

### Corporate social and environmental responsibility in India - assessing the UN global compact's role

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# Corporate Social and Environmental Responsibility in India – Assessing the UN Global Compact’s Role

## German Development Institute (DIE)

The German Development Institute (DIE) is a multidisciplinary research, consultancy and training institute for Germany's bilateral and for multilateral development co-operation. On the basis of independent research, it acts as consultant to public institutions in Germany and abroad on current issues of co-operation between developed and developing countries. Through its 9-months training course, the German Development Institute prepares German and European University graduates for a career in the field of development policy.

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## Preface

This report presents the results of a research project carried out as part of the postgraduate training course of the German Development Institute (GDI), Bonn, in close cooperation with the *Centre for Social Markets*, India, and with the support of Ashok V. Desai, Consultant Editor of the *Telegraph*, India. The report is based on studies of the literature and on empirical data collected in India's main industrial districts of Delhi, Mumbai, Pune, Bangalore and Chennai from February to April 2006.

The GDI research team would like to thank Sachin Joshi of the *Centre for Social Markets* and Ashok V. Desai for their strong scientific and technical support, without which this study would not have been possible.

The research team would also like to express their thanks to the top officials of almost 40 Indian and foreign companies and 32 other stakeholders who spoke of their experience and responded to our questionnaire on CSR in India and the role of the UN Global Compact in particular.

Last but not least, the authors are very grateful to experts from other Indian, international and German institutions who were kind enough to share their knowledge with us and so contributed to the writing of the report.

However, the GDI team alone is responsible for the results presented here.

Bonn, February 2007

Tatjana Chahoud





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## Abbreviations

CCC	Clean Clothes Campaign
CEO	Chief Executive Officer
CII	Confederation of Indian Industry
COP	Communication on Progress
CSR	Corporate Social Responsibility
FICCI	Federation of Indian Chambers of Commerce and Industry
FLA	Fair Labor Association
FSC	Forest Stewardship Council
GCO	Global Compact Office
GCS	Global Compact Society (India)
GRI	Global Reporting Initiative
ICAI	Institute of Chartered Accountants of India
ILO	International Labour Organization
ICSI	Institute of Company Secretaries of India
IPF	India Partnership Forum
ISO	International Organization for Standardization
NFCG	National Foundation for Corporate Governance
NGO	Non-governmental organization
OECD	Organisation for Economic Co-operation and Development
OHCHR	Office of the High Commissioner for Human Rights
PSU	Public Sector Undertaking
SME	Small and Medium-sized Enterprises
TNC	Transnational Corporation
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNGC	United Nations Global Compact
UNIDO	United Nations Industrial Development Organization
UNODC	United Nations Office on Drugs and Crime





## Executive summary

### **1. Objective of and background to the survey**

In 2000, against the background of increasing demands for a more inclusive and sustainable global economy, UN Secretary-General Kofi Annan launched the UN Global Compact (UNGC), the first Corporate Social Responsibility (CSR) initiative at global level. In the meantime, the UNGC has become the most prominent international CSR instrument based on legislative and voluntary approaches and structured as a multi-stakeholder network. While the UNGC is well established globally, its contribution to the strengthening of CSR at country level has yet to be assessed.

As India is among those countries where not only is the UNGC highly appreciated by the large number of participating companies, but CSR already has a long tradition dating back to the 19th century, the present study seeks to analyse how and to what extent the Global Compact is shaping corporate social and environmental conduct in that country.

### **2. Methodological approach**

The investigation rests on two pillars: the first is an extensive review of general and India-specific literature on CSR and the Global Compact, the second largely draws on the findings of the present empirical survey, which is based on 71 interviews, mostly with representatives of companies located in the industrial districts of Delhi, Mumbai, Pune, Bangalore and Chennai. A further 32 interviews were conducted with stakeholders and CSR experts.

However, it must be remembered that the report focuses on the perception of the UNGC rather than an assessment of the introduction of standards. It must also be pointed out that the report considers only India's formal economy, which accounts for a mere 5 per cent of all companies operating in India's business sector.

### **3. The global CSR agenda – from self-regulation to multi-stakeholder initiatives**

Since the beginning of the 1980s significant changes in state and market

relations have characterized the era of globalization and economic liberalization. These processes have also become evident in the area of CSR. Particularly since the 1990s a gradual change has been observed, and more civil society organizations, multi-stakeholder initiatives and public private partnerships have become part of the CSR arrangements. The multi-stakeholder initiatives have addressed some of the obvious limitations of corporate self-regulation and have in particular contributed to an increase in the number of actors or stakeholders involved in consulting and decision-making processes, some harmonization of standards and implementation procedures and the encouragement of companies to adopt social and environmental standards.

Multi-stakeholder initiatives often involve a slight hardening of the soft and non-binding CSR procedures that characterized early experience in this field and centred on corporate self-regulation. However, these achievements are joined by a number of general limitations to the CSR agenda:

- Multi-stakeholder initiatives involve only a small fraction of the world's largest companies, including TNCs (Transnational Corporations), and the informal sector accounts for the majority of the labour force in developing countries.
- The UNGC and such other initiatives as the Global Reporting Initiative (GRI) rely heavily on dialogue and best practices, but do not monitor compliance.
- CSR projects do not necessarily accord with the social priorities of public policy. A country's social services may be better assisted by companies simply complying with their fiscal obligations.

#### **4. India's CSR tradition and current trends**

To understand the current state of Indian CSR, including the role of the UNGC, India's long tradition must be taken into account. Its CSR approach is closely linked to its political and economic history, in which four phases can be distinguished:

During the **first phase** (1850-1914) CSR activities were mainly undertaken outside companies and included donations to temples and various

social welfare causes. The **second phase** (1914-1960) was largely influenced by Mahatma Gandhi's theory of trusteeship, the aim of which was to consolidate and amplify social development. The reform programmes included activities geared particularly to abolishing untouchability, empowering women and developing rural areas. The **third phase** (1960-1980) was dominated by the paradigm of the "mixed economy". In this context, CSR largely took the form of the legal regulation of business activities and/or the promotion of public-sector undertakings (PSUs). The **fourth phase** (1980 until the present) is characterized partly by traditional philanthropic engagement and partly by steps taken to integrate CSR into a sustainable business strategy.

Contrary to various expectations that India would follow the global agenda, its current approach still largely maintains its own features, elements of the global CSR mainstream being only marginally integrated. Specifically, the **philanthropic approach** is still widespread: while the Indian understanding of CSR shows a slight shift from traditional philanthropy to sustainable business, philanthropic CSR patterns are still apparent in many Indian companies. In addition, the imbalance between the internal and external CSR dimensions is still huge.

The Indian CSR agenda continues to be dominated by **community development** activities, particularly in the areas of health and education. While most Indian companies view their community development projects as important contributions to the existing development challenges in their region of operation, many stakeholders are more critical of this approach. Where community development is concerned, Indian stakeholders' criticism focuses on the following aspects:

- a company's community development approach based on the argument that it needs to "give something back to society" lacks transparency and specific standards;
- community development approaches often amount to little more than window-dressing and must be compared to violations of social and environmental standards within companies;
- public authorities in local communities very often lack the required know-how and experience to negotiate business-driven commitment to community development;

- very few companies disclose their motivation and business interests when engaging in community development.

In India the **CSR multi-stakeholder approach** is still rather fragmented, and interaction between business and civil society organizations, especially trade unions, is still rare and takes place, at best, on an ad-hoc basis. Although many civil society organizations are active in India, the empirical findings did not show that these initiatives play a significant role in shaping the CSR agenda in India. Despite these general observations, there are numerous networks that could form a basis for an effective and powerful CSR multi-stakeholder approach in the future.

## 5. The Global Compact in India

The Global Compact (UNGC) is a voluntary, value-based initiative, complementing regulation and other, voluntary initiatives. Its main objective is to mainstream the ten CSR principles in business activities throughout the world and to catalyse actions in support of UN goals. The UNGC seeks to achieve these objectives through a multi-stakeholder network, which supports the development of CSR with collective learning, policy dialogue and partnership projects. Its basis is formed by ten principles relating to human rights, labour, the environment and anti-corruption which companies are expected to adopt within their sphere of influence.

In India, the UNGC is characterized by a high participation rate, although not all intended stakeholder groups, especially labour organizations, are represented. According to the empirical findings, companies and stakeholders operating in India join the UNGC mainly to benefit from knowledge-sharing and networking. However, the CSR approach of the UNGC has not yet realized its full potential in India. Many companies therefore expressed the hope of receiving more support and benefits by joining the UNGC.

### *The UNGC network structure*

The goal of an inclusive multi-stakeholder approach has not been achieved because stakeholders are not equally integrated into the Indian

network and the activities undertaken are limited.

A striking feature is the absence of participation by Indian labour organizations and the limited participation of civil society organizations, some of which are directly linked to specific companies, and stakeholder involvement is still not appreciated by all participants, since most companies adopt a self-regulatory approach.

Besides having these shortcomings, the UNGC network structure in India is very weak. It is business-centred, its activities are limited, and support is lacking. Two networks exist, operating in parallel: the Global Compact Society (India) and the India Partnership Forum.

The Global Compact Society (GCS) is the main national network, having evolved after the launch of the UNGC in India. As the survey showed, the GCS is a rather business-centred network. Yet few UNGC companies are aware of the network. Of the Indian GC companies interviewed, 25 per cent had not heard of the GCS, and among the subsidiaries of foreign companies the figure was as high as 70 per cent. Awareness of the GCS is equally low among stakeholders.

The India Partnership Forum (IPF) is not directly linked to the UNGC, but has its own social code for businesses to operationalize the UNGC principles. However, awareness of this network is even lower than that of the GCS.

#### *The UNGC mechanism for collective learning and knowledge-sharing*

Indian companies perceived the UNGC mechanism for collective learning through knowledge-sharing and exchange of best practices as being, in principle, very helpful for their CSR strategies. Yet the empirical findings show that this potential is not being fully exploited.

The survey also showed that many companies do not communicate with the UNGC and that participants are not informed of the various conventions that are held. Contrary to UNGC requirements, almost 50 per cent of Indian companies fail to report by means of Communications on Progress (COPs). Among their reasons for not communicating, companies mentioned time constraints and a lack of benefits from drawing up

COPs. Furthermore, stakeholders pointed out that companies are willing to discuss only soft issues and do not want to share hard and more controversial issues with others.

### *The UNGC's influence on companies' CSR engagement*

Overall, the UNGC does not have a significant impact on companies' CSR engagement. This is due, firstly, to the long tradition of CSR, secondly, to a network that is perceived as very weak, which limits collective learning, and thirdly, to what companies see as a lack of support from the UNGC. Consequently, companies' CSR activities continue to focus on community development and traditional CSR areas, such as social and environmental issues, rather than on human rights and anti-corruption.

Joining the UNGC has not influenced most companies. The empirical findings show that the limited influence on CSR engagement is equally true of Indian UNGC companies, foreign UNGC companies and non-UNGC companies. As regards the UNGC's role in supporting companies through knowledge-sharing and exchanges of best practices, half of the companies interviewed received some support, while the rest received none at all. This situation was attributed mainly to the UNGC's inactivity in India. Despite the limited influence of and support from the UNGC, the survey shows that it enjoys high credibility because it is an international initiative linked to the UN and especially to Secretary-General Kofi Annan. To enhance the UNGC's role in India, companies and stakeholders suggested various improvements, among the most important being:

- extending its reach through the inclusion of more companies (particularly small and medium-sized enterprises (SMEs)) and additional stakeholders,
- providing better support and information (e.g. simpler guidelines and capacity- building for specific industries),
- strengthening the coordination of the Indian networks and improving communication between national/regional bodies and the UNGC Office in New York,
- increasing the credibility of the UNGC's reporting mechanism (COPs).

## 6. Major challenges for the implementation of CSR

Generally speaking, every CSR instrument has some major challenges to address. The evaluation of the UNGC's impact therefore includes these issues. Among the major challenges are the following:

- the business case for CSR
- monitoring, certification and reporting
- mainstreaming CSR in the supply chain
- the role of public policy in CSR

As a rule, the **business case** is a precondition for CSR. In other words, if CSR engagement is to be financially sustainable, the financial benefits must, in the long run at least, outweigh the costs.

However, the empirical findings revealed a complex picture in India. On the one hand, stakeholders referred to the business case as by far the most relevant motive for a company to engage in CSR; on the other hand, only 15 per cent of the company representatives saw it as a precondition for their engagement. These contradictory statements can be partly explained by the widespread philanthropic approach.

The survey also showed that the influence of CSR engagement on a company's economic performance is most relevant to brand values, employee productivity/motivation and cost savings through efficiency gains.

The question of **monitoring, certification and reporting** is crucial for the credibility and reliability of CSR activities in general. However, the overall level of external and also internal CSR evaluation in India must be regarded as low. On the other hand, the role of credible reporting on CSR has become increasingly relevant. An indicator of this trend is the spread of sustainability reports confirmed by many respondents in the survey. These reports are also read by other companies, as 44 per cent of the companies interviewed confirmed. The publication of CSR reports obviously also contributes to competition among companies for the position of best CSR performer.

Despite the Global Compact's high credibility rating, the accountability



and verification of the companies adhering to it is lacking, although there is a reporting mechanism. As the UNGC Communications on Progress do not yet have a specific format, their quality varies widely. In addition, company awareness of these reporting instruments remains low. Even though 61 per cent of the companies included in the survey had published COPs, a mere 23 per cent claimed to have read other companies' COPs. Hence competition or pressure among UNGC companies arising from the publication of COPs does not yet exist in India.

The dissemination of **CSR practices in the supply chain** and effective monitoring of compliance with CSR standards hardly exist in India. According to the companies operating in India, their supply chain responsibility focuses mainly on basic labour standards.

As regards the monitoring mechanism in the supply chain, the survey revealed that there is no systematic approach, this activity usually consisting of random inspections or surprise visits. Compared to companies, stakeholders were generally more critical of these monitoring activities.

The survey shows, moreover, that only a few companies take active additional steps to ensure the spread of CSR in the supply chain, such as capacity-building and providing financial support.

In principle, the UNGC has recognized the need to spread CSR practices along the global supply chain and calls on companies to adopt the ten principles within their sphere of influence. The study shows that many companies are aware of their supply chain responsibility. However, the UNGC has not helped to mainstream CSR in the supply chain. Very few companies said that they had achieved a better standing with their suppliers because of the UNGC's credibility.

The role of **public policy** in regulating and creating an enabling environment for CSR is crucial. In general, public policy can take on four key roles for CSR: mandating, partnering, facilitating and endorsing. According to the survey, companies and stakeholders in India placed most emphasis on the government's mandating and partnering roles.

The majority of the interviewees agreed that no additional legislation was needed. However, a more proactive government approach to law

enforcement in the areas of anti-corruption, environment protection, health care and labour standards (e.g. minimum wages) was demanded.

On the question of the partnering role of public policy, interviewees underlined that further partnerships with private business and civil society organizations are needed. However, when the role of public policy was considered in greater depth, the picture became more diverse. While stakeholders emphasized the need for additional financial incentives for the private sector, it was interesting to find that more business-oriented stakeholders and other CSR experts also saw this as a risk, particularly when budget constraints occur. In their view, public policy should focus on its mandating and partnering roles, rather than offering financial incentives.

The survey revealed a broad consensus that the UNGC should take on a more proactive role in tackling the four challenges referred to above.

## **7. Concluding remarks and recommendations**

The CSR agenda in India is changing. On the one hand, traditional philanthropic approaches are still widespread; on the other, CSR activities in India are undergoing reform processes in line with global trends, CSR being, for example, integrated into core business processes and assigned to corporate departments. However, this reform process is rather slow and will take time.

Although the multi-stakeholder approach to CSR is gaining ground at global level, self-regulation is still predominant in Indian business. This manifests itself in two ways: firstly, very few civil society organizations and almost no labour unions are actively involved in the shaping of the CSR agenda; secondly, most companies operating in India prefer business self-regulation in CSR, and their partnership with civil-society organizations amounts to no more than the latter's role in implementing community development projects. This situation and the generally limited awareness and lack of knowledge of the various UNGC mechanisms and their potential benefits explain why the UNGC network is still in its infancy throughout India and stagnating in some respects.

To strengthen CSR and the role of the UNGC in India, the following activities are needed:

- The structure of the national UNGC networks should be improved. Closer co-operation between or, preferably, the merging of the IPF and GCS is necessary if the role of the UNGC in India is to be strengthened.
- To pave the way for multi-stakeholder approaches, civil society organizations should be integrated. Specifically, the Global Compact Society (India) should become more active in implementing the multi-stakeholder approach and thus in enhancing knowledge-sharing.
- Capacity-building for civil society organizations is needed to strengthen their agenda-setting role in CSR.
- The UNGC networks should support awareness-raising and knowledge-sharing activities with respect to the major challenges facing CSR. This should also include convention follow-up, practical guidelines and the elaboration of sector-specific and SME-specific tools.

# 1 Introduction

In 2000, against the background of increasing demands for a more inclusive and sustainable global economy, UN Secretary General Kofi Annan launched the Global Compact, the first CSR initiative at global level. In the meantime, the UNGC has become the most prominent international CSR instrument based on legislative and voluntary approaches and structured as a multi-stakeholder network. While the UNGC is well established globally, its contribution to the shaping of CSR at country level is less clear. This case study of the Global Compact's role in India should be seen as an attempt to bridge this gap. The survey focuses on India for the following reasons:

- As India has a long tradition of corporate responsibility, dating back to the 19th century, many aspects of its CSR tradition are still valid today.
- India is one of the countries where the UNGC is not only highly appreciated by the large number of participating companies:<sup>1</sup> various Indian stakeholder organizations have also joined this international and multi-constituent initiative.
- As India is one of the fastest growing economies in the world, the role of the UNGC in that country is of specific relevance to the future structure of global governance.

## 1.1 Objective of the report

Despite the high rate of participation in the UNGC, there is still a need to assess how and to what extent the Global Compact contributes to improved corporate social and environmental conduct in India. The present study attempts to help answer these questions. To this end, it covers three topics which are vital in this respect. Firstly, it describes CSR in India and its differences from the global trend with a view to identifying the specific features of Indian CSR. Secondly, the role of the multi-stakeholder approach in India is considered, with particular emphasis on the role of civil society organizations and other stakeholders and their integration into multi-stakeholder forums. Thirdly, four major challenges faced by every

---

1 Currently, 101 companies are participating.

CSR instrument have been identified. They are the importance of the business case, verification of and reporting on CSR, the integration of the supply chain and the role public policy plays for CSR. These categories are used in the assessment of the UNGC's impact.

## 1.2 Background to the report

When it comes to determining whether or not the Global Compact is having an impact on a company's CSR performance, it must be stressed that this report regards corporate social responsibility as an advanced tool for addressing the challenges posed by changes related to globalization.

Historically, the nation state was the main institution that had the capacity to regulate undesirable market trends during the major part of the last century. With the advent of neoliberal economic theory and economic deregulation in the 1970s, however, the situation changed.

Political power shifted from governments towards corporations operating internationally. As companies and finance became more transnational, they were able both to influence and to evade the actions of states. Business increasingly spread its activities to countries where regulation was weakest.

Against this background, the UN Secretary-General's CSR initiative seeks to launch "a global compact of shared values and principles, which will give a human face to the global market" (McKinsey 2004). In line with this notion, the government of India has committed itself to establishing a modern "market economy with a human face".

India already has a long tradition of CSR dating back to its pre-colonial history. From the 1850s onwards, companies were strongly committed to philanthropically motivated CSR. After independence and until the end of the Cold War, India adopted its own concept of the "mixed economy" and applied more legalistic approaches focused on state actors and state-owned enterprises.

Meanwhile, India has dropped the "mixed economy" concept<sup>2</sup> and initiated basic economic reforms. Since the 1990s it has been liberalizing and

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2 The "mixed economy" concept is seen as an approach between the market economy and the planned economy.

deregulating its economy. State controls have been gradually eliminated. As a consequence, the Indian economy has posted an annual growth rate of 6 to 8 per cent.

The present study assesses the Global Compact's role in shaping corporate and environmental responsibility in India.

### 1.3 Methodological approach of the report

The investigation rests on two pillars. The first is an extensive review of general and India-specific literature on CSR and the Global Compact. The second essentially draws on the findings of the empirical survey, which was carried out in India from mid-February until late April 2006.

Comprehensive literature and empirical data analysing the Global Compact's impact are still rare. McKinsey's 2004 report "Assessing the Global Compact's impact" evaluates the UNGC's overall success in promoting corporate citizenship among companies.<sup>3</sup> A country-specific case study analysing the differences between the UNGC and other networks and assessing its contribution to the strengthening of CSR has yet to be carried out.

The empirical survey included 39 interviews with companies and 21 with such stakeholder groups as non-governmental organizations (NGOs) and business associations engaged in CSR in India. Semi-structured interviews were conducted mostly with top executives of the companies. The interviews were based on one questionnaire<sup>4</sup> that was slightly adapted for different types of companies and stakeholders and included quantitative and qualitative questions. The questionnaire comprised eight parts ranging from general CSR questions and the perception of the UNGC to its relevance to tackling the principal challenges facing CSR. This set-up enabled a broad view to be obtained of a company's CSR commitment and of the importance of the UNGC in specific cases. The interviews were analysed qualitatively as well as quantitatively to ensure that no valuable information given by the interviewees was overlooked.

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3 The very recent study by the Oeko Institute (2005) focuses specifically on German UNGC companies and had not been published at that time.

4 The questionnaire can be seen in Box 9 in the appendix.

To analyse major differences in the CSR practices of companies operating in India, three groups of companies were interviewed: Indian Global Compact companies, non-Indian Global Compact companies and Indian non-GC companies.<sup>5</sup>

In order to answer the overarching research question, particular emphasis was placed on Indian companies which are members of the UNGC. All Indian members were addressed by mail and e-mail with a view to obtaining the largest number of interviews possible. In total, 23 of 101 participating Indian companies, six of them state-owned enterprises, were interviewed.

A comparison of foreign and Indian enterprises belonging to the UNGC enabled differences in the companies' CSR performance due to CSR traditions to be taken into consideration, and placing non-Global Compact enterprises and UNGC member companies side by side revealed the Global Compact's general impact on CSR activities.

In particular, eleven interviews were conducted with Global Compact member companies with headquarters in OECD (Organisation for Economic Co-operation and Development) countries, but operating in India. In addition, five interviews were conducted with Indian companies not participating in the Global Compact.

As stakeholders play a major part in the concept of the Global Compact, they, too, were well covered by the survey. Twenty-one Indian CSR stakeholders were interviewed, seven of which can be described as business-oriented.

In addition, eleven discussions were held with organizations or individuals thought likely to enrich the study with their broad background knowledge in particular fields of CSR in India. These interviews do not form part of the quantitative analysis, but helped to broaden the general picture of the issue being studied.

The interviews were conducted in the industrial districts of Delhi, Mumbai, Pune, Bangalore and Chennai between 20 February 2006 and 30

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5 The foreign companies surveyed are located in OECD countries, the majority having their headquarters in Germany.

March 2006.<sup>6</sup> These cities were selected because the majority of all UNGC companies (71 of 101) and most of the stakeholders are based there.<sup>7</sup>

## 1.4 Limitations of the report

It should be borne in mind that the report focuses on the overall perception of the GC. Rather than assessing the practical application of social and environmental standards, it analyses the Compact's impact on companies' engagement. It is restricted to India's formal economy, i.e. the 5 per cent of all companies operating in India's business sector. It should also be remembered that most companies participating in the survey are active supporters of CSR and have shown a comparatively high degree of transparency and CSR engagement. Such a bias towards self-selection is likely to lead to a general overestimation of companies' CSR engagement and commitment.

<b>Type of interview</b>	<b>Interviewees</b>
Companies	39
Indian UNGC companies	23
<i>of which: state-owned</i>	6
Indian non-UNGC companies	5
Foreign UNGC companies	11
Stakeholders	21
<i>of which: UNGC members</i>	7
<i>of which: business-oriented</i>	7
Background interviews	11
<b>Total</b>	<b>71</b>
Source: Authors' database	

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6 The reason for the omission of the third mega-city, Kolkata, was that only five companies participating in the Global Compact are based there.



## 1.5 Design of the report

This report consists of six chapters. Chapter 2 provides background information on the CSR agenda and discusses its various strengths and limitations.

Chapter 3 gives an overview of the development of CSR in India and seeks to identify salient patterns in the current Indian CSR agenda. It also provides insights into the national network structures and describes the framework of the multi-stakeholder approach. This overview reveals the country-specific CSR setting in which the Global Compact operates and paves the way for an assessment of the impact of the Global Compact on the Indian CSR agenda.

Chapter 4 presents the findings on the Global Compact in India. This includes the implementation of the GC principles and its mechanism as well as an analysis of the stakeholders' role. It also outlines the GC's reach and weaknesses.

Chapter 5 discusses the main challenges to successful CSR implementation, including the specific role of the Global Compact. In this context, the emphasis is on the business case for CSR, on the issues of monitoring and verification of and reporting on CSR activities and on the companies' activities and the mainstreaming of CSR in the supply chain. In addition, the role of public policy in regulating and creating an enabling environment for CSR is discussed. These four challenges are regarded as pivotal categories for the success of any CSR instrument and so for the evaluation of the Global Compact.

Chapter 6 presents concluding remarks and policy recommendations for the CSR agenda in India. It focuses especially on action to strengthen the UNGC network and the multi-stakeholder approach. It also includes various suggestions for addressing the major challenges to CSR.

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7 On 26 April 2006, the preliminary findings of the study were presented at a stakeholder workshop in Delhi, organized in cooperation with the Centre for Social Markets (CSM), an Indian NGO.

## 2 The global CSR agenda – from self-regulation to multi-stakeholder initiatives

The global CSR agenda goes hand in hand with the significant changes in state-market relations which have characterized the contemporary era of globalization. While these developments were eroding the role of the nation state as the main regulating institution, the importance of the private corporate sector was growing. Corporate social responsibility, understood mainly as voluntary business self-regulation designed to improve aspects of company performance in the areas of social and sustainable development and human rights, thus found its way on to the agenda.

However, the various shortcomings of the pure form of the voluntary business self-regulation approach that became evident after some time proved to be fertile ground for increased activity by many national and international civil society organizations. As a result, the CSR concept developed from self-regulation approaches into a more comprehensive framework of co-regulation based on multi-stakeholder initiatives.

### 2.1.1 What is meant by CSR?

The concept of corporate social responsibility is based on the idea that not only public policy but companies, too, should take responsibility for social issues. In more recent approaches, CSR is seen as a concept in which companies voluntarily integrate social and environmental concerns into their business operations and into the interaction with their stakeholders. The idea of being a socially responsible company means doing more than comply with the law when investing in human resources and the environment.<sup>8</sup>

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8 The EU has a similar definition. It adds that “the experience with investment in environmentally responsible technologies and business practice suggests that going beyond legal compliance can contribute to a company’s competitiveness. Going beyond basic legal obligations in the social area, for example, training, working conditions, management employee relations, can also have a direct impact on productivity. It opens a way of managing change and of reconciling social development with improved competitiveness. Corporate social responsibility should nevertheless not be seen as a substitute to regulation or legislation concerning social rights or environmental standards, including the development of new appropriate legislation.” (EU Commission 2001, 5)

In general terms, the CSR approach seeks to motivate companies to assume responsibility for problems and challenges that used to be addressed by state regulation. Despite various attempts at an unambiguous description of CSR, the concept still lacks a uniform definition. Consequently, the various stakeholders define CSR in their own way, and several approaches to CSR exist.

The two poles of the existing approaches are self-regulation and legal regulation (Chahoud 2005, 2). Between those two extremes, the multi-stakeholder initiatives stand for the alternative approach of co-regulation (Figure 1). The dimensions of the CSR triangular concept can be characterized as follows:

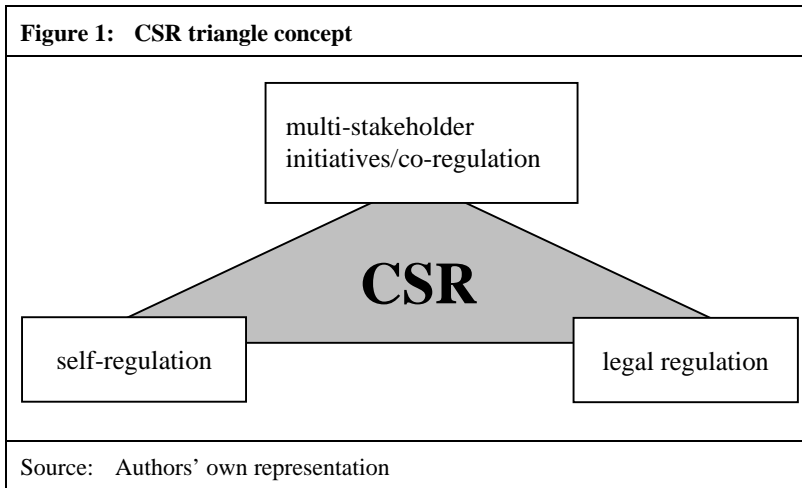
- The *self-regulation approach* is characteristic of most company-related initiatives. In this case, companies decide for themselves how far to engage in CSR and which CSR measures to implement. As the role of the state is limited, liability is limited, too.
- In *legal regulation*, the government is the most important player. This is reflected in multinational initiatives which are based on binding legal commitments. Individual codes of conduct for companies form one side of the spectrum, the legal instruments the other.
- *Multi-stakeholder initiatives*, such as the Global Compact or the OECD Guidelines for Multinational Companies, are located between the two extremes and can be defined conceptually as co-regulation approaches in which stakeholders are involved in a company's CSR policy-making process. In this "third way" (Utting 2005), NGOs, business associations, governmental organizations and multilateral institutions, among others, work together in a constructive manner to achieve complementary goals in the CSR process.<sup>9</sup>

It is important to bear in mind the difference between **internal** CSR, where workers, shareholders and investors are the beneficiaries, and **external** CSR, where communities, civil society groups, other companies or institutions are the main beneficiaries. Internal and external CSR should be

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9 Multi-stakeholder initiatives have gained in importance particularly since the UN Conference on Environment and Development (UNCED) and the follow-up World Summit on Sustainable Development (WSSD) in Johannesburg. At the latter, more than 200 initiatives embracing businesses, NGOs and governments were signed.

seen as complementary if the sustainable development of CSR policies is to be achieved.



## 2.2 From self-regulation to multi-stakeholder initiatives

### 2.2.1 First self-regulation initiatives

In the context of neoliberal deregulation policies and weak nation states, voluntary approaches were seen as an appropriate response to the social and environmental challenges posed by globalization. As a form of self-regulation, companies developed various policies, such as codes of conduct, reports on environmental aspects, ethical investment strategies and traditional philanthropic activities to show their willingness to address the problems raised by globalization (Utting 2002).

Yet many of these initiatives resulted in highly critical reactions from civil society organizations, most of them referring to the public relations dimension of these activities. Soon, the term “greenwash” was introduced to describe the disinformation spread by companies to create an image of environmentally responsible behaviour (Greer/Bruno 1996).

Many of these business self-regulation activities did not contribute sufficiently to improvements in the social and environmental performance of companies. Voluntary codes of conduct drawn up by companies often tended to ignore the critical aspects and stakeholders' concerns. Such crucial issues as labour standards and corruption were frequently neglected (Utting 2002).

### 2.2.2 A more comprehensive agenda

The contemporary multi-stakeholder CSR agenda took off around the time of the Rio de Janeiro Earth Summit in 1992. At that time only a few global brand-name corporations, often reacting defensively to civil society pressures, introduced new concepts and selected improvements in environmental management systems and eco-efficiency, and some accepted codes of conduct (Utting 2005, 2).

Meanwhile, the situation has changed and, at least as a concept, the need for a more comprehensive CSR approach is recognized by its supporters. There is a wide range of instruments, players and ideas, and it is part of the business strategy of many transnational corporations (TNCs) to take the lead in the CSR debate rather than simply reacting to external pressure. The CSR environment has also developed. The need for better monitoring and verification mechanisms has been identified, stakeholder dialogues at different levels are widely accepted as part of the new CSR approach, and several certification labels have already been introduced.<sup>10</sup>

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10 It is also to the credit of the CSR agenda that CSR is now seen as a facilitator in the fight against poverty. Supporters of this approach argue that tackling corruption goes hand in hand with poverty reduction and that addressing environmental issues is an important means of reducing the vulnerability of the poor, who suffer most when environmental disasters occur. For instance, the World Bank argues on its website that "the harmful effects of corruption are especially severe on the poor, who are hardest hit by economic decline, are most reliant on the provision of public services, and are least capable of paying the extra costs associated with bribery, fraud, and the misappropriation of economic privileges" ([www.worldbank.org](http://www.worldbank.org)).

### 2.2.3 The multi-stakeholder approach

The more comprehensive approach to CSR is based on cooperation among stakeholders. While, in the early days of the CSR agenda, relations between business and NGOs tended to be confrontational, new institutional arrangements have begun to characterize interactions between companies and civil society organizations. NGOs have meanwhile become involved in multi-stakeholder initiatives throughout the world, and their activities extend beyond the activism of the early days of contemporary CSR. Besides their engagement in such learning- and dialogue-oriented initiatives as the Global Compact, some major NGOs have recently supported initiatives relating to certification and monitoring schemes.<sup>11</sup>

### 2.2.4 Potential of the multi-stakeholder approach

Multi-stakeholder initiatives have influenced the CSR debate and complemented various efforts relating to international development. A major advantage of multi-stakeholder initiatives is that it has been possible to alleviate the aforementioned shortcomings of business self-regulation. Multi-stakeholder initiatives have achieved further harmonization of social and environmental standards and, to some extent, already encouraged companies to internalize them in their business strategies. As a consequence, CSR is slowly gaining the potential to increase its range to include the supply chains of TNCs. While self-regulation was unable to provide the right incentives for companies to have all their suppliers apply corporate responsibility more systematically, multi-stakeholder initiatives have greater potential to increase pressure on TNCs with respect to value chain issues (Utting 2005).

A major strength of the multi-stakeholder approach is the support it gives to learning processes and policy dialogue. The intention is to share knowledge through the publication of activities on the web and in learning forums where companies and stakeholders share good practices, identify and fill knowledge gaps, develop tools and obtain information on specific

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11 Utting (2005) states that NGOs are even “taking the lead in organizing [...] multistakeholder initiatives associated with standard-setting, company reporting, monitoring, certification and learning about good practice.”

issues. Furthermore, policy dialogues on specific, relevant issues can be organized and will complement the opportunity to benefit from the experience of other participants.

In an enabling environment with a strong civil society, experience shows that multi-stakeholder initiatives can be an appropriate answer to the challenges posed by globalization. While national regulation has been eroded, internationally linked initiatives can show how regulation may be achieved through the multi-stakeholder approach. Such movements as the Clean Clothes Campaign (CCC) have shown that a strong civil society is capable of having a significant influence on corporate policies and of implementing the idea of the multi-stakeholder approach effectively.

Among the very interesting examples of successful coalitions of civil society organizations are:

- the Publish What You Pay Campaign, which adopts a multi-stakeholder regulatory approach to ensure that extractive companies in the oil and mining industries disclose the net amount of payments to national governments;
- the International Forum on Globalization, which has advocated the creation of a United Nations Organization for Corporate Accountability to provide information on corporate practices as a basis for legal actions and consumer boycotts.<sup>12</sup>

### 2.2.5 Limits to the CSR multi-stakeholder approach

Although the idea of the multi-stakeholder approach has great potential, weaknesses at macro and micro level persist. The following aspects should give an overview of the problems and challenges that multi-stakeholder approaches face.

At *macro level*, broad participation in CSR initiatives remains a major challenge for the CSR concept and illustrates the existing gap between the goal and the reality of the multi-stakeholder approach. Only a fraction of the world's estimated 61,000 TNCs participate actively in initiatives or certification schemes (Utting 2005, 4). When the entire value chain is

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<sup>12</sup> These examples of successful civil society engagement are given by Utting (2005).

considered, the proportion of companies participating in CSR initiatives becomes even smaller.

One criticism that is voiced is that the CSR agenda is dominated by players in the North. This situation has resulted in a bias towards large enterprises (Fox 2004, 34).

A further major concern is that some corporate social projects in communities are bypassing democratically elected governments in the shaping of priorities of public policy, while a country's social services might be better assisted by companies that simply complied with their fiscal obligations (Utting 2003b).

In an assessment of the impact of CSR on working conditions the structure of labour markets in developing countries must be taken into account. The majority of the labour force in developing countries is employed in the informal sector and so not affected by improvements in working conditions in the formal sector.

Moreover, participation in multi-stakeholder initiatives is expensive and complicated. Among the factors that companies must take into consideration are wages, contracts, health hazards, safety and labour relations. It is often difficult to gain access to such information, especially when cooperation between management and employees is virtually non-existent (Utting 2002, 113).

At *micro level*, higher costs are an important issue for smaller companies in a TNC's supply chain. Small suppliers in particular suffer when standards are raised by TNCs in response to pressure from CSR initiatives. The weakest link in this chain is obviously the supplier, because he has to meet the higher standards or lose an important business partner.

In developing countries, the multi-stakeholder approach faces particular challenges because civil society and NGOs are often weak. In general, a multi-stakeholder approach to CSR can be successful only if civil society is well organized and powerful. In developing countries, however, this is often not the case.

Multi-stakeholder initiatives are often confronted with different kinds of trade-off. Such initiatives as the Global Compact, which reach a high number of companies, reveal weaknesses when it comes to quality and the implementation of the principles. A large number of companies often



means that compliance with the principles cannot be adequately monitored (“quality problem”). Such other initiatives as the Global Alliance for Workers and Communities which apply stricter methods do not reach very many companies as a result. In this case, monitoring mechanisms are efficient, but of fairly limited political importance owing to the smaller number of participants (“quantity problem”) (Utting 2002).

Yet the multi-stakeholder approach is a major improvement on former business self-regulation. However, the concept requires further support and efforts at different levels. Strengthening the existing multi-stakeholder initiatives might therefore be a suitable strategy for helping to improve companies’ performance in the social and environmental areas.

### 3 CSR in India

Given India’s long tradition in this field, its CSR agenda continues to be characterized mainly by philanthropic and community development activities. On the other hand, the survey also revealed that Indian companies and stakeholders are beginning to adopt some aspects of the mainstream agenda, such as the integration of CSR into their business processes and engagement in multi-stakeholder dialogues.

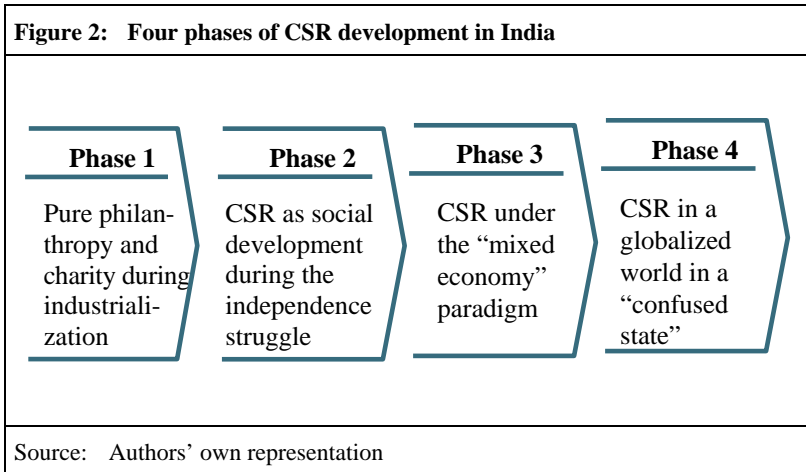
To understand the current state and future prospects of CSR and the role of the UNGC in India, the country’s political and economic history must be taken into account. Against this background, the development of CSR in India can be divided into four main phases.

#### 3.1 The four phases of CSR development in India

According to Sundar (2000), the following four phases of CSR development can be identified (see Figure 2).<sup>13</sup> These phases parallel India’s historical development and resulted in different CSR practices. The division

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13 Mrs Sundar is the Executive Director of the Delhi-based Sampradaan Indian Centre for Philanthropy (SICP). “It aims to promote and strengthen Indian philanthropy by motivating all sections of society to go beyond giving of alms in charity to the giving of money, time, talent, skills, and other resources for bringing about social change and progress; and by assisting donors to make informed choices so as to ensure that charitable funds have a maximum impact.”



into four phases must be regarded as an analytical tool. However, it is not static, and features of one phase can also be observed in the others, as is particularly evident from the last phase.

### 3.1.1 First phase: CSR motivated by charity and philanthropy

The first phase of CSR<sup>14</sup> is predominantly determined by culture, religion, family tradition, and industrialization. Business operations and CSR engagement were based mainly on corporate self-regulation. Being the oldest form of CSR, charity and philanthropy still influence CSR practices today, especially in community development.

In the pre-industrial period up to the 1850s, merchants committed themselves to society for religious reasons, sharing their wealth, for instance, by building temples. Moreover, “the business community occupied a significant place in ancient Indian society and the merchants provided relief

14 The term “corporate social responsibility” did not exist at that time, being coined only in the 20th century. A company’s engagement in social aspects was seen rather as philanthropy.

in times of crisis such as famine or epidemics throwing open godowns of food and treasure chests” (Arora 2004, 24).

Under colonial rule, Western types of industrialization reached India and changed CSR from the 1850s onwards. The pioneers of industrialization in the 19th century in India were a few families such as the Tata, Birla, Bajaj, Lalbhai, Sarabhai, Godrej, Shriram, Singhania, Modi, Naidu, Mahindra and Annamali, who were strongly devoted to philanthropically motivated CSR (Mohan 2001, 109). “The early pioneers of industry in India were leaders in the economic, as also in the social fields” (Arora 2004, 25). Nevertheless, it has been pointed out that their engagement was not only altruistic and stimulated by religious motives: “It had business considerations in supporting efforts towards industrial and social development of the nation and was influenced by caste groups and political objectives” (Mohan 2001, 109).

The underlying pattern of charity and philanthropy<sup>15</sup> means that entrepreneurs sporadically donate money (e.g. to schools or hospitals) without any concrete or long-term engagement. Charitable and philanthropic CSR is practised outside the company, focusing on such external stakeholders<sup>16</sup> as communities and general social welfare bodies.

### 3.1.2 Second phase: CSR for India’s social development

The second phase of Indian CSR (1914-1960) was dominated by the country’s struggle for independence and influenced fundamentally by Gandhi’s theory of trusteeship, the aim of which was to consolidate and amplify social development.

During the struggle for independence, Indian businesses actively engaged in the reform process. Not only did companies see the country’s economic development as a protest against colonial rule; they also participated in its institutional and social development (India Partnership Forum 2002, 11).

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15 Both charity and philanthropy can be regarded as sponsoring. Charity is understood as consisting solely of donations of money, whereas philanthropy includes the practical involvement of businesses.

16 For further clarification on internal and external stakeholders see Chapter 2.

The corporate sector's involvement was stimulated by the vision of a modern and free India.

Gandhi introduced the notion of trusteeship in order to make companies the “temples of modern India”: businesses (especially well established family businesses) set up trusts for schools and colleges; they also established training and scientific institutes (Mohan 2001, 109). The heads of the companies largely aligned the activities of their trusts with Gandhi's reform programmes. These programmes included activities that sought in particular the abolition of untouchability, women's empowerment and rural development (Arora 2004, 25).

### 3.1.3 Third phase: CSR under the paradigm of the “mixed economy”

The paradigm of the “mixed economy,” with the emergence of PSUs and ample legislation on labour and environmental standards, affected the third phase of Indian CSR (1960-1980). This phase is also characterized by a shift from corporate self-regulation to strict legal and public regulation of business activities.

Under the paradigm of the “mixed economy”, the role of the private sector in advancing India receded. During the Cold War, India decided to take a third course between capitalism and communism. In this scenario, the public sector was seen as the prime mover of development. The 1960s have been described as an “era of command and control”, because strict legal regulations determined the activities of the private sector (Arora 2004, 8). The introduction of a regime of high taxes and a quota and licence system imposed tight restrictions on the private sector and indirectly triggered corporate malpractices.<sup>17</sup> As a result, corporate governance, labour and environmental issues rose on the political agenda and quickly became the subject of legislation. Furthermore, state authorities established PSUs with the intention of guaranteeing the appropriate distribution of wealth to the needy (Arora 2004).

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17 “The controls and regulations pertained to industrial licensing, capital issues, loans, import licensing, allocation of resources, prices, and concentration of economic power and growth monopolies” (Arora 2004, 8).

However, the assumption and anticipation that the public sector could tackle developmental challenges effectively materialized to only a limited extent. Consequently, what was expected of the private sector grew, and the need for its involvement in socio-economic development became indispensable. An initial and cautious attempt at reconciliation was made by Indian academics, politicians and businessmen at a national workshop on CSR in 1965 (Mohan 2001, 109). According to this agenda, businesses were to play their part as respectable corporate citizens, and the call went out for regular stakeholder dialogues, social accountability and transparency (Mohan 2001, 110). Despite these progressive acknowledgements, this CSR approach did not materialize at that time.

### 3.1.4 The fourth phase: CSR at the interface between philanthropic and business approaches

In the fourth phase (1980 until the present) Indian companies and stakeholders began abandoning traditional philanthropic engagement and, to some extent, integrated CSR into a coherent and sustainable business strategy, partly adopting the multi-stakeholder approach.

In the 1990s, the Indian government initiated reforms to liberalize and deregulate the Indian economy by tackling the shortcomings of the “mixed economy” and tried to integrate India into the global market. Consequently, controls and license systems were partly abolished, and the Indian economy experienced a pronounced boom, which has persisted until today (Arora and Puranik 2004, 97). This rapid growth did not lead to a reduction in philanthropic donations; on the contrary, “the increased profitability also increased business willingness as well as ability to give, along with a surge in public and government expectations of businesses” (Arora 2004, 28).

Against this background, India has meanwhile become an important economic and political actor in the process of globalization. This new situation has also affected the Indian CSR agenda. With more TNCs resorting to global sourcing, India has become an attractive and important production and manufacturing site. As Western consumer markets are becoming more responsive to labour and environmental standards in developing countries, Indian companies producing for the global market need to comply with international standards.

## 3.2 Current state of CSR in India

India's economic reforms and its rise to become an emerging market and global player has not resulted in a substantial change in its CSR approach. Contrary to various expectations that India would adopt the global CSR agenda, its present CSR approach still largely retains its own characteristics, adopting only some aspects of global mainstream CSR.

The empirical results of the present study show that Indian CSR is still in a confused state (Arora and Puranik 2004, 98). This is evident from the following:

- The Indian understanding of CSR seems to be shifting from traditional philanthropy towards sustainable business. Nevertheless, philanthropic patterns remain widespread in many Indian companies.
- Community development still plays the decisive role in the Indian CSR agenda.

### 3.2.1 General understanding of CSR

The findings of the survey reveal a shift from a purely philanthropic approach (e.g. selective donations) to a more comprehensive CSR approach. This shift is apparent primarily in the perceptions of CSR, the professionalism of community development and the integration and organization of CSR within a company. Irrespective of these aspects, the empirical results lead to the conclusion that CSR still has a philanthropic connotation because of its emphasis on external stakeholders, particularly communities.

#### *Perceptions of CSR*

Where Indian companies' perceptions of CSR are concerned, the findings of the study paint an ambiguous and even contradictory picture. On the one hand, companies point out that CSR is now no longer philanthropic but an important aspect of a sustainable business strategy. On the other hand, they continue to feel a strong responsibility to "give something back to society".<sup>18</sup> When expressing this responsibility, companies in India are

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18 Like CSR itself, "giving something back to society" is a popular phrase in the current CSR debate. Its overfrequent use has eroded its previous meaning: philanthropy. De-

thinking not of such internal stakeholders as employees but of surrounding communities. Accordingly, CSR can still be described as being in a “confused state”.

When Indian companies are asked what their understanding of CSR is,<sup>19</sup> only a minority regard their own commitment as purely philanthropic. Interestingly, all the PSUs interviewed saw their CSR as philanthropic. This attitude reflects the special role PSUs have been allotted in the last fifty years. About one third of Indian companies detect a recent change in their understanding of CSR, stating that “giving something back to society” is now no longer merely philanthropic. Half of the Indian companies and all of the foreign companies included in the survey consider CSR to be part of “sustainable business”.

Despite the Indian companies’ assertion that CSR is seen as part of sustainable business rather than as philanthropy, the imbalance between internal and external CSR dimensions is huge.<sup>20</sup> The vast majority of Indian companies include only the external dimension in their understanding of CSR. In contrast, less than 20 per cent of the Indian companies surveyed referred to such internal aspects as working conditions and environmental practices.

### *Professionalism of community development*<sup>21</sup>

According to the statements made by the companies, community development in recent times has become more professional than before. Indian companies covered by the survey put considerable effort into identifying beneficiaries, since they regard correct identification as one of the major

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pending on the company using the phrase, it can now also include “being a responsible citizen” or even “paying one’s taxes”. Hence, in the present study, the phrase “giving something back to society” is not only understood as philanthropy but also seeks to reflect the understanding which each company conveyed during its interview.

- 19 Generally, there was no significant difference between Indian UNGC and Indian non-UNGC companies in their understanding of CSR. It can therefore be said that Indian companies’ understanding of CSR is shaped primarily by the long Indian tradition of CSR and not by such global initiatives as the Global Compact.
- 20 In line with the World Bank’s understanding of CSR, a careful balance needs to be struck between internal and external stakeholders’ interests (World Bank 2002, 1).
- 21 A critical discussion of community development as viewed by stakeholders follows in Chapter 3.2.2.

challenges in their CSR engagement. Various Indian companies either seek assistance from established trusts or leave the identification process to NGOs or development agencies.

More than half of the Indian companies surveyed claim that they try to engage with their external stakeholders in a sustainable manner. However, what they meant by “sustainable engagement” was not absolutely clear from the companies’ answers. Typical of the statements made were:

- “Our aim is to make the village self-sufficient.”
- “We build sustainable partnerships with communities.”
- “With our sustainable engagement we want to provide livelihoods for the villagers.”

#### *Integration and organization of CSR*

Today CSR is more integrated into business operations, as activities of top management and the introduction of codes of conduct show.<sup>22</sup> The majority of the respondents in Indian and foreign companies claimed that CSR is firmly rooted in top management.<sup>23</sup> The extent to which companies incorporate CSR into their business processes was questioned by several of the stakeholders included in the survey, and doubts have been expressed by other empirical studies (Arora and Puranik 2004, 97). Yet only a few companies surveyed explicitly stated that their CSR activities were aligned with their business.

However, according to the empirical data gathered, CSR has been substantially institutionalized. Nearly all the Indian companies have designated a department or person to be responsible for CSR. More than one third of the companies surveyed have a CSR body in place (in most cases a CSR council or committee at company level). Where there is no organizational body exclusively for CSR, CSR is administered by the human resource or communications department. Only four companies reported having no underlying structure for CSR below top management level.

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22 This extremely good result reflects the self-selection bias of the survey, as most of those interviewed were best performers in CSR.

23 No significant difference was observed between Indian UNGC companies and Indian non-UNGC companies.



About half of the private Indian companies surveyed stated that they have a code of conduct in place, which is disseminated throughout the company (not only at headquarters but also at regional sites).<sup>24</sup> For instance, one corporate group adopts the approach that each employee must sign and therefore abide by the code of conduct. It also organizes workshops and training for employees aimed at teaching them what the code of conduct is and how to apply it in their daily work routine.

**Box 1: CSR in foreign companies**

Foreign companies include both external and internal CSR aspects in their understanding of CSR. The empirical findings show that external and internal CSR dimensions are equally important for foreign companies. Almost all foreign companies adopt their home country's or regional head office's CSR policies and codes of conduct. Yet the companies enjoy the freedom to adapt them to country-specific needs. A German company, for example, places the emphasis on tackling corruption within its external business operations, including its supply chain management. In accordance with the specific Indian CSR agenda, foreign companies commit themselves to the communities in which they operate by engaging in community development. To some extent, the resulting activities are undertaken with other companies through the German Business Foundation or the American Chamber of Commerce, for example.

Source: Authors' database

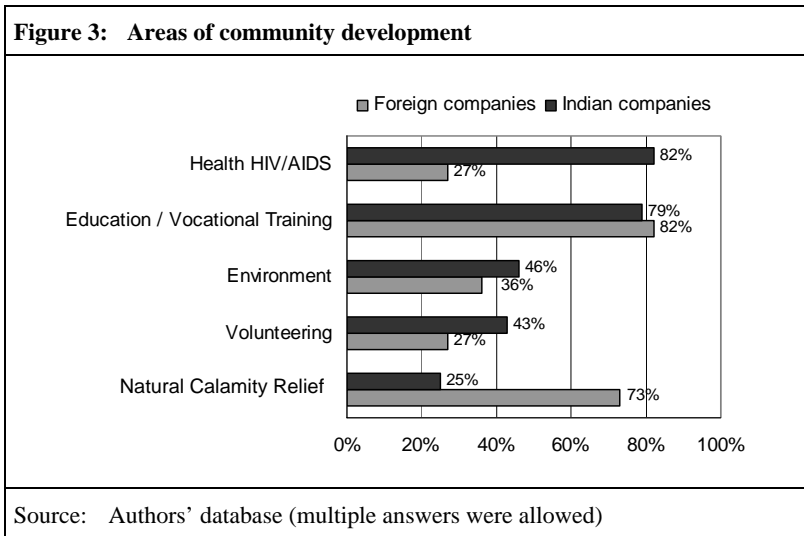
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24 A code of conduct does not ensure that CSR is disseminated within companies and depends not only on the CEO's willingness to ensure ethical behaviour: two companies reported that, after their CEO left, CSR engagement died and the concept was no longer applied.

### 3.2.2 Community development<sup>25</sup>

As the results of the study underline, community development is a key element of India’s CSR agenda. Indian companies regard their community development projects as a way of contributing some of their profits to social welfare objectives.<sup>26</sup> However, community development also needs to be seen in business terms, i.e. companies enhance their reputation and improve relations with communities.

From the findings it is obvious that companies engage mainly in education and vocational training (Figure 3). Indian companies also focus on health, especially HIV/AIDS. Among Indian companies, the “volunteering” of staff for social projects is widespread. Interestingly, foreign companies are also heavily involved in natural calamity relief projects. For example, all major German companies had contributed funds to regions affected by the Tsunami.



25 For the purposes of the survey, “community development” means “a wide range of actions of companies to maximise the impact of their donated money, time, products, services, influence, management knowledge, and other resources on communities in which they operate” (British Council 2004, 6).

As outlined above, companies concentrate their resources on certain areas of community development. On the one hand, by so doing, they reflect the serious challenges Indian communities face (education and health). On the other hand, these areas of engagement have a strong public relations effect, which may be beneficial to the business case for companies.

For their community development projects all the companies surveyed cooperate primarily with NGOs. The form the cooperation takes varies from one company to another and one project to another. For instance, one company made a distinction between short-term and long-term projects implemented either through a local NGO or by the company itself. Companies also cooperate with local authorities in their community projects, one company, for example, working together with local educational boards. Besides such partnerships, a substantial number of companies have set up their own trusts, foundations or centres to coordinate and implement community development projects. Thus the notion of trusteeship introduced by Mahatma Gandhi remains a prominent feature of the Indian CSR agenda.

As mentioned above, Indian companies see community development projects as giving back some of their profits to society. All the companies surveyed had a positive attitude towards community development. Some companies argued that in India the need for community development is urgent because of the current developmental challenges. Most companies also pointed out that company and community representatives had arranged the planning and implementation of community development projects jointly.<sup>27</sup>

Apart from these societal concerns, companies see a business case for community development, with companies attempting to obtain a “license to operate”. Special engagement in communities may result in improved relations with employees, the local population and public administration. Furthermore, companies can expect an improvement in their reputation,

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26 The empirical findings on Indian UNGC and Indian non-UNGC companies do not reveal any significant differences.

27 This special aspect of stakeholder involvement will be discussed in Chapter 3.3.2.

brand enhancement and access to new consumer markets in the community.<sup>28</sup>

Despite the numerous positive implications mentioned by companies, stakeholders take a more critical view of community development, their criticism focusing on four aspects:

- First, “giving something back to society” implies that companies have wrongfully taken something from society. The extent to which companies have been granted a “license to operate” should therefore be reassessed.
- Second, community development projects are “shiny” projects that can be presented to the public. They do not, however, take account of possible violations of environmental and social standards within the company.
- Third, compared to professional company executives, community representatives may not have the same skills, know-how and experience in the negotiation of business-driven community engagement. The bargaining position of the communities is therefore weaker.
- Fourth, there is a lack of accountability in community development projects. Very few companies disclose their motive and objective in making commitments to communities. The question of responsibility for the success or failure of community development projects and for decisions on the area of engagement must also be addressed.<sup>29</sup>

### 3.3 The CSR multi-stakeholder approach in India

In India the CSR multi-stakeholder approach is rather fragmented, and interaction between business and civil society organizations, especially trade unions, is still rare, taking place at best on an ad-hoc basis. Although many civil society organizations are active in India, the empirical findings did not show that their initiatives play a significant role in shaping the country’s CSR agenda. According to the empirical data, the understanding

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28 A detailed discussion of the business case in community development will follow in Chapter 5.1.

29 For a further discussion of critical issues in community development see Newell 2005.

of CSR in India is not directly linked to the idea of a multi-stakeholder approach.

### 3.3.1 NGOs and networks in India

If the current state of CSR in India is to be understood, the Indian NGO scene and its networks need to be considered. The number of NGOs in India is estimated at between 50,000 and 100,000. Civil society organizations engage in a wide range of activities throughout India. They include business and professional organizations and trade unions (EESC 2005) and are engaged in traditional development activities associated with NGOs: running literacy programmes, operating dispensaries and clinics, helping such artisans as weavers to market their products, etc. As they usually operate at the local level, they also support government agencies in providing public goods. Furthermore, they conduct in-depth research with a view to lobbying the central and state governments and try to raise the political awareness of various social groups and to encourage them to assert their rights (EESC 2005).

However, the need for a stronger civil society has been identified by Indian experts as well as external observers. Trade unions in particular are very fragmented and less efficiently organized than in other countries. In an official statement the Indian government has encouraged Indian civil society groups to increase their involvement and to address social problems.<sup>30</sup> The India-EU Round Table has also nominated two rapporteurs to consider how the perspectives of civil society organizations might be better integrated into the promotion of trade and sustainable development.<sup>31</sup>

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30 The country's planning commission states in its latest 5-year-plan that more cooperation between government and NGOs is required to address social problems. As regards civil society engagement, it says that "Plans should be reflective of the actual requirements of people, and economically and socially sensitive to the ethos of people for whom they are meant. People must feel the sense of ownership of such plans and must contribute to such end. The trend of expecting the government to do everything for the people must end; programmes and schedules where people participate have been known to be much more effective." (quoted from EU, Brussels, 12 May 2005, Economic and Social Committee)

31 This topic was discussed at the 7th meeting of the Round Table, held in Srinagar in June 2004. It was agreed that, in order to deepen a joint understanding of sustainable development, practical examples from India and the European Union (EU) should form the basis of the final report, to be submitted to the 9th meeting of the Round Table. The Sri-

This is in line with the findings of the present report. Although there are very many NGOs in India, it is not apparent that they have significantly shaped the CSR agenda. One company representative, for example, stressed that in India “too many NGOs are working in parallel” when “united work would be more efficient.” According to his experience, the “awareness of NGOs in India of CSR is generally low.”

There is, however, a variety of CSR stakeholders and networks. The Tata Energy Research Institute (TERI) has set up a Business Council on Sustainable Development (BCSD), while the Confederation of Indian Industries (CII) has established a knowledge-sharing platform. Together with the CII, United Nations Development Programme (UNDP) is directly involved in the multi-stakeholder networking functions through its support for the India Partnership Forum. The NGO Partners in Change (PIC) helps companies to integrate CSR into their business strategy. The Centre for Social Markets (CSM) is engaged in research and consulting activities and in the organization of workshops and meetings held to discuss CSR issues.

TERI's BCSD is the national chapter of the World Business Council for Sustainable Development. It is building a network where companies come together to identify key problem areas in the field of industrial sustainability and to develop strategies for addressing them. TERI-BCSD India encourages Indian businessmen to develop a vision of a “sustainable company”. The network seeks to facilitate collaboration and partnerships among its members and to achieve effective social, economic and environmental intervention. Currently, the network has a total of 61 corporate members across India, representing a varied section of Indian industry ([www.teriin.org](http://www.teriin.org)).

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nagar meeting also discussed India-EU cooperation in the development of tourism on the basis of a presentation by EESC and Indian delegates to the Round Table. The Round Table agreed that civil society organizations have an important role to play in the promotion of a sustainable form of tourism, one which encourages economic and social development and benefits the population as a whole. The creation of the Round Table in 2000 by India and the EU was a particularly significant event: it was a recognition, at the highest political level, that civil society has an important contribution to make to the official decision-making process. The decision to set up the Round Table was taken at the first India-EU summit, in Lisbon in June 2000, and its inaugural meeting was held in New Delhi in February 2001. The Round Table has direct access to India-EU summits, and its recommendations form non-binding inputs for decision-making by the Government of India and European institutions (EU).

The CII provides a regular platform for companies to share knowledge and experience. Its Department for Social Development seeks to give support to CII members interested in CSR issues. It also promotes its own Social Code for Business, which provides guidelines on the operationalization of the Global Compact principles ([www.ciisocialcouncil.org/cs-networking-forum.htm](http://www.ciisocialcouncil.org/cs-networking-forum.htm)).

Partners in Change (PIC) supports companies with the integration of CSR into their business strategy. It also develops innovative strategies and management tools for implementation. It is also involved in the organization of workshops on CSR, such as the 2004 World Social Forum held in Mumbai.

As regards stakeholders' CSR involvement in other than these specific networks, non-business stakeholders<sup>32</sup> were found to place the emphasis differently from business-oriented stakeholders. Non-business stakeholders are mostly engaged in training, consulting, awareness-raising and research (31 per cent). Another 21 per cent focus on naming-and-shaming activities. In contrast, most business-oriented stakeholders support companies by engaging in advocacy/lobbying (71 per cent) and also by undertaking consulting activities (57 per cent).

### 3.3.2 A weak civil society and self-regulating corporate CSR policies

The general picture revealed by the survey is that the participation of Indian civil society groups in the CSR process is inadequate. CSR in India cannot therefore be considered a multi-stakeholder approach. This is partly because NGOs are not sufficiently well organized and partly because managers' general understanding of CSR policy-making does not include the participation of civil society. However, in a few respects, awareness of pressure from society was also apparent.

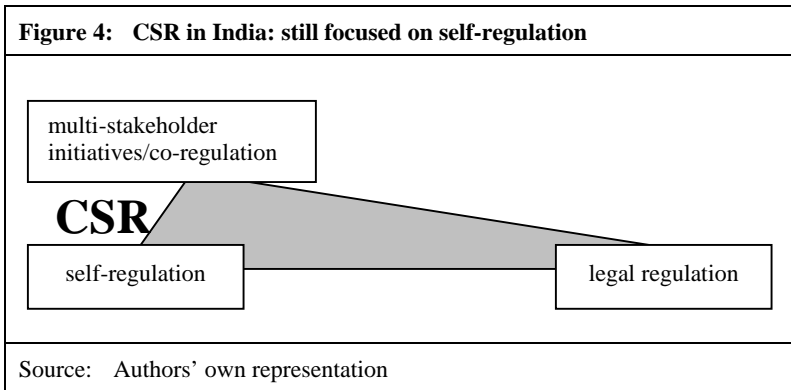
The weakness of civil society is reflected in the fact that Indian companies do not regularly face pressure from NGOs on CSR issues. Only 10 per

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32 Non-business stakeholders include NGOs, trade unions, environmental organizations and research institutes. Business-oriented stakeholders are mainly industrial associations and company foundations.

cent said that changes in corporate CSR policies had been due to civil society activities. A large proportion of companies (31 per cent) answered this question in the negative, and a further 13 per cent claimed that they had tried to cooperate with their critics. Interestingly, two companies explicitly mentioned that civil society in India is currently too fragmented to bring about change in corporate policies.

The inadequate capacity of civil society organizations is also mentioned by companies as a major challenge for CSR engagement. Several respondents pointed out that the NGO structure in India is weak and that too few NGOs involve themselves in the field of CSR in a cooperative manner. As one private Indian company put it, “there is a lack of NGOs trying to partner with corporations to find solutions”. Another company manager complained about the lack of sustainability of some NGOs’ activities. As he saw it, NGOs are often “only issue-oriented and disappear afterwards.”



In general, the Indian CSR policy is not directly linked to the idea of a multi-stakeholder approach. More than three quarters of all interviewees did not mention this approach when asked about their understanding of CSR, and for only a very small minority is the concept of CSR closely linked to stakeholders accepting social control or responsibility. In contrast to the CSR concept shown in Figure 1 (page 19), the triangle in India takes the following form (Figure 4):



These data should also be considered in the context of a company's general definition of principal stakeholders. The majority of the companies surveyed referred to employees (51 per cent), customers (41 per cent) and also communities (41 per cent). Only a minor part is played by NGOs, which a mere 18 per cent of companies consider to be principal stakeholders.

It is not surprising that the engagement of the aforementioned stakeholders is appreciated by the majority of companies. Only 5 per cent of the companies surveyed added some critical comments, and only one company had a clearly negative attitude towards the engagement of stakeholders in the CSR process. Only one company argued that, as civil society in India is generally too weak, its engagement can be neither welcomed nor criticized.

On the other hand, the NGOs' responses on this point reveals a different picture. The general impression is that companies tend to see NGOs as useful for the implementation of community development projects, but not as equal partners. One NGO directly involved in CSR issues claimed that companies vary considerably in their appreciation. According to this NGO, companies like to determine who the stakeholder is and tend to exclude smaller and rather critical NGOs from discussions on CSR issues.

Despite the results referred to above, a positive view is taken of the multi-stakeholder approach in India. Although CSR in India is still rather based on corporate self-regulation, awareness of pressure from society is rising with economic globalization. Forty-three per cent of stakeholders argue that companies' motivation to engage in CSR is somehow connected to pressure from society. Although this is often consumer pressure related to globalization issues, companies in India have understood this aspect and may be more sensitive to pressure from society in future policies. Moreover, numerous companies do regularly discuss CSR issues with stakeholders. Of the companies surveyed, 41 per cent have institutionalized regular appointments where they discuss CSR-related topics with other firms or stakeholders.

## 4 The Global Compact in India

At the Davos World Economic Forum in 1999, the Secretary-General of the United Nations, Kofi Annan, initiated the process of forming a “Global Compact of shared values and principles, which will give a human face to the global market” (McKinsey 2004, 1). The Global Compact (UNGC) is a voluntary and value-based initiative, complementing regulations and other, voluntary CSR initiatives. Its main objectives are to mainstream the ten CSR principles in business activities around the world and to catalyse actions in support of UN goals (Global Compact Office (GCO) 2005d). The UNGC seeks to achieve these objectives through a multi-stakeholder network, which supports the debate and development of CSR with collective learning, policy dialogue and partnership projects at global and local level. The basis is formed by ten principles on human rights, labour, environment and anti-corruption, which the companies must pursue within their sphere of influence.

In India, the UNGC is characterized by a high rate of participation. It comprises national UNGC networks and is interlinked with the regional and global levels. However, the UNGC’s own goal has not yet been fully achieved, as the present survey demonstrates:

- The objective of an inclusive multi-stakeholder approach has not been achieved because non-business stakeholders are not equally integrated into the Indian network and the activities undertaken are limited.
- The mechanisms of collective learning and knowledge-sharing through reporting and policy dialogue are highly appreciated by the participants; however, their potential is not fully exploited.
- The UNGC has had no significant impact on companies’ CSR engagement in India. This is due, firstly, to India’s long tradition of CSR, secondly, to the perceived weakness of the network, which limits collective learning, and thirdly, to what companies see as a lack of support from the UNGC. Consequently, companies’ CSR activities still focus on community development and such common CSR areas as social and environmental issues rather than human rights and anti-corruption.

Nevertheless, the UNGC is generally appreciated by Indian companies and has a good reputation. Despite the perceived weaknesses, the Indian business community sees the UNGC as an initiative with further potential and a

“bright” future. However, this expectation can be fulfilled only if the UNGC meets the participants’ requirements at national as well as global level and if it taps the full potential of a multi-stakeholder approach for improving collective learning processes and provides the support called for.

#### 4.1 Participation and motivation at global and national level

In India the UNGC features a high rate of participation, although not all intended stakeholder groups, especially labour organizations, are represented. According to the empirical findings, companies and stakeholders operating in India join the UNGC mainly in the expectation of benefiting from knowledge-sharing and networking.

##### 4.1.1 Participation in the Global Compact

In terms of the number and variety of participants, the UNGC is the largest CSR initiative worldwide. Yet, participants are not evenly spread over the globe. The national branches of the UNGC played an important role in recruitment in the initial years. Regionally, the UNGC is concentrated in Europe, with poor representation in North America. However, its strong presence in developing countries is interesting, more than half of the participants (55 per cent) being headquartered outside the OECD countries (McKinsey 2004, 11).

Through their participation many Indian companies express their interest in the UN initiative. Even in India, the national launching of the UNGC in December 2000 turned out to be decisive, as more than 50 per cent of the participants joined in the first year. In India, 101 companies joined the UNGC, among them nine described as SMEs and two listed on the FT Global 500.<sup>33</sup> It should be remembered in this context that 50 per cent are public-sector undertakings. In addition, nine Indian stakeholder organizations joined to promote the mechanisms and networks. Among them are

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33 The FT500 provides an annual snapshot of the world’s largest companies, ranked by market capitalization: the greater the value allotted to a company by the stock markets, the higher its ranking (Financial Times 2005).

<b>Table 2: Participation in the Global Compact</b>		
	<b>Global</b>	<b>India</b>
<b>Participating companies<sup>a</sup></b>	<b>2323</b>	<b>101</b>
FT Global 500	101	2
SMEs <sup>b</sup>	916	9
Non-communicating companies <sup>c</sup>	613	50
<b>Business associations</b>	<b>146</b>	<b>3</b>
Global	14	-
Local	132	3
<b>Cities</b>	<b>11</b>	<b>1</b>
<b>Foundations</b>	<b>46</b>	<b>-</b>
<b>Labour</b>	<b>14</b>	<b>-</b>
Global	6	-
Local	8	-
<b>NGOs</b>	<b>165</b>	<b>5<sup>d</sup></b>
Global	41	-
Local	124	5
Source: <a href="http://www.unglobalcompact.org">www.unglobalcompact.org</a> (17/12/2005)		
a To join the UNGC, the CEO of the company commits it to the principles in a letter to the Secretary-General of the UN. As this usually requires the board's approval, it should be ensured that the UNGC is rooted in the company's governance structure.		
b SME (small and medium-sized enterprises) = business participants with fewer than 250 and more than 10 full-time employees (GCO 2005e).		
c Participants who failed to draw up a Communication on Progress by the relevant deadline or have not yet provided a link to a Communication on Progress.		
d The Indian NGO scene is represented by: (1) the Indian Society for Training and Development, (2) Manusho – Uthan, (3) Partners in Change, (4) the Tata Council for Community Initiatives and (5) the Tata Energy Research Institute TERI.		

three local business associations, five local NGOs and the city of Jamshedpur, a Tata corporate township.

Table 2 gives an overview of participating companies at global level and in India. The main stakeholder groups listed are business associations and NGOs.

### 4.1.2 Motivation to join the Global Compact

The general motivation of companies to join the UNGC is the opportunity for knowledge-sharing and the exchange of best practices. This also applies to India, where CSR is already deep-rooted.

At global level, OECD and developing countries differ as to their motives and activities. In OECD countries, most companies join the UNGC for networking, as a means of improving their current CSR engagement. Companies in developing countries, on the other hand, are trying to become more familiar with CSR, which is often new to them (McKinsey 2004, 6 et seq.). Activities also differ. OECD companies review their human rights policies, which are in formal respect relatively new to them. In contrast, companies from developing countries prioritize health and safety procedures (McKinsey 2004, 6 et seq.).

The survey shows that companies and stakeholders in India join the UNGC mainly for knowledge-sharing and networking. A high proportion of corporations referred to their long CSR tradition and to the fact that they were already complying with the ten principles. In addition, many companies expected support from the UNGC by joining it. In several cases it was said that top management (CEO) was the driving force in CSR engagement and participation in the UNGC. The risk then is that engagement will cease if and when the manager leaves the company and there is no follow-up. On the other hand, the stakeholders strongly emphasized the UN's reputation as an important reason for companies joining the UNGC.

## 4.2 The Global Compact designed as a multi-stakeholder network

The UNGC seeks to integrate all interested and relevant stakeholders (see Box 2) into the Global Compact networks at global and local level so that they may make contributions and present their concerns through cooperative mechanisms. Its structure as a network of networks corresponds to the complexity of the interest groups involved and its global dimension. Besides the global network, local networks help to adapt the system to specific local needs and to build the necessary capacity for coordination. The stakeholders are usually driven by the shared vision of promoting responsible corporate citizenship and reaching a common understanding of CSR (Ruggie 2001, 5).

**Box 2: Stakeholders involved in the Global Compact and their contributions**

- Six UN agencies active in the four areas of concern or helping to solve specific problems are involved. The Office of the High Commissioner for Human Rights (OHCHR), the United Nations Environment Programme (UNEP) and the United Nations Office on Drugs and Crime (UNODC) are the guardians of the principles, while the United Nations Development Programme (UNDP) acts as an implementing body, and the United Nations Industrial Development Organization (UNIDO) contributes its expertise in the field of SMEs and their inclusion in the UNGC. An Inter-Agency Team<sup>a</sup> attempts to ensure coherence and good quality.
- At the national level of action, governments are asked to create an enabling environment for the complementary initiative. In addition, they negotiate the principles on which the initiative is based in the international community. They give financial support to the Global Compact Office<sup>b</sup> and support UNGC events and national networks.
- The companies determine the impact of the UNGC through their implementation of the principles in their business strategy, culture and day-to-day operations. Apart from these particular activities, business associations express the companies' collective interests and can act as multipliers.
- Labour – engaged in the actual process of global production – links business and civil society. Employees' interests are traditionally defended by trade unions, which are important for protecting labour rights.
- Finally, civil society organizations<sup>c</sup>, representing various stakeholder communities, bring the most critical dimension to the network. Some are supportive of the UNGC, others ambivalent or opposed. Nevertheless, they have specific knowledge and problem-solving capacities. In addition, they undertake “watchdog activities” and can resort to “naming and shaming” to hold companies accountable.
- Besides these stakeholders, cities, development agencies, academics, foundations, etc. are becoming increasingly involved.

Source: GCO (2005a)

- a The Global Compact Inter-Agency Team seeks “to achieve maximum positive impact” and plays “a key role in sustaining and strengthening the UN Global Compact” (GCO 2004b, 2). To this end, it makes strategic recommendations for the implementation of the UNGC, ensures coherent support and reviews progress reports. It consists of one senior representative from the Global Compact Office and from each of the UN agencies involved in the UN Global Compact (GCO 2004b, 3-4).
- b The UNGC does not collect any fees from its participants. It accepts only core funding from government donors (GCO 2006a).
- c The term “civil society organization” is used as a synonym for “non-governmental organization”.

The interviews with UNGC participants in India revealed that the concept has not yet been implemented because not all crucial stakeholder groups are represented. The trade unions, for example, have yet to join. The inclusion of more critical dimensions is further limited by the fact that, of the few NGOs, some are directly linked to companies. On the other hand, stakeholder involvement is still not appreciated by all participants since most companies adopt a self-regulatory approach. Together with the lack of capacity, this limits the potential of the national networks.

#### 4.2.1 A network of networks

At global level, the Global Compact Office coordinates the initiative from UN headquarters in New York. Financed by donations, it does not burden the UN budget, but it continues to be poorly equipped (McKinsey 2004, 1). As the relationship between the national networks and the Global Compact Office is horizontal, the UNGC forms a network of networks (GCO a, 9).

At national level, networks are set up by companies seeking to translate the principles into local action, or they are promoted by other organizations. In developing countries, UNDP often provides local networks with administrative support (McKinsey 2004, 12). Thus the design, the stakeholders involved and the activities vary from one network to another. More than 40 national networks have been launched, but almost 30 are inactive and do not communicate regularly with the Global Compact Office (McKinsey 2004, 12). The various stakeholder groups are often not represented, and companies are sometimes the only participants. Just 5 per cent of the national networks encompass the full range of stakeholders. The networks have thus yet to achieve the goal of an inclusive multi-stakeholder approach (McKinsey 2004, Annex B, B-2).

#### 4.2.2 The Indian networks

Facilitating collective learning is the main support networks provide for their participants. However, the Indian UNGC networks do not adopt the multi-stakeholder concept, since it is business-centred and does not represent the whole range of stakeholders. Furthermore, the shortage of resources limits the activities undertaken and the support the networks are able to provide. Awareness of the networks among the UNGC participants

in India is therefore poor. They should play a more proactive role to meet their participants' expectations.

According to the results of the survey, knowledge-sharing and best practice exchange are the main support the networks offer to their participants. Reference was also made to the opportunity to influence policy-makers through collective action and to benchmarking at international level. However, it must be remembered that most interviewees did not even know the networks existed or were active. If they provided more practical support on a sectoral basis and for the implementation of the ten principles by increasing awareness of certain issues, companies would see the networks as helpful.

The UNGC structure in India consists of two networks operating side by side: the Global Compact Society (India) and the India Partnership Forum. While the Global Compact Society (India) is particularly concerned with networking among UNGC participants, the India Partnership Forum promotes CSR more generally. Consequently, the Partnership Forum does not define itself as a UNGC network.

#### *The Global Compact Society (India)*

The Global Compact Society (GCS) is the main national network, emerging after the launch of the UNGC in India. The GCS is now in the process of improving its conditions and activities. The survey showed the GCS to be a very business-centred network which has so far failed to open its doors to all stakeholders, as intended by the UNGC. The UNGC companies' awareness of this network is very low. Activities undertaken by the GCS have been criticized for a lack of follow-up.

On the basis of the personal experience of its representatives, the GCS has canvassed some 300 to 400 larger companies aware of CSR as well as business associations and training institutes. No labour organizations or NGOs have so far been approached. Representatives of the GCS fear that the involvement of trade unions will give rise to conflict because they are mostly linked to political parties and, like NGOs, defend specific interests. The UNGC is perceived as a self-regulatory mechanism, which limits the stakeholders' ability to support companies at project but not at strategic level. However, GCS representatives mentioned that they would like to see these organizations integrated through an ancillary body. In May 2005, it was decided to include NGOs and unions, and the Society is considering



the establishment of a national coordinating body for them. In addition, the GCS has launched its own website, it has organized two national conventions, and it encouraged companies to participate in the Global Compact Leader's Summit held in New York in 2004. To judge from the activities referred to above, the GCS at least meets the requirement<sup>34</sup> of contributing to the dialogue between companies and, to a limited extent, other stakeholders as well as participating in global events.<sup>35</sup>

However, the survey confirmed that awareness of the GCS among UNGC companies in India is still relatively low. Of the Indian UNGC companies interviewed, 25 per cent had not heard of the GCS. Among the subsidiaries of foreign companies, the figure rises to over 70 per cent. The low awareness of the GCS among stakeholders is due to the Society's current approach. Interviewees aware of the GCS learned about it mainly through the internet or had been approached by the GCS. The Society is criticized for not following up the meetings it organizes with serious papers or training. As it is funded from membership fees and fees for conventions, one interviewee said: "They are collecting money without providing a service".

### *The India Partnership Forum*

The India Partnership Forum (IPF) exists in parallel to the GCS, but does not directly align itself with the UNGC<sup>36</sup> by having its own business code. Awareness of this network is just as low as that of the GCS.

The IPF (founded by the CII<sup>37</sup> and UNDP in 2001) acts as a forum for Multi-stakeholder Dialogue for Promoting Corporate Social Responsibility

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34 Seven indicators are defined in the Network Self-Assessment. They concern performance as regards the way the networks increase the engagement of its participating companies, promote the UNGC at local level, engage in global dialogues, participate in global learning events and encourage Communications on Progress, identify and implement partnership projects, promote communication among participants and with the Global Compact Office and involve new companies in the UNGC (GCO 2003b).

35 Authors' database.

36 This network is seen by UNDP as a UNGC network, a view contested by the CII. Despite this, it is shown as a national network on the UNGC website.

37 The CII encourages businesses to participate in voluntary activities through its volunteer arm, the Bharatiya Yuva Shakti Trust, and its industry members to take up social projects through its Council for Community Initiatives (India Partnership Forum 2002, 15).

**Box 3: Development of the Global Compact Society (India) and its future plans**

In the first few years after the launch of the UNGC, two informal networks emerged, one in Delhi and one in Mumbai, each holding regular meetings. When it was realized that the informal meetings were limited in their reach, an institutional framework (with registration and a governing council<sup>a</sup> that meets regularly) was established. In November 2003, the GCS was registered as an “all-India forum” embracing the separate informal networks. Some 40 organizations joined the GCS as founding members to exchange experience and to launch joint initiatives; thus supporting the UNGC at national level with events (conventions) and forming the focal point for interaction with the Global Compact Office (Global Compact Society 2005). Nevertheless, as representatives of the Society explained, it was to be early 2006 before the first full-time staff member was recruited to extend the Society’s activities. Its goals are:

- to increase awareness and to attract further participants through marketing,
- to disseminate best practices and to promote knowledge-sharing so as to ensure a steady improvement (instead of monitoring),
- to facilitate, select and arrange projects,
- to organize meetings and conventions annually in cooperation with such other organizations as Federation of Indian Chambers of Commerce and Industry (FICCI) and the CII,
- to establish regional chapters (in Mumbai, Hyderabad and Bangalore, for example) with their own meetings.

Source: Authors’ database

a The four members of the Governing Council are representatives of public-sector undertakings.

in India. It has developed a Social Code for Business,<sup>38</sup> which includes a set of principles and standards of good corporate citizenship (IPF 2005). According to a UNDP representative, the code has been developed to operationalize the UNGC principles and to provide more specific guidelines. Nevertheless, the content of the code seems as vague and immeasurable as the UNGC principles.

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38 See Box 8 in the appendix for the Social Code for Business.

By joining the CII in establishing the IPF, UNDP assumed its role in the Global Compact of supporting national network developments and the CII, which, as one of the most important Indian business associations with over 5800 members, could play an important part as a multiplier. Nevertheless, awareness of the IPF is roughly as low as that of the GCS. Unlike the GCS, however, more than 50 per cent of Indian UNGC companies are not aware of the IPF.

As outlined in Chapter 3.3.1, other networks seem to be more firmly rooted in the Indian CSR community and make it difficult for the UNGC networks to attract attention. Although the GCS and the IPF were launched at the same time and pursue similar objectives, the networks are still operating side by side. A merger could have synergetic effects and strengthen their role as a Global Compact network among the other networks in India.

### 4.3 The mechanisms of the Global Compact

Within the networking framework and on the basis of the ten principles, collective learning, policy dialogue and partnership projects form mechanisms for the achievement of the UNGC's objectives. Thus the UNGC is contributing to the development of a common understanding of corporate citizenship and the leading principles and promoting partnership projects to broaden its own impact. All the mechanisms are applicable at the various levels and in the various networks and so facilitate international exchanges.

#### 4.3.1 The ten principles forming the basis

Companies which join the UNGC are asked "to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, environment, and anti-corruption" (GCO 2004a), which are set out in ten principles (see Table 3). These principles are related to the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the United Nations Convention against Corruption. As they were negotiated by the governments of the UN member states, they have the backing of a universal consensus. However, it should be pointed out that the tenth prin-

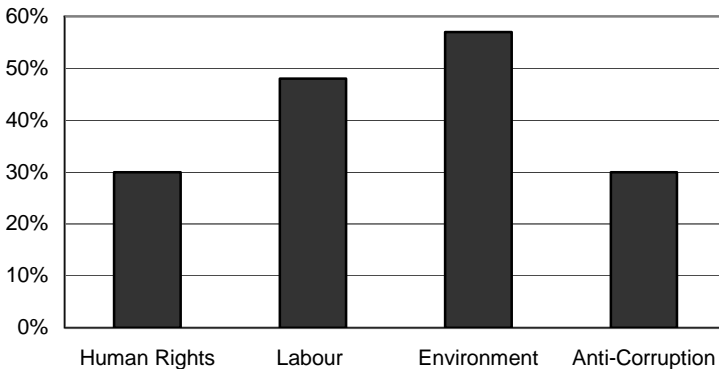
principle requiring anti-corruption measures was not added until 2004 (GCO 2005, 3).

<b>Table 3: The 10 principles of the Global Compact</b>	
<b>Human Rights</b>	
Principle 1	Businesses should support and respect the protection of international human rights within their sphere of influence; and
Principle 2	make sure they are not complicit in human rights abuses.
<b>Labour</b>	
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4	the elimination of all forms of forced and compulsory labour;
Principle 5	the effective abolition of child labour; and
Principle 6	the elimination of discrimination in respect of employment and occupation.
<b>Environment</b>	
Principle 7	Businesses should support a precautionary approach to environmental challenges;
Principle 8	undertake initiatives to promote greater environmental responsibility; and
Principle 9	encourage the development and diffusion of environmentally friendly technologies.
<b>Anti-Corruption</b>	
Principle 10*	Businesses should work against corruption in all its forms, including extortion and bribery.
Source: <a href="http://www.unglobalcompact.org">www.unglobalcompact.org</a>	
*The tenth principle was added in 2004.	

Such vague expressions as “precautionary approach” and “sphere of influence”<sup>39</sup> mean that the principles can be interpreted in different ways. In general, they are considered to amount to a minimal approach, and it is questionable how compliance with them is equivalent to legal compliance. As CSR is generally defined as “going beyond legal compliance,” the principles must be interpreted as going further. This is reflected in the reference by various companies to their codes of conduct, which go far beyond the UNGC principles. Nevertheless, the principles give the companies a guide to follow and help them to structure their CSR engagement.

The survey reveals that, of the four areas covered by the principles, the environment is the most important to the companies; it is followed by labour issues, anti-corruption and human rights (see Figure 5). This shows that the typical areas of CSR (environment and social issues) still predominate.

**Figure 5: Importance of the four CSR areas for Indian UNGC companies**



Source: Authors' database

39 “Spheres of influence” will be discussed further in Chapter 5.3 in the specific context of the influence of the principles in the supply chain.

When the UNGC companies were asked if joining the UNGC had changed the focus of their CSR engagement, the majority answered in the negative. At least two companies said that they had given more consideration to human rights, and others referred to a broadening and deepening of their focus. It cannot yet be confirmed that subscribing to the ten principles has had a real impact.

The tenth principle concerning corruption was referred to by only a few companies. However, companies and stakeholders criticized its late adoption. Companies emphasized the need for the UNGC to stay simple. Top-down decisions, like that taken on the later inclusion of the anti-corruption principle, should be avoided. Companies welcomed activities designed to make the UNGC more comprehensive, but only if this meant increasing its depth and content, i.e. fewer principles should be pursued more effectively to achieve substantial results.

#### 4.3.2 Collective learning

Collective learning and knowledge-sharing are to be achieved through the publication of activities on the internet and learning forums where companies and stakeholders share good practices, identify and fill knowledge gaps, develop tools, obtain training and set priorities for the UNGC (GCO 2003a, 1). Compared with individual learning processes, knowledge-sharing and collective learning help to optimize CSR activities more quickly.

In the survey, companies uniformly regarded collective learning through knowledge-sharing and best practice exchange as very helpful and important for fostering improvements in their CSR engagement. In this way they were able to see what other companies were doing, to follow the leaders' example and to adopt their good practices. However, as many companies do not communicate with the UNGC and participants received little information on any conventions held, the potential of the collective learning mechanism was not being fully exploited.

Two stakeholders criticized businesses for discussing only "soft" issues and never "hard" and more controversial issues (e.g. the implementation of the principles in particular), since they do not want to share these with stakeholders. Stakeholders devoted to particular issues do not therefore

participate in these learning forums. Another limiting factor referred to by one stakeholder was that, as CSR became more integrated into the core business strategy and more internally focused, companies would not share their ideas and activities with their competitors.

### *Reporting to enable experience and progress to be shared*

The ongoing improvement of a company's performance must to be published in an official document similar to the annual report and posted on the UNGC's website as a COP<sup>40</sup>, the aim being to guarantee integrity and transparency. COPs also foster reciprocal supervision among stakeholders and companies, because the submissions are not monitored by the Global Compact Office (Goel 2005, 81). Companies are also invited to publish case studies of their corporate practices and experience and of the lessons they have learned. In this way, the UNGC tries to encourage participants to adopt good practices and make them accessible to others (GCO 2005a, 9).

Of the Indian UNGC companies participating in the survey, 61 per cent have published a COP. However, as companies are designated non-communicating on the Global Compact website if they fail to publish for two consecutive years, nearly 50 per cent of all Indian companies are officially non-communicating. Among the reasons for not communicating, companies referred to time constraints (the COP guidelines were also criticized for being too long and non-functional) and the fact that they see no benefit from drawing up COPs.<sup>41</sup>

### *Policy dialogues and conventions*

The Global Compact Office and local networks support meetings and policy dialogues focused on specific issues relating to globalization and corporate citizenship (GCO 2004a, 2). At global level, these dialogues have addressed such core issues arising for the UNGC, its principles and their application as supply chain management.<sup>42</sup>

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40 A Practical Guide to COP was published in May 2005 by the Global Compact Office.

41 Reporting and the publication of COPs are discussed further in Chapter 5.2.4.

42 Other topics discussed at global level include conflict prevention, financial markets, HIV/Aids, human rights, partnerships, sustainable consumption, sustainable development and transparency, and anti-corruption.

In India, two national conventions and one regional conclave have been held. The national conventions were jointly organized by the GCS and the Federation of Indian Chambers of Commerce and Industry, while the GCS, TATA Steel and CII organized the regional conclave.<sup>43</sup> These meetings focused on linking the UNGC to social challenges and poverty reduction and promoted knowledge-sharing through the presentation of best practices. In addition, India was comparatively strongly represented at global level by a delegation of 15 CEOs and senior personnel at the UNGC Leaders' Summit held in New York in June 2004.

The empirical survey shows that more than 50 per cent of the Indian UNGC companies interviewed had not attended any of these conventions. None of the foreign UNGC companies had taken part in any of the conventions.<sup>44</sup> One reason for the low participation was the limited awareness of the meetings. Many interviewees did not even know that the conventions had taken place. Nor were they perceived as very helpful, and the lack of any follow-up was criticized.

When these shortcomings were pointed out to a GCS representative, he claimed that it was planned to follow up the conventions in the future with opportunities to share their experience with participating and non-participating companies. As regards the limited awareness, GCS representatives explained that e-mails had been sent to all UNGC companies and to NGOs, research centres, Indian training and management institutes, the media and other stakeholders. However, the majority of those attending the meetings were members of the GCS (and consequently business leaders).

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43 The first National Convention on "Excellence in Corporate Citizenship and Global Compact" took place in New Delhi in July 2004. The convention was attended by almost 300 delegates from companies and stakeholder organizations. The second National Convention on the "Role of Corporates in Promoting Social Objectives through Global Compact" took place in New Delhi, February 2006. The GC Regional conclave in South Asia was the first regional UNGC meeting and attracted 200 participants. The conclave focused on business and poverty, and CSR in the context of the Millennium Development Goals.

44 The Regional Conclave was best attended, followed by the first and second national conventions, with the Leader's Summit in New York attracting the fewest participants.



### 4.3.3 Partnership projects

Corporations are expected to collaborate with such partners as UN agencies and civil society organizations in partnership projects so that they may contribute to the achievement of the United Nations' broader development goals (GCO 2005a, 2). Through these partnerships, companies expand their sphere of influence and align CSR with the UN's Millennium Development Goals,<sup>45</sup> by implementing development projects (such as building schools or hospitals), for example. Despite the challenges and problems arising from the different expectations and backgrounds of the partners, partnership projects are the most visible form of UNGC action. Globally, they are also the most frequent form of action taken by companies (McKinsey 2004, 6).

In India, community development is the predominant factor, as has been shown in Chapter 3. Besides all the positive aspects and effects, companies face challenges in this engagement, such as finding for their projects the right partner/NGO in terms of credibility, accountability and transparency. As the Indian NGO scene features a wide variety of NGOs, some companies have begun to establish new institutions/NGOs or to search for lead partners (to take them to the right NGO). It was also said that companies faced difficulties in their cooperation with NGOs because they "speak different languages" and suspicion exists on both sides.

UNDP, the UN organization responsible for partnerships, described its role as "contacting, being an honest broker and installing necessary mechanisms" for bringing corporations together with communities as partners at ground level. This approach is followed with UNDP's own projects (skill generation, HIV/Aids, water management) aimed at involving corporations as partners for development. UNDP is thus playing its intended role in the UNGC.

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45 According to the Millennium Development Goals reducing poverty helps to create the purchasing power that allows markets to grow [...] Thus, the business community has a direct stake in helping countries reach the Millennium Development Goals and achieve broad-based economic development (GCO 2005c, 7).

## 4.4 Assessment of the Global Compact and further suggestions

Owing to the weaknesses of the UNGC in India, the initiative has had very little influence on companies' CSR engagement. As the potential of the multi-stakeholder approach is not being fully exploited and the national UNGC networks are perceived as inactive, the mechanism that is most appreciated, collective learning, has had only a limited impact. A substantial number of the participants have in fact withdrawn by not communicating their activities to the UNGC and rarely attending conventions. Yet the UNGC is still considered highly credible.

Interviewees identified weaknesses from their points of view and suggested that the UNGC's reach should be improved qualitatively and quantitatively, that the support and information it provides should be increased, that its structure and activities at global and national level should be reviewed and enhanced and that more should be done to raise the awareness and credibility of the UNGC.

### 4.4.1 The Global Compact's influence on companies

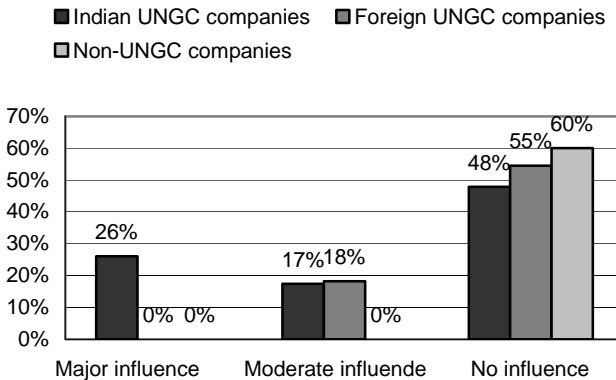
Joining the Global Compact has had no influence on most companies' CSR engagement. Equally, non-UNGC companies did not assume that membership would change their engagement. Compared to Indian UNGC companies, foreign UNGC companies registered even less influence of the UNGC, which can be attributed to their organizational structure and relationship with their headquarters where the latter had joined the Global Compact. Some subsidiaries receive UNGC guidelines from their head offices, which do not, however, influence their CSR engagement, and others had not even heard of the UNGC<sup>46</sup>.

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46 As regards the relationship between headquarters and subsidiaries in the UNGC, the latter states: "The Global Compact applies the leadership principle. If the CEO of a company's global parent (holding, group, etc.) embraces the Global Compact by sending a letter to the UN Secretary-General, the Global Compact will post only the name of the parent company on the global list assuming that all subsidiaries participate as well. Subsidiaries that wish to directly send a letter to the Secretary-General, to underline their commitment, will be listed as participants, and are invited to become active in the Global Compact country network of their host country" (GCO 2006a).

As a general rule, the UNGC did not significantly change the CSR engagement of companies (see Figure 6). Companies put this down to their previous engagement and to the fact that UNGC support had not reached them. Nevertheless, in some cases it had had an impact in that it had provided a framework that made it easier to structure and institutionalize CSR in the company concerned. Apart from direct impacts, knowledge-sharing was appreciated and had had an indirect impact. Two companies referred in particular to their growing bargaining power in relations with their customers (in persuading them to join the UNGC), seeing this as an important change brought about by UNGC membership.<sup>47</sup>

**Figure 6: Influence of the Global Compact on companies in India<sup>a</sup>**



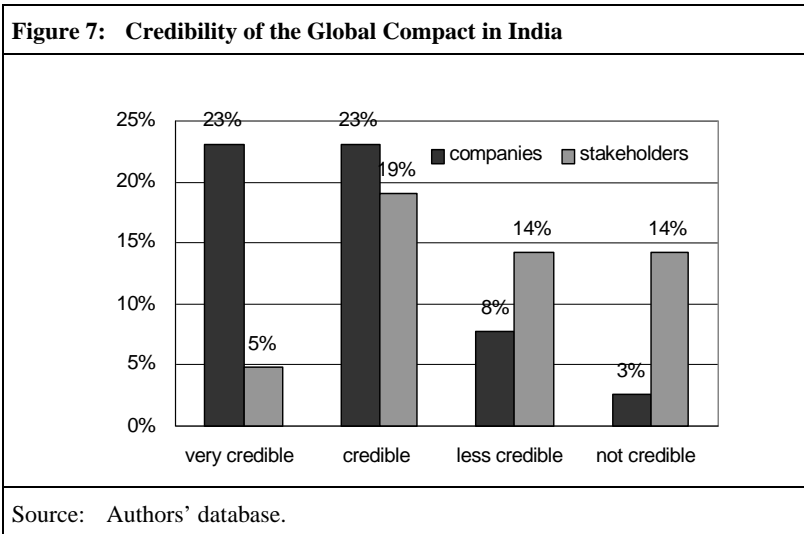
Source: Authors' database

a The division into "major influence", "moderate influence" and "no influence" is deduced from the variety of answers to the question as to how joining the UNGC had influenced the companies' CSR engagement. The answers of interviewees who felt that influence was limited to single effects and so said they saw no real influence are included under "moderate influence".

47 The impact assessment by McKinsey (2004, 3) paints a similar picture at global level: "The Compact has contributed to some reform in companies, acting primarily as an accelerator and facilitator of action, rather than the dominant force for change. Participation in the Compact has spurred greater attention and resources for corporate citizenship efforts, accelerated the implementation of new policies and led to a proliferation of partnership projects and some policy change."

As part of the study, companies were asked in what ways the UNGC had provided useful support. Nearly half of the interviewees had received some support (mainly Indian companies in the form of knowledge-sharing and best practice exchange), while half had not seen any support. Only one company confirmed that it had used the support of guidelines offered by the UNGC (e.g. COP guidelines). Other statements revealed that the interviewees were either unaware of the guidelines or criticized them as being too complicated (“they need to be simpler and focused more on substance than form”).

Irrespective of the UNGC’s limited impact and the little support it provides, the survey shows that it enjoys considerable credibility in India (see Figure 7).



The UNGC’s high credibility rating, to which reference is made predominantly by companies and business-oriented stakeholders, was mainly due to the reputation of the UN and of Secretary-General Kofi Annan. Any lack of credibility, on the other hand, was due to the absence of monitoring and verification, which might exclude violators.

Regardless of the UNGC’s good reputation in India, joining it did not strengthen the internal CSR policies of the overwhelming majority of

Indian companies. Most ascribed this to the fact that awareness of CSR was already pronounced before they joined the UNGC. These results accord with the generally limited awareness of the UNGC.

#### 4.4.2 Participants' suggestions for improvement

The impact of the Global Compact is often questioned because of its weak structure and the lack of monitoring and enforcement. Despite this, the suggested improvements concern the scope of the initiative, the lack of support and information provided and the structure of the UNGC at global and national level.

##### **Box 4: New governance framework at global level**

After the first phase of experimenting and recruiting, the UNGC prepared to enter a new phase with a new governance framework<sup>a</sup> that fosters quality assurance and protection of integrity, whereas the main objectives and mechanisms remain the same. Among other things, the learning and dialogue will be targeted more closely on specific issues and needs, and companies will be required to use existing indicators<sup>b</sup> as guides with a view to making their experience more transparent. Thus the Integrity Measures<sup>c</sup> have been strengthened, and new guidelines for the use of the UN flag have been introduced. The local networks will play an increasingly important role and are urged to have at least one meeting a year. They will be supported by regional Global Compact Centres (the first one being in Barcelona), which will promote interaction among local networks. This renewal was approved in August 2005 and was to be implemented in the following 12 months. Activities in the next few years will concentrate on the tenth principle, which concerns anti-corruption, practical approaches to human rights and the demonstration of the business case.

Source: GCO (2005b)

a For further information see "The Global Compact's Next Phase," 6 September 2005 (GCO 2005b).

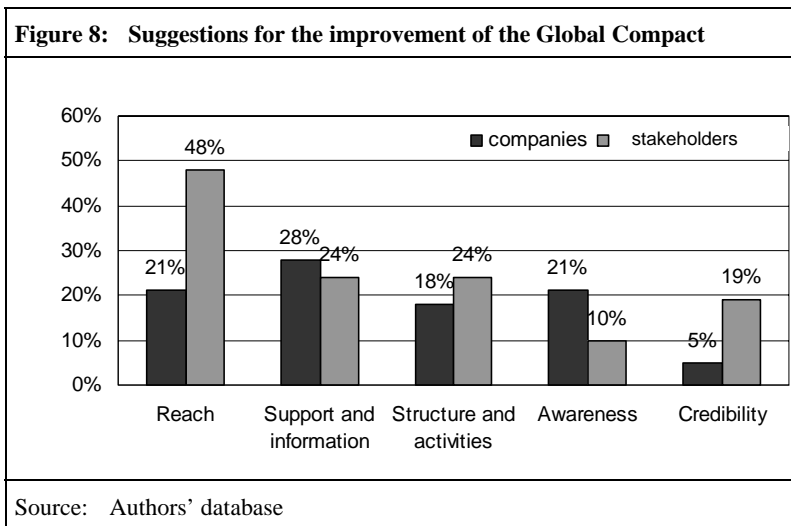
b GRI Sustainability Reporting Guidelines and Ethos Indicators. The aforementioned guidelines seem to be taking root in India (see Chapter 5.2).

c The Global Compact Integrity Measures are so designed as to have transparent procedures for protecting the integrity of the initiative. They include policies on the use of the UNGC's logo, failure to communicate progress, a lack of intention to improve performance and a reference to the UN Business Guidelines (GCO b).

In general, the Global Compact is criticized for what it is not: the UNGC is not “a regulatory arrangement, specifically a legally binding code of conduct with explicit performance criteria and independent monitoring of company compliance” (Ruggie 2001, 3). Yet, at global level at least, the UNGC only recently initiated a few reforms to strengthen its governance framework and tackle some of its weaknesses (see Box 4).

While it remains to be seen when and how these reforms have an impact at global and national level, the weaknesses identified by companies and stakeholders in India still exist and remain on the agenda. Companies and stakeholders identified as the main areas for improvement (see Figure 8):

- the reach of the Global Compact (qualitative and quantitative),
- the lack of support and information,
- the structure and activities at global and national level,
- awareness and credibility.



### *The reach of the Global Compact*

Companies and stakeholders criticized the UNGC for its lack of reach due to the selective way in which it approaches companies, its limited impact and its low participation rate.

Companies and especially stakeholders call on the UNGC to include SMEs rather than remain a “big boys’ club.” As SMEs are more firmly rooted in the community, it seems crucial not only to involve them but also to assist them. The forums, being located at a high level, seem less accessible to SMEs. This also holds true for the unorganized sector, which accounts for a huge part of the Indian economy and also affects the formal sector.

As the UNGC is anchored at a high level, it is urged to increase its reach down to ground level by becoming more effective and result-oriented. The principles must be translated into implementation processes instead of being treated as a scientific framework.

Companies and stakeholders call for a more systematic process of including additional companies and stakeholders in India. As one interviewee concluded, “with quantity, quality will also improve as knowledge-sharing is widened.”

### *Lack of support and information*

As a further improvement of the UNGC, companies would be provided with additional support and information. On the one hand, companies have called for more support in the form of more and simpler guidelines. On the other hand, stakeholders emphasized the need for capacity-building, e.g. for reporting on specific sectors. The need for a sector-specific approach was mentioned on various occasions; as the UNGC lays down no more than general principles, industry-specific codes would make implementation easier. Information in the form of case studies and electronic newsletters would be appreciated.

### *Structure and activities at global and national level*

The Global Compact Office in New York should improve its communications, since companies do not feel enough attention is paid to them (e.g. their e-mails are not answered). Furthermore, if it is to become a real network of networks with global opportunities for knowledge-sharing, links

between the regional/national bodies and the Global Compact Office must be strengthened.

Better coordination of the Indian networks, with improved knowledge-sharing and best practice exchange at this level, is a precondition. In the words of one company's top official: "the UNGC needs face-to-face meetings in order to have a face." And further: "better adaptation to Indian requirements requires translation to ground level. The UNGC must be customized to meet different needs. The cooperation among the UN agencies involved is still inadequate and must be improved if the full potential is to be tapped."

#### *Awareness and credibility*

From a company's perspective it is important to increase the awareness of the UNGC in general. This could be achieved by marketing activities (especially in India), studies and strengthened communication. From the stakeholders' point of view, the UNGC still lacks credibility. It therefore needs to be ensured that violating companies are at least taken to task by the UNGC. The Global Compact should also comment on companies' COPs, its process of ensuring compliance should be improved, and an impact assessment by stakeholders must be carried out to ensure the UNGC's accountability.

Provided that the UNGC is able to address the above challenges, most participants see a positive future for the Global Compact.

## **5 Major challenges for the introduction of CSR**

While the overall perception of the UNGC in India is quite positive, its practical relevance is now almost negligible. As a rule, a CSR instrument has to address some major challenges that CSR engagement always faces. Assessing the UNGC must therefore include its contribution to tackling the following major challenges:

1. CSR must prove the **business case**, i.e. the financial benefits must outweigh the costs – in the long run at least – to ensure that CSR engagement is financially sustainable.
2. The question of **monitoring, certification and reporting** is crucial for the credibility and reliability of CSR activities.



3. The inclusion of the **supply chain** is another important issue, particularly with respect to the reach of CSR, since many suppliers are SMEs reaching far more people than the relatively few TNCs.
4. **Public policy** can play an important role in promoting CSR since it can provide an “enabling environment.”

For the effective and sustainable introduction of CSR, all these areas must be addressed if businesses are to be motivated to participate (deepening) and more companies are to become involved (broadening). However, the Global Compact’s role in these areas is now very limited. While the UNGC label was referred to as a relevant business case, the present survey reveals that suppliers and the public sector had been omitted and that verification is also lacking.

## 5.1 The business case for CSR

One main challenge for a global breakthrough of CSR is the business case and thus the lack of awareness and convictions for the intrinsic motivation of businesses to include social and environmental responsibility in their business strategies. As the World Bank puts it, “there is a rough consensus that resolving the question of whether and how the business case exists is of critical importance” (Jørgensen et al. 2003, 51).<sup>48</sup> Accordingly, UNDP found in its survey of Indian managers that the missing link between CSR activities and financial success is a major obstacle to the adoption of CSR (UNDP et al. 2002, 27).<sup>49</sup>

While it is fairly easy to determine the benefit of CSR in retrospect, corporate leaders do not, of course, have the luxury of hindsight when making their decisions (Martin 2003, 89p.). One major reason is the difference in

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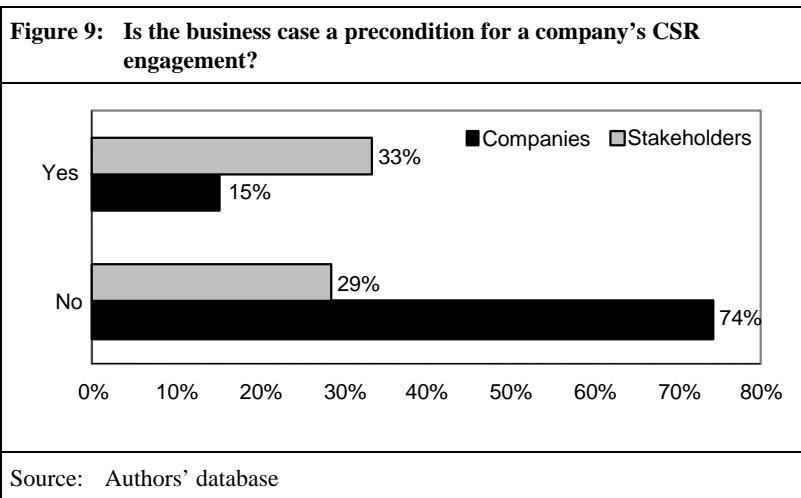
48 According to a survey conducted by the World Economic Forum, most leading companies and most major institutional investors recognize that corporate citizenship has become a more strategic business issue over the past decade (WEF 2003, 14).

49 There is a long ongoing debate in search of a significant relationship between a company’s social and financial performance based on a comparison between countries (OECD 1996, 2000) and companies (see Social Investment Forum Foundation (2004) for an overview). Overall, there is evidence that socially and environmentally responsible companies do not at least perform any worse than traditional firms, weak though that evidence may be.

time horizons: while the costs of CSR measures accrue continuously, the benefits are normally gained in the longer run.<sup>50</sup>

Consequently, it is not surprising that in the present survey the business case was seen by stakeholders as by far the most relevant motive for a company to engage in CSR. Some 62 per cent referred to it as the principal motive for companies, the next most important factors being global pressure (38 per cent) and philanthropy (33 per cent) (see Figure 12 in the appendix). Asked about their general CSR understanding, 23 per cent of the companies referred to the business case. Interestingly, none of the public companies mentioned the business case, which indicates that they still understand their CSR engagement more as philanthropy or simply compliance with legal regulation.

Overall, the business case is regarded as being important, but awareness among companies is still relatively limited. This corresponds to the finding that only 15 per cent of the company representatives interviewed regard the business case as a precondition for a company’s CSR engagement (see Figure 9). In contrast, the stakeholders interviewed saw the business case as more of a precondition for companies.



50 For instance, a CSR survey among Indian managers showed that 10 per cent of the

On the whole, there are two opinions on the business case. Some stakeholders, particularly NGOs, emphasize the importance of the business case for honest and sustainable CSR and therefore argue that it should be strengthened. Companies, on the other hand, argue that there are also some risks attached to the business case. As one representative said, “it is important for us to realize that CSR efforts are not only intended to increase your material benefits.” These reservations may partly explain the few references made by companies to the business case.

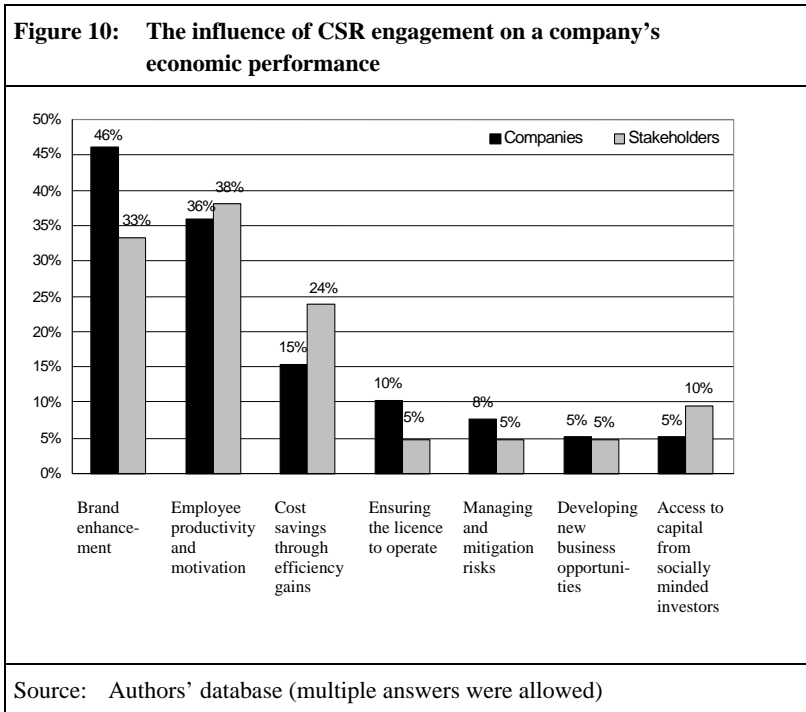
In general, various “channels” can be distinguished through which the business case may be effective. They are brand enhancement and reputation, the licence to operate, the reduction and mitigation of business risks, employee productivity and motivation, efficiency gains, the development of new business opportunities and access to capital from socially minded investors. It can be shown that the business case exists in any of these respects, though to varying degrees depending on the country and the specific sector (WEF 2003, 20).

In India’s case, two factors appear to be the most relevant: the importance of brand value and increased employee productivity and motivation, as Figure 10 reveals.<sup>51</sup> These results do not differ significantly as between Indian and foreign companies or UNGC members and other companies.

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respondents claim that short-term thinking by businesses is a major obstacle to good environmental and social performance (CSM 2001, 23)

- 51 A similar survey of Indian companies conducted in 2002 broadly confirms these results. However, in its findings the licence to operate seemed to play a much greater role (UNDP et al. 2002, 23). When asked a similar question in an international survey, the respondents ranked all channels relatively equal between 50 per cent and 70 per cent as their most relevant business cases. Only access to sustainable funds falls short, with only 46 per cent (WEF 2003, 14). The results in India, as outlined in Figure 10, paint a different picture, emphasizing those two cases of relevance to India.



### 5.1.1 Brand enhancement

The reputation of a company and hence its products are major determinants of its market value.<sup>52</sup> As CSR helps to improve a company's reputation, it increases long-term market potential and so makes a business case. However, the degree to which the brand value is relevant to a company largely depends on its customers and the industrial sector in which it operates.

<sup>52</sup> According to a study by Goldman Sachs (2004), the value of a company's brand determines its market value by up to 96 per cent. This intangible value is highly influenced by such categories as trust, reliability, quality and credibility and largely determines future profit opportunities.

All the various groups of companies covered by the survey agreed that brand enhancement is the most visible link to the business case. Brand value and reputation are therefore major business-related motives for companies to engage in CSR. Specifically, 47 per cent of the private Indian UNGC companies, 33 per cent of the public ones, 40 per cent of the non-UNGC companies and 55 per cent of the foreign UNGC companies referred to brand enhancement as an important business case for CSR. This confirms the assumption that companies operating largely in international markets or having established global brand names are more sensitive to brand value than those operating only in the domestic market (like virtually all the public-sector undertakings interviewed).

### 5.1.2 Employee productivity and motivation

A company's profitability is largely determined by the productivity of its employees. Increased labour productivity through better motivated staff or lower absenteeism rates through improved health care provision and hence reduced labour costs can easily compensate for the expenses incurred. Accordingly, ensuring employee productivity was the second most important business case for CSR in the present study, being referred to by 36 per cent of companies and 38 per cent of stakeholders.

Improving the general living conditions of the workforce provides major opportunities for cost reduction. One important field, occupational health and safety measures, can help to reduce sick-days and accidents. Companies can thus increase their profit margins significantly through lower absenteeism rates (Grayson and Hodges 2004, 126). This category includes several measures that can be regarded as community development in that they help to improve living conditions for employees and their families and so to raise productivity.<sup>53</sup> Good working conditions can also help to attract more qualified and motivated staff in the competition for skilled employees. This specific factor of "talent attraction" was referred to by two company representatives, while a business association professional regarded "getting the right employees and making them stay with your company" as one of the major motives for engaging in CSR.

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53 A comprehensive and detailed analysis of various measures for South Asian factories can be found in Social Investment Forum Foundation (2004).

### 5.1.3 Cost savings through efficiency gains

Immediate cost savings can be achieved through the introduction of input-saving techniques and management systems, such as the recycling of waste, reduced deployment of resources and enhanced power efficiency. One advantage of these efficiency gains is the attribution of benefits: they can be measured simply by comparing input costs saved with additional expenses to identify the possible business case. In the present survey, it was considered to be the third most important factor for the business case (15 per cent of companies and 24 per cent of stakeholders). For the Indian situation, some stakeholders commented on the lack of incentives to save energy and other inputs due to state subsidies or the absence of recycling requirements, which explains the lower relevance of this channel in India. This may account for the differences in the results of the global survey conducted by SustainAbility et al. (2002), where eco-efficiency proved to be the most significant channel for the business case.

In the long run, another advantage may follow technical innovations resulting from certain research and technological developments that improve eco-efficiency. The innovations may lead to increased profitability in the long term and so more than compensate for the initial costs incurred (Porter and van der Linde 1995, 98).

### 5.1.4 Securing the licence to operate

At local level, reputation also plays an important role for a company. It can improve its relationship with local authorities and with the public in general and so help it to retain its “licence to operate.” Companies engaged in CSR at local level may find it easier to obtain the licence to operate, to reduce delays in public procedures and so to keep the cost of engagement within reasonable bounds (SustainAbility et al. 2002, 5). Relations with the people living near a company’s plant are another important factor for its ability to operate smoothly without being faced with social unrest.<sup>54</sup> This dependency and necessity to cooperate at local level with

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54 As an example, one company representative argued that his company engaged in helping farmers living near its plant by introducing fertilizers and modern techniques to

stakeholders and public authorities in particular may lead to enhanced CSR engagement, especially in terms of community development, which favours the local communities most and is the most visible form of CSR for the local public.

For Indian companies, the importance of the licence to operate cannot be underestimated. In the survey by UNDP et al. (2002), it turned out to be the most relevant business case. In the present study, however, only 10 per cent of company representatives referred to that specific channel for the business case. Nevertheless, many of them stressed the importance of community development for their operations, thus indirectly underlining the importance of the “licence to operate.”

### 5.1.5 Managing and mitigating risks

CSR can also help in various ways to mitigate the wide range of business-related risks which corporates face. Most importantly, it can reduce the risk of a corporate brand being “assassinated” by accusations of unethical behaviour by “watchdog” NGOs. The impact of “negative media exposure” or conflicts arising around a company’s business can deeply harm the business opportunities for the company. In addition, especially in countries where infrastructure at rural level exhibits some weaknesses, the spreading of such diseases as HIV/Aids or the weak physical infrastructure itself exposes business operations to considerable risks. Finally, companies can also foresee the “threat of regulation” and try to take precautions through voluntary CSR measures.

Generally speaking, understanding the concerns and interests of employees, customers, NGOs, politicians and business partners helps a company to manage environmental and social expectations better. The evidence of risk reduction through CSR engagement and transparency is strongest for large multinational companies, including their suppliers, and specifically sensitive sectors, where stakeholders expect a higher commitment (SustainAbility et al. 2002, 16). Since the Indian NGO scene shows some weaknesses in the CSR field, Indian companies expect less pressure from

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demonstrate that fears of pollution harming crops were unfounded and so tried to keep the community “happy.”

the NGO side. This explains why this point was raised by a mere 8 per cent of the companies interviewed.

### 5.1.6 Developing new business opportunities

In many developed countries consumers are becoming increasingly aware of environmental and ethical issues in their consumption choices. New markets for socially and environmentally sustainable products have been emerging and will continue to do so. However, as the present study revealed, this is of little importance for the companies surveyed: only 5 per cent of both company and stakeholder representatives felt this point was relevant. One explanation given by some NGOs is relatively low consumer awareness in India. They believe there is little to expect in the near future from a shift in consumers' preferences towards sustainable products.

### 5.1.7 Access to capital from socially minded investors

Many recent surveys point out that financial investors are becoming increasingly aware of social and environmental factors when taking their investment decisions. The funds channelled into Socially Responsible Investing (SRI) have risen steeply since the early 1990s and now total around \$ 2.4 trillion worldwide (IFC and CSM 2003, 2). This change in investors' attitudes is backed by various empirical studies that show the returns on SRI not to be significantly lower than the returns on "traditional" investments.<sup>55</sup> However, the awareness of the Indian financial markets still appears to be very low. In the present study, a mere 5 per cent of the companies raised this point, even though some interviewees agreed that its importance was growing. A rise in SRI might be expected, given the general importance of the social responsibility of businesses. It is argued that, even though SRI does not play a major role in India today, it will become a major driving force in CSR activities in the future.<sup>56</sup> As one

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55 See Social Investment Forum Foundation (2004) for an overview of recent studies comparing returns on sustainable and traditional funds.

56 For example, the world's largest pension fund, the California Public Employees' Retirement System (CalPERS), with some \$ 192 billion under management has been actively engaged in the Indian market, starting with over \$ 100 million in 2004. The fact that CalPERS stresses the importance of Corporate Governance and is convinced of its



foreign company put it, the long history of ethical business generally provides a fertile ground for the demand for SRI in India.<sup>57</sup>

### 5.1.8 The Global Compact's role and the business case

The Global Compact's international background provides rich ground for knowledge-sharing aimed at disseminating companies' understanding of the business case. Learning forums, for instance, are intended to disseminate good corporate practices in the translation of the Global Compact into business practices and in the creation of value (Fussler et al. 2004, 16). Inputs from these forums, best practices and the Global Compact Learning Forum Case Studies are meant to set examples and so to increase its members' awareness of the business case (GCO 2003c).

The role of the UNGC itself as a business case was also revealed by many interviewees: both company and stakeholder representatives regarded the credibility and positive image of the United Nations as a major advantage of the Global Compact. Specifically, four companies mentioned the unique reputation of Kofi Annan for the UNGC. Thus, used as a highly credible label, the Global Compact can contribute to the reputation enjoyed by companies; nevertheless, companies were unable to describe the specific effects accruing from their UNGC membership.

## 5.2 CSR monitoring, certification and reporting

The outcomes of CSR measures are, in many cases, difficult to discern as such, both for the company itself and for the general public. From a company's perspective, monitoring is a major barrier to the further dissemination of CSR.<sup>58</sup> From the viewpoint of customers, the general public and

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long-term profitability may provide major incentives to integrate these aspects further into India's capital markets. ([www.calpers.ca.gov](http://www.calpers.ca.gov))

57 One example of how the financial markets can contribute to the dissemination of CSR is the case of a foreign company which can be assumed to be complying with certain standards, since its parent company is listed on the Dow Jones Sustainability Index (DJSI). This assumption was confirmed by a company representative.

58 For Indian companies, the absence of methods and tools for the evaluation of CSR practices and performance is among the most serious obstacles to the adoption and diffusion of CSR, according to the survey by UNDP et al. (2002, 28).

specialized civil society organizations, but of investors, too, the credibility of a company's CSR engagement very much depends on verification (e.g. through certification).

Even though there is an ongoing debate about various terms (Ascoly and Zeldenrust 2003, 3), the mechanisms and institutions that have evolved in this sector can be roughly grouped in three categories. Firstly, *monitoring* describes the evaluation of CSR activities that is often carried out by the company itself to assess its performance. Secondly, *certification* means a formal, often periodic examination of CSR records to verify that certificates has been awarded and are correct (Consultancy and Research for Environmental Management et al. 2004, 28). Thirdly, *reporting* on CSR activities plays an increasingly important role for companies, as the growing number of sustainability reports and other reports drawn up in accordance with the Global Reporting Initiative (GRI) guidelines indicate.

Table 4 in the appendix gives an overview of the best-known, sector-wide institutions. These mechanisms include management systems and certification schemes, rating indices and accountability and reporting frameworks. The various institutions and mechanisms cover a wide range of substantive issues (i.e. labour, environment, anti-corruption, human rights and inclusion of the value chain) and use a wide variety of verification mechanisms.

One important way in which the various mechanisms differ is the distinction made between internal and external verification. Internal monitoring mechanisms contribute mainly to a better understanding of CSR and its impact within a company. They provide an impartial view of a company's CSR record for external stakeholders. For them, only external verification methods can be seen as credible instruments that allow an assessment of CSR performance. For a company, however, these instruments can give rise to very high costs.<sup>59</sup>

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59 The costs of the certification process are an important factor for the decision to be certified. The costs vary considerably, depending largely on the certifying institution and the company's size (Wick 2003, 40).

## 5.2.1 Monitoring

Monitoring the impact, costs and benefits of CSR activities is a central element for a company integrating CSR into its business strategy. It is only in recent years that a wide range of instruments and approaches has evolved to support a company's engagement in CSR by providing management and monitoring systems. Nevertheless, according to various surveys (including UNDP et al. (2002) and WEF (2003)), the monitoring problem persists and constitutes a possible obstacle to further CSR engagement. However, internal monitoring of CSR provides a basis for the management, while also helping in the assessment of the practical benefits accruing to the company.<sup>60</sup> As a rule, such specialized, internationally active agencies as Environmental Resources Management (ERM) and Société Générale de Surveillance (SGS) – the global leader in verification and certification services – undertake this kind of assessment for the management of a company. Another way to integrate CSR and its monitoring into the management system is to use Sustainability Balanced Scorecards (Bieker and Gminder 2001). Although actual monitoring rules are not laid down, they can be used to incorporate CSR issues into management processes by specifying figures and indicators of the company's CSR performance. One related example is the Tata's Index for Sustainable Human Development (TATA Sons Ltd. 2003, 14). It uses scores for CSR processes and outcomes that are recorded at the level of working units. To assess overall CSR performance, they can be aggregated at company level.

Overall, the level of monitoring of CSR in India must still be regarded as very low. Of the 39 companies interviewed, only seven stated that they had their CSR engagement evaluated externally by NGOs or specialized agencies.<sup>61</sup> A further six companies monitored their engagement internally.

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60 As the total benefits of CSR accrue only to a small extent to the company itself, it is particularly difficult to measure this specific effect. As an example, the Centre for International Economics (2003) calculated the benefits (in terms of money) of a health programme in a Thai factory and concluded that the company's gains comprised a mere 4 per cent of the total benefits. The great majority of the overall benefits were realized by the employees directly affected and the local community as a whole, which gained 15 per cent and 81 per cent of all benefits respectively.

61 This does not include the auditing procedures for such certificates as ISO 14000; they are more concerned with very specific issues and consider principally the implementation of proper management systems rather than overall CSR performance.

One of these companies referred to the balanced scorecard of the management that covered CSR issues. These relatively low figures explain the claims of various NGOs that only a few Indian companies monitor their CSR effectively.

### 5.2.2 Certification

When it comes to relations with their stakeholders and the general public, companies cannot refer solely to the information they provide themselves. Instead, they must provide reliable information that can be approved or verified as credible by the organizations listed in Table 4 in the appendix and by various important sector-specific organizations, such as TransFair (food), Forest Stewardship Council (FSC) (timber), Rugmark (rugs), Ecotex and the CCC (both garments). Their certificates and labels rely heavily on consumer awareness and may therefore be a business case for companies. However, as awareness must be rated very low in India, certification plays only a minor role there (see Chapter 5.1.6).

Figure 11 shows the prevalence of the most important certificates in the area of CSR. While the ISO 14000 standard of environmental management is widely applied in India, other certifications are of far less importance. Interestingly, the non-UNGC companies interviewed do not apply any standard apart from ISO 14000, while such standards as SA 8000 for overall CSR performance and OHSAS 18001 for occupational health and safety standards are more common among UNGC companies.

The choice of auditors also plays a decisive role in respect of the reach, the credibility and thus the importance of the various institutions and mechanisms. While such certification schemes as ISO 14000 require the involvement of professional external auditors, many others, such as mere aspirational principles, require little or nothing in terms of the verification of compliance.

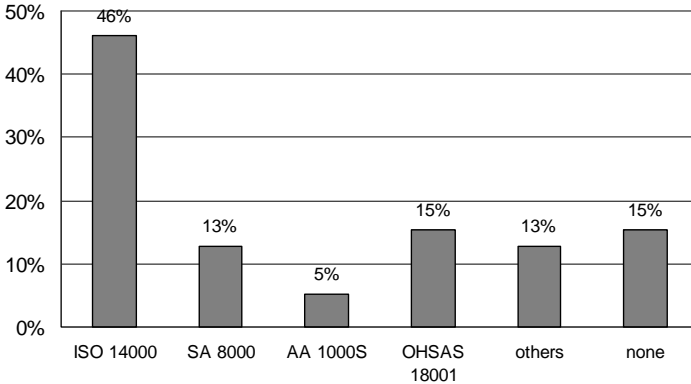
It has been observed that Indian society trusts NGOs, the media and mandatory annual reports most as sources of information on ethical practices.<sup>62</sup>

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62 In the survey by Kumar et al. (2001), some 46 per cent of the respondents trusted these agents far more than other public or private institutions, such as the media, public authorities and companies themselves.

Accordingly, two stakeholders mentioned that NGOs are becoming increasingly important as auditors of their CSR engagement since they are perceived as the most credible institutions.

**Figure 11: Certifications and standards used by the companies interviewed**



Source: Authors' database

### 5.2.3 Reporting

As the importance of stakeholders, and especially civil society organizations, but also the general public and the media have increased in recent years, the role of credible reporting on CSR has gained in relevance for corporate communications. The application of the GRI guidelines on CSR reporting<sup>63</sup> and the greater spread of sustainability reports, confirmed by many respondents in the present survey, can be seen as indicators of this trend. All the stakeholders interviewed agreed that companies report on

63 The Global Reporting Initiative (GRI) provides guidelines, including specific measurable indicators on how companies should write their annual reports, sustainability reports or special CSR reports so that they are comparable. Nine Indian companies have so far used the GRI guidelines for their reporting ([www.gri.org](http://www.gri.org)), four of them being covered by the present survey.

their CSR performance. According to 44 per cent of the companies interviewed, these reports are also read by other companies.

Publicizing their CSR engagement can involve certain risks for companies: those interviewed identified as the most serious risk possible future requests from NGOs for funds after their financial support for NGOs had been disclosed. Two other representatives were concerned that publicizing their efforts to save inputs and enhance efficiency, for example, could lead to other companies copying their measures and so increasing the competition. On the other hand, the stakeholders regarded the possible loss of credibility when companies report something false as the most relevant risk attached to reporting. As major advantages of publishing CSR activities, companies referred to increasing awareness, possible sharing of experience and learning from other companies.

**Box 5: CSR awards in India**

The long tradition of CSR in India has led to the evolution of a wide variety of CSR awards. The most prominent among them are the Businessworld-FICCI-SEDF CSR Award (initiated in 1999), the TERI CSR Award and, at a higher level, the Asian CSR Awards. On the one hand, these awards can be regarded as contributing to competition for better CSR engagement. On the other hand, the stakeholders in particular took a more critical view, stating that the variety of awards has led to a loss of credibility. They are said not to be credible, especially when a registration fee has to be paid. Besides, the awards concentrate on community development and take no account of a company's internal performance. One company representative mentioned that he had been pressured to apply for an award. Nevertheless, awards can provide a platform for learning and knowledge-sharing, and one respondent felt they provided the only external evaluation of his company's CSR performance.

Overall, the importance of the media for the awards and the competition for best CSR practices which they prompt can be seen as a fruitful approach, given that credibility can be guaranteed.

Source: Authors' database

Another conclusion that can be drawn from the publication of CSR reports is that companies compete for best CSR performance. Almost every fourth company interviewed (23 per cent) and 19 per cent of the stakeholders believed that the publication of the reports leads to this kind of benchmarking and competition. Furthermore, many of those who did not agree pointed out that the “competition should be improved” and that it “would be good for learning and exchange.” Nevertheless, some critical points were also raised, the argument being that competition in the area of CSR would “reduce projects to those most publicly rewarded” and that CSR could not be ranked since each company should have its own, specific approach. These concerns were shared by some NGO representatives, who said that competition made sense only within industrial sectors. In general, however, businesses and stakeholders agree that competition in the field of CSR appears to be a promising incentive to companies to improve their CSR performance further.

#### 5.2.4 Monitoring, certification and reporting and the Global Compact

As the Global Compact does not include a verification procedure, it is argued that other institutions and mechanisms in this field play an important role for the impact of the UNGC. Despite the Compact’s high credibility, the accountability and verification of the companies adhering to it are deficient, although there is a reporting mechanism. The COPs are to be published annually by UNGC participants. As no specific format has been prescribed, the COPs vary considerably in quality. In addition, the awareness of the companies of this reporting instrument must still be regarded as very low. Even though 61 per cent of the companies included in the survey had published COPs, a mere 23 per cent affirmed that they had read other companies’ COPs. Nevertheless, the process of “naming and shaming” was mentioned as being important. In this context, it is therefore crucial to find out why a company stops communicating. If the failure to communicate is due to violations of the ten principles, the UNGC’s credibility may be seriously damaged.

To improve the UNGC’s reporting mechanism, guidelines for the standardized publication of COPs have been introduced. For instance, the Global Compact Office has published a guideline on compliance with GRI

indicators and the ten principles to encourage companies to publish their COPs in accordance with the GRI guidelines (GCO 2006b).<sup>64</sup> Companies are meant to become increasingly aware of the relevance of the COPs, since being designated “non-communicating” may have certain disadvantages. Currently, however, such pressure or even competition among UNGC companies due to the COPs appears not to exist in India at least.

### 5.3 CSR in the supply chain

Against the background of the international CSR agenda and the emergence of global supply chains, companies are increasingly challenged by environmental and social issues.<sup>65</sup> Cross-border supply chain management has become one of the key issues faced by global businesses and their suppliers.

However, when it comes to CSR, companies are not yet sufficiently aware of their supply chain responsibilities. According to the findings of this report, the dissemination of CSR practices in the supply chain and the monitoring of compliance with CSR standards still leave room for improvement in India. It remains a challenge for companies to intervene with the independent management of their business partners and to promote better CSR performance along the supply chain. CSR practices will therefore spread only if suppliers and subcontractors are included in what companies consider to be their “sphere of influence” and so adopt responsible business practices.

Furthermore, the magnitude, complexity and distribution of market power in the supply chain and uncertainty about the financial benefits of CSR are hampering the wider introduction of CSR in the supply chain. Market

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64 The fact that two of the UNGC companies interviewed thought the GRI and the UNGC were mutually exclusive frameworks reveals the lack of information on their compatibility. If reporting on CSR is to become more standardized, however, the Global Compact should encourage companies to publish their COPs in accordance with the GRI guidelines.

65 For the purpose of this report, “supply chain” means a network of facilities and distribution channels that include the procurement of materials, production and assembly, and the delivery of products or services to the customer. Supply chains range from the fully vertically integrated, where a single company owns an entire production process, to those where each link in the chain operates independently (OECD 2002, 82).



conditions and buyer-supplier relations which do not favour CSR present additional obstacles to the spread of socially responsible and environmentally friendly conduct among companies and their business partners.

While social and environmental standards are increasingly becoming a precondition for doing business with TNCs in particular, CSR is imposing new demands on SMEs, which often form part of larger companies' supply chains. The key concern for SMEs is that CSR may buttress the concentration of corporate power and corporate production in larger companies with a greater capacity to implement CSR initiatives, thus debarring small firms from supply chains (UNIDO 2002, ix, Utting 2003a, n.p.). It is crucial, therefore, that CSR supports the development of SMEs. As many of the smaller companies can reach far more people than the relatively few TNCs, CSR and the impact of businesses on society cannot spread if small and medium-sized suppliers and subcontractors are excluded.

Benefits arising from responsible supply chain management include improved customer relations, competitive advantages and long-term business sustainability, especially in the case of export-oriented companies. From the SMEs' viewpoint, additional benefits may include opportunities for partnerships with TNCs, productivity gains and added learning and innovation capacities (UNIDO 2002, ix).

In principle, the UNGC has recognized the need to spread CSR practices along global supply chains. It has urged companies to implement its ten principles within their "sphere of influence."<sup>66</sup> So far, however, the UNGC has played only a minor role in spreading CSR in Indian supply chains.

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66 A company's sphere of influence is an emerging concept in the international discourse on human rights. Various attempts are being made to clarify the term. According to the OHCHR, the "concept of the sphere of influence" is not defined in detail by international human rights standards; it will tend to include the individuals to whom the company has a certain political, contractual, economic or geographic proximity... [it] encompasses [...] the core firm's central position as the leader of its global value chain" (OHCHR (2005, 4).

### 5.3.1 Responsibility of companies operating in India for their supply chains

Stakeholders' and companies' views on companies' CSR engagement within their supply chains differ widely. While many companies claimed to be working on the improvement of CSR acceptance in their supply chains, it became apparent that they are mainly undertaking basic CSR activities, with the focus very much on labour standards. Stakeholders also criticized the companies' lack of effective monitoring of the introduction of CSR and of capacity-building measures for their suppliers.

**Box 6: The abolition of child labour as CSR**

When it came to CSR in the supply chain, companies interviewed stressed the effective abolition of child labour among their suppliers. While child labour is prohibited by the Indian constitution,<sup>a</sup> law enforcement still lags behind. Companies operating in India therefore define the elimination of the employment of child labour by their suppliers and subcontractors as a facet of responsible supply chain management and CSR which, while not exceeding the requirements of written law, goes beyond law as commonly practised in India.

Source: Authors' database

<sup>a</sup> According to Article 24 of the Indian Constitution, "no child below the age of fourteen years shall be employed to work in any factory or mine or engaged in any other hazardous employment." However, India has not ratified International Labour Organization (ILO) core Convention No 182 on "worst forms of child labour."

According to their representatives, 51 per cent of companies cooperate with their suppliers on CSR issues.<sup>67</sup> Awareness of responsible supply chain management and engagement does not differ as between UNGC companies, foreign and non-UNGC ones.<sup>68</sup>

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<sup>67</sup> It must be borne in mind that the findings of the present report are likely to convey a comparatively positive image of companies' CSR activities in the supply chain, since some of the companies interviewed play a lead role in promoting CSR in their supply chains. In many cases, companies were also far from precise in defining the ways and areas in which they cooperate with their business partners on CSR.

<sup>68</sup> Two companies mentioned that they do not cooperate on CSR with their suppliers, but that they do collaborate on certification and submit them to safety audits. They also

The main focus of companies claiming to cooperate with their business partners on CSR is the elimination of child labour from their supply chains. Some 30 per cent of these companies referred to the abolition of child labour in the supply chain as an important area of cooperation with their business partners, while 20 per cent referred to health and safety measures and only 10 per cent to environmental CSR measures. While only one private company referred to its anti-discrimination clauses, half of the Indian UNGC public-sector undertakings (PSUs) mentioned that they expect their suppliers to comply with legal regulations and certain labour conditions. Indian PSUs generally try to pass on to suppliers their non-discrimination clauses and rules on the reservation of jobs for women, scheduled castes, scheduled tribes and other backward classes and disabled persons.

As regards mechanisms for monitoring suppliers, there appears to be no systematic approach, only sporadic measures taken by some companies. Only one company said that it conducted audits of its suppliers. Fifteen per cent of companies claim to monitor their suppliers' compliance with what they agreed to do when signing their contracts and codes of conduct, although the regularity, focal areas and level of their monitoring activities were not specified. A further 15 per cent of companies cooperating with their suppliers on CSR undertake random inspections or surprise visits. Yet these companies, too, were not very precise about the level and regularity of their inspections or about the areas covered.

In contrast to companies, stakeholders generally took a more critical view of the way in which companies monitor compliance with CSR standards. It was claimed that most companies limit their responsibility to non-binding guiding principles or rely on their suppliers to sign a code of conduct or contract, without actively monitoring compliance. The perception that cooperation on CSR and monitoring activities in the supply chain remain quite weak was further confirmed in an interview with an SME, which claimed that its business partners (mainly TNCs) never asked for anything in terms of CSR. It was also claimed that companies screen only the first level of subcontractors, while the worst conditions prevail at the level of

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cited the promotion of dealers' certification on environmental issues. Another two companies referred to special CSR projects with their suppliers: one company has started to work on CSR with the top five of its 9000 suppliers. Another company mentioned its commitment to persuade all its suppliers to join the UNGC by 2009.

the second and further links in supply chain. One interviewee felt that much will be achieved if companies monitor their supply chains down to the second or third level of suppliers.

**Box 7: Contract labour as an escape route for responsible corporate conduct in India**

In India, contract labour has become a widespread phenomenon. As a result of the strict rules laid down in the International Labour Act, Indian companies have had difficulty dismissing employees at times of economic downturn. To counter fluctuations in their orders, companies have reacted by outsourcing some of their production processes to home-based contract labourers. Contract labourers in the informal economy do not enjoy the protection and benefits specified in trade union agreements, in labour law (except for the minimum wage) and in voluntary standards. Contract labour therefore becomes a loophole that enables exploitative industries, the violation of labour rights and pollution to flourish.

Source: Authors' database

Apart from their cooperation and monitoring activities, only 25 per cent of the companies said that they were actively taking additional measures to spread CSR throughout the supply chain. These included guidance for business partners, training for their employees and specific financial support for suppliers. One company said that it was trying to raise awareness of the business case for CSR among its suppliers.

### 5.3.2 Barriers to and driving forces for the wider dissemination of CSR in the supply chain

As regards the dissemination of CSR in the supply chain, it is widely recognized that the broader adoption of CSR is being prevented by barriers due to the very nature of the supply chain. They include a lack of awareness of the financial benefits of CSR, the magnitude of market pressure and constraints caused by buyer-supplier relations.

- *Nature of the supply chain:* The size and complexity of a supply chain and a company's position and market power within the chain are potential barriers to the spread of CSR practices. Firstly, the ability to or-

ganize social and environmental responsibility in a supply chain is severely limited by the international diversity of business partners and supply chain operations. Furthermore, the considerable number and variety of suppliers and subcontractors makes it difficult for companies to diffuse CSR and to monitor compliance in the supply chain (Stephan 2004, 39 pp.). Secondly, a company's buying power very often turns out to be a precondition for the spread of CSR among its business partners. If a company's purchases account for only a small portion of a particular supplier's output, the buyer may have very little influence on the supplier's operations. Suppliers may even have more power than the company itself, which makes it difficult to demand socially responsible and environmentally friendly conduct (OECD 2002, 85).

- *Financial and cost barriers:* While larger companies may be aware of the business benefits of CSR, smaller companies often know nothing about them or may not be able to build a strong business case (UNIDO 2002, ix).<sup>69</sup> In addition, companies introducing CSR face high initial costs. A lack of financial resources represents a special barrier for the many SMEs forming part of larger companies' supply chains. These SMEs very often have to bear the costs of introducing CSR or of certification without any financial or capacity-building support from their customers.<sup>70</sup>
- *Market pressure and market constraints:* Downward pressure from competitors and competitive disadvantages are further reasons why standards remain at a low level.<sup>71</sup> This frequently imposes on suppliers conditions in terms of price and delivery schedules which limit their ability to improve their own CSR performance (OECD 2002, 85).

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69 This may be due to the fact that Indian SMEs lack the valuable direct relationships with consumers in the OECD countries which would enable them to obtain reputational benefits (UNIDO 2002, ix).

70 In addition to these barriers, UNIDO (2002, ix) reports that lack of access to technology, environmentally friendly materials, credit, information and training may become a general barrier to social and environmental improvements in the case of SMEs.

71 In the SME context one stakeholder pointed out that hitherto there had been no competition among large companies for the best diffusion of CSR practices in India. However, competition among SMEs to become part of large companies' supply chains was a crucial factor.

- *Buyer-supplier relations:* CSR practices prevail only if the quality of business relations allows. However, many businesses rely on short-term contracts with suppliers and change suppliers frequently. In such businesses, promoting CSR activities along the supply chain leads to costly frictions. Suppliers cannot be sure that orders from companies will be sustained once they have introduced higher standards. Dependable long-term relations with suppliers are therefore a compelling precondition for the diffusion of CSR in the supply chain (Stephan 2004, 39 ff, OECD 2002, 85).

In addition, specific barriers confront SMEs:

- *Lack of understanding of CSR:* UNIDO reports that Indian SMEs often have an inadequate understanding of CSR. Small suppliers of large companies in particular perceive CSR as an extra burden or the imposition of western codes (OECD 2002).
- *Lack of network structure and involvement:* SMEs also lack the network structure and power to influence governments and are not involved in setting local standards and integrating them into local working conditions (UNIDO 2002, ix).

Besides these barriers, companies have also gained benefits from doing business with suppliers and subcontractors when the latter adopt high standards of business conduct and demonstrate commitment to those standards through their business practices. Apart from the financial benefits of the business case outlined in Chapter 5.1, responsible supply chain management contributes to improved customer relations, better purchase options and long-term business sustainability (UNIDO 2002, OECD 2002).

International trade is an important push factor for standards, and CSR seems to “pay off” especially for companies operating in global markets. As a result of integration into international markets, even less export-oriented enterprises have begun to adapt their CSR standards. Customer proximity and consumer pressure stimulate a course of action which turns suppliers into strategic business partners. As part of their risk management, lead firms will then demand that their suppliers and subcontractors comply with social and environmental standards (OECD 2002, 87).

Furthermore, a UNIDO representative confirmed that some Indian SMEs that generally have a greater understanding of the local context and are

more firmly rooted in local communities are already practising some kind of social responsibility. Apart from pressure exerted by buyers and cost advantages, their CSR practices arise mainly from their owners' personal values, norms and entrepreneurial practices. Further incentives and benefits accruing from the introduction of CSR may include better alignment with consumer concerns, improvements in productivity and improved capacities for learning and innovation (UNIDO 2002, ix).

### 5.3.3 The Global Compact's role in fostering CSR in the supply chain

In 2003, the UNGC addressed this issue by organizing a policy dialogue on supply chain management.<sup>72</sup> The meeting assessed how better to translate the UNGC's principles and especially social issues into corporate practice throughout the supply chain. Participants mentioned that, while the role of monitoring was emphasized, the importance of capacity-building measures was neglected. As regards collaboration between companies in the area of CSR, participants expressed the need for collective company action. They also stressed the legal obstacles and called on governments to enforce existing legislation and adopt new regulations to meet international standards (O'Brien 2003).

Although the term leaves room for individual interpretation, the UNGC asks companies to implement its principles within "their sphere of influence." Many companies aware of their supply chain responsibilities are willing to include their suppliers and subcontractors in their understanding of the term. Asked about their understanding of their "sphere of influence," 41 per cent of the Indian private UNGC companies,<sup>73</sup> 33 per cent of the stakeholders, 20 per cent of the foreign UNGC companies and 17 per cent of Indian public UNGC companies included in their interpretation their business partners in the supply chain.

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72 The Policy Dialogue on Supply Chain Management and Partnerships took place at UN Headquarters in New York on 12-13 June 2003. For further results see Summary Report of Supply Chain Management Sessions (O'Brien 2003).

73 Figures for Indian private UNGC companies take account of various statements by companies of the TATA Group. As the TATA Group has a fairly extensive code of conduct for its suppliers, it is assumed that the Group tends to have a greater awareness of its supply chain responsibilities.

However, the UNGC did not in general have any substantial impact on companies' responsible supply chain management. Only two companies confirmed that, owing to the UN's and UNGC's credibility, they had achieved a better standing with their suppliers. While in these cases the UNGC had facilitated the abolition of child labour in the supply chain, 13 per cent of the companies did not in any way perceive the UNGC as a relevant instrument for supporting the diffusion of CSR in the supply chain.<sup>74</sup> In contrast, the majority of stakeholders and companies surveyed agreed that the Global Compact can and should play a more prominent role in accelerating the spread of socially responsible and environmentally sustainable corporate conduct.

As regards the general dissemination of responsible supply chain management, some of the interviewees expressed critical opinions, which could be considered a point of departure for defining the UNGC's role in strengthening CSR in the supply chain:

- *Insufficient awareness and dissemination of supply chain responsibilities:* A criticism voiced by a variety of companies and stakeholders was that companies in India still lack awareness of CSR in general and of their sphere of responsibility for business partners in particular. Many of them perceive the supply chain as a separate system and view responsible supply chain management as a side issue. In turn, supply chain responsibilities have in very many cases yet to be linked to the overall goal of the business strategy.
- *Partnerships and cooperation between companies and their business partners leave room for improvement:* Some of the stakeholders said that companies either do not or have only just begun to collaborate with their suppliers.
- *Lack of public pressure where suppliers fail to meet standards:* According to one stakeholder, companies that have been caught and penalized for violations in their supply chain are among India's ten largest.

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74 They argued either that the role of disseminating CSR practices is played solely by individual companies or that the UNGC serves only as a framework and not as an implementing tool. Others were sceptical about the UNGC's capacity to move the issue forward, since it was perceived as a small movement, which has only just begun.



- *Sector-wide CSR approach needed:* As a single enterprise may not have enough power to impose CSR, companies felt that CSR practices can be sustained only if they are introduced on a sector-wide basis.

With regard to ways in which the UNGC could specifically help to diffuse CSR in the supply chain, companies and stakeholders interviewed mentioned the following:

- It should draw up further guidelines and strengthen its networking activities (at national level) and so address supply chain issues and provide for knowledge-sharing.
- It should provide capacity-building and training for suppliers.<sup>75</sup>
- It should help with the monitoring process by taking awareness-raising measures.
- It should require SMEs to use less demanding tools and encourage larger companies to adhere to more challenging standards (regarding reporting, for example).

## 5.4 Public policy and CSR

Given the limitations of current CSR approaches, it is important to consider that achieving responsible business behaviour does not rest solely with companies. In countries where laws governing human rights, labour standards, environmental protection and anti-corruption are enforced effectively, business can rely on the government's intervention to ensure that companies and their subcontractors comply at least with local law. Yet in a country like India, where such laws exist but are not enforced effectively, the question of whether companies meet these legal requirements or not is much more difficult to answer. In the short term, businesses can help to address this situation through voluntary efforts and in partnership with governments and others (OECD 2002, 81).

However, CSR should not replace the role of democratic governments in establishing regulatory frameworks for the benefit of society (OECD 2002, 72). Governments need to assume their roles as regulators and legal en-

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<sup>75</sup> In this context see also Chapter 4.

forcers: the implementation and enforcement of laws and regulations are essential if competitive markets are to be created, the environment protected and human rights safeguarded.

Apart from its mandating role, public policy can stimulate companies' CSR engagement by providing the private sector with incentives (facilitating), by approving and supporting instruments for strengthening CSR (endorsing), and by collaborating more effectively on CSR with companies, multilateral agencies and civil society (partnering).

In this context the UNGC is an instrument which has the potential to accelerate policy change and to help restructure the role and conception of business in society. In India, however, the UNGC has hitherto played a fairly weak role in fostering these processes.

#### 5.4.1 Driving forces of and constraints on public policy

In taking on an active role in the promotion of CSR, public policy is, on the one hand, driven by various facilitating external factors while, on the other hand, having to contend with several internal constraints on engagement. These driving forces and constraints become most apparent in the areas of international policy processes, trade and investment promotion, maintenance of minimum standards, partnerships and civil society demands (World Bank 2002, 20).

For trade and investment promotion, the key driving forces are access to export markets responsive to CSR-friendly products and the attraction of foreign direct investment. Yet these opportunities are constrained by a "lack of capacity to equip domestic industry to meet CSR-related export requirements [and] a lack of understanding on the link between public sector interventions on CSR and economic competitiveness" (World Bank 2002, 20).

The maintenance of minimum standards by public policy can be driven by the demand from businesses and civil society that penalties be imposed for malpractices. However, public policy agencies often lack the capacity to enforce compliance with regulations.

In India, this is primarily due to weak governance structures, badly affected by corruption. Studies conducted by the Centre for Social Markets

(CSM) and Transparency International (TI) find endemic corruption in public-sector agencies to be one of the most serious problems (CSM 2001, 25). In Transparency International's corruption perception index (CPI) India ranks 88th of 158 countries surveyed (Transparency International 2005).

In addition, the assumption that CSR engagement should be left to corporations imposes a constraint on public policy bodies in their enforcement of CSR. Five per cent of the companies surveyed confirmed that, as corporations assume responsibility, governmental bodies withdraw and reduce their activities. However, this view contrasts with some private Indian UNGC companies' and almost all public sector undertakings' assessment of the government's role in CSR. Of public-sector undertakings, 83 per cent take the view that the government is already strongly committed to CSR, whereas some private companies argue that government would be overstretched by the task of improving CSR.

#### 5.4.2 Public policy roles in the promotion of CSR engagement

Regardless of the national context, public policy can take on four key roles in the creation of an enabling environment for CSR: mandating, facilitating, endorsing, and partnering (World Bank 2002, iii), with the (private) companies and stakeholders surveyed placing the greatest emphasis on government's mandating and partnering roles.

##### *The mandating role of public policy*

In its mandating role, public policy uses "legal authority and legitimacy to permit or forbid" (Bredgaard 2003, 17). Through national legislation, public policy bodies set minimum standards for corporate performance. They include, for example, working conditions, such as a maximum number of working hours, health and safety requirements and environmental protection laws. In addition, national authorities can sign and enforce international agreements concerning labour, the environment, corporate governance and human rights, with which companies must comply. Many public policy agencies impose obligations on businesses regarding corporate governance, i.e. the disclosure of financial data to shareholders and stakeholders. Public policy can also mandate the introduction of environ-

mental management systems, compliance with certain reporting regulations and corporate contributions to communities in the form of taxes.

Of the private companies and stakeholders interviewed, the majority agreed that what was needed was not further regulations but a more proactive government approach to law enforcement and implementation in the areas of anti-corruption, protection of the environment, health care and labour standards (e.g. minimum wages).<sup>76</sup>

To promote better corporate governance practices, the Indian Ministry of Company Affairs has set up the National Foundation for Corporate Governance (NFCG) in partnership with the CII, the Institute of Company Secretaries of India (ICSI) and the Institute of Chartered Accountants of India (ICAI). The foundation focuses on raising awareness of the importance of implementing good corporate governance, on research activities, on providing inputs for future laws and regulations and on strengthening law enforcement. A further aim is to achieve compliance with international standards and practices relating to accounting, auditing and non-financial disclosure and to provide high-quality training in the area of corporate governance (NFCG 2006).

Despite these efforts, the companies and stakeholders interviewed considered the enabling environment for CSR to be rather weak. Volatile government policies, ineffective bureaucracy, complicated rules and regulations and the government's inability to rethink its role in CSR were seen as major barriers.

### *The partnering role of public policy*

As regards the partnering role, interviewees were quite emphatic in the view that public policy agencies should enter into partnerships with private businesses and civil society organizations so that they may address the CSR agenda together. Such partnership programmes can consider various topics, such as corporate governance, community development or the development of sector-specific standards. The involvement of all stake-

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76 In contrast, 8 per cent of the companies and one stakeholder called for more regulation. They specifically demanded additional health, safety and environmental laws and stock exchange regulations based on CSR and called on government to transpose certification into national law.

holders relevant to the CSR debate may pave the way for a broad and shared understanding of CSR issues, including public-private partnerships.

In the survey, 80 per cent of non-UNGC companies, 18 per cent of foreign UNGC companies, 18 per cent of Indian private UNGC companies and 24 per cent of the stakeholders<sup>77</sup> reported that they were already partnered with government institutions with respect to CSR.<sup>78</sup>

At international level, public policy bodies can partner other governments or become members of international forums set up to consider such CSR-related topics as the UNGC and Global Reporting Initiative. Within the Global Compact, they can contribute to the various network forums at international level.<sup>79</sup> They can also encourage the creation of national Global Compact networks and so reinforce the multi-stakeholder approach in the national context.

With regard to the government's role in improving CSR, companies and stakeholders surveyed pointed out that public authorities still need to open their doors and recognize business as a partner in development. Overall, the companies interviewed were interested in partnership projects with public policy agencies, although 10 per cent of the companies complained that there is room for improvement in government promotion of partnerships and specific engagement. Some other Indian companies saw partnering as a good way to spread the introduction of CSR and said that government should make the funds available while companies contribute ideas for the introduction of CSR.

### *The facilitating role of public policy*

Asked about public policy's facilitating role, stakeholders interviewed stressed more strongly than companies that public policy should provide

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77 Indian public-sector undertakings questioned about their cooperation on CSR with public policy agencies claimed that they always cooperate with government institutions.

78 The majority of companies collaborate with local public authorities. However, some companies reported that they cooperate with government authorities at state and national level. For example, they are involved in awareness-raising programmes and the development of standards jointly with the Ministries of Power and Energy and the Delhi Pollution Control Board.

79 For further information on UNDP's and UNIDO's role in promoting and fostering CSR in India see Chapter 4.

incentives for the private sector to adopt the CSR concept and to improve the social and environmental status quo. In general, as facilitator, “[public policy agencies] can stimulate pro-CSR markets by creating fiscal incentives and by applying its public procurement and investment leverage” (World Bank 2002, 5). Public policy grants tax incentives to companies that comply, or more than comply, with certain standards. Additional tax incentives can be offered to businesses that voluntarily engage in community development, invest in innovative environmental techniques and conform to reporting guidelines. When making their procurement decisions, public policy bodies can consult indicators that measure companies’ CSR performance.

In the present survey, 10 per cent of the companies and stakeholders surveyed criticized the lack of public recognition of CSR and companies’ engagement and called for more proactive encouragement from public policy. The provision of additional tax reduction and preferential procurement schemes in line with CSR indicators and UNGC membership were regarded as valuable incentives to diffuse CSR practices.<sup>80</sup> It was also said that easier access to financial resources would contribute to a more enabling CSR environment.

Public policy can also support research, awareness-raising campaigns and training. As specific knowledge on CSR is still limited in India, public policy bodies can distribute information on CSR and offer capacity-building measures to businesses, especially small and medium-sized enterprises.

From a stakeholder perspective, public policy agencies can support the engagement of civil society by defending its interests.

In India, government authorities have been involved to some extent in initiatives aimed at fostering the introduction of CSR by businesses. For instance, the Indian Ministry of Textiles was reported to have offered capacity-building relating to CSR standards to more than 7,500 company representatives. Nevertheless, joint capacity-building programmes run by

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80 In the past, the Government of India has provided financial benefits in the form of tax reductions and tax holidays for companies engaging in developmental activities. To foster the development of rural and tribal areas, it has also encouraged companies to locate their production plants in those parts of the country by offering tax reductions and tax holidays.

the government, the Association of the Textile Industry and other business associations aimed specifically at suppliers are still in demand.

Finally, as facilitators, public policy agencies can support the development of voluntary labels and certification schemes for environmentally friendly or fair trade products. The Indian government has launched quality labels for food products, electrical appliances and, most recently, gold and jewellery as a guarantee of product quality and to strengthen consumer rights. In addition, the newly established National Foundation for Corporate Governance has the mandate to facilitate CSR and the diffusion of existing labels<sup>81</sup> and certifications. However, their acceptance and diffusion has not so far been sufficiently encouraged by public policy. The National Foundation for Corporate Governance was criticized by one interviewee for its lack of commitment to certifications and audits.

### *The endorsing role of public policy*

In its endorsing role, public policy approves and backs the CSR agenda politically by advertising the benefits of CSR procurement schemes, public-sector management principles and business award schemes. The public sector itself can also engage in CSR and so act as a model.

Although some ministries of India's central government and some state governments have come up with procurement schemes that are socially responsible in terms of controlling corruption, favouring suppliers who have cleaner production processes, etc., government's responsibility for strengthening CSR through endorsement was considered less important by the companies and stakeholders interviewed.

As regards public policy's endorsing role, only some of the companies and stakeholders surveyed suggested that public policy should showcase the Indian public-sector undertakings' CSR performance as positive examples and so encourage the private sector's commitment. A further recommenda-

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81 The better-known voluntary labels in India are ECOMark (certifying compliance with environmental standards) and Rugmark (certifying that no child labour was involved in the production of carpets).

tion was that the Indian government should promote this process by introducing public award schemes<sup>82</sup> for outstanding examples of CSR.

### 5.4.3 The Global Compact's role in improving public policy on CSR

In principle, the findings of the survey have shown that public policy should play a key role in encouraging a greater sense of corporate social responsibility and in establishing a framework to ensure that businesses will integrate environmental and social considerations into their operations.

In line with this perception, the UNGC organized a discussion on public policy at the Global Compact Leaders Summit in 2004. On that occasion it was argued that the key government responsibilities are to introduce and improve standards and to provide incentives through the recognition of leaders and rewards for their good practices. It was said that governments play an important role in eradicating corruption and ensuring transparency. Finally, those attending the summit challenged governments to join the UNGC and implement the principles in such crucial areas as procurement and pension funds (GCO 2004c, 13).

Companies' and stakeholders' views on the UNGC's role in promoting and fostering CSR among public agencies varied. Five per cent of private companies and 10 per cent of stakeholders expressed any hope of little more than the soft issues being considered in a dialogue between the UNGC and public authorities. However, the majority of companies and stakeholders agreed that the UNGC should provide further impetus for governments to improve CSR. They called on the UNGC to increase awareness among government officials, especially as the UNGC and its network structures have the potential to put pressure on public policy. Companies and stakeholders urged the UNGC to promote discussion with public authorities, especially in the areas of anti-corruption, human rights, general labour issues and, specifically, collective bargaining. Companies referred to the UNGC's capacity to convene stakeholders and to advance a social dialogue that embraces experience gained in the field and brings the

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82 For further information on existing CSR awards granted by Indian business associations see Chapter 5.2.3.



UNGC's principles down to earth. This approach would encourage learning processes that might provide public authorities with additional know-how leading to better regulation.

## 6 Concluding remarks and recommendations

On the basis of the survey findings, the following chapter focuses on concluding remarks and presents recommendations for strengthening the impact of CSR and the Global Compact in India.

### 6.1 Concluding remarks

#### *The CSR agenda in India*

The CSR agenda in India is changing and beginning to follow global CSR trends: it is, for example, integrating CSR into core business processes, ensuring that CSR takes root in top management and assigning CSR responsibilities to corporate departments.

Nevertheless, as the analysis of the results has demonstrated, CSR in India has unique features. Although the Indian CSR agenda seems to be becoming more comprehensive, philanthropic patterns remain and community development is still the decisive element. For Indian companies, community development is very important since it paves the way for good relations with communities and also has an appreciable public relations effect. However, community development projects must be viewed critically since they lack transparency, the involvement of relevant authorities is questionable, and community development may conceal malpractices or violations within a company.

Indian CSR is not well balanced between internal and external stakeholders. Indian companies tend to aim their CSR engagement at external stakeholders – especially communities – rather than internal stakeholders.

However, the long tradition of CSR in India indicates – and the recent changes in the Indian CSR agenda further underline – that CSR in India has considerable potential for improving corporate environmental and social conduct.

### *The multi-stakeholder concept in India*

The multi-stakeholder concept was placed on the agenda as a consequence of the shortcomings of business self-regulation and the weaknesses of legal regulation. It calls for NGOs, business associations, governmental organizations and multilateral institutions, among others, to work together in a constructive and cooperative manner in meeting the various expectations and achieving complementary goals in the CSR process.

In India's case, the full potential of the multi-stakeholder concept has yet to be tapped. This is mainly due to two factors: firstly, there are only a few civil society organizations cooperating in the field of CSR. Any multi-stakeholder processes initiated are not therefore self-perpetuating. Secondly, Indian companies are reluctant to adopt a multi-stakeholder approach on the grounds that CSR needs to be business- rather than NGO-driven.

India's weak multi-stakeholder performance must be improved. In general, legal regulation in India is regarded as very poor, and self-regulation is not an effective or valid option from society's point of view. The Indian CSR agenda therefore needs to embrace and incorporate various stakeholders and their expectations.

### *The Global Compact as a multi-stakeholder approach to promoting CSR in India*

The study comes to the conclusion that, in India's case, the national UNGC networks are still perceived to be inactive because stakeholders unattached to business are not equally integrated into the Indian network and the activities undertaken by the latter are limited.

The multi-stakeholder forums are expected to work through the mechanisms of collective learning and knowledge-sharing by means of reporting and policy dialogues. These are highly appreciated by the Indian participants; however, their potential is not being fully exploited. Among the reasons identified are the weak structure of the Indian networks, the lack of stakeholder involvement, unclear benefits for participants and a lack of information and awareness.

The UNGC has no significant impact on companies' CSR engagement or, broadly speaking, on the Indian CSR agenda as a whole. This is due,

firstly, to the long Indian tradition of CSR, secondly, to a network perceived as being very weak, which limits collective learning, and thirdly, to what companies see as a lack of support from the UNGC.

However, the current shortcomings must be viewed in the context of the relative newness of the Indian Global Compact networks. Nearly all those interviewed expect the Global Compact and the national networks to have a positive future. As a prominent international multi-stakeholder concept, the Global Compact provides fertile ground for broadening and deepening CSR in India. Further activities therefore need to be undertaken to turn the Global Compact into a successful initiative in India.

### *The Global Compact's role in tackling major challenges to the introduction of CSR*

The Indian Global Compact networks have yet to take on their role in tackling major challenges to CSR, which is partly due to their relative newness and inadequate capacity, but mainly to the lack of engagement.

As regards the business case, companies' awareness must still be regarded as relatively limited. Despite this, the UN Global Compact was recognized as a business case in itself, since the UN is a highly reputable "brand."

Monitoring and verification were not designed to be part of the UNGC, but have been demanded by stakeholders since they are not yet widespread in India. The publication of the COP was considered a minimum requirement.

Spreading CSR along the supply chain is highly relevant in a country like India, where SMEs account for the major part of the economy. The importance of mainstreaming CSR in the supply chain and of downstreaming CSR in accordance with the leadership principle has been recognized by the Global Compact. However, the improved implementation of social and environmental standards has not received enough support from the Indian UNGC networks.

While India has far-reaching legal regulations, law enforcement lags behind. CSR partnerships between public authorities, companies and various stakeholders have not developed sufficiently. With public-sector undertakings rarely playing a role model for CSR, existing incentives to improve CSR engagement in the form of tax reductions could increase the already

strong engagement in community development. The Global Compact and the Indian UNGC network have been aware of the need to involve public authorities more closely in CSR. Practical action has yet to be taken to encourage public policy to create an enabling environment for CSR and to lend support in this respect.

## 6.2 Recommendations for strengthening CSR and the Global Compact in India

The recommendations are addressed, in particular, to the Indian Global Compact Society, private and public corporations operating in India, Indian public authorities, civil society organizations and development agencies. They focus on the following areas:

- CSR in general
- The Global Compact
- The business case for CSR
- Monitoring and verification of CSR
- CSR in the supply chain
- The role of public policy.

### *General suggestions for strengthening the impact of CSR*

The comprehensive CSR approach, which Indian companies are beginning to adopt, needs to be strengthened further. Companies should therefore

- integrate the UNGC principles and their CSR engagement into their business processes;
- anchor the UNGC principles/their CSR commitment in top management and create a specific CSR body to supervise the company's CSR engagement;
- proactively disseminate CSR throughout the company to raise awareness among employees. Such measures might include regular staff meetings on specific CSR aspects to ensure that CSR does not remain an abstract term and the development of a code of conduct to be signed

by each employee or the participation of employees in stakeholder meetings at which CSR issues are discussed.

As community development is a very important feature of the Indian CSR agenda, these projects should be aligned with a company's main business.<sup>83</sup> Likewise, to tap their full potential, community development projects need to be coherently planned, implemented and monitored, preferably in partnership with NGOs and local government.

Owing to the weakness of the multi-stakeholder approach and civil society's engagement in CSR, interaction between NGOs and companies is still rare and needs to be strengthened.

- As regards civil society in India, a stronger NGO scene is needed to give civil society a respected voice in the shaping of the CSR multi-stakeholder agenda.
- Companies should be more open to stakeholder engagement and broaden their definition of stakeholders to include NGOs other than agencies implementing community development projects.
- Development cooperation can fuel the interaction process with capacity-building relating to CSR issues and by bringing together different networks and players from both companies and stakeholders.

### *Suggestions for improving the Global Compact*

As this survey concentrates on the UNGC in India, the recommendations will focus on India's specific concerns and so have no bearing on the Global Compact Office in New York.

- The Global Compact Society (GCS) should improve its interaction with the UNGC participants by means of continual communication.
- The GCS should insist on an increase in awareness of the UNGC in India and in the number of participants so as to lengthen its reach.

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83 The following example illustrates what is meant by aligning CSR with a business: an IT company does not distribute medicine to the local population, but offers capacity-building in IT skills for chemists and computerization of stocks.

- As intended by the UNGC, the GCS should open its doors to a variety of stakeholders, including labour organizations and other civil society organizations involved in the CSR agenda.
- The GCS should improve its support in two areas to facilitate knowledge-sharing: first, it should initiate follow-up to conventions, and second, it should concentrate on specific issues (i.e. sector-wide approaches, SME concerns, diffusion throughout the supply chain) with a view to translating abstract guidelines and principles into practical and business-oriented advice on ongoing implementation.
- The GCS should further encourage companies to report their CSR activities in the required Communication on Progress format and stakeholders to oversee and comment on these reports.

To put these recommendations into practice, the resources (funds and manpower) of the GCS need to be increased. As the GCS depends on financial contributions from members, the implementation of the recommendations may be constrained and restricted. However, a merger of the IPF and GCS may have synergetic effects and increase the UNGC's impact. Technical and financial support provided by the international development community might also increase the GCS's efficiency and efficacy.

### *Strengthening the business case for CSR*

The considerable credibility and reputation enjoyed by the UNGC provide companies with fertile ground for the business case. This fact should therefore be made known to more companies.

Generally speaking, the role of the business case as a precondition for sustainable CSR engagement should be emphasized in the knowledge-sharing and collective learning forums. The exchange of best practices and experience of the business case could significantly enhance companies' CSR activities.

In particular, the relevance of efficiency gains and employee productivity can be easily understood. This is also extremely important for SMEs, which are expected to benefit in particular from information and capacity-building measures.

### *Suggestions for improving the monitoring and verification of CSR*

The existing certification and reporting schemes can be regarded as important, though not yet widespread among Indian companies. Since the publication and use of the COPs are still very limited, awareness-raising will play a major role in strengthening the reporting on CSR. As an example, the Global Compact should encourage companies to publish their COPs in accordance with the GRI guidelines.

As regards CSR awards in India, more holistic monitoring and reporting mechanisms should be used as selection criteria so that comparisons of companies' overall CSR performance can be more easily made. The whole process of monitoring, reporting and publicizing the engagement of smaller companies in particular needs to be further improved, which should be made possible with financial assistance and capacity-building measures.

### *Suggestions for the diffusion of CSR along the supply chain*

Supply chain management's awareness of CSR must still be regarded as weak. Consequently, the awareness of supply chain responsibility and the diffusion of CSR among business partners must be strengthened among companies, stakeholders and even public policy agencies.

Furthermore, companies must do more to make a greater commitment to monitoring regularly and effectively their business partners' compliance with standards. This accords with fostering dialogue and knowledge-sharing and also capacity-building and training for suppliers.

If companies adopt a sector-wide CSR approach and standardize their introduction of CSR to some extent, downward pressure from competitors aimed at lowering standards and creating competitive disadvantages can be minimized. A cooperative and sector-wide CSR approach would further help to disseminate CSR along the supply chain.

### *The role of public policy in improving CSR*

Public policy should rethink its role in CSR. In particular, public policy agencies need to accept companies as partners in development. They should acknowledge the potential of the business community's dynamic and modernizing elements, and partnerships with companies and stake-

holder organizations should therefore be fostered. International cooperation could also be more active in promoting dialogue and collaboration on CSR between companies and development agencies.

As law enforcement is said to be poor in India, public agencies and officials need to enhance their commitment to the more effective application of national regulations. To create an enabling environment for CSR, government agencies should also foster stable and transparent policies and regulations.

Where corruption is concerned, public institutions should advocate zero tolerance of all forms of corruption, and public-sector undertakings should act as role models.





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## Appendix





**Box 8: The IPF Social Code for Business**

“In recent years, the concept of Corporate Social Responsibility (CSR) has emerged as an increasingly important feature of the business philosophy. No longer is business seen as basing its decisions solely on economic criteria. Businesses is now expected to consider the ethical, moral and social impact of its actions and decisions. A corporate that is sensitive to the surroundings and to the needs and aspirations of the community in which it operates not only creates goodwill and a strong market for its business, but also helps support a sustainable neighbourhood. We list here a set of principles and standards for good corporate citizenship for voluntary adoption. Concern, understanding and responsibility are the essence of this set of principles.

The Company affirms the interdependence of its enterprise with the well-being and self-reliance of the community. This can be done by adopting an Article of Association on Corporate Social Responsibility that advocates harmonizing of economic progress with social and environmental considerations.

The Company has a specific written policy statement on CSR (social & environmental) which is in the public domain.

The Company has an explicit strategy on social and environmental issues that can be seen in the form of an Annual Work Plan mainstreamed with its business process.

The Company has included CSR as part of its corporate communications including newsletters and there is reporting on CSR in the Company’s Annual Report.

The Company has a senior executive under the Chief Executive Officer (CEO) responsible for CSR and managerial level officers tasked specifically with social and environment work. The CEO reviews the CSR programmes twice in a year.

The Company ensures equal access to employment and promotion opportunities across gender and cultures through policies and programmes.

The Company has allocated specific resources for CSR activities and has monitoring systems to track implementation process and impact.

The Company demonstrates its CSR by providing an enabling environment for employees to volunteer that includes recognition and accounting for volunteer time.

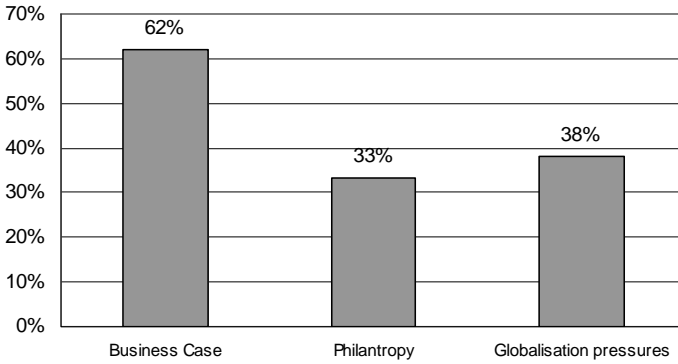
The Company is committed to document its learning experiences in terms of human achievements, contributions to the community, the learning for all stakeholders for sharing with local governments and development agencies.

The Company is also known for the partnerships it builds with various development players in the field to synergise all available opportunities to bring about holistic development of the local community.

The Companies to expand the scope of learning from each other in their role of being good corporate citizens by way of exchanging data, views, implementation procedures and even exchange of expert personnel whenever necessary.”

Source: India Partnership Forum 2005

**Figure 12: Main motivation for CSR according to the stakeholders interviewed**



Source: Authors' database

<b>Table 4: Overview of sector-wide CSR instruments</b>						
<b>Institution</b>	<b>Social</b>	<b>Envi- ronment</b>	<b>Corrup- tion</b>	<b>Human rights</b>	<b>Supply chain</b>	<b>Relevance to India</b>
<b>Aspirational Principles and Codes of Practice (no external audit or benchmarking)</b>						
UN Global Compact (UNGC)	*	*	*	***		101
Ethical Trading Initiative Base Code (ETI) (companies active in UK markets only)	***		*	***	(X)	0
Global Sullivan Principles (mainly US companies)	**			***		2
OECD Guidelines for TNCs	*		**	*		not applicable
<b>Management Systems and Certification Schemes (external audit/verification standard including professional auditor accreditation)</b>						
Social Accountability SA 8000	**		*	***		104
ISO 14000 <sup>1</sup>		**			X	879 <sup>(2003)</sup>
British Standards Institution's OHSAS 18001	**					?
Occupational Health and Safety Assessment Series						
Fair Labor Association (FLA)	**					0
Eco-Management and Audit Scheme EMAS		***				not applicable
EU Eco-label criteria (for specific products) (companies active in EU markets)	*	**				0
<b>Rating Indices (no sign-up; external audit &amp; benchmarking; no professional auditor accreditation; only for companies listed in the respective indices)</b>						
Dow Jones Sustainability Group Index (DJSI)	**	**		*	X	0
FTSE4Good Selection Criteria	**	**		*	X	0
<b>Accountability and Reporting Frameworks (i.e. no substantive guidelines)</b>						
Global Reporting Initiative Guidelines (GRI)	***	***	***	***		9
AccountAbility 1000 Series (AA1000S)	***	*	***	***		?

Source: EU Commission 2003 (\*\*\*, \*\*, \* mean extensive, average and minimum coverage respectively)

**Box 9: Questionnaire for the present survey of UNGC companies**

**CSR in general**

1. India has a long tradition of corporate social responsibility (CSR); what is your own understanding of CSR?
2. What are the most important CSR issues/areas for your company?
3. Are you engaged in community development? If so, what are the two main areas in which you are engaged?
4. Who are the partner organizations in your community development projects?
5. How are your CSR activities organized within the company? Who is responsible for CSR within your company? (CSR integrated into management system? Integration of the 10 principles? Written policy)
6. From your point of view, what challenges are there for CSR engagement? (Please name the most important!)
7. Who are your main stakeholders?
8. Do you appreciate the engagement of stakeholders in your CSR agenda?
9. Have you ever changed your CSR activities because of stakeholder pressure?

**The Global Compact and your company**

10. Why has your company joined the GC?
11. How has joining the GC influenced your CSR engagement? (internal/external, community development, 10 principles, stakeholder relationships, reporting etc.)
12. Has joining the GC changed your CSR focus?
13. Has joining the GC increased CSR awareness within your company?
14. In what ways does the GC offer you useful support for your CSR engagement?
15. To what extent do you use other GC instruments, such as guidelines and best practice exchange?

**The Global Compact and other networks**

16. Do you have any regular meetings at which you discuss CSR issues with other firms, stakeholders? If so, is it an institutionalized mechanism? What are the issues discussed and who are the stakeholders? If, not, why not?

**Box 9 continues**

17. Have you heard of the GCS or IPF? If not, why not?

18. Did you attend:

- the National Convention on Excellence in Corporate Citizenship and Global Compact in July 2004 (in Delhi – organized by GCS, FICCI),
- the National Convention on the Role of Corporates in Promoting Social Objectives through the GC (in February 2006),
- the GC regional conclave in South Asia (the first regional meeting to focus on business and poverty; organized by GCS, TATA Steel and CII),
- the GC Leaders' Summit in New York (in June 2004)?

19. How is the GC network (in India and globally) helpful to your company?

**Credibility, verification and reporting**

20. How do you perceive the credibility of the GC?

21. What advantages do you think publishing your COPs has? What risks may arise from the COPs?

22. Are you familiar with other companies' COPs? Would you say that publishing COPs leads to competition among companies for the best CSR performance? (Is that a positive incentive to improve your own engagement?)

23. Do you think further measures are necessary to ensure the GC's credibility?

24. Are your CSR measures evaluated by external agencies?

25. Are you using certifications and/or standards?

**The supply chain**

26. How do you interpret "sphere of influence"?

27. Do you cooperate with your suppliers and subcontractors on CSR?

28. What are the incentives for and barriers to the implementation by companies of the GC'S principles in the supply chain?

29. Do you think the GC could help to diffuse CSR in the supply chain? If so, how? If not, why not? (selection, monitoring of compliance, capacity-building)

**Box 9 continues**

**Public policy**

- 30. What do you expect from the government to improve CSR?
- 31. Do you cooperate with public authorities/governmental institutions?
- 32. Should the GC encourage a dialogue with public authorities on promoting CSR? If so, in what areas?

**The business case**

- 33. Do you see the business case as a precondition for your CSR activities?
- 34. Can you describe the influence of your CSR engagement on your economic performance?

**General opinion on the Global Compact**

- 35. What does CSR implementation differ between GC and non-GC companies?
- 36. How would you suggest the Global Compact should be improved in India and worldwide?
- 37. What future do you see for the GC?
- 38. Would you like to add any comments on your own experience with CSR and the GC in general in India?

Source: The questionnaire was slightly adapted for non-UNGC companies and stakeholders.