

## **Shaping Corporate Social Responsibility (CSR) in India—Does the Global Compact Matter?<sup>1</sup>**

TATJANA CHAHOUD

### **INTRODUCTION**

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 CSR initiative at global level. In the meantime, the UNGC has become the most prominent international CSR instrument. It is based on ten principles, relating to the most important international agreements in the areas of human rights, labour and social standards, environmental standards and anti-corruption (Box 1).

The main objective of this voluntary initiative is to mainstream the ten principles in business activities around the world and to achieve these goals through a multi-stakeholder network. While the UNGC is well established globally, its contribution to the strengthening of CSR at country level has not yet been assessed. As India is among those countries where the UNGC is not only highly appreciated by the large number of participating companies, but where CSR already has a long tradition, the German Development Institute (GDI) initiated an empirical survey early this year to assess the role of the Global Compact in shaping CSR in India.

Besides an extensive review of general and India-specific literature on CSR and the Global Compact, the survey is based on 70 direct interviews, the majority of the interviewees being company representatives based mainly in the industrial districts of Delhi, Mumbai, Pune, Bangalore and Chennai.<sup>2</sup>

<b>Box 1: 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.

\*The tenth principle was added in 2004.

To assess the UNGC's role in shaping corporate social and environmental conduct in India, the following issues are analysed:

- The global CSR agenda—from self-regulation to the multi-stakeholder approach
- India's CSR tradition and current trends
- The UNGC's role and prospects in India.

### **THE GLOBAL CSR AGENDA—FROM SELF-REGULATION TO THE MULTI-STAKEHOLDER APPROACH**

Against the background of rapid globalization, CSR remains high on the international agenda. And yet business

responsibility is by no means a new phenomenon. As early as the 18<sup>th</sup> and 19<sup>th</sup> centuries, businessmen's religious and ethical convictions manifested themselves in socially responsible activities in European countries as well as in India (Mohan 2001).

The general aim of the CSR approach is to motivate companies to take responsibility for problems and challenges that used to be addressed by legislation. Despite numerous initiatives to define CSR, the concept still remains very vague. As a useful reference, the survey adopted the EU Commission's understanding of CSR:

“CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing ‘more’ into human capital, the environment and the relations with stakeholders. (...) CSR 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, 8*)

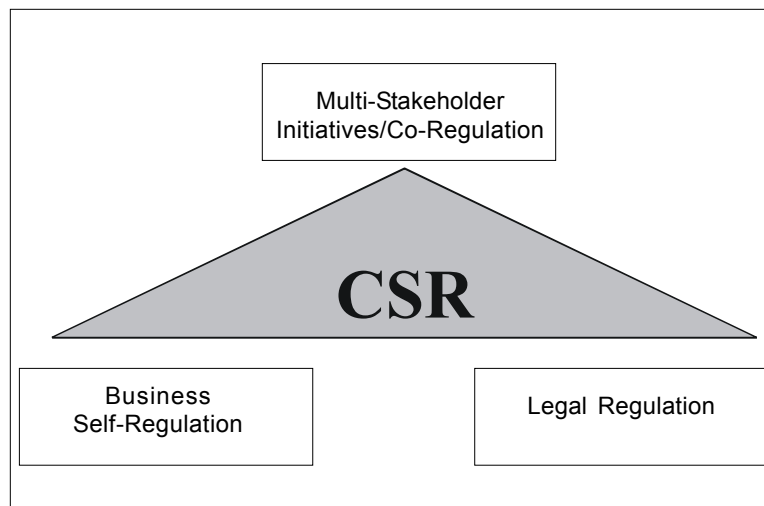


Fig. 1: CSR triangle concept

While the EU's understanding of CSR does not explicitly mention the multi-stakeholder approach, it is obvious that CSR is seen as going beyond traditional business self-regulation. The following figure illustrates the possible spectrum of CSR interaction with the various stakeholders.

In the CSR triangle, one pole comprises business self-regulatory approaches, while legal/government-centred regulation forms the opposite pole. Activities of civil society organizations and multi-stakeholder institutions interact between those two approaches.

While the global CSR agenda was largely dominated by traditional self-regulation until the 1980s, there has been a shift from the early self-regulation approach towards a gradual raising of standards since the late 1990s. In this context, CSR implementation procedures have been adopted to a greater extent by civil society organizations and multi-stakeholder institutions practising various forms of civil regulation and co-regulation. (Utting 2005, 19)

The spectrum of these initiatives is wide, ranging from such initiatives as the Global Compact to the activities of such civil society organizations as the Clean Clothes Campaign (CCC) and such other initiatives as the Global Reporting Initiative (promoting sustainability or triple bottom-line reporting) and the Ethical Trading Initiative (ETI; promoting social standards throughout supply chains), to name but a few of these global CSR initiatives with a multi-stakeholder orientation.

In general, multi-stakeholder initiatives have addressed some of the obvious limitations of corporate self-regulation and have in particular helped to increase the number of actors or stakeholders participating in consulting and decision-making processes, to harmonize standards and implementation procedures and to encourage companies to internalize social and environmental standards. These activities have led to a slight hardening of soft and non-binding CSR self-regulating activities. (Utting 2005, 3)

## INDIA'S CSR TRADITION AND CURRENT TRENDS

To understand the role and future of the UNGC in India, the country's political and economic history must be taken into account. (Mohan 2001)

During the **first phase**, i.e. in the pre-industrial period (before 1800), the philanthropy of business people in India was rooted mainly in religious belief and so closely resembled Western philanthropic approaches.

In the **second phase**, too, after India came under British rule, and particularly in the period from 1858 to 1914, CSR activities were undertaken mainly by outside companies and mostly comprised donations to temples and various social welfare objectives.

In the following period, between the two World Wars and with the advent of the independence movement, indigenous industrialization was pioneered by a few families, which grew to become business dynasties over the decades. The leaders among them were Tata, Birla, Bajaj and Lalhai. Their charity was not purely altruistic: they had a commercial interest in supporting efforts to further the country's industrial and social development and were influenced by caste groups and political objectives. This phase was also strongly influenced by Mahatma Gandhi's theory of trusteeship in consolidating and amplifying social development. At that time, Indian business leaders also became freedom fighters and social activists at national and community level. These reform programmes included activities seeking in particular the removal of untouchability, women's empowerment and rural development.

The **third phase** (1960-1980) is embedded in the paradigm of the "mixed economy". In this context, CSR was mainly characterized by legal regulation of business activities and/or promotion of public-sector undertakings (PSU). However, a high-level debate on CSR was already initiated during this period. According to this agenda, businesses were to play their part as respectable corporate citizens, and regular stakeholder dialogues, social accountability, openness and transparency were demanded. Despite these progressive

acknowledgements, the CSR approach did not materialize at that time.

Interestingly, the **fourth phase** (1980 until today) of India's CSR approach continues to be largely externally oriented, i.e. traditional philanthropic commitment and various forms of community development dominate. In recent years, however, further steps to integrate CSR into a sustainable business strategy have been observed. (UNDP / British Council / CII / PwC 2002)

According to the empirical data gathered during the GDI survey, India's CSR approach does not conform to the global agenda. The current approach still largely follows its own tradition, elements of global, mainstream CSR being only partly integrated:

In India, the **CSR multi-stakeholder approach** is rather fragmented, and interaction between business and civil society organizations, and 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. According to the empirical data, the understanding of CSR in India is not directly linked to the idea of a multi-stakeholder approach. More than three quarters of all interviewees did not mention the multi-stakeholder 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, the triangle in India takes the following form (Figure 2).

Few of the vast number of trade unions operating in the country are aware of or know much about CSR in general, notwithstanding activities to promote multi-stakeholder dialogue in this area.

The **philanthropic approach** continues to be widespread in India: While the Indian understanding of CSR shows a slight shift from traditional philanthropy towards sustainable business, philanthropic CSR patterns still dominate in many Indian

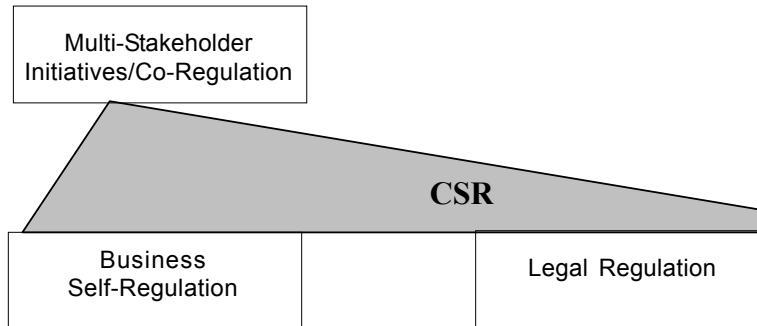


Fig. 2: CSR triangle in India.

companies. At the same time, the imbalance between the internal and external CSR dimension is still immense.

Furthermore, the Indian CSR agenda is constantly dominated by **community development activities**, particularly in the areas of health and education. While most Indian companies see their community development projects as important contributions to overcoming the existing development challenges in their region of operation, many stakeholders take a more critical view of this approach. Where community development is concerned, Indian stakeholders criticize the following aspects:

- a company's community development approach based on the argument that it feels an obligation to "give something back to society" lacks transparency and specific standards;
- community development approaches are often "shiny" projects, which 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 their business interests when engaging in community development.

## **ROLE AND PROSPECTS OF THE GLOBAL COMPACT IN INDIA**

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 in the expectation of benefiting from knowledge-sharing and networking. However, the CSR approach of the UNGC has not yet realized its full potential in India. Many companies therefore expected more support and benefit from participation in 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 trade unions. On the other hand, it has become obvious that some of the very few NGOs participating are directly linked to specific companies. According to the interviewees, stakeholder involvement is still not appreciated by all participants, since most companies adopt a self-regulatory approach.

Besides these structural shortcomings, the UNGC network as such is very weak in India. It is business-centred, its activities are rather limited, and the expected support is lacking. Interestingly, most interviewees did not even know that the networks existed or were active.

On the other hand, two networks exist in parallel, the Global Compact Society (GCS, India) and the India Partnership Forum (IPF).

As the survey showed, the GCS is a rather business-centred network. Yet the UNGC companies' awareness of the network is very low. Of the Indian GC companies interviewed, 25 per cent had not heard of the GCS, the figure increases to more



than 70 per cent of the subsidiaries of foreign companies. Among stakeholders the awareness of the GCS is equally low.

The IPF is not directly aligned with the UNGC, but has its own social code for business to operationalize the UNGC principles. However, awareness of this network is still lower than that of the GCS.

### **THE UNGC MECHANISM FOR COLLECTIVE LEARNING AND KNOWLEDGE-SHARING**

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

The survey also showed that many companies do not communicate with the UNGC<sup>3</sup> and that participants are not informed of conventions which are held. In contrast to the UNGC requirements, almost 50 per cent of Indian companies do not report through Communications on Progress (COPs).

Among the reasons for not communicating, companies usually referred to time constraints and the fact that they derived no benefit from drawing up COPs. Furthermore, stakeholders pointed out that, as a rule, companies are willing to discuss only soft issues and do not want to share hard and more controversial issues with other stakeholders.

### **THE UNGC'S INFLUENCE ON COMPANIES' CSR COMMITMENT**

Overall, the survey revealed that the UNGC does not have a significant impact on companies' CSR commitment. This is due, firstly, to the long Indian CSR tradition, secondly, to the very weak network, which limits collective learning, and thirdly to what companies perceive as a lack of support from the UNGC. As a result, their CSR activities still focus more on traditional

community development and such standard CSR areas as social and environmental issues, rather than on human rights and anti-corruption.

For most companies, joining the UNGC has had no impact. The empirical findings show that the limited influence on CSR commitment 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 exchange of best practices, half of the companies interviewed received some support while the rest did not receive any. This situation was mainly attributed to the inactive role of the UNGC in India. Irrespective of the UNGC's limited influence and support, the survey shows that it enjoys high credibility, since it is an international initiative linked to the UN and especially to Secretary General Kofi Annan.

Among the most important suggestions made by companies and stakeholders for the improvement of the UNGC's role in India are the following:

- extending its reach through the inclusion of more companies (particularly SMEs) and additional stakeholders
- providing better support and information (e.g. more simple reporting guidelines and support for capacity-building in 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).

## **CONCLUDING REMARKS AND RECOMMENDATIONS**

The CSR agenda in India is in the process of transformation. According to the empirical survey, while traditional philanthropic approaches are still widespread, CSR activities in India have begun to conform to global trends, by integrating CSR into core business processes and assigning CSR

responsibilities to corporate departments, for example. However, this reform is proceeding rather slowly and will take time.

While the CSR multi-stakeholder approach is gaining ground at global level, business self-regulation is still dominant in India. This manifests itself in two ways: firstly, very few civil society organizations and almost no trade unions are 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 is limited to involvement in the latter's implementation of community development projects. This background and the widespread inactivity of the UNGC network in India explain, why the UNGC's potential has yet to be fully exploited. To enhance the role of the UNGC in India and to tap its potential fully, the following activities are needed:

- The Global Compact Society India should take initial steps to replace the widespread business self-regulation in CSR with a real multi-stakeholder approach.
- The structure of the UNGC networks should be strengthened by activities to improve cooperation between the Global Compact Society and the Indian Partnership Forum (IPF).
- Civil society organizations, including trade unions, should be assisted to strengthen their capacities so that they may participate in the setting of the CSR agenda.

## **NOTES**

<sup>1</sup> This article is based mainly on an empirical survey carried out in India by the GDI from mid-February 2006 until the end of April 2006. The study group was headed by the author and included five participants: Johannes Emmerling, Dorothea Kolb, Iris Kubina, Gordon Repinski and Catrina Schläger; the final version of the GDI survey is about to be published.

<sup>2</sup> The empirical survey is based on 39 interviews with companies, 21 stakeholder interviews, including business associations, and 11 background interviews; the companies comprised three specific groups:

Indian Global Compact companies, Global Compact companies from foreign countries (a majority having their headquarters in Germany) and Indian non-Global Compact companies.

<sup>3</sup> A company's performance has to be published in an official document like the annual report and linked as a Communication on Progress (COP) with the UNGC website.

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**LIST OF ABBREVIATIONS**

CCC	Clean Clothes Campaign
CII	Confederation of Indian Industry
COP	Communication on Progress
CSR	Corporate Social Responsibility
ETI	Ethical Trading Initiative
GCS	Global Compact Society (India)
GDI	German Development Institute
IPF	India Partnership Forum
NGO	Non-governmental organization
PSU	Public Sector Undertaking
PWC	Price Waterhouse Coopers
UN	United Nations
UNDP	United Nations Development Programme
UNGC	United Nations Global Compact