

# **Sociálno-ekonomická revue**

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## DATABASE OF CIRCULAR ECONOMY ARTICULATED TO SUSTAINABLE DEVELOPMENT IN MEXICO

Patricia RIVERA ACOSTA, Martínez Torres ROSA ELIA,  
Huerta González JUANA MARÍA, Hugo de la ROSA CONDEY

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### Abstract

Population growth has been one of the most frequently mentioned causes to explain the overexploitation of natural resources and has been determinant of the current global condition, which is characterized by the increase in the volume of resources exploited, the total consumption of resources and the generation of waste and emissions (SDG, 2015). In this context, research is proposed, with the aim of reviewing and identifying the theoretical bases of the Circular Economy and sustainable development (GRI Standards) to design a qualitative measurement database that allows diagnosing and articulating initiatives, practices, actions and strategies that are being developed and implemented in companies, aimed at achieving the transition to the paradigm of the circular economy, since this represents an opportunity to organize production and consumption in the global economy, as it promotes the four Rs: Reduce, Reuse, Recycle and Recover. The design of the research is in the first stage, of documentary type with descriptive and exploratory scope. It should be noted that various national and international databases were consulted for the search and analysis of information. In the second stage, the design of the database is proposed through a technical methodology, to be used as a tool for sustainability-oriented companies. The preliminary conclusions of this study show how the circular economy is articulated with the dimensions of sustainable development: the economic, social and environmental dimensions of the (UN (2015)). It is intended that companies implement the database, as a sustainability tool aligned with the circular economy and Sustainable Development (UN, 2015) and represents an opportunity to give the planet a break.

### Key words:

Circular economy, GRI, Environment, Data base, Articulation

JEL Classification O23, , O44, O13

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### Introduction

The environmental crisis has been the subject of discussion and debates identified in the 2030 Agenda and suggested from the Sustainable Development Goals to overcome it. The proposals for actions of International Organizations such as the United Nations (UN), the United Nations Environment Programme (UNEP), the Organization for Economic Cooperation and Development (OECD), the Economic Commission for Latin America and the Caribbean (ECLAC) and the European Union (EU) have managed to enter the political agendas of most countries through their governments. academia, civil society organizations and private initiative incorporating them in this process towards the paradigm shift of circular economy and begin to promote innovations with environmental and sustainability criteria in

products, processes, services (Porcelli and Martínez, 2018).

### Literature review

#### 1. Background to sustainability

Before starting with the topic of sustainability, it is necessary to refer to the background that promotes sustainable development, clarify and identify the reasons for this need. Sustainable development is defined in the report Our Common Future, published by the World Commission on Environment and Development in 1987 as "that which meets current needs without compromising the ability of future generations to meet their own needs" (cit. in Gómez, 2012, p.61). However, this definition of almost 30 years ago has become obsolete, because that long-awaited future has become our

present, where the effects of climate change are already experienced and the amount of resources that new generations will have are uncertain; According to Hernández (2009), economic development has been responsible for this situation, privileging an industrial model that pursues high growth rates causing the deterioration of nature, which has its origins for more than 200 years with the Industrial Revolution. The production, distribution and consumption of this model are the cause of environmental pollution, deforestation and loss of biodiversity. In Rio de Janeiro, Brazil, the Heads of State renewed their commitment to the eradication of poverty, the modification of unsustainable patterns and the promotion of sustainable consumption and production patterns, the protection and management of the natural resource base of economic and social development as indispensable requirements of sustainable development (UN, 1992, 2012). It should be added that the importance of the active participation of the public, private, private

initiative, scientific and technological community in sustainable development is highlighted.

The United Nations (UN) in September 2015, was approved at a historic summit held in New York City, the 2030 Agenda for Sustainable Development, which stands out as a transcendental agenda because it states that "it will serve as an action plan for the international community and national governments to promote prosperity and common welfare in the next 15 years". This agenda proposes 17 objectives with 169 goals of an integrated and indivisible nature that contemplate the economic, social and environmental dimensions.

The Global Reporting Initiative (GRI) guide was designed for companies to prepare their sustainability reports and includes three dimensions: economic, social and environmental, as shown in Table 1. The GRI's long-term objective is to integrate these three categories, understanding that sustainable development can only be achieved through their proper integration.

Table 1. Elements of the sustainability report of companies (GRI)

Economic	Environmental	Social
<ul style="list-style-type: none"> <li>• Market presence</li> <li>• Economic impacts</li> </ul>	<ul style="list-style-type: none"> <li>• Impact of processes, products and services on the environment.</li> <li>• Efficient use of natural resources in production: raw materials, water and energy</li> <li>• emission level</li> </ul>	<ul style="list-style-type: none"> <li>• Health and safety in the workplace.</li> <li>• Employee stability.</li> <li>• Estabilidad de los empleados</li> <li>• Labor rights, human</li> <li>• Relationship and transparency in the community</li> </ul>

Source: Own elaboration based on the GRI Guide

## 2. Environmental dimension of sustainability reports

The environmental dimension of sustainability refers to an organization's impacts on living and inert natural systems, including ecosystems, soil, air, and water. Environmental indicators cover performance in relation to input (materials, energy, water) and output (emissions discharges, waste) flows. They also include performance in

relation to biodiversity, environmental legal compliance and other relevant data such as expenditures of an environmental nature or the impacts of products and services; adding the following environmental aspects: materials, energy, water, biodiversity, emissions, discharges, waste, products and services, regulatory compliance, transport finally general aspects (UN, 2011), condensed in Table 2.

Table 2. Environmental dimension of the GRI

Categories and coverage of the circular economy and sustainable development (indicators)	Environmental dimension	Circular economy 4 R's Recycle Remanufacturing Reuse				Main initiatives, activities, strategies used in the private initiative and HEIs related to the GRI and LA EC
		R	R	R	R	
Materials used by weight and volume.	Materials	Sustainable use of resources				Efficient Resources Usage
Percentage of materials used that are recovered materials.	Materials					Remanufacturing Support
Direct energy consumption by primary source.	Energy	Sustainable use of resources				Energy consumption Organization Use of renewable energy
Indirect energy consumption by primary source.	Energy	X				Energy consumption Organization
Energy savings due to conservation and efficiency improvements.	Energy	X				Energy consumption Organization Use of renewable energy
Initiatives to provide renewable energy efficient products and services and reductions in energy consumption as a result of such initiatives.	Energy	X				Energy consumption Organization Use of renewable energy
Initiatives to reduce indirect energy consumption and reductions achieved in such initiatives.	Energy	X				Energy consumption Organization
Total water abstraction by source.	Water	Sustainable use of resources				The organization have a water collector
Water sources that have been significantly affected.	Water	X				The Organization have a recycling and water treatment plant
Percentage and volume of recycled and reused water.	Water	X				The organizations have recycled and reuse water
Description of land adjacent to or located within protected natural areas or areas of high biodiversity not protected.	Biodiversity	Protection of the environment and biodiversity and restoration of natural habitats				Reforestation Biodiversity protection zone
Description of the most significant impacts on biodiversity in protected natural areas or in areas of high biodiversity not protected.	Biodiversity	X				Strategies to reduce impacts on biodiversity
Protected or restored habitats.	Biodiversity	X				Strategies to protect and restore habitats
Strategies and actions implemented and planned for the management of impacts on diversity.	Biodiversity	X				Strategies implemented for the management of impacts on diversity
Number of species, disaggregated according to their danger of extinction and whose habitats are in areas affected by operations according to the degree of threat of the species.	Biodiversity	X				Does not apply
Total and indirect greenhouse gas emissions by weight.	Emissions, discharges and waste	Climate change mitigation and adaptation				Reduce Environmental Emissions and waste reduction
Other indirect greenhouse gas emissions, by weight.	Emissions, discharges and	X				Reduce Environmental Emission

	waste		s and waste reduction
Initiatives to reduce greenhouse gas emissions and reductions achieved.	Emissions, discharges and waste	X	Reduce Environmental Emissions and waste reduction
Emissions of ozone-depleting substances, by weight.	Emissions, discharges and waste	Prevention and pollution	Reduce Environmental Emissions and waste reduction
NO AND SO and other significant air emissions by type and weight.	Emissions, discharges and waste	X	Reduce Environmental Emissions and waste reduction
Total discharge of wastewater, according to its nature and destination.	Emissions, discharges and waste	X	Reduce Environmental Emissions and waste reduction
Total weight of waste managed, by type and methods of treatment.	Emissions, discharges and waste	X	Reduce Environmental Emissions and waste reduction
Total number and volume of the most significant accidental spills.	Emissions, discharges and waste	X	Reduce Environmental Emissions and waste reduction
Weight of transported, imported, exported or treated waste considered hazardous.	Emissions, discharges and waste	X	Reduce Environmental Emissions and waste reduction
Identification, size, protection status and biodiversity value of water resources and related habitats, significantly affected by water and water discharges.	Emissions, discharges and waste	Sustainable use of resources Protection of the environment, biodiversity and restoration of natural habitats	Reduce Environmental Emissions and waste reduction
Initiatives to mitigate the environmental impacts of products and services degree of reduction of that impact.	Products & Services	Sustainable use of resources in the value chain Sustainable consumption	Process Optimization Product Lifecycle Extension Assets Lifecycle Extension
Percentage of products sold and their packaging materials, which are recovered at the end of their useful life, by product categories.	Products & Services	Pollution prevention Sustainable use of resources Sustainable consumption	Process Optimization Product Lifecycle Extension Assets Lifecycle Extension
Cost of significant fines and number of non-monetary penalties for non-compliance with environmental regulations.	Compliance		Productive Cost Environmental costs due to legal non compliance
Significant environmental impacts of transportation and other goods and materials used for the organization's activities, as well as transportation of personnel.	Transport	Sustainable uses of resources in the value chain	Supply Chain Interconnection
Breakdown by type of total environmental expenditure and investment.	General		Improved Production Flexibility Efficient Resources Usage Assets Lifecycle Extension

Source: Own elaboration based on the GRI Guide

### 3. Circular economy

The intervention of human beings on the planet has reached the limit, endangering human existence itself. Global warming is the one of greatest concern worldwide; population growth and consumption patterns are leading to an increase in demand for natural resources, the International Energy Agency warns that energy consumption will rise by 30% globally by 2040; However, we are experiencing an energy crisis reflected in record prices, fuel shortages, increased poverty, slowing economies (IEA, 2023), which became a global energy crisis after the Russian invasion of Ukraine in February 2022 due to the increase in the price of natural gas and because of it electricity in some markets. Therefore, it is necessary to take advantage of natural resources responsibly and avoid irreversible damage. In turn, the 2030 Agenda (SDG) and in the actions of the European Commission (EC) to support the circular economy, sustainability is linked to the problems related to modern societies and the planet.

The circular economy aims to change the linear model of use and throw away for one that resembles the circular system, which presents the biological cycle in nature in a way that optimizes the use of resources and reduces waste (Porcelli and Martínez, 2018; Arroyo, 2018; WBCSD, 2022). Its goal is to retain as much of the resources, products, parts and materials as possible to create a system that allows for long life, reuse, conditioning, remanufacturing and recycling.

On the other hand, the paradigm of the circular economy, emphasizes the production and management of waste, as the core of any economic activity within the framework of the global economy through the (SDGs), implies: the reduction of the consumption of raw materials, the transformation of waste into secondary raw materials, the promotion of high rates of reuse and recycling, the reduction of energy and water consumption and the reduction of pollution that can be caused by waste. It is necessary to refer to (Pagés, 2021; Belda, 2018) who say that the circular economy addresses the growing

challenges related to the overexploitation and overconsumption of natural resources faced by companies and economies (e.g. overfishing, deforestation, water scarcity, the case of fossil fuels).

Principles of the circular economy.

The circular economy as pointed out by the MacArthur Foundation is restorative and regenerative by design and aims to always keep products, components and materials at their highest levels of use at all times, distinguishing between technical and biological cycles.

According to the Ellen MacArthur Foundation, the circular economy is based on three principles:

1. Preserve and enhance natural capital, controlling finite stocks and balancing renewable resource flows. "When resources are needed, the circular system selects them sensibly and chooses technologies and processes that use renewable or higher-yielding resources."
2. Optimize the performance of resources, through circulation of products, components and materials in use, to their maximum utility at all times in both technical and biological cycles. "This involves designing to remanufacture, refurbishing and recycling to keep technical components and materials circulating and contributing to the economy (internal loops), this is to increase the useful life of products and optimize reuse." It should be added that circular systems also promote biological principles to re-enter the biosphere safely so that decomposition results in more valuable materials for a new cycle. In the life cycle, products are deliberately designed to be consumed or metabolized by the economy and regenerate new resource value. In the case of biological materials, the essence of value creation is the opportunity to extract additional value from products and materials by cascading them through other applications. See table 3.

Table 3. Principle 1 of the circular economy

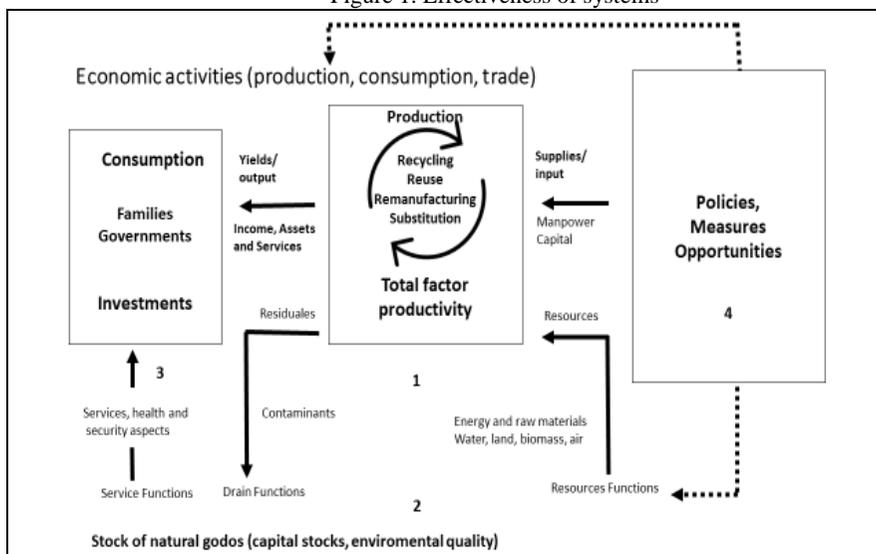
Life cycles	Industry and manufacturing materials	Technical cycles
Agriculture and harvesting	Materials and manufacture of parts	Recycle
Biochemical raw material	Manufacture of the product	Reconditioning and remanufacturing
Soil restoration	Retailers and Service Providers	Reuse and redistribute
Biogas	Consumer/user	Maintain/Share
Anaerobic digestion and composting		
Biochemical raw material extraction		
Gathering		
Energy recovery		
Dump		

Source: Own elaboration based on (MacArthur Foundation, 2010; EU, 2012, 2016)

3. Promote the effectiveness of systems by detecting and eliminating negative external factors from the design. This principle includes reducing damage to systems and areas such as food, mobility, reception

center, education, health and leisure and managing external factors such as land use and noise, air and water pollution or the discharge of toxic substances (Figure 1.).

Figure 1. Effectiveness of systems



Source: Own elaboration based on (MacArthur Foundation, 2010; EU, 2012, 2016)

In this sense, the new paradigm of the circular economy is structured in a transversal way by deploying its results throughout the production

cycle "the proposed actions support the circular economy at each stage of the value chain, from design, production, to consumption, repair,

reprocessing, waste management and secondary raw materials are reintroduced into the economy" (EC, 2015, p.3).

### Goal and Methodology

The design of the research in the first stage is documentary, with descriptive and exploratory scope, the method used to propose the entries for the design and development of the database for this applied research is the review and qualitative analysis of the GRI and the circular economy (EC) which allowed the researchers to identify the dimensions proposed by the GRI, in particular the environmental dimension and, environmental indicators related to the principles of the circular economy (Recycle, Renew, Reuse and Repair).

In the second stage will proceed with the development of the database, central objective of this research, it is proposed to generate a programmable technological platform through the METPROD application presented in Figure 2, which has a software architecture called Model View Controller (MVC). According to Sommerville (2011), the MVC architectural pattern has three logical components, all of which relate to each other. You have the Model component, which works with the data and its operations within the system, the View component allows the way the data is presented to the user and, the Controller component establishes the manipulation by the user. For example: press some specific keys, use the mouse, which will have to go to View and Model.

### Findings

The results of the research are presented, which for the purposes of comprehensive research, are considered preliminary. As a result, after the documentary analysis, the articulation of Circular Economy Indicators under the theoretical foundation described versus the GRI indicators in the environmental dimension is obtained. Through the analysis of different groups of CE indicators, the ones that best adapt and contribute to a better qualitative measurement through actions, initiatives or strategies that can be applied in companies will be chosen. It is worth mentioning that the indicators of the GRI and the EC are quantitative and companies are not willing to respond to an instrument of this nature nor have they been evaluated according to these

indicators. What is intended with the design of the DB is to facilitate and dispose of the information to develop a diagnosis that allows us to identify the strategies, actions, and initiatives and have a clear vision of the changes that are required to contribute to a circular transition of the actors: governments, private initiative, civil society and citizens in addition to the sectors: primary, secondary and tertiary. It is proposed to measure the circular economy according to the dimensions of the life cycle of products and / or services; in which the structure of the 6Rs: Reduce, Reuse, Recycle and Recover, Redesign and Remanufacture (Jawair, et al., 2016), articulated with the environmental dimension of the GRI, will be considered for the design of the database.

### Conclusion

The current trend of the global community is to modify the linear model of consumption for that of the circular economy, which also allows for economic development that reduces poverty levels and increases the well-being and quality of life of the inhabitants without compromising the planet (SEMARNAT, 2019). The development of renewable energies is essential if we want to stop climate change and fight for all the inhabitants of the earth to have electricity; Unlike fossil fuels, renewable energies are inexhaustible, varied and among all of them they are potentially viable anywhere on the planet; But most importantly, renewable energies do not pollute.

In short, the Circular Economy as a sustainability strategy has been gaining momentum in companies and governments in Europe, in particular, in Mexico City, the Circular Economy Law was approved in 2023 which has resulted in environmental opportunities and compliance with the SDGs in terms of lower emissions, Lower consumption of raw materials, preservation and improvement of soil productivity, a reduction of negative external factors, mobility, waste management, clean energy uses, etc. If the government of Mexico makes a diagnosis towards a circular economy, the impact will be felt throughout society and in groups or stakeholders. In short, the researchers consider that locally and regionally the main actors: companies, HEIs, NGOs, local governments, citizens are committed through some strategic actions, initiatives can

facilitate the transition to the new paradigm of EC.

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## ECONOMY FOR THE COMMON GOOD AND B COMPANIES, A MULTICASE STUDY OF MEXICAN COMPANIES

María Guadalupe ARREDONDO-HIDALGO, Diana del Consuelo CALDERA  
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### Abstract

Concepts associated with the Conscious Capitalism, Economy for the Common Good, Solidarity Economy or the Social Solidarity Economy (SSE) models have been developed as a proposal to make economic development a more integral process. The objective is to identify the practices of B Companies, as a proposal to conduct business from a future that observes community practices that are more humane and aware of the current reality, which generates positive impacts on the companies that apply them. This is a qualitative multi-case study, where 5 Mexican companies from different sectors have been analyzed. These companies have established their business models based on the certification of B Companies. The multi-case studies are nested in the areas of the model: customers, community, collaborators, environment, and governance. The sources of information will be secondary, through netnography. This article analyzes websites, social networks, and blogs of the presented cases. The main findings show a commitment to environmental care, an active participation of stakeholders, as well as a positive relationship with customers and employees. The challenges for this companies are transparency and accountability, as well as their ability to align their interests to bring the common good, and not just to make short-term profits.

### Key words

B corporations, Economy for the Common Good, Social Economy, Mexican companies, multicase study

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### Introduction

In recent years, we have witnessed the deterioration of the planet and climate change. Events of a social nature, such as economic crises, have made the future less hopeful.

Knowing that the massive way we consume and produce has been at the root of many of the problems we face as a species. The desire to change this behavior has led people to look for ways to transition to a healthier and friendlier economy. Fortunately, not only for individuals, but industry alarm bells have also been ringing, and some companies have begun to wake up and take action.

While the main changes must be made by consumers, companies must be the ones to review their objectives and business practices by working efficiently, effectively, and transparently. Thus, promoting socially responsible consumption and having a more positive attitude.

Likewise, a correct business stance will encourage industrial activities and the actions of

the population to be less responsible for generating pollution, reduction, and depletion of non-renewable resources. Therefore, thinking about our well-being and that of future generations (Salmerón Lechuga, 2019; Ortega, 2022; Soria-Barreto et al., 2022).

To achieve these objectives, companies need transversal, credible, and comparable standards to support their influence, improvement, and commitment.

The objective of this article is to identify the practices of B companies as a proposal to conduct business from a future that observes community practices that are more humane and aware of the current reality which generates positive impacts on the companies that apply them. This is a qualitative multi-case study, where 5 Mexican companies from different sectors have been analyzed. These companies have established their business models based on the certification of B Companies. The multi-case studies are nested in

the areas of the model: customers, community, collaborators, environment, and governance. The sources of information will be secondary, through netnography. The information analyzed through the web pages of the presented cases are analyzed below.

## Literature review

### What are B-Corps?

The history of B-Corporations dates back to the 1970s, when economist Muhammad Yunus founded the Grameen Bank in Bangladesh, which provided microcredit to low-income people. This experience inspired other entrepreneurs to create businesses with a similar focus, leading to the emergence of the social enterprise movement and, subsequently, to the creation of the B-company model.

In 2006, the nonprofit organization B Lab launched the B Company certification, which sets clear standards for social and environmental performance. To obtain this certification, a company must demonstrate that it meets rigorous criteria for positive impact in areas such as the environment, workers, community, and customers. It also must incorporate a legal structure that allows the company to make decisions considering not only the interests of shareholders, but also the impact on other stakeholders (Honeyman & Jana, 2022).

According to Vargas (2021) these companies are defined as Companies with Purpose, as they are committed to a sustainable and responsible business model. They seek to combine economic profitability with the solution of social and environmental problems, as well as being committed to a continuous development plan that takes into account their impact on society and the environment.

B Corporations or B Corps measure their social and environmental impact, and commit themselves personally, institutionally, and legally to make decisions considering these issues. In addition, they use the power of the market to provide concrete solutions to social and environmental problems.

They aim to have a positive impact, are accountable to all stakeholders and transparent about the extent of their business activities, and

use their strengths to build a new, fairer, more equitable and renewable economy for people and the planet.

The main characteristics of B companies are:

1. Social and environmental purpose: These companies are committed to having a positive impact on society and the environment, which can attract customers and employees who share these values.
2. Transparency and accountability: Companies B must meet high standards of transparency and accountability in relation to their social and environmental performance. This creates confidence among both consumers and investors.
3. Diversity of shareholders: Companies B may have ownership structures that allow for the participation of different interest groups, such as employees, communities, and non-profit organizations. This encourages greater diversity and participation in decision-making.

### Impact Assessment B

An impact assessment, according to System B, refers to the process of measuring and analyzing the social and environmental impact of a company. System B is an international non-profit organization that promotes Business Model B and sets standards for its certification.

In the context of Scheme B, impact assessment is carried out to evaluate and verify the performance of a company in relation to its positive impact on society and the environment. This assessment may cover different areas, such as worker well-being, environmental management, community relations, governance, and transparency.

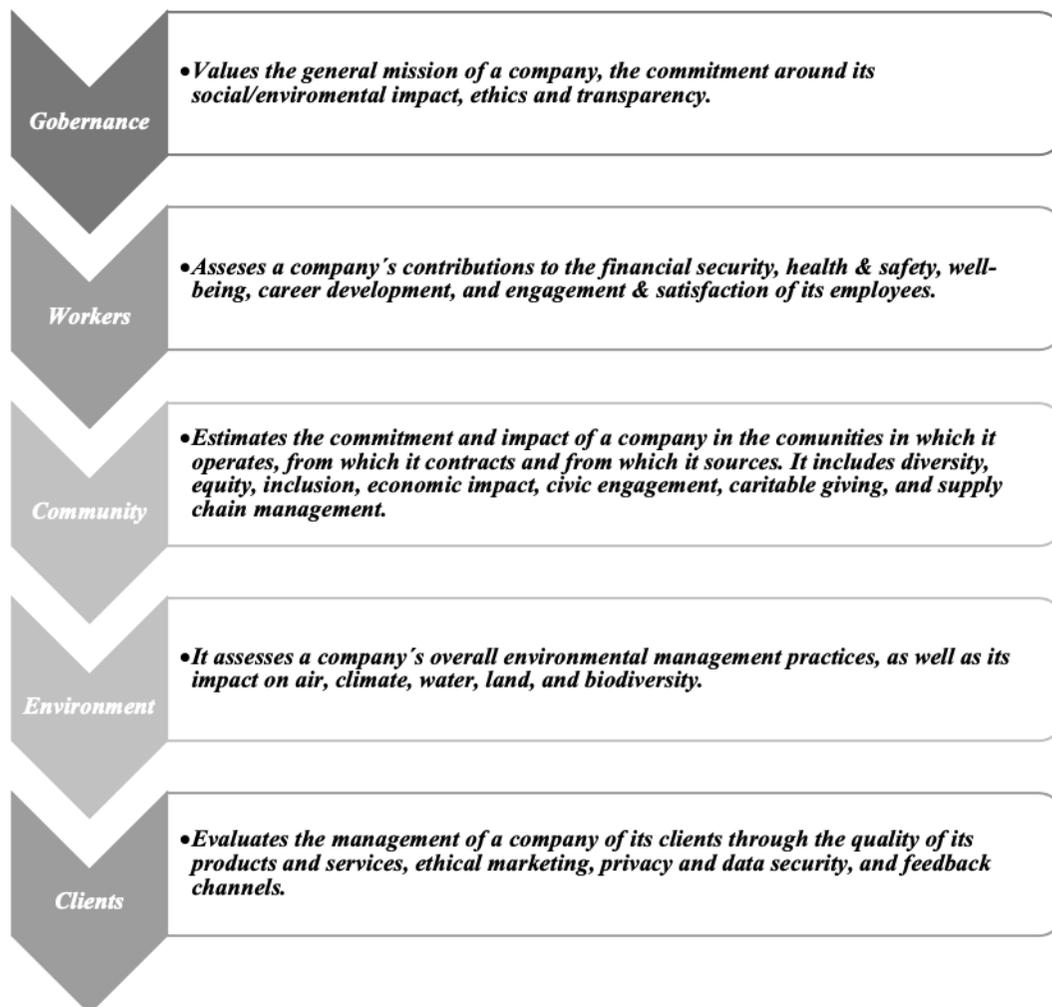
Impact assessment under System B seeks to promote transparency and accountability of companies. In addition, it can help identify areas for improvement and opportunities to increase positive impact. Company B certification requires companies to carry out an impact assessment, and to demonstrate outstanding performance in terms of social and environmental impact (Correa, 2019; Marquis, 2020).

This research was based on the Impact Assessment B method, it is a free digital tool that helps to measure, manage, and improve the

performance of positive business impact (Movimiento B México, 2023). This assessment consists of an online questionnaire of

approximately 100 questions (as they are answered, it expands to measure various scopes) and 5 areas.

Figure 1 Areas of evaluation of the Impact B system



Source: México (2023), this graph shows the five impact areas B and was made with information from Movimiento B

According to the methodology of Movimiento B Mexico, organizations that score between 80 and 200 points are prospects for certification.

One of the advantages of being evaluated with this tool is that it allows companies to use this tool as a parameter to measure their own performance, even without wanting to start a certification, i.e., the evaluation and certification are not correlated, although answering the

questions and obtaining a good score allows for later progress in the process, it is not a determining factor in obtaining the badge.

Currently, the B Company Certification is used by more than 200,000 companies in more than 80 countries (Movimiento B México, 2023) and the companies that obtain it are verified and endorsed by B Lab to meet the highest standards of social

and environmental performance, transparency, and accountability.

Some questions were selected from the Impact Assessment questionnaire in order to identify how measurable or identifiable this impact can be within the media used by the previously selected B-Corps.

### **Goal and Methodology**

This work is of a qualitative multi-case type, in which five Mexican companies from different sectors have been analyzed, which have established their business models based on the certification of Companies B.

The case study design has been considered from the problem statement and has been developed to obtain the information that the investigation requires. For the above, five cases have been applied, that is, the research design strategy will be multi-case, where the dimensions of Model B will be analyzed in depth, evaluating the analysis units as a nested study. (Hernandez-Sampieri & Mendoza, 2018).

The selection of the companies was carried out in a non-experimental way, for convenience, based on the information contained in the directory of Mexican B Companies, presented in the portfolio for the year 2023.

Abrantes Ferreira & Pires de Souza (2022) state that netnography is a tool that has been developed in recent years to obtain information through the Internet. This leads to seeing the world from a more comprehensive vision, considering all the elements that make up this data, from the analysis of information from the global network.

Thus, the multi-case studies are nested in five areas of the model: clients, community, collaborators, environment, and governance. The sources of information were secondary through netnography. the web pages, social networks, and blogs of the presented cases were analyzed.

### **Findings**

According to data obtained from Portafolio Empresas B (Sistema B Mexico, 2023), there are currently 88 companies certified by B Lab in Mexico. In order to know in depth, the behavior

and development of Companies B within the country, five companies from different business directions were selected.

The reason for their selection was mainly the level of seniority they have within System B, as well as their business activities and way of working. By selecting and receiving information from these companies through their website and a publication that went into more detail. In this way, we wanted to detail with each of them what led them to obtain the certification, what has been their development as Company B, and what is their opinion regarding the impact they make on society and how is their relationship with the population.

### ***Pixza***

It belongs to the category of food, beverages, restaurants, and hospitality. It has been part of the so-called B Companies since its foundation in 2017 in Mexico City. Created by Alejandro Souza, who decided to start a project to empower vulnerable people, through a chain of restaurants that exclusively employ young people in a social abandonment profile, through the Route of Change (a multidimensional 12-month program).

The main ingredient of the star product is blue corn produced by local farmers, as well, the other required inputs are 100% Mexican.

The raison d'être of this organization goes beyond just providing employment, it seeks to accompany the agents of change in a process of transformation and to lead a new movement that shows the industry, the country, and the world how things could be different (Pixza, 2023).

With a score of 18.4 in governance, Pixza has a corporate mission statement established in writing, public, in view of collaborators and consumers on its website, which also includes the commitment to produce a positive social impact such as supporting people with a social neglect profile who seek to reintegrate into society.

It also integrates social and environmental performance into decision-making through performance assessments that formally incorporate these issues.

On the other hand, earning 70.1 points in the field of workers, the way it remunerates its employees is through a fixed salary, it also offers high quality professional development.

As for community, it has 20.5 points, within this area it is mentioned that the business model actually generates a specific benefit for stakeholders, such as partner organizations, suppliers, etc.

Pixza has an established preference for buying from local suppliers and encourages the recruitment and hiring of local staff, as it has a social commitment to support members with whom it cohabits within the same geographical space and to spread this principle to other states.

Similarly, in the environmental field, with a score of 12.3, the organization does not share information about the practices or measures it uses to reduce the consumption of water, electricity, materials, etc. However, it can be deduced that, by using ingredients entirely produced by small local producers, they use the method of irrigation of crops by storm, that is, they do not have the hydraulic infrastructure to carry out the irrigation and care of the crops, which is highly ecological because it is carried out with purely rainwater.

Finally, within the sphere of clients, with a score of 4.1, the products offered do not address a social or economic problem of the clients, but when consumed they contribute enormously to the mentioned social causes.

### *Échale*

It belongs to the construction industry and real estate, was founded in 1997 in Mexico City and has been certified by B companies since 2012.

It is a social producer of housing and community infrastructure, which contributes to the development of communities through the integration of families into assisted self-production, generating employment, and promoting sustainable development (Sistema B Mexico, 2023).

In governance, it has a score of 15.5, its mission is to promote sustainable community development through social inclusion in the construction of housing and community infrastructure in the world (Échale, 2023).

Where sustainability and infrastructure for community development converge in the use of Ecoblock as the main building material, it is made of 90% of the land of the region where the project is located and 10% of the mixture of cement,

lime, sand, and water. It is thermal and acoustic insulation, ecological and more resistant than the cement block (Échale, 2023).

It should be noted that Échale has participated in projects throughout Mexico, where they have built around 250,000 homes in 28 different Mexican states, benefiting more than 1,000,000 people.

23.9 is the number of points it has obtained in the area of workers, although it is not possible to appreciate information on this subject within its website, within the official profile of LinkedIn it was found that it is a medium-sized company, as it has about 200 employees. In addition, the creation of its projects has managed to generate 450,000 jobs.

With a score of 19.5 in community, it should be mentioned that this organization has been one of the main when supporting when some disaster strikes the country, such as the 2017 earthquake and the various hurricanes that have devastated the coastal areas.

In the environment, it scored 8.9 points, through a manufacturing process of Ecoblocks designed to significantly reduce the environmental impact compared to typical practices in the construction industry. Ecoblocks are recyclable, made from local soil and produced on site, which reduces the ecological impact and logistics costs, in addition with their manufacture it reduces about 30% of the carbon dioxide generated in the construction.

In the area of clients, it was evaluated with a score of 75.7. The company provides fair, more beneficial and affordable financial facilities for people in remote communities who want to acquire real estate without the need to go into debt for 30 years or more.

### *Hipocampus*

It is a B-certified company since 2018, which aims to increase access to high-quality early childhood care and education services in vulnerable areas, are committed to creating solutions designed to adapt to the way people learn, live and work today (Hipocampus Centros de Aprendizaje, 2023).

Hipocampus, a collaborative project created by education experts and social entrepreneurs, was launched in 2016 with the aim of creating high-quality opportunities for children, families,

organizations and communities, while incorporating national and global best practices, considering that early childhood is a formative period for both boys and girls, during which they "learn to learn" and build the emotional, cognitive and psychomotor foundations for the rest of their lives.

In the area of governance, they scored 18.7, as they have a well-established mission and vision.

43.7 is the number of points you have obtained in the area of workers, because it could easily be used as a benefit to overcome the personal challenges of employees, and also prevent very costly consequences for organizations.

According to data from Hipocampus (2023) the lack of care and education services for children of working mothers and fathers causes that 2 out of 3 employees have absenteeism because they have nowhere to leave their children, 1 out of 3 have stopped working or changed jobs because they do not have someone to take care of their children.

These indicators express for companies great loss and inability to be productive; Hipocampus indirectly becomes a generator of well-being, job satisfaction, employee retention, decreased absenteeism and therefore productivity.

With a community score of 16.9, this organization focuses on supporting mothers and fathers who work outside the home. Also, one of its main purposes is to strengthen and empower women in the community. Its impact has also been reflected in 9 care and learning centers with approximately 900 children benefiting, i.e. more than 1,550 families and about 65 female educators.

In the field of environment, he scored 19.7 points and although he does not show exact figures or data related to this part within his social networks, it can be appreciated that one of the foundations and educational techniques he uses is Constructivism, which focuses on the interaction of the subject with the environment, with which it is intuited that children will be taught to interact with the environment in a respectful and responsible way.

The client area was evaluated with a score of 51.1. Hipocampus offers a full range of care and education options for children aged 1 to 8 that are developed under a high-quality, community-

centered, affordable, flexible, and extended-time model. The company also offers digital accompaniment and capacity building options for existing initiatives. Always prioritizing children, moms, and dads, as well as the communities themselves.

### *Someone somewhere*

It is a digital native brand, which has been certified by Company B since 2017. It integrates the artisanal techniques of each community into high quality products adapted to the market needs of Mexico and the world (Sistema B Mexico, 2023).

Its mission is to contribute to the well-being of artisan communities by integrating their traditional work into innovative products and channels that generate fair and consistent work opportunities.

It collaborates with communities that share the philosophy of "good living", which involves living in harmony with the community, the family, nature, and the universe. Living well describes a way of acting that privileges community, ecological balance, and cultural sensitivity (Someone Somewhere, 2022).

With a 14.4 governance score, Someone Somewhere has a written and public corporate mission statement that sets out a commitment to contribute to the well-being of artisan communities by integrating their traditional work into innovative products and channels that generate fair and consistent work opportunities. It also includes social and environmental performance in decision-making through performance assessments that formally incorporate these issues.

On the other hand, scoring 19.3 points in the field of workers, according to the company's Impact Report (2021), they currently collaborate with 13 communities in Puebla, Hidalgo, Mexico State, Mexico City, Oaxaca, Michoacan, and Guerrero, which are five of the poorest states in the country. This generates jobs and economic growth, thus favoring the fluctuation of about \$7,746,092 MXN, about 294% growth of the money invested in crafts.

In terms of community, it has 27.1 points, and its projects employ 273 artisans from the Nahuatl, Otomi and Mazahua communities. Of these, 204

are women, representing 75% of the total workforce and more than 1,000 lives have been impacted.

Similarly, in the environmental field, with a score of 11.9, the organization does not share information about the practices or measures it uses to reduce the consumption of water, electricity, materials, etc. However, the artisanal techniques used per excellence are the weaving of pedal looms, waist looms, whip looms, hand embroidery and needlework, which do not require any type of electrical energy, except the synthetic energy generated by the movement of the craftsmen themselves, which greatly reduces the environmental impact generated.

Finally, in the client area, with a score of 14.2, the products offered integrate the handicraft techniques of each community into high quality products that are adapted to the needs of the Mexican market and global demand, thus creating an experience that is appreciated by consumers, achieving a high level of satisfaction.

#### ***Sistema.bio***

It is a prefabricated and modular biodigester package, which includes connections and accessories. It transforms organic waste into biogas and a powerful organic fertilizer. It is easy to install, use and has a 10-year warranty (Sistema.bio, 2023).

Under system B, it is classified under environmental and energy services. In addition, it has been part of this system since 2015.

In governance, it has a score of 8.1, its mission is to transform organic waste into clean, renewable energy and organic fertilizer for small agricultural producers through biodigesters (Sistema B Mexico, 2023).

This biodigester produces biogas for thermal energy, which is used to meet the needs of the household. It also generates biogas for

mechanical energy, used for the production activities required on a farm. It can also produce biofertilizer to increase crop production.

14.9 is the number of points it has obtained in the area of workers, the company makes sure that both users and employees receive quality information, products, installation, training and services to be able to start activities.

With a community score of 15.4 it should be mentioned that this organization works with small producers to combat poverty, food security and climate change.

Currently, according to the official Sistema.bio website, there are more than 8,000 biodigesters installed around the world, that is, more than 48,800 people producing clean energy and organic fertilizer.

In the environmental field, it scored 26.3 points, being a project with primarily environmental impact, it works closely with the 2030 Sustainable Development Goals, and thus it has managed to mitigate more than 253,000 tons of carbon dioxide while treating more than 18.5 million cubic meters of organic waste produced on farms.

In the area of clients, it was evaluated with a score of 36.2. They provide financing options to producers in rural communities to make this system more affordable.

In addition, it promotes savings by reducing the purchase of fossil fuels and agrochemicals, thus generating new economic revenues. It also reduces health risks, respiratory diseases due to the movement of firewood.

As can be seen, the five cases analyzed are diverse, but they share similarities in terms of their practices around the five areas of the Business B model: clients, community, collaborators, environment and governance.

Table 1. Summary of the five areas of B impact

<i>Company/ areas</i>	<i>Governance</i>	<i>Workers</i>	<i>Community</i>	<i>Environment</i>	<i>Customers</i>	<i>Total</i>
<i>Pixza</i>	18.4	70.1	20.5	12.3	4.1	125.4
<i>Échale</i>	15.5	23.9	19.5	8.9	75.7	143.5
<i>Hipocampus</i>	18.7	43.7	16.9	19.7	51.1	150.1
<i>Someone somewhere</i>	14.4	19.3	27.1	11.9	14.2	86.9
<i>Sistema.bio</i>	8.1	14.9	15.4	26.3	36.2	100.9

Source: own elaboration based on Sistema B México, 2023.

According to Table 1, the score of the analyzed companies ranges between 100 and 150 points, with the lowest dimensions being governance and environment.

### Conclusion

The analysis show that B-companies in Mexico are experiencing significant growth, as the number of B-companies has increased in recent years, indicating a growing interest in adopting business models that combine business success with positive social and environmental impact, generated through initiatives such as reducing carbon emissions, supporting local communities, promoting gender equality, and using sustainable materials.

B companies have advanced since their origin, they are a different way of contributing to the global economy, because they provide solutions to contemporary common phenomena, which have become important social demands. The base of these companies, arise from its origin through a transparent and ethical operation, always directed to reduce the negative impacts of its business operation (Groppa & Sluga, 2015; Correa et al., 2020).

Despite the foregoing, it was observed throughout this analysis that most companies do not report the global impacts they generate, that is, they only

focus on those that directly concern the product or service they offer, although many of them use impact measurement tools to evaluate their performance, they do not communicate their results in a clear and accessible way to their stakeholders, for example, it should be mentioned that only 2 of the 5 selected companies present an annual impact report publicly.

As we have mentioned, Companies B have a high potential to generate positive impacts, but they still face major challenges such as those listed below:

1. Legal and structural complexity: Establishing and maintaining a legal structure that allows for multi-stakeholder decision-making can be complicated and require specialized legal advice.
2. Potential conflict of interest: Balancing social and environmental objectives with profit generation can generate tensions and conflicts of interest between different interest groups.
3. Market perception: Some consumers may be skeptical or unaware of B companies, which may affect their ability to compete in the market and achieve significant growth.

In Mexico, B companies are gaining popularity and recognition, although their presence is not yet as widespread as in other countries. In recent years, however, there has been an increase in interest in such organizations.

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## IMPORTANCE OF THE MATERIALITY OF TAX OPERATIONS IN MEXICO

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### **Abstract**

*The tax authorities in Mexico, due to the improper use of Digital Tax Receipts over the Internet and based on the electronic tax information issued by taxpayers that generate tax evasion, establishes the scheme of Simulated Operations with two aspects, the Companies that Bill Operations Simulated and the Companies that Deduct Simulated Operations, based on article 69-B of the Fiscal Code of the Federation, in which taxpayers are required to demonstrate the materiality of the acts they carry out, that is, the reality of their fiscal operations. The objective of the investigation is to demonstrate the importance of taxpayers adequately and sufficiently documenting the materiality of their operations. Through qualitative research, it is concluded that reviews beyond accounting are necessary for the Tax Administration Service, organizations must prove the materiality of their operations with the following documents obtained from their providers: the veracity of the digital tax receipt online; investigate its administrative, operational and fiscal aspects; the physical location of the establishment; the corporate purpose; your financial capacity; the business model; compliance with your tax obligations; verification of the presumption of non-existence of operations; analysis of contracts and agreements; collection of evidence on purchase orders, orders and bids; and public documents.*

### **Key words**

*Issuance, Deduction, Simulated Operations*

**JEL Classification:** E62, E69, H21, H22

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### **Introduction**

The issuance of valid tax receipts in Mexico has evolved over time, from paper invoices generated by printers authorized by the tax authorities, to digital tax receipts. The electronic invoice was born in 1997 due to the need of the private initiative for a legal scheme that would allow its use, the Electronic Invoice Committee was created, which integrated 45 large companies with a common goal, the use of digital tax receipts (CFD) (Posada and Delfin, 2014). Previously, in 1986, the AMECOP (Mexican Association of Product Codes) emerged, currently AMECE-GS1 (Mexican Association of Standards for Electronic Commerce) in charge of promoting and developing business models based on standards, such as identification by code of bar, electronic invoice, electronic product code (EPC) and electronic product catalog (AMECE-GS1 México, s/f; Morales and Hernández, 2017).

The need for the Electronic Invoicing Committee and the technology provided by AMECOP gave results, in 2004 the Tax Administration Service created the Advanced Electronic Signature (FIEL) and in 2005 authorizes the first digitized invoice, the Digital Tax Receipt (CFD) in its version 1.0, as well as allows the invoicing modality through third parties. In 2010, version 2.0 of the CFD began and the figure of Authorized Certification Provider began; for the year 2012 comes the next version of CFD 2.2, it will also be the last year of life for printed invoices. Internationally, Mexico is recognized as a leader in electronic invoicing (Facturama, n.d.).

For the year 2014 all taxpayers are required to invoice electronically and the CFDI appears for receipts. As of 2017, CFDI versions 3.2 and 3.3 can be used interchangeably. In 2022, CFDI versions 3.3 and 4.0 have a coexistence period. The change in billing version 4.0 brings with it new parallel versions: Withholdings and Payment Information (2.0), Payroll CFDI (1.2),

Carta Porte (2.0) and Payment Reception Complement (2.0). In 2023, version 3.3 officially disappears on March 31, except for the Payroll CFDI, which extends its adaptation period until June 30.

The tax administration in Mexico has been driven by the great needs of the country, and has gone through a pronounced evolution without losing sight of the main objective of increasing public revenue, as well as having greater control and administration of collection. The Tax Administration Service (SAT) and the Federal Government have adopted various schemes to promote voluntary and responsible compliance with tax obligations (Tax, 2018).

During the analysis of financial operations and how to integrate them into electronic media, the biggest challenge, due to the volume of information and because it is considered the most faithful representation of the income of any economic entity, would be those documents in which that acts of commercialization of goods and services are covered: Billing.

The authorization for taxpayers to declare their income through the issuance of Digital Receipts over the Internet (CFDI) from the year 2014, brought with it a problem, the improper use of invoices, the tax system must take appropriate measures. The tax authority, according to the analysis of the electronic tax information sent by the taxpayers, determines that there are two relevant figures in tax evasion, exposes for the first time the concept of Simulated Operations, with two main aspects, the Companies that Bill Simulated Operations (EFOS) and Companies that Deduce Simulated Operations (EDOS), derived from this, a procedure embodied in article 69-B of the Federal Tax Code (CFF) arises, which implies demonstrating the materiality of the acts carried out by taxpayers, that is, the reality of fiscal operations.

## Literature Review

Materiality has to do with a material quality, external surface or appearance of things (Española, 2021), from the fiscal field, materiality lies in the fact that the activities covered by the tax receipts questioned by the authority have actually been executed, whether whether to provide services or sell goods

The Business Reason refers to the act or transaction in which the reasonably expected

economic benefit is less than the tax benefit obtained in that operation. There will be a reasonably expected economic benefit when the taxpayer's operations seek to generate income, reduce costs, increase the value of the assets that they own, improve their position in the market, among other cases, that is, there must be a business justification for perform any operation. (NRA, Nuñez Rosas and Associates, 2021)

Taxpayers seek tax benefits through deductions, exemptions, non-recognition of a cumulative gain or income, crediting of contributions, re-characterization of a payment or activity, a change in tax regime, among other cases. (NRA, Nuñez Rosas and Associates, 2021).

The presumption is a legal fiction established as a legal mechanism, which under certain conjectures takes an event for a proven fact, being within the assumptions provided by law; It is an evidentiary mechanism, it is the result that the law or the judge deduces from a known fact, to know the truth of another unknown (Beltrán L., 2020)

Companies that Bill Simulated Operations (EFOS). In simulated operations, a group of companies or individuals agree to issue among themselves digital tax receipts over the Internet for supposed contracted services. The EFOS are those taxpayers or companies identified by the authority as Billing Companies for Simulated Operations, which in collusion with taxpayers registered as EDOS (Companies that Deduct Simulated Operations), give life to the illegal market of the so-called "trafficking of tax receipts", which is nothing more than to generate in a virtual way and without economic substance, a series of operations that try to pretend to be a legal act that was not actually held.

For a company or legal entity to be classified as EFOS, it is necessary to carry out an investigation procedure against that taxpayer; during said investigation, the provider is classified as presumed EFOS, if at the end of the process it is concluded that this taxpayer has simulated operations, sold invoices, or is not located, then it becomes a DEFINITIVE EFOS capable of involving any of their clients in serious tax and criminal problems.

The intention of these companies is to convince taxpayers that by purchasing these invoices they will reduce their taxes, in exchange for a commission, which is regularly a percentage of

the amount of the invoice. (Murcia L., Vega Z., and Sánchez G.m 2019, pp. 9-10).

Companies that Deduct Simulated Operations (EDOS). The companies that deduct simulated operations (EDOS) are the clients of the EFOS, invoice sellers. These companies use one or several invoice providers with simulated operations, they are difficult to detect because they comply with their tax obligations in a timely manner; they deduct relatively high amounts for the type of company in the activity they carry out. The amounts paid by the EDOS for apocryphal invoices, are returned to the companies so as not to decapitalize them, through loans or increases in shareholder capital. When the SAT detects EDOS companies, it reviews them by requesting the necessary legal documentation to verify the materiality of the expense: notarial deeds, lease contracts or property deeds, copies of the receipts issued to their clients, accounting policies and auxiliary records of the Electronic accounting, invoices, contracts, form of payment verifiable in bank account statements, originals, not obtained online. In the case of intangible services, they must be covered by the CFDI, contract, proof of payment, business reason for which the service was requested and benefit obtained with the expense; what the service consists of, time and place where it was performed, names and identification of the people who provided the service and the benefit obtained (Murcia L., Vega Z., and Sánchez G., 2019, pp. 12- 13).

A document is the written record, either physically or virtually, that captures the characteristics of a fact or circumstance. It is the evidence of a relevant fact, a text written on paper (or another material support such as cardboard) or a file stored on an electronic medium (Westreicher, 2020). The documents will have two characteristics: private and public. The first are internal, only interested individuals intervene in them. Public documents involve a public official duly authorized to attest; for example, deeds and notarial acts, among others.

Verdict. Resolution issued by certified professionals in certain areas such as appraisers, public brokers and public notaries.

Presumption of non-existence of operations covered by tax receipts. The terms of article 69-B of the Fiscal Code of Federation establish the presumption of the non-existence of operations covered by tax receipts issued by taxpayers who

lack assets, personnel, infrastructure or material capacity, directly or indirectly, to provide services, produce, market or deliver the assets covered by such receipts, or that said taxpayers are not located by the tax authorities.

In this case, the tax authority will proceed to notify taxpayers who are in said situation through their tax mailbox, as well as by publication in the Official Gazette of the Federation (DOF), in order for those taxpayers to express before the tax authority what is appropriate to their right and provide the documentation and information they consider pertinent to distort the facts that led the authority to notify them.

Legal acts that lack a business reason and that generate a direct or indirect tax benefit, as indicated in article 5 of the CFF (Chamber of Deputies of the H. Congreso de la Unión, Nov. 11, 2021), will have the tax effects that correspond to those that would have been carried out to obtain the economic benefit reasonably expected by the taxpayer.

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In the exercise of its powers of verification, the tax authority may presume that legal acts lack a business reason, based on the facts and circumstances of the taxpayer known under said powers, as well as the assessment of the elements, the information and documentation obtained during them. It is considered that there is a reasonably expected economic benefit, when the taxpayer's operations seek to generate income, reduce costs, increase the value of the assets that they own, improve their positioning in the market, among other cases. In order to quantify the reasonably expected economic benefit, the information related to the operation under analysis will be considered, including the projected economic benefit, to the extent that such information is supported and reasonable. For the purposes of this article, the tax benefit shall not be considered as part of the reasonably expected economic benefit.

The expression business reason will be applicable regardless of the laws that regulate the economic benefit reasonably expected by the taxpayer. The effects that the tax authorities grant to the legal acts of the taxpayers due to the application of this article, will be limited to the determination of the contributions, their accessories and corresponding fines, without prejudice to the investigations and criminal liability that may arise. in relation to the commission of the crimes provided for in this Code (Chamber of Deputies of the H. Congress of the Union, Nov. 11, 2021).

## **Goal and Methodology**

This research is of a qualitative nature, according to Pastor, A. (2015) builds a reality within fiscal sociology that is linked to accounting theory considering what was exposed by Alegre (2021), since it analyzes the origin of an idea as an element fundamental within the accounting sciences, so the research is developed as a way of understanding some accounting processes that converge within a fiscal reality. It was investigated regarding the materiality of the operations, and the requirement of the authority to demonstrate it. The concepts used during the investigation are based on the Federal Tax Code (CFF) to demonstrate how the tax authority presumes the non-existence of the operations covered by the Digital Tax Receipts online CFDI when they lack certain elements. It is based on an extensive documentary review in law, magazines, e-books and other electronic media.

## **Findings**

Companies must have trained personnel to ensure that their operations are not exposed to being considered non-existent and can demonstrate in any circumstance the materiality of the operations they carry out. The documents are evidence prepared by those in charge of the different business areas, they must be truthful in their content, be updated and supported to be presented as evidence if necessary. In the same way, it is important to take into account that CFDIs do not represent sufficient elements to prove the existence and validity of an operation. Before any operation that they celebrate, it is convenient to observe the following:

Table 1. Elements of the materiality of operations

<b>Elements of the materiality of operations</b>	<b>Description</b>
1. Suppliers It is advisable to investigate the following indicators a. Physical location.	<ul style="list-style-type: none"> <li>- Location.</li> <li>- Social object.</li> <li>- Financial capability.</li> <li>- Business model.</li> <li>- Opinion on compliance with tax obligations.</li> <li>- Verify that it is not on the list of presumed or definitive items in article 69-B. of the CFF.</li> </ul>
2. Analyze contracts and agreements with suppliers of goods and services	<p>Define the object of the contract, capacity of the representatives, deadlines, deliveries, among others.</p> <p>Establish penalties in case of non-compliance.</p> <p>Comply with the certain date requirement when required.</p> <p>In the case of provision of services, detail the type of service, its deliverables and the periodicity of these.</p>
3. Collect documentary evidence of the acts performed, such as::	<ul style="list-style-type: none"> <li>- Purchase orders.</li> <li>- Orders.</li> <li>- Tenders.</li> <li>- Warehouse entry notes.</li> <li>- Weighing (receipts).</li> <li>- Publications in social networks.</li> <li>- Inventory control.</li> <li>- CFDI of acquisition and sale.</li> <li>- Insurance policies.</li> <li>- Photographs</li> <li>- Videos</li> <li>- Audio</li> </ul>
4. Internal control	Implement an internal control system accompanied by function and procedure manuals.
5. Safeguard the deliverables and material evidence at the end of the transaction.	<ul style="list-style-type: none"> <li>- Negotiation emails and sending information for your quote</li> <li>- Signed proposal for professional services</li> <li>- Contract of service</li> <li>- Reports of detected errors</li> <li>- Work papers</li> </ul>

Source: (Cámara de Diputados del H. Congreso de la Unión, Nov. 11, 2021)

Table 2. Elements to consider non-existent operations

<b>Elements to consider non-existent operations</b>	<b>Description</b>
Asset	In article 69-B of the CFF, reference is made to the fact that one of the assumptions to be able to presume the non-existence of operations lies in the lack of assets.
Infraestructure	The lack of infrastructure for the development of commercial, industrial or service activities grants the presumption power to the authority to determine that the taxpayer does not have the necessary elements to carry out operations.
Recurso humano	The absence of human resources gives rise to the presumption of non-existence of operations.
indirect material capacity	The indirect lack of assets, infrastructure and human resources, when they are not available directly, is the reason for non-existence of operations.
Address not found	The impossibility of the authority to locate the taxpayer, presupposes the non-existence of operations.

Source: (Cámara de Diputados del H. Congreso de la Unión, Nov. 11, 2021)

The consequences of not being able to prove the materiality of the operations entail, according to the Fiscal Code of the Federation (Chamber of Deputies of the H. Congress of the Union, 2021 July 31) to: 1) The restriction on the use of the Digital Seal Certificate (article 17-H BIS of the CFF); 2) Establish joint and several liability to the shareholders. (article 26 CFF); 3) Issuance of the negative compliance opinion, for not having disproved the presumption of article 69-B of the Federal Tax Code; 4) The secret of the name, denomination or company name and password of the RFC for the EDOS is not kept (article 69 CFF); 5) An infraction is established in accordance with article 83, section XVIII of the CFF, by giving tax effects to Evidence of a definitive EFO and failure to demonstrate materialization within 30 days; 6) Section XVI of article 84 of the CFF establishes a penalty between 55% and 75% of the amount of each tax receipt.

On this point, it is necessary to highlight that the materiality of the operations can be proven by means of public documentation, by private documents, by the inspection of compliance with tax obligations, that the tax domicile is where the taxpayer declared it, among others.

## Conclusion

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To demonstrate the materiality of an operation, the authority focuses on data collected through questionnaires, documents, quotes, photographic and audiovisual evidence, contracts, and additional information provided by taxpayers or by third parties related to said acts, such as notaries public, a law firm or an accounting firm. In conclusion, companies in Mexico, in addition to complying in a timely manner with their tax and accounting obligations, must verify the material existence of the third parties with whom they carry out operations to avoid falling into the assumption of simulated operations that are presumed non-existent by the authority. It is also important to consider that the SAT carries out periodic reviews to identify possible Companies that Deduct Simulated Operations (EDOS) and Companies that Bill Simulated Operations (EFOS).

Likewise, the risks of being within a presumption are latent because the tax authority has adopted this procedure to intensify acts of review, it is important that taxpayers make sure that the accounting records reflect the economic substance of the operations carried out, considering that Financial Information Standards (NIF) must be applied to meet the expectations of tax legislation.

All used equations should be captioned.

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## THE OPTIMAL SIZE OF LOCAL GOVERNMENTS IN SELECTED EU COUNTRIES

Milan DOUŠA

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### Abstract

*The residential structure of Slovakia is the result of historical and economic development in specific natural conditions. It is estimated that there are more than 7,000 settlements in Slovakia, which are combined into 2,890 municipalities. There are 138 cities, and more than half of the population lives in them - 58%. The fragmented settlement structure, which is typical for Slovakia, essentially means an above-average representation of small municipalities or too low a figure for the size of the average municipalities. This brings with it a few problems such as a lack of financial resources, weak human capital, and a lack of interest in running for mayor or members of the municipal council. However, what is the optimal size of the municipalities? For many years, it has been one of the most discussed problems in relation to the organization of the state at lower levels. The aim of the article is to point out this problem based on deepening the theoretical knowledge of the forms of residential structures of local governments in the EU with a narrower focus on the Slovak Republic. To achieve the goal, the method of content analysis, description and comparison is used. The result of the article is a clear mapping of the average number of inhabitants in the EU per one administrative unit, the opinions of the leaders of local governments, as well as examples of good practices for the Slovak Republic.*

### Key words

*Local Governments, municipalities, settlements, fragmentation, European Union*

**JEL Classification:** R5, O2, H1

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### Introduction

If we take a closer look at the self-governing structures at the municipal level within Europe, we will come across extraordinary variability. This statement is valid even though, at least in the last three decades, it was possible to notice several common modernization trends that affected almost all European countries and that de facto led to a reduction in the level of variability. These trends were primarily caused by various decentralization reforms, which in developed countries led to the strengthening of the local level of governance and to the stabilization of the principles of democracy (including openness and participatory creation of public policies), economic efficiency, effectiveness, and transparency. Although national governments were the bearers of the reform measures, various transnational

organizations also played an important role. (Klimovský et al. 2019)

A typical example is the Council of Europe, which, through the ratification process of the European Charter of Local Self-Government, was able to create pressure on various European countries to support their modernization and reform efforts. The European Union can create even more significant pressure on its member organizations, which, however, leaves the sphere of municipal self-government. Almost entirely within the competence of the member countries. The results of the mentioned decentralization reforms were often different. This can be explained not only by the different readiness of individual countries for their implementation but also by the differences in the environments in which they were introduced.

Table 1. The number of municipalities in individual EU and EEA countries, together with the total area in km<sup>2</sup>

<b>2022</b>			
<b>Country</b>	<b>The population</b>	<b>Area in km<sup>2</sup></b>	<b>Number of municipalities</b>
Belgium	11 671 737	30 528	581
Bulgaria	6 520 314	110 370	264
Cyprus	1 216 003	9 251	613
Czech Republic	10 526 937	78 866	6 249
Denmark	5 928 364	42 924	98
Estonia	1 331 796	45 227	227
Finland	5 528 796	338 440	309
France	67 975 000	633 186	34 965
Greece	10 432 481	132 049	335
Netherlands	17 775 710	41 865	352
Croatia	3 871 833	56 594	428
Ireland	5 123 536	70 280	85
Lithuania	2 839 020	65 286	60
Latvia	1 895 400	64 573	109
Luxembourg	645 397	2 586	116
Hungary	9 689 000	93 011	3 154
Malta	519 562	315,4	68
Germany	84 079 811	357 376	10 799
Poland	37 979 000	312 679	2 477
Portugal	10 344 802	92 226	3 400
Austria	9 090 868	83 879	2 095
Romania	19 038 098	238 390	3 181
Slovak republic	5 459 781	49 035	2 890
Slovenia	2 108 977	20 273	212
Spain	47 615 034	505 944	8 131
Sweden	10 514 692	438 574	290
Italy	58 853 482	302 073	7 904
<b>EEA</b>			
Norway	5 425 270	385 207	356
Iceland	372 295	103 000	69
Lichtenstein	38 254	158	11

Source: Own processing according to the CEMR 2022

## Literature review

The optimal size of municipalities in the EU and fragmented settlement structure. Europe offers extraordinary variability in terms of municipal and regional structures. If we look at the number of municipalities and regions, we will see interesting differences and at the same time, we can also reveal certain tendencies that have appeared in recent decades. Looking at the development over the last 60 years, the European framework is dominated by countries in which consolidation tendencies are being enforced in relation to the residential structure (to a greater or lesser extent). Residential structures of countries can be e.g., fragmented (shredded) or, on the contrary, significantly consolidated. Slovakia's residential structure is characterized

by its fragmentation. Similarly, this fact can be stated in the residential structure of the Czech Republic or France, or Ukraine (Davey 2002). The fragmented residential structure inherently means an above-average representation of small municipalities or too low a figure for the size of the average village. A fragmented settlement structure is usually considered a problem, but there are also exceptions to this rule. The issue of countries with too many small municipalities has been a debated topic for decades. This topic also became relevant in the countries of Central and Eastern Europe after the social and economic changes of the late 80s of the 20th century. Together with the concept of settlement structure, the concept of the optimal size of the village is also related. This term is relatively problematic to define, as there is no uniform

interpretation of how large an optimally "manageable" municipality should be. (Silent 2005)

For many years, it was one of the most discussed problems in relation to the organization of the state at lower levels. Such discussions can already be found in the works of classical philosophers. Plato, in his Republic and Laws, proposed that the ideal city should be large enough to carry out all important functions, yet small enough to maintain the unity of the city. He concluded that the ideal number of inhabitants is seven, i.e. 5040. In the 19th century, the recommendation to organize society into localities caught the attention of utopians. Fourier proposed an organization into communities consisting of 1620 or rather 2000 inhabitants. When we return to more contemporary discussions and solutions, many experts in the field of settlement structure and self-government as such have reached at least a partial consensus, uniting on the number 5000 (Tekeli 2013). In theory, at such a size, the lowest costs should be at the price of the highest performance. In practice, however, this approach is ideal. Currently, experts are mostly inclined to the opinion that the size is different for individual areas of the municipality such as (providing services in education, healthcare, etc.). An example can be a primary school with both grades, which is well organized and managed, e.g. with 3000 inhabitants and e.g. health centre, for which the optimal size of the village is at the level of 2000 inhabitants. The optimal size of the municipality is also defined in the European Charter of Local Self-Government. Keating (1995) states that the debate on the optimal size of local governments usually focuses on 4 dimensions.

1. Economic efficiency - what size can provide the most services at the least cost?
2. Democracy - what structures can best ensure public control of self-government and adequate accountability?
3. Distribution - what structures provide the most even distribution of tax burden services?
4. Development - what structures are best equipped to support economic growth?

Since small municipalities cover a large part of the territory of the Slovak Republic, their problems have an impact on the performance of

real public services. It is generally known that the minimum size of a municipality should be around 3-5 thousand citizens so that they can provide services sufficiently and efficiently (Belajová al., 2014). The question of size is also important because of the financing of municipalities in Slovakia, which is partly based on the number of inhabitants. Sloboda (2006) adds that not all municipalities with a population of up to 1,000 are able to provide the required public services. Several authors pay attention to the obligations of municipalities in connection with the so-called transferred performance of state administration. The transferred performance of the state administration is carried out, e.g. in the field of education, when municipalities and cities manage primary schools. Financial and technical support from the state is not always sufficient for the performance of such functions, and especially small municipalities have fundamental problems with the implementation of these functions. The quality of the services provided is often closely related to the size of the municipality. Since we do not have municipalities separated in terms of their size and competencies, they must all provide the same package of services regardless of the number of inhabitants or the size of the territory, which brings significant problems in the process of securing public services (Nižňanský 2013). It seems that it would be much more appropriate for municipalities to be responsible for a group of duties according to their size. Small municipalities located in poorly developed regions of Slovakia are very limited in terms of their future development possibilities. The numbers on fragmentation point to some crucial facts. Out of 2,929 municipalities, up to 67% of them have less than 1,000 citizens. However, only 16% of the total population lives in these villages. These numbers show the prevailing asymmetry and highlight the seriousness of the problem. That is why there is often talk of municipal reform. (Swianiewicz 2009, 2010)

The reasons for which it is necessary to consider municipal reform are also connected with unfavorable circumstances that are typical for most small municipalities in Slovakia:

- Lack of job opportunities
- Low employment rate
- Unfavorable age structure of the population
- Poor availability of school and social facilities

• Low financial capacity of municipalities (Swianiewicz 2009, 2010)

From the point of view of covering wages and levy expenses, the optimal municipality should have about 5,000 inhabitants (Nižňanský 2014). A similar claim can be found in Pawl Swianiewicz's book *Consolidation or Fragmentation?: The Size of Local Governments in Central and Eastern Europe* (Swianiewicz 2002).

In several Western European countries, reforms took place in recent decades, which meant reform of the residential structure. It is obvious that looking at the development over the last 60

years, there was a tendency of consolidation reforms of settlement structures in European countries. In other words, this means that after 1950, a number of countries in Europe reduced the total number of municipalities through the so-called merger reforms (Bonish 2011). The amalgamation of municipalities is often seen as the only way to ensure that municipalities are large enough to be financially and technically capable of providing the wide range of services they are responsible for. In theory, there are many arguments for having fewer municipalities that would be larger. On the other hand, there are also opinions that do not agree with merging municipalities (Slack-Bird 2013).

Table 2: Opinions on various arguments for merging municipalities in the Czech Republic, Poland and Slovakia

	<b>Poland</b>	<b>Czech republic</b>	<b>Slovakia</b>
Overall opinion	-0,85	-0,72	-1,24
Conditions for local democracy	-0,61	-0,7	-0,78
More efficient provision of services	0,16	-0,05	-0,11
Reduction of conflicts between parts of the village	-1,27	-1,03	-1,06
An increase in the range of services provided by the municipality	0,04	-0,05	-0,04
Fair distribution of services among residents	-0,53	-0,56	-0,52
It stimulates contacts between citizens and members of parliament	-0,82	-0,94	-0,82
The increase of local autonomy	0,26	-0,08	-0,17
It helps adapt services to local needs	0,1	-0,13	-0,03
It increases solidarity among the inhabitants of the village	-0,86	-0,64	-0,66
It increases the political involvement of the population	-0,55	-0,38	-0,11
It reduces the need for state transfers	0,02	-0,22	-0,29

The rating scale is -2, the argument is completely unconvincing up to +2

Source: Own processing according to the Swianiewicz 2002

In 2000, mayors from the Czech Republic, Poland, and Slovakia were asked about their opinion on the overall idea of merging municipalities. The overall most negative opinion on consolidation is in Slovakia. According to the mayors, there are three strongest arguments against merging: it would increase conflicts between residents, it would reduce support for local democracy, and the relationship between deputies and residents would be more complicated. The most convincing argument against consolidation is the fear of an increase in conflicts between residents. On the other hand, usually the most convincing arguments for consolidation are higher efficiency of service provision, possible increase of local autonomy.

Since 1950, for example, the number of municipalities has decreased in Lithuania by 90%, in Sweden by 87%, in Denmark by 80%, in Belgium by 78%, in Ukraine by 61%, in the Netherlands by 44%, in Austria by 42% and so on further. On the opposite side are countries where the number of municipalities has increased over the past 60 years. However, while in Italy, for example, this increase is only at the level of 2%, in the Czech Republic it is an increase at the level of 51%. There is a similar fragmentation in Slovakia as in the Czech Republic. Up to 92% of all municipalities in Slovakia have less than 3,000 inhabitants. Slovakia has more than 3.5 times the share of mayors and more than twice the share of city deputies per 100,000 inhabitants than the EU

average. Fragmentation of local governments leads to inefficient implementation of self-government. Municipalities with up to 250 inhabitants spend more than half of all expenses on administration, i.e. to the detriment of the development of municipalities and the quality of service provision. (Clark 2000). However, there is one very important difference compared to the Czech Republic. Municipalities in the Czech Republic are divided into categories: each category represents a different type of municipality in terms of powers and competences. In other words, the smallest municipalities are only responsible for a limited range of powers. The larger the municipality, the more powers and competences it has according to the relevant category. On the other hand, in Slovak conditions, the situation is fundamentally different. "In Slovakia, all municipalities are technically equal. The range of competences is

the same for each size of local government. (Berčík, Lovecký 2003)

Fragmentation is not a problem for Slovakia as a whole. The greatest concentration of the problem lies in the northeastern part of Slovakia, mainly within the boundaries of the Prešov self-governing region and in some southern parts of the Banskobystrický self-governing region. In general, it can be said that the east of Slovakia is much more fragmented than it is in the west (Berčík, Lovecký 2003). The eastern part of Slovakia belongs to less economically developed areas within the country. Poor economic and economic conditions, a lower standard of living, and a more fundamental aging of the population characterize this sparsely populated area with a few inhabitants. Most small settlements are located, for example, in the districts of Svidník, Stropkov, Veľký Krtíš or Rimavská Sobota (Nižňanský 2009).

Table 3: Municipalities in individual regions of the Slovak Republic

Region	Number of municipalities		Number of inhabitants		Average number of inhabitants in the municipalities
	Numerical expression	Share of the whole	Numerical expression	Share of the whole	
Bratislavský	73	2,5%	622 706	11,48%	8 530
Trnavský	251	8,7%	561 525	10,35%	2 237
Trenčianský	276	9,7%	599 214	11,05%	2 171
Nitrianský	354	12,2%	705 661	13,01%	1 993
Žilinský	315	10,9%	697 502	12,86%	2 214
Banskobystrický	516	17,8%	653 186	12,04%	1 266
Prešovský	666	23%	807 011	14,88%	1 212
Košický	440	15,2%	778 120	14,33%	1 768
Totally	2891	100%	5 424 925	100%	2 674

Source: Statistical Office of the Slovak Republic, 2020

### Goal and Methodology

The residential structure of Slovakia is the result of historical and economic development in specific natural conditions. It is estimated that there are more than 7,000 settlements in Slovakia, which are combined into 2,890 municipalities. There are 138 cities, and more than half of the population lives in them - 58%. The fragmented settlement structure, which is typical for Slovakia, essentially means an above-average representation of small municipalities or too low a figure for the size of the average municipalities. This brings with it a few problems such as a lack of financial resources, weak human capital and a lack of interest in

running for mayor or members of the municipal council.

The aim of the article is to point out this problem based on deepening the theoretical knowledge of the forms of residential structures of local governments in the EU with a narrower focus on the Slovak Republic. To achieve the aim, the method of content analysis, description and comparison is used. The result of the article is a mapping of the average number of inhabitants in the EU per one administrative unit, the opinions of the leaders of local governments, as well as examples of good practices for the Slovak Republic.

### Findings and Discussion

The basic level of territorial self-government is the municipality, which is equipped by law with independent competences, powers and responsibilities. Approximately 80,000 municipalities or their equivalent units are in the EU 27 countries. Local administrative units (Local Administration Units - LAU). The term local administrative unit was defined by the EU and replaces the statistical administrative units NUTS 5 (LAU level 2) and NUTS 4 (LAU level 1) at the local level. In most countries, LAU 2 are identical to the basic level of territorial self-government - municipalities, but there are also countries where this is not the case and LAUs reflect only the territorial-administrative division of the state (e.g. in Lithuania, Bulgaria, Ireland, Portugal) (Provazníková 2009). In terms of the number of LAU-2, more than 50 per cent of them belong to only five countries: France accounts for 30% of European municipalities, Germany 11%, Spain and Italy each 6.7% and

the Czech Republic 5%. Table No. 4 illustrates the data.

- The average size of the population per village is approximately 5,000. The Slovak Republic (1,800), France, the Czech Republic (approx. 1,600), Cyprus (1,500) and Ireland (approx. 1,200) have the smallest average number of inhabitants per municipality:

- In the Netherlands, Denmark, Sweden, Lithuania, and Portugal, the average number of inhabitants per municipality is higher than 30,000, in other countries, municipalities have an average of more than 10,000 inhabitants: In Bulgaria (29,000), Belgium (17,735), Poland (15,495), Finland (11,741), Greece (10,230) and Slovenia (10,350), Latvia (17,500), Norway (11,000).

- The average number of inhabitants per municipality is less than 5000 in eight countries + 2 EEA: Cyprus, Czech Republic, France, Ireland, Luxembourg, Hungary, Austria, Slovak Republic, Iceland and Lichtenstein.

Table 4: Average number of inhabitants in the EU per local administrative unit

Country	Number LAU-1	Number of inhabitants
Belgium	581	17 735
Bulgaria	264	29 000
Cyprus	613	1 500
Czech Republic	6 249	1 636
Denmark	98	55 000
Estonia	227	5 900
Finland	309	11 741
France	34 965	1 651
Greece	325	10 230
Netherlands	352	37 000
Croatia	428	8 000
Ireland	85	1 200
Lithuania	60	59 000
Latvia	109	17 500
Luxembourg	116	3 790
Hungary	3 175	3 078
Malta	68	5 900
Germany	10 799	6 900
Poland	2 477	15 495
Portugal	308	34 000
Austria	2 095	3 530
Romania	3 181	6 950
Slovak republic	2 890	1 839
Slovenia	212	10 350
Spain	8 131	5 900
Sweden	290	31 000
Italy	7 904	7 200
Norway	356	11 000
Iceland	69	3 600
Lichtenstein	11	3 170

Source: Own processing 2023 according to data from the Slovak Statistical Office, Eurostat 2018-2022, CEMR 2023

Differences between countries in the number of municipalities and the number of inhabitants per municipality have reasons not only historical and geographical but are also the result of the centralization policy that some countries practiced to limit the number of municipalities and increase their size. To counter the disadvantages resulting from the small size of the municipalities (limited tax base, insufficient financial resources for the implementation of competences, the impossibility of realizing economies of scale, and low professional and qualification levels in the proceedings), they solved this problem:

- Merger of municipalities by law - e.g. in Belgium, Germany, Austria, Holland, Sweden.
- Association and cooperation of municipalities - based on the cooperation of municipalities and the pooling of their resources for the implementation of certain services and activities. Cooperation between municipalities can be voluntary or mandatory. Cooperation in the implementation of certain competencies in Finland, Austria, Ireland, Great Britain is mandatory. Cooperation can also be supported by a system of subsidies, such as in France, Hungary, Estonia. (Provazníková 2009)

The association and cooperation of local governments can take different forms:

1. Authorization of a certain body to carry out a certain mission on behalf of the local governments that authorized it to do so.
2. Provision of employees of one local government to other municipalities.
3. Management of a joint body based on an agreement reached between local governments.
4. Creation of a structure for cooperation, which is already, assigned a separate person and funds to manage joint activities.

### **Examples of good practice for the Slovak Republic**

None of the countries of the The Visegrad Group has such a significantly consolidated structure of municipalities as *LITHUANIA*. When looking at the other Eastern and Central European countries of the former socialist bloc, it can be seen that only a few of these countries partially approach this limit (municipalities in Belarus, for example, have an average size exceeding 46,000 inhabitants, the average size of municipalities in

Serbia exceeds the limit of 43,000 inhabitants, the average size of municipalities in Montenegro exceeds 32,000 inhabitants, and the average size of municipalities in countries such as Bosnia and Herzegovina or Bulgaria reaches the level of approximately 29,000 inhabitants). (Klimovský 2012)

Due to the structure of municipalities, Lithuania can be characterized in the European context as one of the most consolidated countries. The average size of Lithuanian municipalities exceeds the level of 59,000 inhabitants, which is comparable to, for example, Danish conditions. On average, Danish municipalities have a size of about 55 thousand inhabitants.

Lithuanian municipalities are also exceptionally large in terms of their average area. This currently reaches the level of almost 1090 km<sup>2</sup>, which is comparable only to Belarus (the average area of Belarusian municipalities is at a level of almost 990 km<sup>2</sup>) and the Nordic countries (the average area of municipalities in Sweden is more than 1550 km<sup>2</sup>, in Iceland it is approximately 980 km<sup>2</sup>, in Norway, almost 890 km<sup>2</sup> and in Finland, approximately 815 km<sup>2</sup>. Just like Slovakia and Lithuania, it has recently undergone turbulent development and is currently heavily affected by the economic and political crisis. Both countries share a very similar foreign-political orientation, the clear manifestations of which are the entry of both countries into such international political groupings as the EU, OECD, NATO, etc. Lithuania and Slovakia are among the small EU countries. And last but not least, what unites Slovakia and Lithuania is that, despite the relatively extensive preparation of various reform measures aimed at public administration, most of the decisions taken were largely influenced by top party politics (Švec, Macura, Štöl 1996)

### **Conclusion**

The residential structure of Slovakia is characterized by a number of small municipalities and a high number of residential units overall. The issue of fragmentation of municipalities was not on the table during the socialist regime, because Slovak municipalities did not really function as real units of self-government. However, after the gentle revolution and the change in the social and

economic system, this question became a much-discussed matter. The Slovak settlement structure is very rare. Currently, there are about 2,890 municipalities (originally 2,927) and townships in Slovakia, despite the fact that a slight decrease in the number of municipalities was recorded in the last decade. However, the structure of settlements is very fragmented. The numbers on fragmentation point to fundamental facts. The trend is visible primarily in eastern Slovakia, in the Prešov and regions of Banská Bystrica. Another problem is the fact that all municipalities are technically equal. The range of competences is the same for each size of local government. The law determines a certain condition when a municipality can be declared a city. The only municipal size category regulated by a special law is a municipality (city) with more than 200,000 inhabitants.

The very existence of small municipalities is linked to a wider range of problems that are directly related to the parameters of the settlement structure. Since the local budgets of municipalities are largely influenced by the size of the municipality, they are often so low that the

municipality is unable to provide even basic services. Fundamental solutions for changing the residential structure can de facto be implemented through the so-called merger reforms. These reforms have taken place in many countries (especially in Western Europe) in recent decades. The residential structure of Slovakia could thus be significantly consolidated, and larger municipalities could subsequently become more decentralized. In other words, if we had more large municipalities and a lower proportion of small municipalities, we could transfer more functions to municipalities and highlight their scope. A good example of reform measures are the Baltic, Scandinavian and BENELUX countries.

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## PALACIO DE HIERRO: A SUSTAINABLE ORGANIZATION

Cecilia GARCÍA-MUÑOZ APARICIO

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### Abstract

*This article describes an analysis of the sustainability of the Palacio de Hierro, an economic group, which, through strategies and business leadership, stands out as the first department store and the most sophisticated in Mexico to date, characterized by presenting a luxurious style of living. A documentary-type methodology and longitudinal study was used with a descriptive thematic analysis; A bibliographical review was carried out consisting of articles, books, news, and the web, on the sustainability of the organization, whose objective was to analyze the way in which its sustainable strategies impact on society and the environment. It is concluded that the organization, constitutes a company with corporate values and sustainability actions, concerned about social responsibility, with good practices and Corporate Governance.*

### Key words

*Organization, sustainability, leadership*

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### Introduction

Sustainable organizations are important because they are efficient in their management and administrative processes, as well as generating a positive impact on society. Besides saving costs, they care about employees with a better work environment, taking care of their well-being as part of their internal values and are concerned about society and the environment, supporting vulnerable populations, and contributing to the improvement of the environment, the ecosystem through internal strategies of the organization to later carry them out abroad. The objective of this article is to analyze the sustainability indicators of the company under study, which is done through the organization's documents.

### Literature review

#### 1.Sustainability

In 1972 concern for the environment and the concept of sustainable development arose in Stockholm at a United Nations conference and the Brundtland Report of the United Nations (UN, 1987) raised the ecological balance for a lasting development model with the common good and ecological health (Velázquez & Vargas-Hernández, 2012) likewise, the United

Nations Conference on Sustainable Development in its Agenda 21 considered the promotion of actions to modify the use and performance of resources that do not compromise the future of generations in addition to balancing social, environmental and economic anxieties (United Nations, 2012).

Sustainability as a strategy is based on the balance of the environment, the common economic well-being of people, which includes new technologies, markets, globalization, among others (Velázquez & Vargas-Hernández, 2012). It also includes the conservation of species in the world and their link with natural ecosystems and society, understanding the limitation and scarcity of resources (Ávila, 2018).

The conception of sustainable development structures economic, social, political, and environmental concepts so that they combine with economic and social development with the protection of the environment and society (Coria, 2017). Sustainable Development must satisfy internal conditions appropriate to the local part, self-managed, administered and planned by development subjects, which implies the different types as observed in the following table 1:

Table 1 Types of sustainability

Typology	Explanation
Economic	Economic provision for the care of all types of resources: natural, social, human, technological and economic.
Ecological	Protection of natural resources by carefully caring for them for future generations.
Energetic	With design, technology, and research, consumption of less energy than the produced before.
Social	With equity, everyone benefits equally.
Cultural	It benefits culture as all kinds of expressions of the region and locality, national and international, including all kinds of natural manifestations.
Scientific	It has the support of applied research and regardless of short-term profitability criteria.

Source: Gestión de Recursos Naturales (2023)

Some sustainable development strategies are the Environmental Impact Assessment (EIA), which is a legal and administrative process for the collection of inquiries, analysis and information to correct and anticipate the direct and indirect results in projects developed in relation to the environmental framework as well as the analysis of biodiversity, which consists of the coexistence of humans, fauna and flora as irreplaceable wealth, besides the fact that sustainable development strategies are related to the Sustainable Development Goals (SDG) of the 2030 Agenda as: guarantee healthy lives and promote the well-being of all ages (SDG number 3), make cities and human settlements inclusive, safe, and resilient (SDG number 11), adopt urgent measures to combat climate change and its effects (SDG number 13), protect, restore and promote the sustainable use of terrestrial ecosystems, sustainably manage forests, fight desertification, halt and reverse land degradation and halt the loss of biodiversity (SDG number 15), promote peaceful societies for sustainable

development, facilitate access to justice for all and build all levels (SDG number 16) and Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development with SDG number 17 (Gestión de Recursos Naturales, 2023; Naciones Unidas, 2023).

### 1.2 Business Sustainability

Sustainability is related to the ability of an organization to function in all its dimensions: social, environmental, governmental, generating policies and strategies with codes of conduct that guarantee sustainable processes and without generating any negative impact on the social and environmental rights of the groups of interest (Rivera et al., 2018).

A sustainable organization implies changing behaviors and competencies such as management practices, systems and processes that people implement in an organization (Accenture, 2021).

Companies face daily challenges related not only to their finances but also to the expectations of customers in their way of acting in social and economic contexts and their impact on the environment, taking care of resources for new generations, which entails the organization to take care of its reputation and be responsible in its actions (Briñeza & Penagos, 2021).

The problems of the environment and society in general play an important role in conjunction with ethics in organizations, as well as compliance with regulations and standards at a national and international level, as well as the concern to protect their profitability and investments for it. Management definitions of Business or Corporate Social Responsibility, and sustainability have been developed, in addition, for a company to be sustainable, requires to be conducted with principles and practices for a fairer world more efficient operations (Orozco, 2020).

It is important that the management is executed in organizations, in addition to seeking profits for owners or shareholders, also towards stakeholders within the rules that are governed and that the company is a renewing organism and benefits society (Miranda et al., 2022).

According to business reputation, international institutions and companies evaluate corporate governance to analyze their non-financial performance that affects the management of environmental risks and opportunities (Campillo & Briano, 2022).

Companies must cement linkage relationships to new organizational forms such as alliances, social innovation and hybrid businesses in a value approach where the social actors contribute to the construction of sustainable organizations (Dueñas-Ocampo, Perdomo-Ortiz & Villa, 2021).

## 2. Palacio de Hierro

### 2.1 Company History

In 1860 Victor Gassiser associated with Alexander Reynauden, forming the Gassier and Reynaud company with a clothing drawer called the Factories of France in the Portal de las Flores in 1870 and in 1876, at the time of Emperor Maximilian, they associated with Joseph Tron and Joseph Leautaud, to create “V. Gassier and Reynaud Sucs” and in 1879, the company is changed to “J. Tron and Cía.” continuing with the clothing business, to later sell the Factories of France and build a large store in the historic center in 1888 and found a warehouse in 1891

inspired by stores in Paris, London, New York and Chicago, which they later called El Palacio de Hierro, due to the greatness of the construction of the iron and steel building. Its leaders created a system of fixed prices in 1893 and due to its success in 1898, it became a public limited company under the name of El Palacio de Hierro S.A. and in 1958 the second store (Durango) was inaugurated.

In 1963, a solid Mexican Financial Group was integrated: Grupo Bal, directed by Raúl Baillères; in 1980 another store was inaugurated in Perisur and in 1989 another in Coyoacán. In 1993, the fifth most luxurious store in Santa Fe and thus the trendy company continues, it has 13 stores: 8 located in Mexico City and the metropolitan area, and in Puebla, Monterrey, Guadalajara, Villahermosa, and Querétaro, it also has Casa Palacio Antara and Santa Fe and the Boutique Palacio concept store in Acoxta, Acapulco and Cancun. In 1996, the president of Grupo Bal, Mr. Alberto Baillères, published the iconic phrase "I am Totally Palacio", generating belonging in the organization to identify its culture, as a distributor of exclusive luxury brands (Infobae, 2023; Palacio de Hierro, 2013; Palacio de Hierro, 2017; Yrazú, 2006). The following table 2 shows the chronology of the company:

Table 2 Company Timeline

Year	Event
1888	Construction of the company.
1891	Opening of the Palacio de Hierro center in Mexico City.
1900	Inauguration of a manufacturing complex.
1921-1928	In 1921, after a fire, the new building of said organization arose, continuing with its expansion in 1925.
1958	Opening of the Palacio de Hierro branch in the city of Durango, Mexico.
1963	Grupo Bal is formed, directed by Raúl Baillères.
80's	Shops in Perisur, Coyoacán
90's	Stores in Santa Fé, Polanco, Satélite.
1996	Creation of the phrase "I am Totally Palace" as part of the culture.
1998-2001	Campaign "I am Totally Palace" with more than 77 awards.
2002	Palacio de Hierro branch in Puebla.

2005	Palacio de Hierro branch in Monterrey.
2006	Launch of the Casa Palacio in Antara Mexico City.
2008	Palacio de Hierro branch in Guadalajara and launch of the Boutique Palace on Acapulco Island in Guerrero. Casa Palacio won the “Global Innovation Award” as the best home goods store.
2010	Palacio Acoxa Boutique Branch, Mexico city and Boutique Palacio branch in Cancun.
2011	2011 Opening of the Palacio de Hierro Interlomas branch, and the Palacio Cancún Boutique obtains the award WGSN award as Outstanding New Store, awarded by the world's leading consumer trend forecasting company.
2012	The Palacio de Hierro Villahermosa, Tabasco is inaugurated.
2013	Casa Palacio Santa Fe Branch, Mexico City.
2014	Palacio de Hierro branch in Querétaro. Yellow Book Totally Palacio Style Guide and El Palacio Gazette
2015	Redefinition of luxury offering unique experiences for the buyer. Remodeling of the Palacio de Hierro Polanco, cd. from Mexico. Hashtag #ElPalacioDeLosPalacios as a trend.
2016	Digital marketing strategy and communication in social networks. Socially Responsible Business Center.
2017	Participation in the Transportation program. Clean of the Ministry of Environment and Natural Resources.
2018	Celebration of 130 years in the market with the promotion "Our gift is you" and "Palacio Nights".
2019	Opening of the fourteenth store.
2020	Suspension due to pandemic. Digital marketing and e-commerce platform. Commitment to the health of employees and customers with health protocol.
2021	New ways of working to guarantee the care and health and emotional physical well-being of employees. Actions aimed at integrating into the digital part as a company, interacting with all interest groups.

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Note: Elaboration based on Bolsa Mexicana de Valores S.A.B. de C.V. (2019); Bolsa Mexicana de Valores S.A.B. de C.V. (2022). Palacio de Hierro (2013); Palacio de Hierro (2017); Palacio de Hierro (2023); WGSN Limited, Company (2023); Yrazú (2006).

This table shows the strategies for growth and territorial expansion in Mexico, it also shows how the location of department stores in shopping centers establishes an essential element in the organization for the development of consumer culture as part of customers' lives and that manifest changes in the type of life that they want to have, which increases the sales objectives in the organization (Pérez and Mayo, 2020).

### 2.2 Corporate Governance

This company has solid ethical principles with a system of institutional values such as integrity,

loyalty, respect, ethics and commitment and thus fulfill the commitments with employees, customers, suppliers, authorities, government and society for taking care of heritage, safeguarding assets and its intellectual property to contribute to good Corporate Governance practices and achieve a functional administration, optimizing all its resources focused on achieving sustainability (Palacio de Hierro, 2023).

Corporate Governance is made up of a set of regulations, principles and techniques that regulate the structure and functionality of the

governance members of an organization such as the board of directors, administrative management council, shareholders, and stakeholders for the decision-making process, decisions that affect the company for the generation of its value (Deloitte, 2023) and

Palacio de Hierro has values and foundations with ethics as part of the organizational culture and this type of government is carried out through good practices in the part directive with accounting and administrative transparency as shown in Table 3.

Table 3 Corporate Culture

Code of Ethics	Actions
Culture.	Prevention.
Zero tolerance policy.	Bribery and corruption.
Respect.	Human rights, national and international laws, fair competition.
Compliance with the law.	Money laundering and terrorist financing.
Formal authorization.	Donations, sponsorships, ethical conduct in business.
People care.	Decisions that put liberty and integrity at risk.
Corporate values.	Integrity, loyalty, respect, ethics and commitment, freedom of expression, preferences, and political affiliations.
Social Responsibility.	Compliance with actions, rational use of resources and respect for nature, equal opportunities. Security and health with stakeholders: shareholders, authorities, companies, and customers.
	Environmental responsibility.

Note: Palacio de Hierro (2020); Palacio de Hierro (2023a).

This table represents the corporate culture of the company through its Code of Ethics, which every company that considers itself socially responsible must have so that workers have a guide regarding their behavior inside and outside the organization and with the interest groups.

### Goal and Methodology

A five-year longitudinal qualitative methodology with an analytical and descriptive approach was used. Documentary and bibliographical research was searched with secondary sources such as scientific articles, and all reports, on the study phenomenon on the web. A longitudinal study involves measurements over a certain period, which can be more than two years, months, for example, the cohort study can be from the beginning to the end of a follow-up (DelgadoRodríguez & LlorcaDíaz, 2004). The purpose of a descriptive investigation is to define, classify, catalog, or characterize the object of study, such as the sustainability of the Palacio de Hierro company. To obtain the description of this, a qualitative methodology

was used to describe and explain the phenomenon, its characteristics, and components through secondary sources, such as records, bibliography and documents published on the web to process the information (Hernández, Fernández & Baptista, 2014). The goal of the article is to analyze the sustainability of the organization.

### Findings

In relation to social responsibility and sustainability, companies are aware of global warming, the loss of natural resources and high levels of pollution, being the reason of their support for reducing the carbon footprint, and it's decision on green technologies, applying the 3 Rs in a sustainable way: reduce, recycle and reuse, and in the case of the purchase of goods, it is part of the customer's purchase decision, that this are friendly to the environment, which impacts the reputation of a company (Casa Palacio, 2017). The following table 4 analyzes the indicators that Palacio de Hierro has carried out.

Table 4 Palacio de Hierro Sustainability Indicators

Indicator	2017	2019	2020	2021	2022
Transformation.	Educational technological of exceptional talent.	Standardization of the design, documentation, implementation, and evaluation of the procedures.	Support to the Government with the delivery of 20,000 face masks, water and 100 nasal tips.  Reinvention in sales strategies through digital media.	Sales channel by whats app in the evolution of the services. Digital ecosystems. Challenges and organizational resilience.	Search for talent without distinctions. Strengthening of excellence, style, quality, and joy of living.
Building the team of de future.	Identification of exceptional talent.	Teaching employees with space for respect with training program for customers. 3D strategy emerges difference, digitize and diversify.	Support for the reactivation of small producers to deliver food produced by them to the vulnerable population.	Occupational safety with health protocols. 4D strategy: diversification, digitization, and design.	Code of Principles and Best Practices of Corporate Governance.
Innovation (digital transformation).	Use of social networks: Foursquare, twitter, YouTube, Facebook, Pinterest, snapchat.	<i>Success factors</i> platform. Digital import operations.	The technological platform was improved to provide better customer service as well as logistics.	Disruptive company commitment to innovation. Digital and in person presence at the same time in stores: reinvention. Twitter channel.	Disruptive company commitment to innovation.
Performance programs (Development and quality of life for workers).	Training.	Employee incentives and performance.	Creation of whats app Palace.	Organizational training. Transparency in accounts.	Salaries and benefits and bonuses and awards were increased based on results.
Social responsibility.	Collective social commitment towards vulnerable groups, especially children. Construction of public schools.	Support for children with cancer and their families with the collection of pet bottle caps by employees.	Delivery of daily lunches to clinic 72 of the Mexican Institute of Social Security (IMSS) for medical personnel; 12500 medical	Priority health of employees and customers. ESG Model (Environmental, Social and Governance). Best practice performance. Donations and	Strategy in environmental, social, and corporate governance matters. Sustainability Committee.

			supplies to the same institute.	support communities up to 7.7 million pesos. Positive environmental impacts in water care, equality, and equity.	
Work culture (Ethical culture).	Innovation.	With the values of respect, inclusion and diversity, the population of disabilities increased by 40%.	Solid organizational culture with people with disabilities and diversity.	Organization culture towards innovation.	Gender equality, disability, human rights.
Inclusion (Social Dimension).		Employees with diversity and disabilities as well as equality in the work area.	Human Rights. Inclusive culture	New forms of work guaranteeing in the face and health crisis. Inclusion and diversity.	People with disabilities increased by 20%, gender equality: 632 employees were promoted and 60% women. LGBT+: equal, inclusion and diversity are valued.
Environment and social commitment.	National Award of Road Safety, clean transportation Program the Ministry of Environment and National Resources (SEMARNAT).	Concerned about the Environment, certified by the Mexican Center for Philanthropy, A.C. (CEMEFI).	The support to the communities was more than 1 million pesos through donations. Support to small producer and contributed to various institutions and social causes about 33.8 million pesos.	Standard Certification Mexican in Equality Labor and Non-Discrimination, inclusion, and diversity. Responsible environmental performance with energy efficiency, road safety management system, certified by ISO 39001.	Responsible environmental performance with energy efficiency, road safety management system, certified by ISO 39001.

Note: Elaboration based on Grupo Palacio de Hierro (2017); Grupo Palacio de Hierro (2019); Grupo Palacio de Hierro (2020); Grupo Palacio de Hierro (2021); Grupo Palacio de Hierro (2022a); Palacio de Hierro (2019); Palacio de Hierro (2020); Palacio de Hierro (2021); Palacio de Hierro (2022).

This table shows that the organization is sustainable and how it has managed to progress, since in 2022 they already implemented a Sustainability Committee that previously did not

exist, and they continue to improve their ESG (Environmental, Social and Governance) Model, which demonstrates the achievements of it.

Another sustainability analysis of the company under study, according to Brinez & Penagos (2021), is that the organization defines the way to manage social and environmental resources that generate employment and support society and its financial performance, in this case Palacio de Hierro does this through its Corporate Governance as well as the transmission of principles and values. Regarding sustainable design, it includes environmental regulation and efficiency in infrastructure projects, for example, during the pandemic in 2020, discounts of 40% were granted in Shopping Centers (April to June), they reduced rents to tenants as landlords and with the tenants they agreed to decreases in rent payments between 40% and 65%; In the transmission of principles, they have their code of ethics such as shared values, loyalty, integrity and respect inside and outside the company, in terms of strategies that affect all areas, it is carried out with corporate governance and the promotion of labor respect. in balance with personal and work life, to achieve the objectives, they have measures such as the compliance management system that protects accomplishment with regulatory obligations, so that their collaborators carry out all the company's operations with all its regulations with activities such as prevention, detection, and correction, as well as integrity and fulfillment conflict of interest, gifts as well as the achievement of objectives preventing financial crimes and money laundering, integrity with partners and code of ethics for suppliers and thus carry out the management of compliance with improvements (Grupo Palacio de Hierro, 2020; Palacio de Hierro, 2023<sup>a</sup>; The Iron Palace, 2023).

### **Discussion**

Sustainability in the environmental sense is the satisfaction of needs without compromising future generations and in organizations it is intended that their long-term permanence be carried out in the same way, but this is the responsibility of the human and financial resources that ensure the quality of life of the new generations, but sustainability is the result of responsibility (Argadoña, 2022).

Corporate Social Responsibility and Sustainability are complementary because an organization contributes to society by being responsible with sustainability such as job

creation and stakeholder satisfaction, in the environmental part, reducing the carbon footprint and caring for resources. while in the social part monitoring human rights and inclusiveness through communities in addition to implementing programs for the most vulnerable (Caro, 2021).

Therefore, if a company is socially responsible, it can be sustainable if it meets all the indicators mentioned above in addition to aligning itself with the sustainable development objectives of the 2030 Agenda.

### **Conclusion**

Since 2014, Palacio de Hierro has been recognized as a Socially Responsible Company and certified by the Mexican Center for Philanthropy (CEMEFI), due to all the actions accomplished for the benefit of society and the environment, but there are still actions to be carried out for the development of the 17 Sustainable Development Goals (SDG), considering the fact that in order to truly appear as an exceptional company in Mexico, as they claim in the 2022 report, they would have to implement exceptional practices, which according to the Council Business Coordinator, the Institute for the Promotion of Quality and the Communication Council, Voz de las Empresas (2022), a recognition of an exceptional company, focuses on recognizing the efforts made by organizations to adapt to the challenges presented by the Today's world with characteristics such as promoting the development and quality of life of employees, accelerating digitization, strengthening suppliers, contributing to the SDGs and promoting transparency (Communication Council, 2023), through innovative actions that benefit society in an outstanding way in the social dimension and although Palacio de Hierro makes donations and support, it is not an action that transcends to be an "exceptional" company, in the same way actions such as good practices that reflect the same dimension because although they do carry out good practices, through the analysis of their literature and reports they lack projects that contribute to sustainable development, such as support for green areas, ecological sales center, continuous project of the 3rs, use of sustainable energy, construction of parks to support young

people, among others, and that are part of the organization.

A 2021 sustainability report was found in which they expand and improve good practice actions, but as mentioned above there is no type of

program that makes them an exceptional company, so it is suggested to the organization that through the Sustainability Committee they carry out projects to support the community and the environment.

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## FEMALE LEADERSHIP IN THE TEQUILA INDUSTRY IN MEXICO

María del Carmen NAVARRETE TORRES

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### Abstract

*The tequila industry has a high significance in the Jalisco economy, due to its region of origin since the 17th century and in the activities of production, packaging, verification, tourism and commercial representation offices that are concentrated in the state of Jalisco. In Mexico, tequila is the drink that has a distinctive seal worldwide. According to data from the National Tequila Regulatory Council, in 2022 only 11 of the 174 registered distilleries were run by women. It is a dynamic industry that, until recently, was identified as extremely masculine, associated with the image of men on horseback. Today, directly or indirectly, the industry engages some 300,000 people. The objective was to analyze the production companies that are run by women, in order to promote and publicize some aspects of their business. A documentary research was carried out with a qualitative-descriptive approach, secondary sources were consulted. conclusions. The owners of the tequila factories in Jalisco are distinguished by a new vision about how to achieve more equity in this area, a change that began a few years ago. They lead with a vision that seeks a transformation in the sector and in family businesses.*

### Key words

*Companies, female leadership, brands, tequila.*

**JEL Classification:** M1, M10

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### Introduction

Gender leadership is a highly controversial topic that is of interest to researchers, as it is necessary to determine who exercises it best. This argument is focused on the aspects of how men and women develop when leading an organization, since each one has a way of acting to achieve their objectives. There are characteristics that define each gender, which influence the decision of who is better or the most suitable for certain positions in the workplace or to lead and have a high level of responsibility.

At present, women carry out responsibilities not only in the family sphere, but also in the workplace. Although progress has been made in equal opportunities in managerial positions, discrimination against the female sex still persists. The positions where decisions are made are occupied by men.

In the year 1945, the first international agreement was signed where the principle of equality between women and men is recognized. Since then, numerous initiatives have emerged in search of improving the condition of women. However, they have been hampered by gender stereotypes, which society imposes and cultural

restrictions that have generated a division of masculinity and femininity. In reality, society establishes norms and rules based on the dichotomy that is generated between the feminine and the masculine, thus establishing stereotypes that are based on the way of thinking, feeling and perceiving these differences for each social group. (Duarte Cruz & García-Horta, 2016).

However, it is important to mention that, despite these changes related to the inclusion of women in the workplace, there is still a long way to go, mainly to ensure that this collaboration can be equal both in number and in the positions that women occupy, since the trend in leadership roles continues to favor men (Avolio, 2008, cited in Velázquez 2018).

In Mexico, only the 38% of senior management positions are held by women, according to research conducted by Grant Thornton in the publication "Women in Business 2023." The study places the country in the number 11 in the ranking of nations with the highest percentage of women in top-level positions and number one in Latin America

Grant Thornton's International Business Report (IBR) has been investigating and analyzing issues related to gender diversity in corporate management positions globally for 19 years, pointing out obstacles and identifying actions that drive change .

Globally, 32.4% of senior management positions in mid-market companies are currently held by women, an increase of just half a percentage point (pp) since 2022 and of only 13 pp since the first time a study was carried out in this regard, in 2004. With these data it is assumed that in the year 2025 women will only occupy 34% of senior management positions. According to the Global Report on the gender gap of the World Economic Forum (WEF), it would take 132 more years to correct, historically, it has been a sector dominated by the male gender.

With regard to the tequila industry in Mexico, each year the number of women in its different areas of production increases, which include field work as jimadoras, in the beverage production process, in the marketing stage and as directors and owners of tequila houses. In this last category, there are only 11 positions held by them out of the 174 registered companies.

The objective of the research was to analyze the production companies that are run by women, in order to promote the female presence and publicize some aspects of their businesses. A documentary research was carried out with a qualitative-descriptive approach, secondary sources were consulted.

## **Literature review**

### *1.1 Concept of leadership*

Leadership has been studied for decades according to its importance and is acquiring as professionals lean towards sources of informal power, soft power, as opposed to traditional formal power.

Leadership is defined as the process by which an individual influences the activities of other members of a group towards the achievement of group objectives ( Stogdill , 1950). If the differences between a leader and a manager are analyzed, the main function of the leader is to design the essential purpose or mission of the organization and the strategy to achieve it, for a manager it is the one that implements the vision .

Although important advances have been made for the benefit of women, such as the conquest of the right to vote, equal access to education and their inclusion in the labor market (Chinchilla and León, 2004), the management of the companies continues to be predominantly exercised by men, which makes it difficult for women to participate in senior management positions and their presence at the top of the organizational structure (Contreras et al., 2012).

In this way, these advances led to a certain autonomy for women and, to a certain extent, leveled the power in their relations with men (Cuadrado, Molero and Navas, 2006 ). However, "they have not managed to achieve an equal representation of women and men in leadership positions, but rather, on the contrary, gender discrimination persists, which restricts opportunities for professional advancement for women" (Barberá et al. , 2011, p.173).

However, as pointed out by Barberá, Ramos and Sarrió (2000), the presence of women decreases significantly in leadership roles, since as one ascends in the labor hierarchy, "men occupy positions of power, while women, only rarely, manage to reach senior management positions, becoming practically invisible" (Ramos, 2005, p. 32).

The possible explanation for this phenomenon lies in the notable lack of representation of women in the labor market, as well as in the existence of the recognized "glass ceiling" and the prejudices and stereotypes rooted in today's society. These elements constitute clear obstacles to the advancement of women towards managerial and leadership positions.

Despite the increase in the participation of women in the labor market, there is an invisible and insurmountable barrier that stands between them and senior management positions in the organizational structure of companies, regardless of their academic merits, personal or professional qualification (Berenger et al., 2004). This phenomenon is known as the "glass ceiling" or " glass ceiling ", which women trying to reach positions of responsibility or leadership in most organizations face (Morrison, White and van Velsor, 1987; cited in Cuadrado, Molero and Navas, 2006). This expression is a metaphor

that describes the non-obvious barriers that "limit women's access to certain managerial positions and act as an obstacle that prevents them from assuming leadership roles. These barriers, as they are not regulated or controlled, remain invisible to the public. society" ( Bucheli and Sanroman, 2005; quoted in Contreras et al., 2012; p. 185).

The causes that contribute to the existence of the "glass ceiling", which implies the persistence of women in the lower levels of organizations and their difficult access to leadership positions, are diverse and cover perceptions, beliefs and aspects of both the structure organization as well as society in general (Cuadrado, Molero and Navas, 2006, pp. 5-6).

Among the various reasons that explain this, the main one is that it is not simply a question of the educational level of women, since in recent years they have occupied the majority of university classrooms. Instead, the "glass ceiling" could be explained by the phenomenon known as "homosocial reproduction", a term coined by Kanter (1977) to describe how those who make key decisions in certain organizations tend to favor and promote people with similar characteristics to themselves. theirs (Cuadrado, Molero and Navas, 2006, p. 6).

Therefore, unconsciously and because senior management positions have historically been held by men, men's support for other men is strengthened to advance in the labor hierarchy and in power (Cuadrado, Molero and Navas, 2006).

On the other hand, this obstacle is also due to other factors. In the first place, the reconciliation between work and family can hinder the mobility of women within the organization (Cuadrado, Molero and Navas, 2006). Studies have shown that family responsibilities are considered one of the main limitations for promotion and promotion to leadership positions ( Chinchilla and León, 2004; Martínez-Pérez and Osa, 2004; Sarrió, Barberá, Ramos and Candela, 2002; cited in Cuadrado, Molero and Navas, 2006).

Finally, it is important to mention the existence of an organizational culture in which masculine values prevail over feminine ones (Ramos, 2005), generating two opposite extremes. Furthermore, this organizational culture is still

based on androcentric norms and gender stereotyped beliefs (Ramos, 2005, p. 137).

### *1.2 Barriers faced by women to access management positions*

The underrepresentation of women in leadership roles: the existence of the "glass ceiling"

Despite the increase in the participation of women in the labor market, there is an invisible and insurmountable barrier that stands between women and senior management positions in the organizational structures of companies, regardless of their academic merits. , personal or professional qualifications ( Berenger , et al., 2004). This phenomenon is known as the "glass ceiling" or " glass ceiling ", which women face when trying to reach roles of responsibility or leadership in most organizations (Morrison, White and van Velsor , 1987 ; quoted in Cuadrado, Molero and Navas, 2006)

#### The Glass Ceiling

The Glass Ceiling Commission of the US Department of Labor defined in 1991 the concept of glass ceiling as those artificial barriers, therefore not visible, that are established based on behavioral or organizational prejudices that prevent the promotion of individuals within an organization to executive levels. Referred to as one of the causes that prevents an equitable female presence at executive levels.

The theory of the glass ceiling makes it possible to understand, in a visual way, the limitations that women suffer to access positions of greater responsibility. Thus, other theories have emerged, such as the metaphor of the labyrinth created by Eagly & Carli (2007), which points out that women have to face many challenges throughout their professional careers, the problem is not limited to a barrier in a particular place in the hierarchical ladder, but rather it is a constant process.

In the work of Hoyt (2016), three groups of factors are pointed out that explain the low representation of women: factors related to human capital, and the different stereotypes in leadership. There are also social and cultural barriers that make a difference with the leadership style of men.

For a long time and by tradition, leadership roles have been associated with typically masculine traits, as pointed out (Charlo , 2012). However, other authors such as (Hoyt, 2010) assert that effective leadership requires skills of both sexes, such as emotional intelligence, risk-taking, persuasiveness or empathy. And although there are indeed small differences in the use of certain traits that impact leadership effectiveness, with women showing higher levels of integrity and men assertiveness, overall the differences favor both women and men (Eagly & Carli , 2007).

Effective leadership also depends on the approaches of both roles. To cite a few examples, women perform less effectively in male-dominated positions and in more masculinized roles (Eagly, 1995). This is in line with the Social Role Theory. According to this theory, men and women behave in accordance with the stereotypes associated with the social roles they occupy, and other people, in turn, have expectations about how someone should act based on their role (Eagly, 1987 ). For Hoyt , (2010) points out that subordinates generally do not accept those people who do not agree with the image they have as a leader.

### *1.3 Concept of female leadership*

Some studies on female and male leadership styles show that women are just as efficient when it comes to executing managerial tasks and that they have the same motivation and the same level of commitment in their work ( Hoyt , 2010 ).

The authors Eagly & Carli (2007) make a difference between both roles depending on the field

communal and that of power. Men seek to increase their power through control, ambition and individualism, while women stand out for the interest they show in interpersonal relationships, being more emotional.

### *1.4 Tequila*

The name Tequila is taken from the region that gave rise to it approximately two centuries ago. Today the agave fields, with their characteristic physiognomy, comprise a large central strip of the state of Jalisco; On the other hand, directly or indirectly, some 300,000 people work in the industry.

The name of Tequila is due to the town where a region of Mexico originates from, called Tequila in the state of Jalisco. The origin of tequila is due to the fact that it was discovered by chance after burning the inside of some agaves due to lightning and heavy rain, which produced an attractive aroma. The Spanish distilled this rudimentary juice to give it a better flavor, which resulted in the current tequila.

Tequila is made from a mixture of sugars in which at least 51% must come from the blue variety Tequilana Weber Agave, while the remaining 49% can originate from other natural sources of sugar that are not from agave. As for the 100% agave tequila, it has been made solely from sugars from the blue variety Tequilana Weber Agave .

### *1.5 Denomination of Origin*

In accordance with article 156 of the Intellectual Property Law, the Denomination of Origin is the name of a geographical region of the country that serves to designate a product originating from it and whose quality or characteristic is exclusively due to the geographical environment, including in this, natural and human factors.

This definition states:

- The existence of a delimited geographical area (proposed by interested parties)
- A proven recognition or reputation of the geographical place (declaration)
- Precise production conditions (Standard)
- typicality.

Both the Tequila production process and the Agave cultivation process must take place within the territory determined in the Declaration of Protection of the Tequila Denomination of Origin. For a product to bear this name, its production must be carried out in strict compliance with the Official Mexican Standard for Tequila (NOM-006-SCFI-2012). This document includes the municipalities that were granted the protection of the Designation of Origin of Tequila by the Mexican Institute of Industrial Property, which have been published in the Official Gazette of the Federation (DOM)

on various dates, the last being that of October 26, 1999.

Tequila has the seal of the Tequila Denomination of Origin that includes 181 municipalities that are located in five states (Jalisco, Guanajuato, Michoacán de Ocampo, Nayarit and Tamaulipas) (Official Gazette of the Federation). Jalisco with its 125 municipalities, Nayarit with 8, Guanajuato with 7, Tamaulipas with 11 and Michoacán with 30. Only in those municipalities can the raw material, Agave Tequilana Weber Blue Variety, be used for its production.

The drink is considered the national symbol of the Mexican. The region represents the largest producer and the main export destinations for the product include the United States, Germany, Spain, France, Japan, Canada, among others.

The increase in tequila consumption is a determining factor and the demand for cocktails not only in bars and restaurants, but also in homes, has driven the growth of the industry.

The innovation and experimentation of tequila brands has attracted new market segments.

Tequila is considered the national symbol of the Mexican. The region represents the largest producer and the main export destinations for the product include the United States, Germany, Spain, France, Japan, Canada, among others.

**Goal and Methodology**

A descriptive documentary research was carried out that was based on the analysis and study of written information sources, such as books, magazines, academic articles and reports . The main objective was to collect, examine and critically analyze existing information on the subject.

**Findings**

According to data from the National Tequila Regulatory Council, in 2022 only 11 of the 174 registered distilleries were run by women. Table 1 shows the results found.

Table 1 Women in management positions in the tequila industry

BUSINESSWOMAN	BRAND	TYPES OF TEQUILA	PRODUCER STATE
Bertha Gonzalez Nieves	House Dragons	White Restful Old	Guanajuato
Carmen Lucia Barajas Cardenas	Wine And Spirits Azteca	White Restful Old	Jalisco
	Legend Of Mexico	White 24k white Restful Old	
Carmen Villarreal Trevino	San Matias House	White Restful Old	Jalisco
Marcela Orendain Giovannini	Tequila Orendain De Jalisco SA De C.V	White extra rested	Jalisco
Guadalupe Newton Faust	Saint Lucia Distilleries	White Restful Old	Jalisco
Leticia Hermosillo Ravelero	Iron Gate Tequila	Restful Old extra old Rested Pink Silver	Jalisco

Mayra Paola Martinez Reyes	Tequilera De Arandas, SA De CV	White Restful Old	Jalisco
Iliana Elizabeth Partida	Gold Estate	White Restful Old	Jalisco
Ruby Split Emerald	Tequila Three Women	White Restful Extra Añejo Dark Old extra aged	Jalisco
Gabriela Canedo	Herradura Tequila	White Old Restful	Jalisco
Carmen Roman	Saint Matthias	White Restful Old	Jalisco

Source: Taken from (Tequila Regulatory Council 2022)

Table 2 shows the main tequila areas in Mexico, although there are other regions in different states of the country where quality tequila is

produced. Jalisco stands out, where most of the companies run by women are located.

Table 2 Tequila producing areas

STATE	DESCRIPTION
Jalisco	The state is considered the epicenter of tequila in the country. Within Jalisco, the Los Altos region is renowned for the production of high-quality tequila. Municipalities such as Arandas, Atotonilco el Alto, Tequila and Amatitlán stand out.
Nayarit	The "Tequila" designation of origin is found in the state of Nayarit, although its production is lower compared to Jalisco. The Amatitlán region also stands out in the production of tequila
Guanajuato	In the state of Guanajuato, the Celaya region and its surroundings are known for the production of tequila. Municipalities such as Abasolo, Romita and Purísima del Rincón stand out
Michoacan	In Michoacán, the Tepalcatepec region is known for its tequila production. Distilleries can also be found in other municipalities in the state.
Tamaulipas	The Ciudad Mante region is recognized for being a more recent production area compared to other regions

Source: Taken from (Tequila Regulatory Council 2022)

## Conclusions

The performance of women in management positions in tequila companies is almost nil. It is evident that, although there is an increase in the participation of women in the business sphere, patriarchy continues to prevail, reflected in the high percentage of the 174 spaces of industry first level.

Women have been rising in management positions very slowly, even though they have shown great interest in participating and occupying management positions in companies. However, even when you can actively participate, you have to overcome a number of social and cultural barriers.

Gender equality is becoming more noticeable with the presence of women in senior positions and leadership roles, merits that they have achieved by persisting, demonstrating their capabilities and fighting against limiting prejudices in society.

There are various obstacles or barriers that make it difficult for women to access positions of responsibility. These barriers can be external, such as social and organizational ones, or internal, such as a lack of self-esteem or difficulties in reconciling professional and personal life. Some barriers have remained constant over time, such as stereotypes, while

others, such as training, are taking on new meanings through the hidden curriculum. Although the equality plans and the studies carried out have helped to demystify certain aspects, some inequality still persists in the workplace

Women who occupy leadership positions in Mexican companies play a fundamental role in the country's business environment. As society moves towards gender equality, more and more are assuming leadership roles in different sectors and demonstrating their ability to successfully run companies in Mexico.

Women leaders bring a unique and diverse perspective to decision making, which can generate significant benefits for companies. Your innovative approach, effective communication skills, and ability to foster inclusive work environments can boost productivity and creativity within organizations.

Despite the progress made, women leaders in Mexican companies still face challenges in their professional advancement, such as the gender pay gap and stereotypes rooted in business culture. However, through the promotion of equal opportunities and the implementation of inclusion policies, Mexican companies can strengthen their female leadership capacity and promote more equitable work environments.

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