Inequality/poverty was signaled as the second most important problem (the first was the reform of the state)². At the same time with out any kind of coordination or knowledge of each other; other eleven groups from different sectors of society were having similar conversations³. From these efforts a single group of 250 social actors called National Democratic Dialog was created to voice five concerns: State's reform, fight against poverty and inequality, human rights, public safety and employment generation (Aguayo, 2006). These are taken as the top five concerns in Mexico's agenda for the years to come. The coinciding opinions of these specialized groups serve as input and support the argument that distribution of wealth is at the root of many problems in Mexico. This is of key relevance because later in the essay we will present SDC and CSR as (potentially) having a positive impact on this causing variable. In the following paragraphs we document the distribution of income and other relevant social indicators. We first look at the global context and then turn to specific indicators for Mexico.

The global picture

According to UNDP data⁴ the world population is 6.1 billion; the richest 20% of the global population has 74% of the income and the poorest 20% only 2%. "The richest 50 individuals in the world have a combined income greater than that of the poorest 416 million" (Martens 2005, 4). This kind of distribution patterns is also found within countries; a Mexican businessman ranks as the third richest person in the world, for example. At the beginning of the millennium, 19% (1.2 billion) of the global population lived on less than \$1 dollar a day. There are important regional differences regarding income distribution: 66% of Africa population's lives under the poverty line, 23% in South Asia, 20% in East Asia, 8% in Latin America, 2% in East Europe, and 0% in the OECD countries (excluding Mexico). The trends however are favorable and it is projected than by 2015 the population living under the poverty line will be below 10% (5% for Latin America).

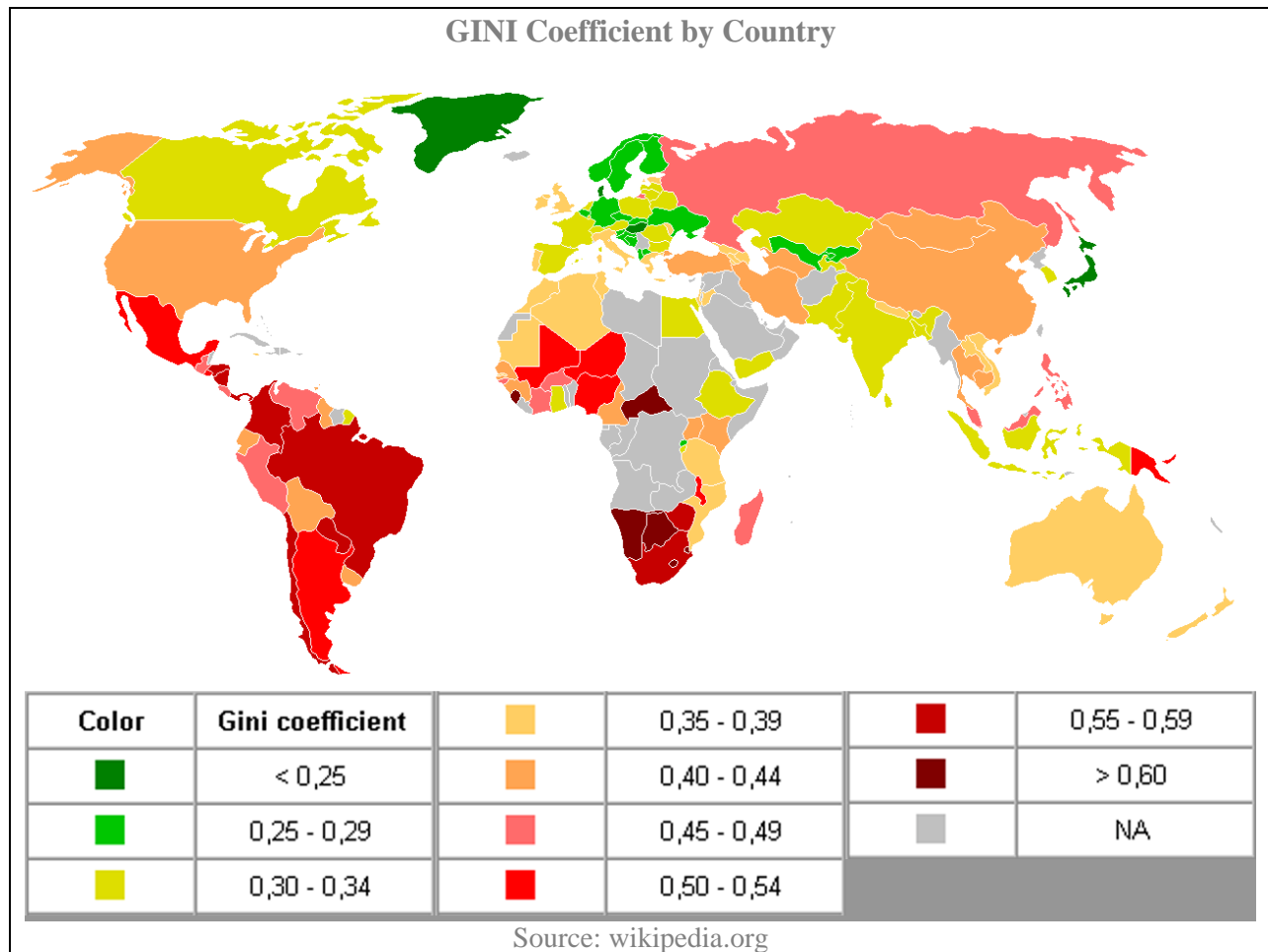
Poverty is correlated with health and education, vital indicators of human capital which is in turn crucial for development. A global map showing the *Gini* coefficient –the most widely used indicator of inequality (0 means everyone has the same income – 100 the richest person has all the income) – per country is shown below. In it we can see than Mexico can be classified as a country with highly unequal distribution of income. Only fifteen countries have a worst income distribution than Mexico (judged by the *Gini* coefficient) as shown in a list of 124 countries put together by an international NGO⁵.

² The group was lead by Lorenzo Meyer and Miguel Basañez and meet in the Colegio de Mexico. The author of this paper was part of that group.

³ The groups were headed by institutions such as the World Bank, ITESM, Mexican Episcopate, Human Rights, and Goals of the Millennium (UN).

⁴ Data is available on-line at www.gapminder.org

⁵ See www.wikipedia.org



Mexico in comparative perspective

Mexico is the 14th largest economy in the world (it was the 11th largest at the beginning of the current administration in the year 2000). It faces a stable economic situation with rather small economic growth over the last five years; however the recently elected government faces a potentially acute political situation starting out with a relatively weak mandate⁶. According to the World Bank, the *per capita* income in Mexico grew steadily from 2000 to 2004. Over the last two decades, Mexico improved in important areas such as poverty, health, education, nutrition. The Mexican Ministry of Social Development reports that there have been substantial declines in three different poverty indicators over the last five years.

Current macro-economic indicators are healthy and stable; however aggregate indicators can be misleading as they may lead to ecological fallacies⁷. Next, a series of indicators are discussed to show relevant social needs and/or problems yet to be addressed in Mexico. Together they show

⁶ The Government of elected president Felipe Calderon starts the first of December 2006. He won the recent elections with a margin of less than one percentage point over his closest opponent from a leftist coalition led by Lopez Obrador. There has been a difficult post-election climate resulting in Lopez Obrador's declaring himself 'legitimate president'.

⁷ *Misplaced concreteness* to use the term by Daly and Cobb.

an unjust distribution of wealth and opportunities and suggest that average progress/development maybe less beneficial for people at the lowest/lower income levels. Such developmental disparity is documented: “In sum averages do not tell the full story. Groups for which social progress has been fastest seldom represent the disadvantaged people. Some countries appear to be on track for reaching particular targets, based on ‘average’ progress; yet the situation for disadvantaged groups is stagnant or deteriorating.” (Vandemoortele 2003, 12). This appears to be the case of Mexico.

Along with twenty other countries, Mexico is classified by the World Bank as an upper-middle income country. This group serves as a more precise benchmark to make comparisons. Table 1 provides selected poverty and inequality indicators for these twenty-one economies⁸. In terms of population, Mexico is the second largest country after Brazil; together these two countries account for 59% of the group’s total population. Mexico has the fifth largest percentage of population living in households below the poverty line (after Botswana, St, Lucia, Venezuela and Malaysia). Thirteen of twenty countries with available data have a better average monthly per capita income/consumption than Mexico. In terms of inequality measured by the Gini coefficient, Mexico ranks number five below Botswana, Brazil, Chile and Panama. A similar pattern emerges on the other two indicators of income distribution (i.e. MLD and Watts index).

⁸ Source of the information is the World Bank’s *PovcalNet* available on-line

**Table 1: Selected poverty and inequality indicators for the upper-middle income countries of the World Bank
YEAR 2001 / Fixed poverty line set at the standard \$32.74 a month**

Country	Pop(million)	PL	H(%)	mean\$	PG(%)	Gini(%)	MLD	Watts
Argentina-Urban	37.48	32.74	3.33	334.84	0.48	52.24	0.51	n/a
Botswana	1.62	32.74	22.04	179.60	8.20	66.70	0.84	0.1133
Brazil	172.56	32.74	8.17	300.43	2.09	59.25	0.67	n/a
Chile	15.4	32.74	0.89	411.25	0.17	57.61	0.60	0.0022
Costa Rica	3.89	32.74	2.02	315.60	0.67	46.60	0.40	0.0065
Croatia	4.38	32.74	0.08	308.08	0.05	31.10	0.16	0.0000
Czech Republic	10.26	32.74	0.12	485.91	0.12	25.82	0.12	n/a
Estonia	1.35	32.74	0.05	251.69	0.01	37.64	0.24	0.0001
Hungary	10.19	32.74	0.34	227.54	0.32	24.44	0.10	n/a
Latvia	2.34	32.74	1.25	182.42	0.60	33.62	0.19	0.0028
Lithuania	3.49	32.74	0.47	183.91	0.17	31.85	0.17	0.0012
Malaysia	23.8	32.74	9.91	153.60	2.21	49.15	0.43	0.0267
Mexico	99.42	32.74	9.85	208.31	3.71	54.93	0.56	0.0462
Panama	2.9	32.74	8.01	326.46	2.64	56.56	0.63	0.0353
Poland	38.65	32.74	0.39	256.71	0.23	31.60	0.17	0.0004
Slovak Republic	5.41	32.74	0.21	309.05	0.01	25.81	0.13	n/a
St. Lucia	0.16	32.74	23.23	79.48	8.15	42.58	0.32	0.1220
Trinidad and Tobago	1.31	32.74	1.73	212.60	0.46	40.27	0.29	0.0050
Uruguay	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Uruguay-Urban	3.29	32.74	0.23	367.18	0.05	44.56	0.35	0.0005
Venezuela, RB	24.63	32.74	15.37	147.13	7.09	49.53	0.50	0.1338

“PL” Poverty line. The default poverty line is \$32.74 per month. This is the World Bank \$1 per day poverty line.

Headcount (H): % of population living in households with consumption or income per person below the poverty line.

“mean\$” The “mean\$” is \$ the average monthly per capita income/consumption expenditure from survey in 1993 PPP.

Poverty Gap (PG): mean distance below the poverty line as a proportion of the poverty line.

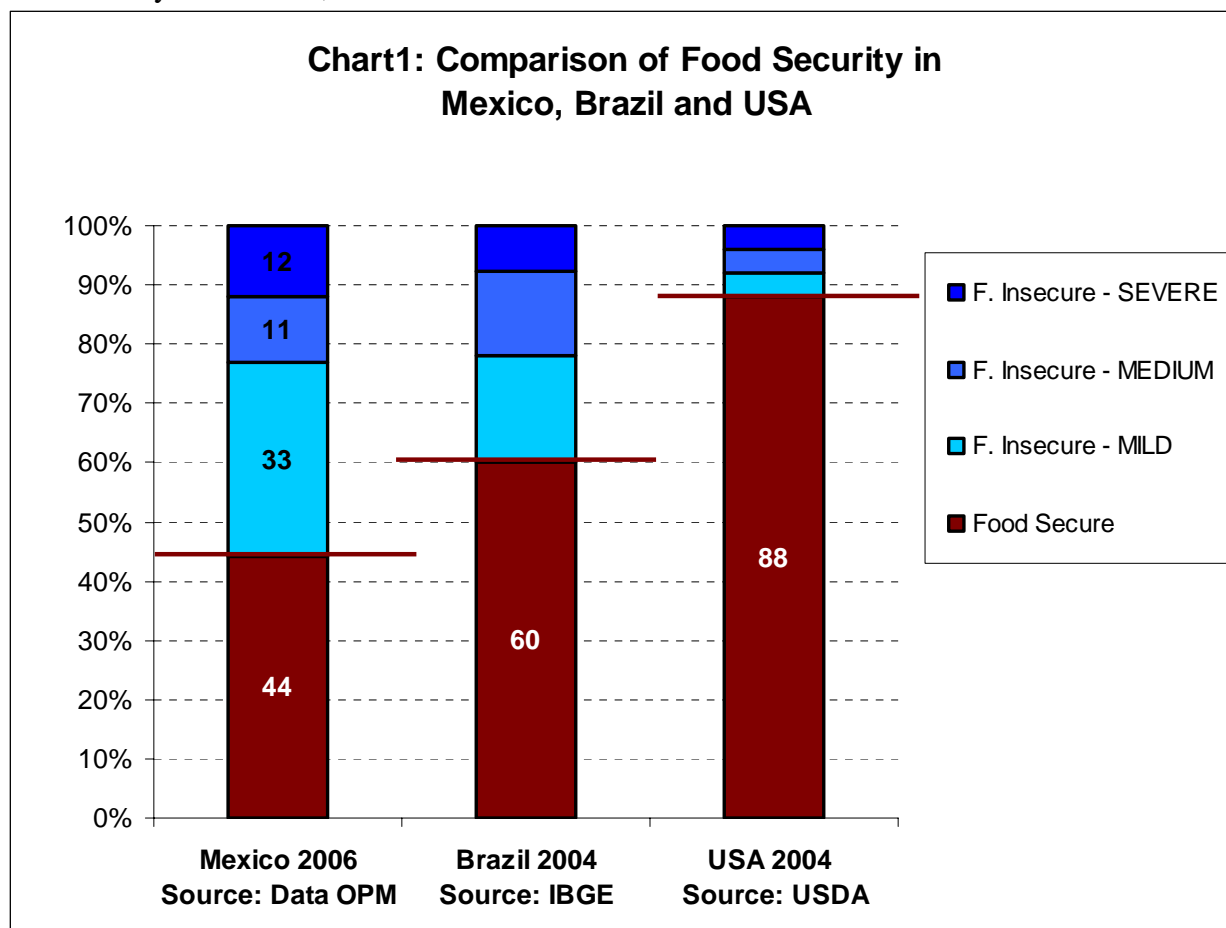
Gini index: a measure of inequality between 0 (everyone has the same income) and 100 (richest person has all the income)

MLD index: stands for the mean log deviation. This is an index of inequality, given by the mean across the population of the log of the overall mean divided by individual income.

Watts' poverty index: This is the mean across the population of the proportionate poverty gaps, as measured by the log of the ratio of the poverty line to income, where the mean is formed over the whole population, counting the nonpoor as having zero poverty gap.

In the year 2000, while the richest 10% of the population accumulated 43.1% of the total income, the poorest 20% had only 4.2%. Such disparities are a burden for development.

Before we proceed, one more indicator is discussed. “The concept of Food security implies: [that] all people at all times have both physical and economic access to enough food for an active, healthy life; ... the ability to acquire food is ensured; ... and the food is obtained in a manner that upholds human dignity.”⁹ The scale to measure food security was first validated in Mexico in 2003 (Paras and Escamilla) and the first national measurements was conducted in February 2006 by Data – OPM, a private survey research firm. Chart 1 shows the distribution of food security for Mexico, Brazil and the USA.



The results show that in Mexico less than half (44%) of the households achieves the status of ‘food secure’; the rest is classified in one of three levels of food insecurity: 33% mild (economic stress); 11% medium (not all members of household have access to enough food all the time) and 12% severe (one or more members suffered hunger in the last three months – hunger is defined as not eating any kind of food during 24 hours). When compared to the other two countries we see that Mexico has a significantly worse distribution. Yet another indicator –a proxy of the inequality of access to resources-- of the unjust conditions that still prevails.

⁹ Taken the World Health Organization regional office in Europe:
<http://www.euro.who.int/nutrition/Security/SecTop> (accessed on September 4, 2006)

4. Catholic Church slowly becoming less attractive and less influential.

That the Church is becoming less attractive and less influential is a harsh claim but one that has to be voiced. It is still considered to be the most trustworthy institution by Mexicans¹⁰. However it has experienced a decrease of persons who regularly attend church, while at the same time we see an increase in other denominations (first born Christians for example). Public opinion survey data is used here to document a significant decrease in the total influence (defined by contact and practices) that the Church has.

The survey was conducted in March of 2006 by Data – OPM; surveys results are representative of the general population of Mexico City¹¹. Of all respondents 77% declare to be of Catholic faith, however 91% of those interviewed said that their parents are/were Catholic; this means that in Mexico City there has been a generational reduction of Catholics of 14 points. Practice of religion is measured by asking how often they attend church. We identify three groups: 35% that attend religious services once a week or more often, 28% once a month and 36% that attends only in special occasions. Catholics are lagging behind in this kind of activism: half (52%) of those that declared to be of a different religion (n=65) attend religious services once a week or more often. However Catholics in Mexico seem to be very active in other religious activities that do not include a direct contact with the Church (i.e. with the institution). For example, 44% prays on a daily basis, 31% frequently, 16% rarely and 9% never.

There are also signs of strong convictions and a healthy faith: amongst Catholics: 95% firmly beliefs in Jesus, 90 in the Virgin Mary (same number for the Virgin of Guadalupe) but only 60% in eternal life¹². However there are also somewhat strong signs of disorientation as shown by misguided beliefs: 18% firmly belief in witchcraft, 19% in the *holy dead*, 14% in satanic cults, and 50% in the ‘niño pa’. Additionally the perception regarding Catholics priest appears to be weakening; especially with recent scandals of sexual misbehavior (the most recent involves a legal suit in the US against the head of the Mexican Church Cardinal Rivera for covering up an abusive priest). The survey reveals that amongst Catholics, 19% agree that priests are a bad example; 31% disagree that priests comply with celibacy; and 46% disagree that priests practice/follow their vote of poverty. Additionally 51% agrees that the Church must modernize; 57% thinks the Church makes a lot of money; 42% thinks it is not attractive for younger people; 65% thinks the use of contraceptives by the Church should be allowed; 36% that priests should be able to get married; and 43% that women should be allow to become priests. Finally is worth mentioning that amongst Catholics, 22% responded that they have a family member that has changed religious beliefs and 26% has a friend with the same condition; this is a significant number for a predominantly Catholic country like Mexico.

¹⁰ See for example the results for Mexico of the World Value Survey (University of Michigan/) or the Latin American Public Opinion Project (University of Vanderbilt).

¹¹ Sample size is 1000 interviews; margin of error is +/- 3.1% at a 95% confidence level. Interviews were conducted in person at the home of the respondent. Sample was randomly selected using a multi-stage sample procedure.

¹² Response options for these questions were: I believe with out any doubt (this is consider to be firmly beliefs); belief with some doubts, and do not believe. In the case of eternal life, 60% said they belief with out any doubt and 22% with some doubt.

While these numbers can not be taken to be conclusive evidence; they should not be taken lightly. They suggest, according to our interpretation, that the head and the body are becoming (or could become) distant of each other.

5. Unknown and unpracticed Catholic Social Doctrine¹³.

How well known and how often the SDC it is used, is a direct consequence of the previous factor. According to the US Catholic Bishops the social principles of the Church are not familiar to many practitioners; even more it is not necessarily understood that they are intrinsic to Catholic faith. According to Byron a reasons for why “the body of the Catholic social teaching is underappreciated, undercommunicated and not sufficiently understood is [because] the principles on which the doctrine is based are not clearly articulated and conveniently condensed. They are not ‘packaged’ for catechetical purposes like the Ten Commandments and the seven sacraments” (1998, 1). We couldn’t agree more. Byron suggests the following ten principles as the building blocks of Catholic Social Teaching¹⁴:

1. The principle of Human Dignity
2. The principle of Respect for Human Life
3. The Principle of Association
4. The principle of Participation
5. The Principle of Preferential Protection for the Poor and Vulnerable
6. The Principle of Solidarity
7. The Principle of Stewardship
8. The Principle of Subsidiarity
9. The Principle of Human Equality
10. The principle of Common Good

I take justice to be a content-qualifier of these ten principles. As such it is a crucial component of our understanding of the SDC. Justice as a driving value is applied to CSR within stakeholder theory with particular emphasis on the most needed within a corporation; as such it entails the principles of the SDC: dignity of the person, common good, subsidiarity and solidarity. Of most importance here are the reflexions of the universal destination of goods, private property and preferential option for the poor contained within the common good principle. The principle of subsidiarity is conceptually contained in the above description of the sustainable development paradigm. Hence it is taken as a natural bridge and a guide between corporate strategies and SDC. The problem however, is that it losses relevance whenever the narrower globalization paradigm prevails and/or when it is unknown (and unpracticed) by Catholics.

According to the Victor Chavez academic coordinator of the Mexican Institute of Social Catholic doctrine, the great majority of business owners are unaware of the SDC¹⁵. He also points out that Catholic Action (an influential social movement) lost its presence and relevance after the 1930’s due to the Cristero war, when the Church decided to step away from the conflict (and

¹³ The reflexions regarding the SDC presented here are the result of my reading of the Compendium of the Social doctrine of the Church and aim at following its spirit of promoting an integral and solidary humanism. My discussion is focused mainly on the content of chapters one, two, four, six and seven of the compendium.

¹⁴ Byron recognizes that is not by any means an exhaustive list of principles; rather a first draft to start a discussion.

¹⁵ Personal in-depth interview with Victor Chavez Huitrón; academic coordinator of the IMDOSOC.

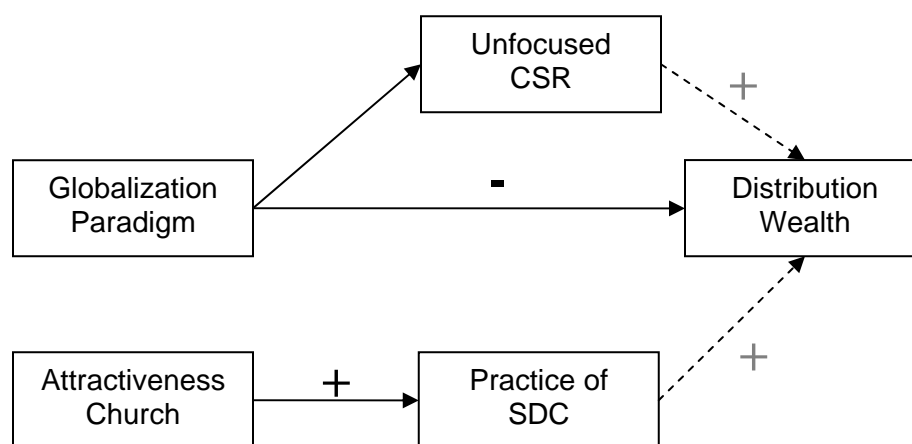
from social and political matters). This triggered a period of *less* presence of the church from 1929 to the late 70's; that had as one of its consequences a lack of teaching and knowledge of SDC¹⁶.

Causal relation between the five factors

The causal relation between the five factors is shown in diagram 1. The diagram presents the prevailing conditions as discussed above. It is theorized that the dominant globalization paradigm has a direct and significant impact on how corporations define and implement their CSR actions and it greatly influences (negatively) the distribution of wealth and opportunities. As discussed above, if companies are concentrated in profit maximizing practices, it is not very likely that they would neither be the cause of a better distribution of wealth (rather the opposite) nor that they would implement CSR programs that would have such concern as an objective. We recognized that CSR is an increasing practice; however we see it as *unfocused* in the sense that it does not necessarily take into account the demands of those most needed (not a normative stakeholder approach) and it does not aim at resolving structural deficiencies of countries like Mexico.

The practice of SDC is conceived as being directly (positively) impacted by the attractiveness of the church. Unfortunately, if it is true that the Church is becoming less attractive (as discussed above), then its chances of impacting distribution of wealth are minimal. The dotted lines going from CSR and SDC to distribution of wealth imply an existing but weak (positive) impact.

Diagram 1: Causal Relation between Factors



¹⁶ For a detailed discussion of these matters see: *El Aguijón del Espíritu: historia contemporánea de la Iglesia en México (1892 – 1992)* by José Miguel Romero de Solís.

The case of Paras, Ulibarri and Partners as an example of a just corporation

PRINCIPLES, ONCE INTERNALIZED, lead to something. They prompt activity, impel motion, direct choices. A principled person always has a place to stand, knows where he or she is coming from and likely to end up. Principles always lead the person who possesses them somewhere, for some purpose, to do something, or choose not to.
William J. Byron

Paras, Ulibarri and Partners (PUP) is a consulting firm with principles. Their founders, Alberto Paras and Salvador Ulibarri were prompted to act based on their beliefs; they knew where they stood and knew where they wanted to go. They lead a live full of purpose and got somewhere; they made a difference.

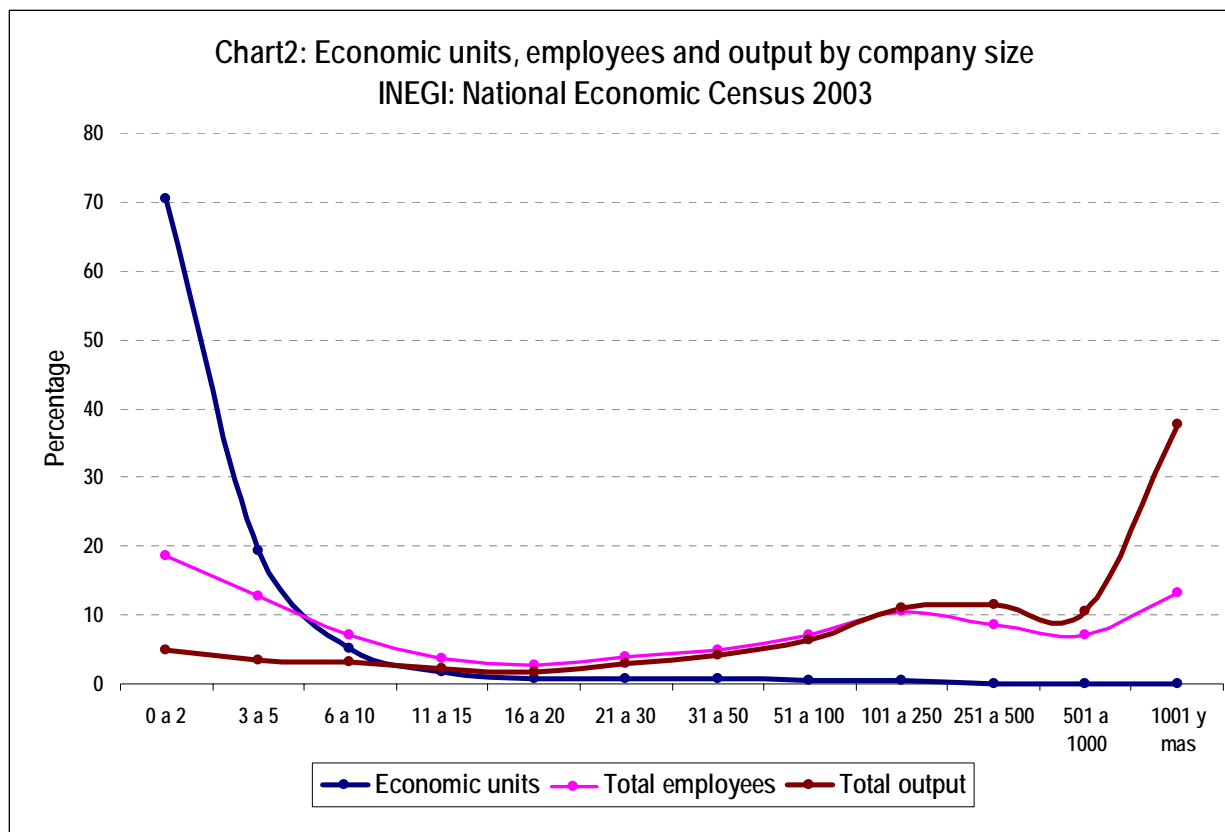
The PUP case is presented in this section to illustrate an alternative solution to the problems of unjust distribution of wealth and opportunities; one that involves the five factors discussed above. The case is documented by personal in-depth interviews with the founders of the Paras, Ulibarri and Partners a medium/small size consulting firm. Over 98% of businesses in Mexico are companies that employ less than 51 employees (see blue line in chart 2). However a large part of that group is constituted by (micro) firms with 2 or less employees here considered as self-employment. Hence we consider PUP to be a potentially representative case of the 27.5% of the firms in Mexico (those that employ between 3 and 50 persons). This group is responsible for 35.1% of total employment (pink line) and 18% of total economic output (brown line).

Together these figures show the impact of medium/small companies in Mexico. In this sense PUP is a representative of a large number of *trees* in Mexico's economic forest. In this type of companies, as it is the case with PUP, decision making is highly concentrated. Therefore changes can be made or policies implemented by convincing fewer people than would be the case in large (public) corporations.

PUP has, as any business should, a clear objective to maximize profits. However from its origins, by design and greatly influenced by SDC, was conceived as a socially just corporation by establishing specific rules that define the use of resources as well as the distribution of profits. The two initial partners¹⁷, Alberto Paras and Salvador Ulibarri are active catholic individuals. They both recognize that they were influenced by a Spanish priest that convinced them to form a base community with other friends. This was the *seed* that would later give fruit to a successful, profitable and socially just business enterprise. Both partner left their jobs and formed PUP which started out as a 60-40% profit sharing scheme and gradually and aggressively became more horizontal in terms of sharing income¹⁸.

¹⁷ Alberto Paras founded PUP on July 16th 1970. That first year they had three employees. Ulibarri would join Paras one year later; for our purposes and because they shared and implemented the same principles, Paras and Ulibarri are taken as the founding members.

¹⁸ At the beginning Paras received 60% and the other 40% was distributed amongst the rest of the employees/partners.



The most striking feature of the PUP consulting firm is the way distribution of income was arranged: the highest paid member of the company could only receive 10 times more (after tax) than the lowest member; regardless of position, situation, education or years in the job. Additionally, they implemented a profit sharing policy well above law requirements and industry standards. The first year of operations, Alberto Paras received 60% of the profits; after a decade that percentage had been reduced to 13%; with out any kind of charges for that transfer of resources. Together these policies are taken as focused normative stakeholder actions that constituted an important *Transfer of Resources* amongst members of PUP.

PUP recognized well above any industry standards the legitimate right of employees as one of the mains stakeholders of the company. The policies implemented at PUP were set to have benefits for all the stakeholders but targeted the most proximate and important for the company. They benefit the owners (i.e. partners) as they have an impact on productive and increase the likelihood of long-term profitability. But they are proportionally more favorable to lower levels employees, hence making it a mixed but mainly bottom-up approach. In terms of distribution of income and profit sharing, PUP is as horizontal as a corporation can be.

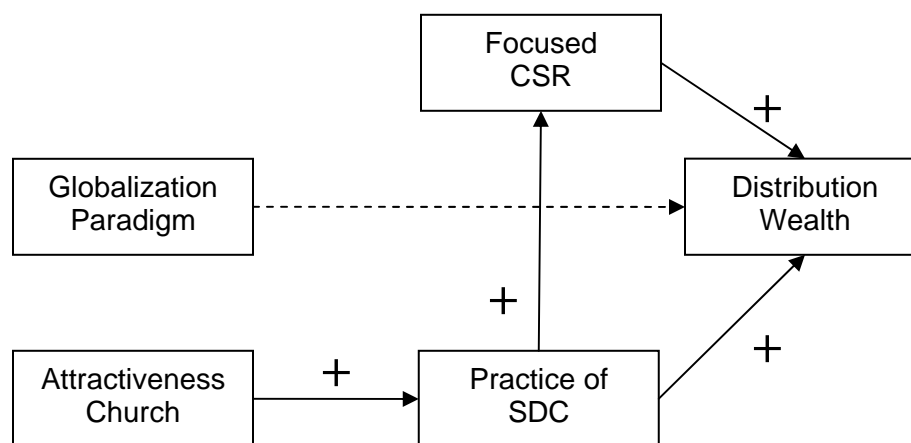
What impact did the Transfer of Resources policies had on the targeted stakeholders? In the words of Ulibarri “there was always a pie to share”: profit sharing for a messenger (one of the lowest paid position in PUP) was equivalent to its annual income. Paras’ remembers a year when the firm won a litigation worth 4 million dollars; of this money the partners each received \$500 thousand and the lowest paid member of the firm \$40 thousand; it was a great satisfaction

for everyone when they learned that he had build his home with that extra income. A typical firm could have chosen to keep this money exclusively for the owners. According to Paras they shared profits “with the ones that received less income because they deserve it; not because of productivity. We based our decisions on the Church’s social doctrine, mainly on *Rerum Novarum*, *Quadragesimo Anno* and *Populorum Progressio*...theory is that wealth needs to be shared as it is generated. Never, did someone at the firm received less than the previous year; the pie kept getting bigger. We did not wait to accumulate wealth in order to share it”. This can be taken as partial evidence of the Social Venture Network’s proposition “that business can be a potent force for solving social problems” (SVN 1999). A projected impact for Mexico is discussed in the next section.

Their work would later be recognized. PUP won the USEM’s (Mexico’s UNIAPAC) award for the ‘years most socially responsible businesses and later Paras would receive the Eugenio Garza Sada award. Unfortunately as he recognizes “they gave us awards but they didn’t tried to imitate us”.

As shown in diagram 2 the effect of the PUP income policies have a direct impact on the distribution of wealth. They operate under the same markets forces, the difference however, is that SDC has a larger impact on CSR and wealth distribution than the globalization paradigm.

Diagram 2: the impact of CSD in the Paras, Ulibarri and Partners case



One of the most interesting learning lessons from the PUP is what happened after Alberto and Salvador retired in the 1990. The PUP consulting firm has continued to growth over the years and by any standard can be considered a very successful business. By the time of their retirement the company gave employment to 40 individuals and had over 300 clients. They kept a reasonable life-time pension¹⁹ and gave the company to the younger partners formed (and mentored) by them over the years (yet another example of transferring resources). It is not clear whether or not one should expect that the same transfer of resources policies would be kept after Alberto and Salvador left. On the one hand one could expect that the younger partners had

¹⁹ Ulibarri received the pension only for five years.

learned and internalized the same principles of justice thought by example by the founding partners. On the other, they were now in charge of decision making and could opt to favor a shareholder perspective over a normative one (after all they became the new shareholders).

There is no way of documenting the differential average wages in Mexico to compare PUP to other companies. As previously discussed, in the early years PUP implemented a 10-to-1 wage/profit differential. In the year 2005, 15 years after the retirement of the two founding partners the partner that made receive more money made 500 times more than the lowest paid member of the firm. PUP still pays its employees well above sector standards; however while the highest paid partner today earns slightly below \$4 US million a year; the lowest receives only \$8 thousand. If the policies implemented at PUP from the beginning were still in place today, it would be an income of \$400 thousand for partners and \$40 thousand for the lowest paid member. We are not able to provide any evidence, but our belief is that the average differential in Mexico is above the 500-to-1 difference; and in many maybe “greater than 1000-to-1” as Alberto Paras acknowledges.

The story could be considered to have a sad ending; however there are important lessons to be learned. To us the fact that the younger partners decided to become *normal globalized owners* is evidence of at least three things: (a) decision making for the medium/small size companies is concentrated, a few key players make all the difference; (b) principles greatly impact actions, the younger partners accepted previous policies but choose not uphold them when it was up to them; they prove to be seeds from a different tree; (c) the key control variable here is the influence that the SDC had on Alberto and Salvador and appear to be non-existent or less influential with the new owners.

Conclusion: Transference of income as a solution

For the time will come when people will not tolerate sound doctrine but, following their own desires and insatiable curiosity, will accumulate teachers and will stop listening to the truth and will be diverted to myths (2, Tm 4,2-5).

Up to here we have discuss that the prevailing market conditions and the current situation of the Church, as perceived by Catholics, is unfavorable to the distribution of wealth and opportunities. It has been argued in one part that profit maximizing principles guide business decisions and negatively impact the transfer of resources form the rich to the poor. On the other, that the Catholic Church is becoming less influential in terms of contact and influence and this leads to a practically unknown and unpracticed SDC.

Distribution of income is a ‘cero sum’ game. For few to have much, many have to receive little. Three actions can reverse inequality. The first is by government decree and/or by populist measures; it is short lived and prejudicial in the long term. The second is investment in education to increase human capital that eventually would lead to increase competitiveness of larger proportions of the population and to a more just distribution of opportunities. This is a long-term solution; one that is being implemented in Mexico and that can not be abandoned. It is necessary as some newly industrialized countries in Asia have taught us. The third is by private decree of practices as the one illustrate in the PUP case. This alternative should be viewed as

complementary and as one having a far reaching effect (on those benefited) and as a medium-term solution. In the ‘cero-sum’ and within the current (structural) situation in Mexico, the dices are loaded and beneficial to only a few. Something must be done to change this odds.

“The unequal distribution of wealth remains the underlying cause of poverty throughout Latin America” (Osava 2005). The most recent UNDP Human Development Report “suggest that sustainable progress in human development can only be made once the inequality of access to resources and of the distribution of power within and between countries can be corrected” (Martens 2005, 1). This is a vicious circle where inequality reduces economic growth and consumption which in turn enhances inequality. Unfortunately as we have tried to show, Mexico has significant levels of both poverty and inequality.

“For a CSR action to be undertaken by a company, the benefits of engaging in this activity must offset the higher costs associated with the additional resources that must presumably be allocated for the firm to achieve CSR status” (Morrison-Paul and Siegel 2006). Is there any non-economic reason why some business owners decide to have a healthier transfer of money? There is a political reason. A World Bank report on South Asia warns that economic inequalities pose “grave dangers to India’s political and social stability as well as national integrity. Political turmoil, criminal activities and separatist tendencies are bound to gain in strength. In turn, they are bound to affect future economic growth and development adversely” (Mishra 2006, 2). Mexico’s recent elections have shown that we live in a divided and polarized country. The criterion for the division appears to be related to poverty and distribution of wealth. The candidate for a coalition of leftist parties campaigned under the slogan “For the good of everyone, the poor must go first”. He came in second place with a minimal difference of 0.56% of votes. This is additional evidence that there is a clear social demand and concern for the current situation. Other Latin American countries have elected political leaders that have promised to make poverty and inequality their priorities. It is unclear whether or not Mexico could experience social unrest if the current trends continue; however we see some sign of warnings in recent political and social manifestations against the status quo. “The opposite of rich and powerful is poor and powerless...preferential protection must move towards those affected adversely by the absence of power and the presence of privation. Otherwise the balance needed to keep society in one piece will be broken to the detriment of the whole.” (Byron 1998) The Catholic Church and corporations are viewed as social powers with sufficient capacity to aid in the articulations of the demands from society²⁰. It is in this sense that small/medium business owners have the ability to impact societal outcomes, but more so, it is the Church that has an opportunity to try to influence as many owners as it can. A paradox indeed, as it is a potentially attractive strategy to accomplish its *preferential option for the poor*. “In countries like Brazil, which has the most unequal distribution of wealth in the world, the transference of only five percent of the income of the wealthiest 20 percent of the population to the poorest 20 percent would reduce the poverty rate from 22 percent to seven percent” (Osava 2005). This illustrates how powerful transference of wealth can be for development. Is it simple? Is it possible? We don’t pretend to have indisputable answers for these questions; we will argue however, that it does not seem very complicated or impossible as the PUP case illustrates.

²⁰ “Social power is the ability to influence the outcome of societal processes relevant for the solution of public issues, independent from political solutions” (Dubbink 2005, 55 in van der Putten).

Is this all only good wishes? Maybe, but lets play around with some possible projections. We know that there are 1,157,505 medium/small size companies in Mexico (3 to 50 employees); so this means that there are at least the same numbers of business owners. Assume that 65% of these owners are catholic; they would constituted the total market size of 752,358. Assume that a reasonable well performed strategy in part of the Church has a positive impact on 35% of them. Assuming that in average each owner employs 10 persons, we could project that the potential impact of the strategy would benefit 2,633,323 houses (assuming each of them is a head of household). We know that the average number of individuals per household is 4, hence the strategy would have an impact of 10,533,292 number of Mexicans (roughly 10% of the total population). Cut that number in half just to be conservative and we still have a cause worth fighting for. Especially, since they would be target the less-favored under today's conditions.

Jesus' only weapon was the word of truth. Could not the Church be as effective in transforming today's social conditions by using the same instrument? The Church must communicate its principles and make sure they are interiorized by as many Catholics as possible. We most aim at creating a social epidemic of such proportions that the face of inequality is never again seen. The Church most speak the words *that are hers*: justice, preferential option for the poor and the common good. These *words* should be clear, load and targeted to the ears business owners who can make a difference. They should be strong enough to become internalized and transformed into actions as Alberto and Salvador once did.

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