

Corporate Social Responsibility in India, Policy and practices of Dutch companies

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Chapter

1

Introduction

1.1 __ Background

In recent times, the issue of corporate social responsibility (CSR) has been given a lot of attention by both Dutch business and various stakeholders. Since the advisory report of the Sociaal Economische Raad (“Social Economic Council”, advisory board to the Dutch government) “De Winst van Waarden” (“The Profit of Values”) it is broadly acknowledged among government, business and stakeholders in the Netherlands, that CSR is not about charity, but that it belongs to the core business of a company and therefore should be an integral part of doing business. Companies are under increasing pressure from society to take their social responsibility. This is especially so if it concerns companies with a business relation in a developing country, since these companies are more confronted with CSR issues.

CSR is a container concept which encompasses many different ecological, social and economic issues. In order to give a more specific interpretation to the concept of CSR a platform of Dutch NGOs has composed a so-called CSR Frame of Reference. Aim of this framework is to give companies a coherent overview of what NGOs define as CSR. The Frame of Reference is mainly based on international treaties, guidelines and instruments enjoying broad international support that are relevant for business, such as human rights, labour rights, environmental protection, consumer protection, socio-economic development, corruption and other aspects of CSR. It also includes some fundamental operational aspects of CSR like supply chain responsibility, stakeholder involvement, transparency and reporting and independent verification.

In order to validate the CSR Frame of Reference in an international context, the India Committee of the Netherlands (ICN or Landelijke India Werkgroep in Dutch) has initiated a project on corporate social responsibility by Dutch companies in India. ICN has asked CREM BV (Consultancy and Research for Environmental Management) to perform the research in the Netherlands and PiC (Partners in Change) to perform the research in India. CUTS (Consumer Unity and Trust Society) has commented on the Frame of Reference, this report and organised the workshop in India.

The project was financed by the Netherlands Ministry of Housing, Spatial Planning and the Environment (VROM) and the Dutch Interchurch Organisation for Development Co-operation (ICCO).

1.2 __ Objective

The objective of the project was twofold:

1. Analyse to what extent Dutch companies with direct activities, a supply chain or investments in India, have developed a policy on Corporate Social Responsibility (CSR), to identify good practices and potential bottlenecks in the implementation of such policy and to support companies in finding practical solutions.
2. Initiate a debate between companies and different stakeholders in the Netherlands and India on CSR in the Indian context and on the roles that different actors could play in the implementation of a CSR policy.

The project focuses on positive examples and on (potential) bottlenecks and dilemmas which companies (may) encounter in India when they implement CSR principles in their business. The project aims to make the CSR Frame of Reference operational by looking at the practical implications for companies. This project discusses the boundaries of the responsibility of companies. This can give insight to what extent companies can implement the standards of the CSR Frame of Reference and where other actors such as governments and NGOs can or should play a role. As benchmarking is not an objective of this research, the findings on the companies have been kept anonymous.

Together with Dutch and Indian stakeholders, this research intends to identify practical solutions, e.g. by means of good practices. This approach is chosen to shed light on the Indian perspective on CSR in terms of practices of selected companies and stakeholders which have provided insight into such practices.

1.3 __ Approach and Methodology

The project is divided into three phases. This report contains the results of Phase 2. Phase wise the different components and methodology are described:

Phase 1: Definition

- Establish a steering group
- Make the CSR Frame of Reference operational (see paragraph 1.4)
- Define the target group (see paragraph 1.5)
- Identify relevant stakeholders (see paragraph 1.6)

On the basis of its network ICN approached several NGOs and several ministries to participate in the steering group. This resulted in the following composition of the group: Ministry of Housing, Spatial Planning and the Environment, Ministry of Foreign Affairs, Ministry of Economic Affairs, Amnesty International, Centre for the promotion of imports from developing countries (CBI), FNV (federation of trade unions), ICCO (Interchurch Organisation for Development Co-operation), Milieudefensie (affiliated to Friends of the Earth), Novib (affiliated to Oxfam), and SOMO (Centre for Research on Multinational Corporations). The selection of the companies (target group) took place on the basis of a list of the Dutch embassy with Dutch companies operating in India and on information provided by SOMO about important sectors of imported products

from India. ICN consulted several Dutch and Indian NGOs to make a further selection of companies and to identify the relevant stakeholders.

The CSR Frame of Reference was made operational by CREM, ICN and SOMO and for the Indian context by PiC.

The results of this phase were communicated to the steering group.

Phase 2: Analysis

- Inventory of CSR policy
- Interviews in the Netherlands and India
- Analysis of CSR policy and practice
- Interim report

The inventory of the CSR policy took place by means of a written survey (by CREM) among 40 Dutch companies that operate in India. Subsequently, interviews were held with a selection of nine companies in the Netherlands (by CREM), with their daughter companies or suppliers in India and with a large number of relevant stakeholders in India (by PiC).

This report contains the analysis of the CSR policy and practice of Dutch companies operating in India. The interim report has been discussed by the steering group.

Phase 3: Stakeholder discussion

- Workshop in India
- Workshop in the Netherlands
- Final report

The two workshops had the objective to present the findings of the research, initiate a debate between companies and stakeholders on CSR in the Indian context and formulate recommendations and follow up activities to overcome barriers with respect to the implementation of a CSR policy in India.

The workshop in India took place on 21st November 2003 in Mumbai. CUTS invited a selection of the daughter companies and stakeholders that have participated in the survey and/or the interviews as well as a broader body of stakeholders.

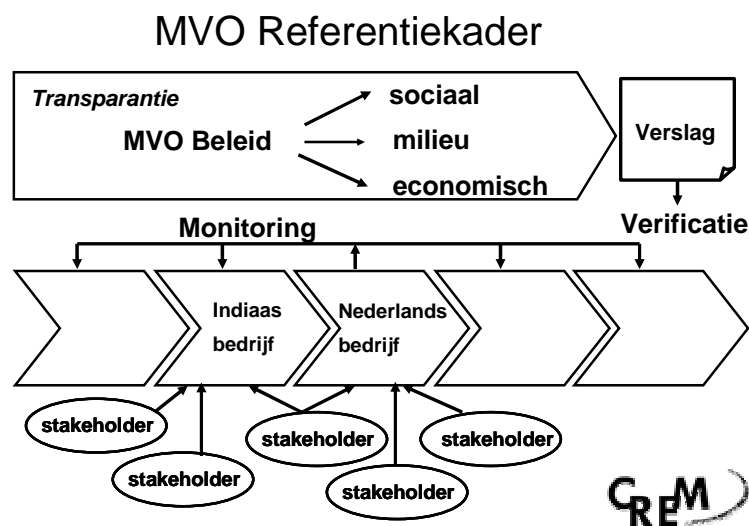
The workshop in the Netherlands took place on 12th December 2003. ICN invited the Dutch mother companies who participated in the project and a broad selection of stakeholders.

The results of the workshops are also incorporated in this report, see chapter 6.

1.4 __ Framework

The analysis of the CSR policy and practice of Dutch companies took place on the basis of the CSR Frame of Reference, developed by a platform of Dutch NGOs. The CSR Frame of Reference is not so much used in this project as an instrument to judge the behaviour of companies, but more a framework of understanding and a point of departure for the dialogue between stakeholders. The principles in the Frame of Reference are to a large extent derived from state obligations, like international treaties and agreements. This is reflected in the formulation of the principles: while some can be looked upon as standards directly applicable to companies (e.g. in the field of labour rights), most principles are formulated as open norms and need further elaboration to clarify their implications for the responsibility of companies (an example of such open norm is: "Companies should do whatever they can to promote human rights in those countries where they operate").

The following figure shows the main elements which are incorporated in the CSR Frame of Reference.¹



An interesting and important element of this project was to explore and discuss the limits to the responsibility of companies operating in the Indian context within the light of the principles incorporated in the CSR Frame of Reference.

It should be born in mind that it was not an objective of this project to give a qualifying opinion on the CSR Frame of Reference as such but to learn to what extent companies are able to implement these principles and where other actors such as governments and NGOs should play a role.

In order to achieve this objective it was necessary to make the CSR Frame of Reference operational. This was done in the following way:

¹ The English version of the CSR Frame of Reference can be downloaded from <http://www.mvo-platform.nl/mvotekst/CSR%20frame%20of%20reference.pdf>

- The project team decided not to develop an audit tool, considering the fact that there are already many audit tools and since benchmarking was not an objective of this project. The choice was made to identify measures how companies can implement the CSR standards incorporated in the Frame of Reference in their business activities. These measures are partly derived from existing international conventions and standards, like ILO Conventions, OECD Guidelines, Global Compact, Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, SA 8000, codes of conduct of individual companies and sector organisations and practical experiences of ICN, CREM and SOMO. The measures mentioned are not meant to be exhaustive.
- The environmental chapter is supplemented with principles derived from, among others, Life Cycle Analysis methods.
- The chapter on operational CSR aspects is transported from the end to the beginning of the document, since this chapter contains norms which should be taken into account before and during developing a CSR policy. One aspect is added: instructions on how to develop a CSR policy.

The CSR principles which are included in the CSR Frame of Reference are, for the benefit of this report, divided into four CSR aspects: operational principles (on how companies can give account for their actions), social, environmental and economic sustainability.

OPERATIONAL CSR ASPECTS

1. Development of CSR policy
2. Supply chain responsibility.
3. Stakeholder involvement.
4. Transparency and reporting.
5. Independent verification

SOCIAL CSR ASPECTS

Human rights

Companies:

1. do whatever they can to promote human rights in those countries where they operate. In areas of conflict, where gross violations of human rights occur, extra care should be taken with respect to honouring basic human rights.
2. investigate the impact of any business operation on a given country's human rights situation before launching business activities there.
3. include an explicit reference to the Universal Declaration of Human Rights of the United Nations or other international human rights treaties in a code of conduct (with respect to both employees and all members of the community in which the corporation operates).

National sovereignty and local communities

Companies:

ensure respect for the national sovereignty and local communities

Labour

Companies:

1. respect and ensure the freedom of association and right to collective bargaining.
2. do not engage or support the use of forced labour.
3. contribute to the abolition of child labour.
4. do not discriminate with respect to employment and occupation.
5. ensure security of employment.
6. ensure a living wage.

7. ensure occupational health and safety.
8. respect maximum number of working hours.
9. provide training.
10. guarantee handling of complaints.
11. provide timely information on reorganisations and the right to collective discharge and redundancy schemes.
12. do not use the threat to transfer the operations of the company to other countries as a means for influencing the negotiations with trade unions or employees.
13. do not use double standards.
14. employ and train local staff as much as possible.
15. enable worker representatives to negotiate and confer with decision makers.

Consumer protection

Companies:

1. ensure access to essential goods and services.
2. ensure the right to safety, with respect to:
 - a. physical safety
 - b. safety and quality of consumer goods and services
 - c. food, water and pharmaceuticals
3. ensure the right to information.
4. ensure the right to choice in the market place.
5. ensure the right to be heard.
6. ensure the right to obtain redress.
7. respect the right to consumer education.
8. promote sustainable consumption.
9. respect the right to privacy.

ENVIRONMENTAL CSR ASPECTS

Companies:

1. respect the principle of preventive action.
2. support a precautionary approach to environmental challenges.
3. rectify environmental damage as a priority at source.
4. respect the principle that the polluter bears the environmental costs.
5. promote greater environmental responsibility.
6. encourage the development and diffusion of environmentally friendly technologies.
7. contribute to the preservation of biodiversity.
8. reduce energy use.
9. limit or alter material use.
10. reduce water use.
11. limit emissions.
12. reduce waste.

ECONOMIC CSR ASPECTS

Contribution to development

Companies:

1. contribute to equal access to health facilities.
2. contribute to access to basic food, housing, sanitation and sufficient safe drinking water.
3. contribute to education and access to information with respect to essential health problems in de community.
4. promote respect for other socio-economic rights, like the right to work, social security, maternity leave, to take part in cultural life.

Corruption

Companies:

1. do not offer, nor give in to demands to pay bribes to public officials or employees of business partners.
2. do not demand bribes to obtain or retain business or other improper advantage.

Fair competition

Companies:

1. conduct activities in a competitive manner.

Taxation

Companies:

1. contribute to public finances of host countries.

Science and technology

Companies:

1. transfer S&T in order to contribute to the development of local and national innovative capacity.

A next step was to make the Frame of Reference fit for the Indian context. PiC and CUTS contributed to this by giving input on the issues which play a specific role in the Indian context. A selection of their comments is the following:

General

- Most striking finding was the fact that Indian NGOs are of opinion that community development constitutes an important element of CSR, which is contrary to the perspective of Dutch NGOs which maintain that community development is mainly charity and should be looked upon separately from the CSR responsibility of companies. The former opinion seems to be shared by Indian daughter companies which were all to some extent involved in initiatives concerning the community. See also chapter 5.
- PiC indicated that Indian stakeholders, in general prefer the European approach of persuasion and exchange of know-how and aid because it is more effective to accelerate the process of social development and solving problems such as child labour, than imposing sanctions which is mainly the approach of American companies and stakeholders.
- There is a need for foreign companies to disclose key information to the Indian public about their environmental, labour and human rights practices, especially since current trends are conferring unprecedented rights to multinational corporations operating in India. In this context reference is made to the Emergency Planning and Community Right to Know Act in the United States, which requires companies to disclose basic information about their practices including toxic releases and air and water pollution.

Social sustainability

- Implementation and enforcement of labour laws is very low in India. There is a lot of corruption and minimum wage is often not paid. Reference is made to a decision of the Supreme Court of India on forced labour which seems to be stricter than the ILO Conventions, since it ruled that work at less than the minimum wage can also be regarded as forced labour. This can have implications for companies not adhering to the legal minimum wage.
- In the Indian context sexual harassment in the workplace is an issue which needs special attention. It is not explicitly mentioned in the CSR Frame of Reference.

- Furthermore, in the Frame of Reference no attention is paid to the impact the marketing of a (western) product can have on the Indian society. The introduction of a consumer society into the Indian society will lead to change of consumer patterns, which might have negative side effects, e.g. if toothpaste is marketed as necessary product, this might lead (poor) consumers to shift from food to “luxury” western products, while there might be a good traditional substitute.

Environmental sustainability

- Indian legislation pays little attention to the conservation of biodiversity.
- Reference is made to several initiatives by Indian institutions to stimulate environmental friendly practices among the industry. Among others, a partnership on voluntary pollution control by the Indian Ministry of Environment and Forests together with the industrial sector, the Energy Efficient Initiative by the Indian Chamber of Commerce, the Indian Ecomark and the Clean Technology initiative by among others the Confederation of Indian Industry. These initiatives may also be of significance for Dutch companies operating in India.
- The Indian government needs to install economic stimulating instruments to adopt environmental friendly measures.
- Conservation of environment is partly the responsibility of the government and partly of companies.

Economic sustainability

- CSR implies also a large need for investments in the host country. This element is not incorporated in the CSR Frame of Reference.
- The high corruption index has a negative impact on the Gross Domestic Product of India.
- Multinational companies may increase the dependency on external sources of technology supply. The government should develop a role of network supporter or organiser to ensure transfer of technology.
- There should be a greater emphasis on clean and eco-friendly technologies with zero toxicity and zero environmental impact. Focus should be on the concept that one industry’s pollutant is another industry’s raw material. An instrument to achieve technology transfer could be Engineering Research Centres, which would require participation and long-term commitments from the industry, the user organisations and the government agencies.

Most of these comments were also brought forward by the interviewed companies and stakeholders and will be dealt with more elaborately in the following chapters.

1.5 __ Target group

The project focuses on Dutch companies with direct activities (daughter companies, joint ventures or services), a supply chain or investments in India. On the basis of a list provided by the Dutch embassy in India 40 companies were selected. Several criteria were relevant for the selection of companies:

- A variety in size of the company. Both large Multinational Corporations (MNC) and small and medium sized enterprises (SME).
- A variety of business sectors (in order to bring forward sector specific problems).
- A variety of CSR issues that are expected to be relevant for the company in question (in order to get deeper insight into the CSR aspects relevant for the Indian context).
- The importance of the company for the Dutch and Indian market.
- The perception of Dutch NGOs on the CSR behaviour of the company in general.

This resulted in a selection of 40 companies active in 19 different business sectors varying from food and food processing to energy, ICT, car-parts, fishery, tourism, vegetable seed production, financial services, spices, leather, chemicals, consumer electronics, flowers, dredging, ship breaking, pharmaceuticals, stone cutting and jewellery.

The following table gives an overview of the type and number of companies which responded to the survey and interviews. It shows that from the 40 companies in total 21 companies provided information on their CSR policy and practice. From these 21 companies nine companies participated, together with their Indian daughter company or joint venture, in the interviews.

Type of response in survey	Number and size company	Business sector
Filled out survey or provided CSR information either by mail or phone and/or participated in interview	10 SMEs, 11 large	Agricultural products/fishery/spices/spices/leather goods/banks/seeds/food processing/food processing/chemical industry/consumer electronics/ICT/energy/energy/tourism/car industry
Company could not be traced or no contact possible	6 SMEs	Jewellery/ agricultural products/ biotechnology/ food processing/ stone cutting/ flowers
CSR information not public	1 SME	Agricultural products
No interest, no time	6 SMEs, 1 large	Shipbreaking/dredging/ICT/flowers/tourism
No business anymore in India or relatively small	1 SME, 4 large	Agricultural/pharmaceuticals/dredging/ energy

Please note: In this report we speak of MNC when we refer to large companies. Most of the large companies involved in the research are quoted on the stock market. The distinction in this report between SMEs and MNCs is formally not correct. SMEs are companies with one to 250 employees. In the context of this report only the employees of the company in the Netherlands are taken into account. So a small company with many daughter companies abroad will be taken into account as a SME even though worldwide it may employ more than 250 persons. Multinational corporations are companies with daughter companies in more than one country. In the context of this report the term is only used for the large (well-known) MNCs, even though most SMEs also have daughter companies in more than one country and should formally be referred to as MNCs as well. The distinction between large companies and SMEs is made to place the findings of the report in some sort of context, since no company names are mentioned.

1.6 Selection of stakeholders

In order to obtain an objective view on the practice of the Dutch companies in India, PiC conducted interviews with several stakeholders per company. Although the intention was to only interview two stakeholders per company, PiC decided to approach more stakeholders when they felt this added value to the findings.

PiC selected different types of stakeholders: NGOs active in the field of human rights, environment or social issues, trade unions, suppliers, middle-men, sub-contractors and research institutes. Some stakeholders were actively involved with the company (like suppliers and trade unions). Others provided general CSR information on the business sector (NGOs, research institutes). These choices were made on the basis of the proximity of the stakeholders and the business. Small companies have closer relationships with marginalised stakeholders (small farmers, contract labour). Large companies have more influence on the industry sector as a whole. Thus

representative views could be better obtained by making a choice for marginalized stakeholders in the case of smaller companies and for industry-knowledgeable stakeholders for larger companies. Therefore, PiC preferred in the latter case to identify stakeholder organisations who do not necessarily have a direct relationship with the company.

This mix made it possible to get a broader view on the CSR dilemmas which the business sector faces as a whole, but did not always give insight into the CSR practice of the specific Dutch company.

1.7 __ Limitations

It is important to stress several limitations of the research method used for this project:

- The project focuses on the whole range of CSR issues with respect to a broad selection of business sectors. Since the project is limited in time and resources, it was impossible to perform an in-dept research into all these aspects for all business sectors.
- Per business sector only one company is interviewed. It would be quite bold to draw general conclusions on business sectors on the basis of one company. This can only be done with the greatest caution.
- The information gathered is based upon discussions with companies and stakeholders and there has been only a very limited process of verification by PiC and CREM to check on what has been told.
- In order to obtain cooperation of companies, it was decided to make the selection of companies anonymous. This makes it however impossible for outsiders to use company specific information for further action.
- The fact that companies participate in the project is an indication that they are interested in CSR. In general these are the companies that are already active on CSR or, at least, show a degree of transparency. It is therefore very likely that the findings in this report give a too positive image of Dutch companies in general.
- The response to the survey was very low. Only one-third of the companies either returned the survey or provided general information on their CSR policy. Some commented briefly by phone. The reason for this low response was either no time, company could not be traced, company stopped its activities in India. Another reason given was that the Dutch company does not interfere with the business of the company in India, and therefore that company should be approached. This means that the findings in this report are based upon information of only a limited number of companies.

Taking these limitations into account it is important to stress that the findings in this report should be considered as “loose” observations. It is not possible to draw general conclusions regarding the CSR policy of Dutch companies with activities in India.

1.8 __ Report structure

This report follows the structure of the operational CSR Frame of Reference. This makes comparison between the findings of the research and the CSR principles in the Frame of Reference easier.

Chapter 2 contains the findings on and analysis of the operational aspects, chapter 3 deals with social CSR aspects, chapter 4 focuses on environmental CSR aspects, chapter 5 is on economic CSR aspects, chapter 6 describes the output of the workshops in India and The Netherlands and chapter 7 contains the conclusions and recommendations.

2

Operational CSR aspects

2.1 __ Definition

The term 'operational aspects' is derived from the CSR Frame of Reference. It refers to the following principles which a company should adhere to in order to fulfil its social responsibility and to give account about its practice:

- Development of CSR policy
- Supply chain responsibility
- Stakeholder involvement
- Transparency and reporting
- Independent verification

The following paragraphs describe the findings with respect to these principles.

2.2 __ Development of CSR policy

2.2.1 __ Definition of CSR

Terminology

CSR is not a common term. One large company prefers sustainable development or sustainable business. Several Indian companies talked about responsible business or Triple P (People, Planet, and Profit).

Dutch and Indian perception of CSR

It is important to note that Indian companies and stakeholders give a broader definition of CSR than Dutch companies and stakeholders. According to an Indian company:

“Sustainable development implies optimizing financial position while not depleting social and environmental aspects and CSR implies supporting issues related to children, women and environment”.

This company refers in its definition of CSR to community development. In the Western context community development is often seen as charity. In the Indian context it is seen as a large responsibility of a company, not only by stakeholders but

also by the local Indian management. The background of this is that stakeholders see the large western companies as capitalist islands in a developing country. This position gives them a certain responsibility towards the community. Most Dutch companies leave room to their Indian daughter company to develop initiatives in this field; sometimes they have a special fund. All kinds of initiatives are developed by the interviewed Indian companies, many times bottom up initiated by the employees.

2.2.2 CSR policies of Dutch companies

The survey and interviews demonstrated that CSR is only to a limited extent integrated in the policy of Dutch companies. Indeed, large MNCs all have formulated a CSR policy which they make public. But CSR is not at all institutionalised yet in SMEs. This finding confirms once again the need to get SMEs more involved in CSR initiatives. In fact, in The Netherlands several initiatives in the field of CSR are already focussed on informing and involving SMEs. The research gave some insight in the reasons behind the distinction between the CSR approach of MNCs and the aloof attitude of SMEs:

Resources

Most MNCs have appointed staff specifically responsible for CSR issues. Some have established formal procedures to incorporate CSR aspects into their business activities. SMEs do not have the manpower or financial resources to have a separate CSR coordinator. Of many interviewed SMEs it was the managing director who did CSR related issues 'on the side'. A couple of SMEs indicated that CSR has no priority in their company. The lack of resources also limits the possibilities of SMEs to obtain expertise in the field, since – different from MNCs – they have less capacity to participate in discussion forums and attend conferences related to CSR.

Rational for CSR policy

Most MNCs consider CSR to be an essential part of doing business. They gave several reasons why they developed a CSR policy:

- Reputation (especially important for companies quoted on the stock exchange, because reputation enhancement can contribute to maximising long term share holder value)
- Licence to operate
- Project opportunities (a CSR policy can be a prerequisite for public-private partnerships)
- Requirements of clients (see below)

SMEs have a limited view on CSR. To SMEs CSR is a moral responsibility to take good care of their personnel. A few SMEs indicated that CSR policies are part of their value statements. In general SMEs consider CSR issues to be the responsibility of governments.

The following statements demonstrate this distinction:

- “Long-term shareholder value is built on two main pillars: performance and reputation. A good reputation is therefore a core asset to our bank. It is our licence to operate and grow. We succeed only for as long as we enjoy public approval. Our licence to operate is therefore clearly not a formal banking licence. It is a licence given to us by our audience. It is the sum or the result of perceptions of all our stakeholders” (Large MNC).

- “Companies are in the first place focused on commercial activities and efficiency. To me it is sufficient that the way we do business in India feels responsible.” (SME)

Focus

SMEs are primarily concerned with quality. They only seem to be interested in CSR if it affects the quality of the product. In this context it is important to note that more and more CSR aspects become part of the quality concept, e.g. food safety. Quality improvement may be an important element to stress when demonstrating the business value to SMEs.

CSR definition

MNCs generally define CSR as Triple P: People, Planet and Profit. It depends partly on the business sector which aspects are more developed. E.g. industrial companies give more emphasis to environment.

Those SMEs which have a CSR policy, have formulated a very limited policy, e.g. a tour operator only formulated an environmental policy statement. Those SMEs without a formal policy do mention respect for environment, but more in the sense of obvious in-company measures (light-off when leaving the room, separate waste collection) and adherence to legal obligations in the field of environment.

Transparency

Most MNCs realize the importance to be transparent on their business activities and their CSR policy (more findings on this aspect in paragraph 2.5). SMEs are quite reluctant to be transparent on their policy. Most companies which did not send any information in the survey were SMEs. Illustrative is the following response:

“Yes, we do have a policy regarding social and environmental aspects of our activities, laid down in a code of conduct. It is a public document but it is only public to our suppliers and customers.”

Public pressure

NGOs mainly focus on large MNCs. SMEs however appear to be just as sensitive for public pressure, but as long as SMEs do not feel public pressure to get more active on CSR, changes will be very limited.

Requirements buyers

The main concern for SMEs is fulfilling their clients' requirements. According to most SMEs their clients are only interested in product quality and price. The difference with large MNCs might be explained by the fact that MNCs control a much larger part of the value chain², sell higher volumes to clients and are more likely to face pressure.

Business sector

The business sector in which a company operates affects the CSR policy of a company equally for small and large companies. Implementing an integral CSR policy appears to be more difficult in sectors with a so-called 'no-nonsense' culture, as was confirmed by a chemical company and a producer of car parts. These companies may be far advanced concerning their technical environmental practice, but give little attention to social issues.

² According to Porter's Value Chain System the goal of the activities that constitute a value chain is to offer the customer a level of value that exceeds the cost of the activities, thereby resulting in a profit margin.

A fish-processing company answered in response to the survey merely that it does not have a CSR policy. Taking into account that this industry has a large CSR impact, both environmentally and socially, stakeholders should pay more attention to also pressure these lagging companies, with a 'no-nonsense' attitude, to adopt a CSR policy.

2.2.3 Development of CSR policy

The operational CSR Frame of Reference mentions several aspects which play a role in the development of a CSR policy.

Assess CSR risks

This seems to be the first logical step to develop a CSR policy: companies should assess which CSR risks are at stake with respect to the company's activities, its supply chain, the country and the region where it operates. CSR assessment should also relate to the impact of the marketing of the product on the local market (see also paragraph 3.4).

Activities

It is not clear to what extent companies perform CSR impact assessments of their production processes and their products, because not so much information is obtained on this issue. It seems that companies that have not formulated a CSR policy have, among others, refrained from doing so because they are not aware of, or possibly ignore, the CSR risks at stake. For companies that do have a CSR policy the development is a continuous process, many times initiated by public pressure or requirements of clients.

Several examples of good practice were found:

- One large MNC makes use of environmental, social, health impact assessments of the World Bank. On the basis of these assessments recommendations are made on whether or not and how to take part in a project.
- After negative publicity with respect to one of its financing activities a bank decided to involve NGOs on CSR aspects because it needed external expertise. One could argue that it should have involved these NGOs beforehand but this incident gave rise to develop a CSR policy on other investment areas as well.

Supply chain

CSR aspects related to the supply chain will be discussed in paragraph 2.3.

Country and region

None of the companies has developed a country specific CSR policy. The corporate values and principles which are defined at the headquarters are guiding. However, everyone acknowledges the need to take into account local culture and needs. Therefore the management of the daughter company is free to develop further initiatives at local level.

The involvement of daughter companies in the development of the CSR policy seems to be quite limited still. Some daughter companies attribute this to the fact that they have not been located in India for such long time yet. Input from the daughter companies seems necessary in order to be able to continuously improve the CSR policy. Some Dutch companies do involve their daughters in sharing best practices. This is mostly done in the context of a sustainability report.

Vice versa, daughter companies only rarely involve the mother company in CSR dilemmas. Mother companies also see CSR issues at their daughter companies as the primary responsibility of the local management. The daughter can be held accountable afterwards if the situation is not taken care of properly. Although it seems reasonable to put responsibility there where the decision has to be taken, it may give rise to problems since it is not always clear which (part of the) company is responsible for which CSR issues:

- One stakeholder of a large MNC noticed that too much pressure from the mother company may have the effect that the local staff will give in too easily to local demands just to portray an 'everything is going on fine and on time' kind of scene to their superiors.
- Due to high wages paid by the contractor of a MNC, migrant workers (i.e. from a different state within India) are able to lure local girls into temporary relationships which caused conflicts with the local population. Such sensitive issues could be discussed within a company. (stakeholder of large MNC)

Involvement stakeholders

Involvement of stakeholders is not only relevant for the development of the CSR policy, but also for the continuous monitoring and evaluation of the CSR policy. Stakeholder involvement will be discussed in paragraph 2.4.

Formulate an action plan with goals and priorities

It seems that most MNCs intend to focus on those CSR issues which have the largest impact on society.

A bank indicated that it can obtain more environmental benefit by incorporating environmental criteria into its investment policy than by taking in-company measures. It therefore gives priority to incorporate CSR criteria in its investment policy.

2.2.4 Formulation of CSR policy

Most of the MNCs have a CSR policy which is incorporated in a public document (called business principles or values, or code of conduct). Those SMEs which state they have a CSR policy usually have not incorporated it in a public document, or have formulated a brief statement.

Most codes of conduct are formulated in general terms. None of them contain explicit commitments. They are formulated as guidelines, intentions. Taken from the reactions of companies two possible explanations for this are:

- According to companies it is impossible to cover all CSR aspects for all situations. Companies find it necessary to maintain a flexible approach, since CSR has to be tailor-made. Therefore the CSR principles need to leave room for interpretation. It is a continuous development or as one company stated:

"One could talk about a sustainability journey with everyone in search of the right way."

One can question this approach since a mix of 'hard' standards and open standards is certainly possible, e.g. a company can decide not to do business with the weapon and/or tobacco industry, or refrain from certain polluting activities.

- Companies fear the legal implications of explicit commitments. Some companies state that their code is no contract.

"Our Business Principles are a clarification of what we are prepared to be judged on by our audiences, although they are not a contract."

One can question if companies can persist this statement. Some legal experts in the Netherlands have expressed the opinion that codes of conduct do have legal implications, although up till now the legal status of these codes has not been established in court yet. It is thinkable that companies demonstrating their dilemmas through manuals or dialogue with stakeholders run less risk to be held accountable for those aspects by stakeholders, since they keep the dialogue going.

Several MNC have developed manuals to explain their CSR principles to personnel and public. This gives more clarity and transparency on the commitment of the company towards its stakeholders and should be encouraged. It is also a transparent way for a company to discuss its dilemmas in the field of CSR.

2.3 __ Supply chain responsibility

2.3.1 __ Introduction

The research showed that certain factors, either internally connected to the company or externally, can be a barrier for companies to implement supply chain responsibility. Within the context of this project the first are called business factors and the second external factors.

2.3.2 __ Relevant business factors

1. *Place in the chain*

A company at the end of the production chain is much more confronted with requirements of retailers than a company at the beginning of the chain. It is likely that the company at the end of the chain will feel more compelled to fulfil its responsibility in the supply chain.

An industrial company in the middle of the chain was very concerned with its supply chain responsibility and is involved with product stewardship³. It found it hard to fulfil its responsibility since its products (semi-finished products) are used for many different consumer products which makes it almost impossible to control all life stages after delivery (e.g. install take back system, or make recycling and/or reuse of product possible).

2. *Business sector*

- In the food sector supply chain responsibility is much more evolved on the aspect of consumer protection. This is due to increased requirements of large supermarkets in the field of food safety.
- In the agricultural sector, where labour conditions and environmental issues in India give sufficient rise for CSR awareness, there seems to be little attention from both the Dutch mother company and the Indian company for CSR in the supply chain. Most of these companies work through a middle-man who has the actual contact with the farmers. The companies do not instruct him on CSR (apart from

³ Product stewardship is a product-centered approach to environmental protection. Product stewardship calls on those in the product life cycle--manufacturers, retailers, users, and disposers--to share responsibility for reducing the environmental impacts of products.

food safety and quality aspects), and consider CSR to be the concern of the middle-men and the farmers. They consider their own responsibility to be very limited.

One Indian daughter acknowledges the environmental benefit of drip irrigation, but is of opinion that it cannot do more than encourage its middle-men to promote it at his farmers. According to this company implementation depends on the financial ability and the progressive nature of the farmers.

In the tourist sector the supply chain is very distinct from other industries since the company provides its product (tours) solely through contractors and subcontractors.

According to a tour operator monitoring of CSR compliance by its subcontractors is nearly impossible. The company takes CSR into account only in an implicit way and on an ad hoc basis: namely by building up long term relationships with subcontractors and creating mutual trust, by using the expertise of guides and agents on the country when setting-up the tour, by creating a complaint procedure. This brings certain risks along, as may be proven by the fact that the agent of this tour operator in India is of opinion that CSR in the supply chain is not his responsibility.

- A bank indicated that its supply chain responsibility has a very distinct nature than that of companies e.g. in the clothing industry. While the latter “only” has to look at the CSR issues relevant for its own sector, banks are involved with many different sectors (and many different CSR aspects) due to their financing activities. Banks consider this one as their largest challenges, since their financing activities and the supply chains behind that can yield much more CSR benefit than in-company measures.

3. *Size of company*

While several MNCs are working on product stewardship, SMEs are less involved with supply chain responsibility. This can partly be contributed to the fact that a small company has limited possibilities to exercise control within the supply chain. Furthermore, SMEs consider supply chain responsibility to be a matter of trust towards their suppliers. This attitude can easily be explained if one considers that in general their number of suppliers is limited and they usually have a long time relationship. Above that, it is also a matter of insufficient pressure from their clients and stakeholders. Furthermore, SMEs feel mainly responsible for good quality of their product and less for the production process through the chain and select their suppliers therefore on the basis of expertise and compliance with relevant EU product legislation. Interviewed Indian suppliers confirmed this.

4. *Relation with company in India*

The Dutch companies have more impact and communication on CSR if the business relation is a daughter company than if it is a joint venture. But, as mentioned under paragraph 2.2.3, even in the relation mother-daughter company it is not always clear which part of the company bears the final responsibility to solve a certain CSR problem in practice.

The interference of the Dutch company with the CSR aspects of the activities of the business relation is even less if the activities are outsourced by the Indian partner. There is a strong tendency among these Indian companies to keep labour intensive operations out of their ambit. This has an impact on the scope of responsibility that these companies want to account for. This tendency is seen both among companies belonging to large MNCs as among small companies.

5. Pricing

The price paid for a product influences the working conditions at production sites of suppliers.

An example of good practice:

One Indian company ensured CSR in its supply chain by paying their suppliers well. They have clear terms and conditions for their suppliers. This company performs audits on vendors with regard to pension fund, safety measures, hygiene, wages, and has checks on its dealers on corruption and pricing. (Note: this statement of the company has not further been checked with suppliers).

An indicated bottleneck:

According to a stakeholder of a large MNC the bad conditions in the supply chain of tea are at least partly due to the price fall at auctions. These auctions are said to be neither transparent nor fair, since they are allegedly influenced and manipulated by MNCs.

The core of the dilemma companies face with respect to supply chain responsibility was illustrated well by one stakeholder:

“Subcontracting is an obstacle to solve CSR issues, but is critical to be competitive. The question is how much responsibility does the primary employer have? To say that the responsibility stops at the primary production unit is incorrect. You need to go below to next levels. Responsibility for each and every aspect of the supply chain has to be taken by the big guys. The buyer has the pressure role.” (Stakeholder of large MNC)

2.3.3 External factors

Also external factors influence the implementation of supply chain responsibility:

1. Requirements buyers

Supermarkets at the cheaper segment do not have CSR requirements for their suppliers. According to the suppliers of agricultural foods the consumers who buy in these supermarkets are only interested in price. These supermarkets are less subject to public pressure.

2. Public pressure

NGOs tend to focus more on large and well known companies than on smaller companies. This is logical since this generates more publicity and has more immediate impact. The in-active attitude of the SME sector, also towards their suppliers, can partly be explained by the absence of public pressure. Several SMEs indicated that it is the responsibility of governments to ensure good working circumstances and respect for the environment in the supply chain, among others by means of proper legislation and law enforcement. Therefore, to make the SME sector aware that CSR is not only an issue for large companies, they need a stimulus from the public.

Consumer attention can also influence small companies, which can be illustrated by the fact that even companies which do not have a(n explicit) CSR policy and no measures taken with respect to supply chain responsibility, make one exception, which is for child labour. Focussing on one issue appears to be a good strategy to use. However, it may also contain the risk that companies put their effort only on that single issue.

Although several companies mentioned that the focus of Dutch NGOs on child labour is too one-sided, most companies indicate that they explicitly inform their daughter/joint venture and their suppliers that they do not tolerate child labour. Apparently these companies want to avoid the risk of being associated with child labour.

3. *Role of government*

Business conditions differ between western and non-western countries, which to a large extent is due to the role of the government. Companies indicated several bottlenecks in India related to the role of the government.

- Many companies see poor law enforcement in India as a major bottleneck to properly implement CSR aspects into the supply chain (and their own daughter).
- Also between non-western countries conditions differ, e.g. in the leather sector a shift takes place from India to China, because, among others, government interference in China is less than in India which makes im- and export easier.
- Many Dutch SMEs mention that they are only accountable for compliance with local legislation. It is the responsibility of the Indian government to ensure that the CSR conditions in the production chain improve.

2.3.4 Implementation of CSR in supply chain

The research did not demonstrate many examples of good practices of implementation measures to ensure supply chain responsibility.

1. *CSR standards in contract*

The attitude of MNCs towards their business partners and suppliers is quite ambiguous. On the one hand they incorporate CSR standards in the contract or attach their code of conduct to the contract. On the other hand they consider it to be the primary responsibility of their business partners to solve their own CSR dilemmas. The impact of these contracts is limited: these contracts do not seem to have the intention to impose CSR standards on the suppliers, but are seen as a guarantee in the interrelation with the business partner to fulfil these standards in their own production facilities. This implies that these contracts do not provide a guarantee for supply chain responsibility.

- One MNC indicated that they do not require their business partners and suppliers to sign their business principles but that they have to enable the company to adhere to its principles, e.g. in a specific project. This is quite something different from requiring your suppliers to fulfil the same standards.
- According to an interviewed Dutch supplier of a chain of retail shops the latter does not impose any CSR requirements on its supplier, even though it attaches its code of conduct to the contract.
- A bank providing funds to a project stated that its responsibility for CSR in this project is limited, since it only facilitates the project.

SMEs do not incorporate CSR requirements in the contracts with their suppliers. An exception is made for child labour which some companies explicitly exclude.

2. *Supply chain initiatives*

Some large MNCs participate in supply chain initiatives with suppliers and buyers, like training of partners, product stewardship, sharing and advising on best practices. These initiatives seem to be limited. Some sector initiatives also involve supply chain aspects, like the initiative of the sector organisation of Dutch tour operators to develop and implement a product-oriented environmental management system.

3. Selection of suppliers

SMEs mainly rely on a selection of trustworthy business partners and suppliers and discuss CSR issues, if at all, mostly in an informal way, e.g. in meetings or in response to complaints from consumers. Their selection criteria are more based upon expertise and quality. An example of good practice:

One company (with no formal CSR policy) takes into account ethical considerations in the selection of business partners, in two ways:

- Discussions with potential partners.
- Inquiring with other companies and governments (e.g. the Dutch business support centre in Chennai).

Several MNCs mentioned that they have cancelled contracts with suppliers because they did not enable them to adhere to their business principles.

The Indian daughter of a Dutch bank mentioned that it performs ethical checks on its suppliers.

4. Other methods

Other methods to promote CSR in the supply chain could be by providing information on the CSR policy to suppliers and subcontractors, e.g. by providing documentation or information on the website, by providing training, etc. This is often a formality, like is illustrated by the following example:

Indian agent of Dutch tour operator is not informed on the CSR policy of the tour operator. It only receives the quarterly magazine, which contains information on the CSR policy, but this magazine is in Dutch.

2.3.5 Monitoring and auditing by the company in the supply chain

Within the supply chain especially monitoring and auditing⁴ of the CSR performance of the suppliers seems to be a major bottleneck:

- Monitoring is difficult if the company has a lot of subcontractors.

Tour operators often work with local agents who have subcontracts with bus drivers, hotels, restaurants, etc. The tourist sector in the Netherlands has initiated the development and implementation of a product-oriented environmental management system for all tour operators. Developing procedures for monitoring formed the major bottleneck. According to tour operators it is impossible to monitor all subcontractors in all countries and therefore they use more implicit methods, like expecting from the guides to be their ears and eyes in the field. Its new environmental management system does not contain monitoring measures.

- Dutch retail shops with codes of conduct do incorporate this into contracts with their suppliers but do not seem to perform any monitoring and auditing operations. One can question what is the value of attaching codes of conduct to contracts if no monitoring and auditing takes place. The incorporation of CSR aspects into contracts with suppliers might become nothing more than window-dressing. An example:

A Dutch producer delivers leather garments to a large chain of Dutch retail shop which has incorporated its code of conduct into the contract. According to this producer the retail shop does not perform any auditing and does not impose CSR requirements on the producer. This is quite surprising taking into account the environmental and social impact of tanneries in India, the social conditions in stitching units, and the fact that the producer does not have a CSR policy and does not monitor its supply chain. The research in India showed that conditions in the supply chain of this company are not all in line with CSR standards (e.g. insufficient protection measures for personnel and mal functioning effluent plant).

⁴ See paragraph 2.6 for an explanation of the terms 'monitoring' and 'auditing'.

- Companies with well-know brands seem to be more concerned with monitoring and auditing in the supply chain, perhaps because they receive more public attention.

An Indian research institute indicated that in the leather sector one can see a tendency among many large marketing companies of branded leather products to require their suppliers to conform to a minimum work environment and facilities for workers. This is monitored through social audits of factories and only if found satisfactory further commercial terms are discussed.

- Many companies mentioned they have a lot of trust in their partners, since they take into account reputation and size when they select their suppliers.

“We only work with the reputed 100 dealers from a total of about 1000”.
 “Our customers are into best practices. They are the big reputed companies and do not want to get into issues that could lead to being disrepute.”

Examples in recent history however show evidences that reputation and size of a company are not always a guarantee for being a good company, e.g. the Enron affair in the United States and the Ahold affair in the Netherlands.

- When there is external pressure for compliance, e.g. from governmental organisations or NGOs, companies generally become more concerned with monitoring and auditing of their suppliers. This is especially so for the large companies with well-known brand products.
- Taking into account that most Indian companies do have inspections with respect to their suppliers on compliance with relevant product legislation and on quality, it seems legitimate to question the (alleged) inability to monitor and audit compliance with CSR standards.

Companies are very diverse in the implications they attach to non-compliance by the supplier:

- Some enter into a dialogue with the supplier.
- Some indicated that they decide to no longer prolong the contract (e.g. tour operator with respect to agent).
- One indicated that it gives penalties to suppliers if they do not comply with agreed CSR standards, although it is not clear what these contain.
- Several large MNCs see cancellation of the contract as the ultimate means (no examples given, since it concerns confidential information).

2.4 __ Stakeholder involvement

2.4.1 __ General

There is a big gap between large companies and SMEs with respect to stakeholder involvement in the development of the CSR policy and its implementation. Large companies are much more involved with stakeholders than SMEs, both on the initiative of stakeholders and also pro-actively. Several explanations can be given for this:

- A quite obvious explanation is that public pressure mainly focuses on the big players in the field.
- MNCs are a step ahead in the development of their CSR policy and consider public support for their policy as essential to ensure a future in the country:

“Within the fences of the company we take full responsibility and outside the fences of the company our responsibility is one of proper dialogue.”

- Most SMEs have no CSR policy. On top of that, they see their buyers as their most important stakeholder and are less concerned with NGOs.

2.4.2 Approach towards different stakeholders

Employees

Those companies having a CSR policy (written down or informal) communicate these aspects to their employees. Companies use different methods for internal communication on CSR:

- Management manuals (most large MNCs)
- Training
- Meetings in which the mission statement is shared and discussed with employees
- Management conferences
- Internal newsletters

With respect to the daughter companies in India, many companies focus their communication on the management. This is quite logical from a practical point of view, but it incurs the risk that staff at the local level does not absorb the CSR policy in the same spirit as intended by the mother company.

The involvement of daughter companies, let alone its employees or other stakeholders, in the development of the CSR policy seems to be quite limited still. Some daughter companies attribute this to the fact that they have not been working in India for such a long time yet. SMEs in general do not instruct their employees on CSR. Communication takes place on an occasional basis. Involvement of the daughter company appears to be a bit larger in companies which publish a sustainability report. These companies also share best practices. The fact however that none of the interviewed companies developed a country specific CSR policy may be seen as an indication that the involvement of the daughter company in general is very limited.

Several companies indicated that they do not have a positive impression of Indian trade unions and therefore preferred not to get involved with them. In nearly none of the interviewed companies a trade union was present.

The non presence of trade unions in companies possibly limits the input of employees in the development of the CSR policy of companies, even though a large part of this CSR policy has a direct impact on employees.

NGOs and other representatives of society

All interviewed large MNCs have a pro-active attitude towards NGOs in The Netherlands. They have initiated some sort of dialogue with NGOs and mainly act on it when they are under pressure. All companies in India, even the SMEs, indicated that they are regularly approached by local NGOs and representatives of the local community to contribute to community development. SMEs are willing to participate in such projects, but find it difficult to find trustworthy partners. Large MNCs, also their daughters, usually have a more pro-active approach towards their stakeholders, but apparently do not engage in dialogue with all. It is not clear on which basis they make a selection:

“One daughter company of MNC has selected a few NGOs to engage in their social development program. It only dialogues with those NGOs which have partnered with the program and has never had a dialogue with NGOs who are advocating CSR, environment, human rights and labour issue in order to capture these organisations’ critical views.” (stakeholder)

Some discrepancy exists between the motives of the mother company and the Indian daughter company to involve stakeholders. While mother companies encourage stakeholder involvement as a means to obtain a licence to operate in the host country, stakeholder involvement is taken up by daughter companies to obtain short time peace. According to one stakeholder (consultant to a large MNC) the staff of the daughter companies is under pressure to show the corporate management (of the mother company) that things are under control.

Large MNCs run the risk to become subject to pressure of community leaders who are only concerned with personal material benefits. In order to countervail this against these leaders, the stakeholder suggests that companies use institutional mechanisms that have community participation or help to develop such mechanisms.

Several MNCs expressed criticism towards the role of NGOs in their dialogue with companies:

- The most heard complaint was that many NGOs are single issue oriented which implies that they do not always focus on those CSR aspects which, according to the company, have the largest impact on society.
- NGOs sometimes seem to be more concerned with media attention and are not always constructive in their cooperation.
- One stakeholder mentioned that some representatives of local communities are only after their own gain and try to take advantage of the willingness of companies to engage with local community. Companies should therefore seek to use institutional mechanisms to ensure community participation.

Governments

The research hardly uncovered examples of companies involving the Dutch or Indian government or governmental institutions in their CSR policy.

- One company involves the Indian embassy when it is confronted with corruption.
- Another had a partnership with the municipality of Mumbai.

Companies, however, did express expectations towards governments in the field of CSR.

- The Dutch government should ensure a level playing field, by persuading laggards to adopt CSR into their policy, and, according to one large MNC, even at last resort by means of legislation.
- Legislation should be unambiguous, transparent and stimulating. Companies did not support this statement with examples in India.
- The Dutch Government should create one institution which is responsible for an industrial zone, instead of many different institutions.
- Legislation and law enforcement in India should improve.
- Law enforcement, corruption and bureaucracy are major bottlenecks in the Indian context.
- Governments should give guidance with respect to political sensitive issues (see also paragraph 3.2).

- The Dutch government should have a facilitating role by contributing to international system of legislation and rules, e.g. make good arrangements within the OECD and assist business in this.

Sector wide initiatives

Sector wide initiatives are another way of stakeholders' involvement, namely by improving CSR conditions in the sector and sharing of best practice with other companies.

The number of sector wide initiatives on CSR seems to be the largest in the banking sector. More and more banks are adopting CSR criteria in their investment policies, to a large extent under public pressure, but also to limit the investment risks. Since competition is high, banks prefer sector-wide initiatives which enable them to create a level playing field.

The involvement of the interviewed Dutch companies with sector-wide initiatives was quite limited, certainly in India.

2.5 __ Transparency and reporting

2.5.1 __ Transparency

Companies seem to be very concerned with the issue of adequate transparency towards stakeholders, although it is only a very recent development. There are however many grades of transparency and many companies are more transparent on intentions than on performance and especially on shortcomings. Larger companies have in general developed a pro-active communication, thereby actively seeking contact with their stakeholders. This is less so for the small companies. SME mainly inform the media or stakeholders on ad hoc basis.

Example of good practice:

One industrial company publishes occupational and environmental accidents within 24 hours on the Internet, thereby informing the public. It has only implemented this in the Netherlands so far. According to this company this sort of initiatives is not always appreciated by employees and competitors and that it therefore is important to demonstrate the purpose of transparency to create support and serve as a good example within the sector.

2.5.2 __ Media

Media used for external communication are:

- Brochures, Internet, publications (most companies)
- Sustainability report (few MNCs)
- Presentations at conferences and fora (most companies)
- Formal complaint system (few companies)
- Chat box on website to initiate and facilitate a public dialogue (one MNC)

2.5.3 Confidentiality

A major bottleneck forms the dilemma between transparency at one hand and confidentiality on the other. According to companies, confidentiality has two backgrounds:

- Confidentiality with respect to clients. This is especially the case for banks, but plays also a role with respect to project partners for other companies.
- Confidentiality is deemed necessary to protect sensitive information from competitors.

According to companies the boundaries between transparency and confidentiality are difficult to define since it is very case related.

An example is the financing criteria of banks. Contrary to their finance criteria for the private sector for which they have recently signed the Equator Principles, banks are not transparent on their criteria for projects in the public sector. They argue that banks are not supposed to get involved with politics and that it should be the role of international institutions like the UN and the EU to give guidance on political sensitive issues.

This means that in the end the companies are the ones who decide if certain information is made public or not. As a result, a lot of information provided by companies stays at an abstract policy level and for NGOs it is hard to obtain insight in CSR criteria, considerations and performance in a specific case.

2.5.4 Reporting

Reports on sustainability achievements are the latest development: most MNCs have just started publishing one or are in the process of composing one. The distinct ways in which the sustainability reports are composed makes comparison difficult for stakeholders. Most of the information has a very general character and quantified data are rare. None of the reports reveals the considerations the company makes in a specific case.

None of the SMEs had a reporting system on sustainability issues. One SME, which is considering the development of a CSR policy, also intended to develop a reporting system in order to inform stakeholders on their CSR achievements.

2.6 Independent verification

2.6.1 Terminology

In the current debate about CSR there are many different terms used for the processes of monitoring and verifying compliance with codes of conduct or business principles⁵.

In this report we use the terms '(internal) monitoring', 'auditing' and '(independent) verification'. These terms refer to:

⁵ Also see SOMO's "Monitoring and Verification Terminology Guide, For the garment and sportswear industries", http://www.somo.nl/somo_ned/publicaties/Monitoring%20&%20Verification%20Term%20guide.pdf.

- (Internal) monitoring: the procedures and practices a company itself carries out to check that CSR standards have been implemented and are continuously observed by the company and/or in the supply chain.
- Auditing: a formal, often periodic examination and cross checking of CSR records within the company and/or supply chain to verify their correctness.
- (Independent) verification: the process of verifying code compliance and evaluating CSR conditions. Because the essence of verification is credibility, it must be performed by organisations or individuals that are independent of the company whose claims are being verified.⁶

2.6.2___ Auditing

Auditing on CSR seems to be the concern of only the MNCs. Most have formulated CSR targets for their business units and/or daughter companies. These targets are also translated into personal targets for management and employees.

In order to implement a proper monitoring system companies consider it necessary to quantify the CSR information. This appears to be quite difficult, especially for social aspects.

SMEs perform monitoring and audits only on financial and quality aspects. Nearly no monitoring takes place in the supply chain. Companies rely on their suppliers to have a good reputation in the field of CSR.

2.6.3___ Verification

Independent verification only takes place in those companies which have developed a sustainability report. These reports contain a verification statement of the external accountant, in which it is indicated that the verification is primary focussed on consistency of information provided in the report. Only sometimes verification takes place on location. This third party verification provides therefore only a moderate level of assurance that the reported data are correct.

⁶ The main point of discussion between different stakeholders is the question what is independent, which organisations, bodies or persons are qualified to undertake the verification, and how this can be done in a reliable and credible way. The CSR Frame of Reference states that verification should be carried out by organisations not linked to the companies in question, and should have the full trust of the stakeholders involved. Many companies currently hire commercial auditing firms or traditional quality auditors. This is often called third party verification. Many civil society organisations question the competencies of these audit firms in terms of being able to gain the trust from various stakeholders. For example, workers in factories may consider them to be related to the management, and therefore may not feel free to speak out about sensitive issues such as discrimination, harassment, forced overtime, etc. Another criticism against the audit firms currently being used by many companies, is the fact that the companies hire these firms, and therefore, they cannot be considered to be independent from the company in question.

3

Social CSR aspects

3.1 __ Introduction

Within the context of this project we define social CSR aspects as follows:

- Human rights
- Labour
- Consumer protection
- Respect for national sovereignty and local communities

These categories are derived from the CSR Frame of Reference. Since every categorisation is always somewhat arbitrary, categories have been added when deemed necessary.

This chapter contains the following: Paragraph 3.2 describes the findings on the policy of companies on human rights. Paragraph 3.3 deals with the findings on labour policy and practice and paragraph 3.4 with consumer protection. Each paragraph starts with an analysis of the findings and subsequently contains a table with an overview of the most relevant findings per issue. Since no specific findings were obtained on the issue of respect for national sovereignty this aspect is not separately discussed.

3.2 __ Human rights

Dilemma human rights – legitimate role of business

The issue of human rights forms a dilemma for companies. Those companies with a code of conduct have incorporated respect for human rights in it. They see their responsibility in this field however limited by the legitimate role of business, meaning that companies should not interfere with the politics of the (host) country.

In order to get a deeper insight into limits or margins of the responsibility of companies, the human rights violations in Gujarat were brought forward as an example in an interview with a large MNC operating in this state.⁷ This is an interesting case since one member of the national council of the Confederation of Indian Industry openly spoke out on the issue of Gujarat and asked other businessmen to do the same.

⁷ *Background:* in 2002, in a matter of days at least 2000 Muslims were killed in the state of Gujarat. State officials are presumed to have been directly involved with the attacks and till now nearly none of the perpetrators have been arrested or brought to court.

The Dutch mother company indicated that an investigation was still going on by the daughter company in India, but that it did not intend to get involved. This was confirmed by the Indian company. Its criterion is: if a situation still enables the company to perform its business it assumes it has no role to interfere to improve the situation. The company has a role only if the human rights situation makes it impossible for the company to adhere to its business principles.

Expectations of stakeholders

An Indian human rights organisation attributes the a-political position of companies to their economic interests. Companies are afraid that if they stand up against the government their business operations will be negatively affected. According to this organisation it is however in the economic interest of these companies to speak out: security and productivity of the company are affected by a continuation of social unrest in Gujarat, exports get affected, and an explicit position can have a positive rub-off on public perceptions.

“Therefore companies should maximise profits without compromising on issues like peace and justice.”
(NGO)

Role for governments

Companies presume a large role for governments and international institutions. This was demonstrated by a Dutch bank which indicated that it cannot define in advance what country or region cannot be financed: “If the Dutch government does not have any policy on this, how can a bank manage this?”

There is also a role for governments if the safety of the company is at stake, e.g. by violent or violent-prone groups. Companies expect governments to provide protection in such case.

- Companies expect international institutions, like the UN and the EU, and the government of their home country to give guidance in political sensitive situations.
- Companies expect police protection in case the safety of the company is involved.

Sector specific findings

Human rights seem to be mainly a concern for the banking sector and companies which activities have a large impact on local communities, like mining activities. Well-known large MNCs are more confronted with human rights issues than smaller companies.

Companies active in the ‘grey’ industrial sector, such as the chemical industry, appear to be less focussed on human rights issues and more concentrated on environmental issues. This might be a result of the fact that these companies expect to run a larger risk with respect to their environmental performance than their social performance.

3.3 __ Labour

General

All companies pay attention to CSR aspects related to labour, but often selectively. Large MNCs have incorporated specific aspects into their code of conduct. For SMEs these aspects are part of their human resource policy. The Indian companies follow to a large extent the policy of the mother company, with the exception that local standards are used.

Right to organise

Although all companies acknowledge the right of their employees to organise, they seem less eager in the Indian context. Of the companies interviewed (independent) trade unions were present in only one supplier. The reasons for this are varied.

- One manager of a Dutch company mentioned that he tries to keep trade unions out of the daughter company in India since he was told they are corrupt.
- It might be sector-related. A trade union mentioned that in the leather industry in India unionisation is only 10%, due to high percentage of non-educated workers. In the investigated industrial sectors, companies mentioned that unionisation in these sectors is also low in the Netherlands.
- Several Indian stakeholders mentioned that trade unions in India are not fully independent and are closely affiliated to political parties.

Despite (or maybe due to) the absence of trade unions, most interviewed Indian companies have not introduced procedures to enable employees to represent themselves or forward complaints. Two exceptions:

- One company installed a yellow union, which appears to be quite common in the industrial sector. All employees are member and these unions are controlled by the management of the company. Because of the limited power and the dependency on the management it is very questionable if such yellow union fulfils the requirements of freedom of association. These internal unions cannot independently negotiate with the management.
- Another company recently developed a procedure to protect whistle blowers.

Other companies rely on an “open culture” and “flat management structure” to encourage employees to speak out. At the same time they indicate that this open culture is much harder to realise in the Indian context since the culture is less direct than in the Netherlands. Employees are not used to speak their mind.

In order to stimulate this open culture one company organises a lot of informal meetings, like birthday parties and sports, which seems to have good effect.

Child labour

While most companies consider the issue of child labour quite complicated in the Indian context, all interviewed companies have a policy that they do not allow child labour in their daughter or joint venture in India. Even companies with no CSR policy at all were very strict on this. With respect to the supply chain companies were less unanimous. Not all companies make it very clear to their suppliers that they do not tolerate child labour.

In the agricultural sector companies found it more acceptable that children work on the farms of their parents. “In the Netherlands children also help out on the farm.” The fact that these Indian children work fulltime on the farm and do not go to school was not taken into consideration. The same applies to children working on plantations.

None of the companies was involved in (NGO or sector-wide) initiatives to help abandon child labour in India.

While Indian companies carry out the same policy in this field as their mother company, they were much more explicit on their opinion on child labour.

- According to them child labour is very much connected to poverty and therefore the solution is not to ban child labour but to ensure they are not exploited.
- The problem is much more complex since often also social problems within the family play a role (e.g. alcohol abuse was mentioned).

- Several companies admitted that they do not allow child labour contrary to their own belief, but only because legislation and their customers do not allow it.
- On the other hand, one Indian daughter company noticed a significant change in villages where the company operated: due to the introduced farming technology income increased, which on its turn increased enrolment in school.

Implementation measures are not very clear: some communicate it; others specifically incorporated it in the statute of the company or in the contract.

One company developed a management manual on child labour with information on dilemmas and how to avoid child labour. The way this manual is implemented in the Indian company was not further explored in this project.

Auditing seems to be a bottleneck for most companies, especially in the supply chain. SMEs mainly rely on trust in their suppliers. None of the companies demonstrated good practices in the field of auditing, but since this has not explicitly been asked in most of the interviews, it might be that they do exist.

Child labour is forbidden according to Indian legislation, but not always enforced. According to stakeholders enforcement seems better in cities, and more child labour is found in the countryside, e.g. on plantations, at farms, in tanneries. Legislation does not always contain a minimum age, which gives companies a loophole to employ children.

"The Plantation Labour Act does not explicitly forbid child labour. It makes a distinction only between male, female and non adult, which includes both adolescent and children." (stakeholder)

Non-discrimination

The principle of non-discrimination with respect to work is relevant in India both with respect to the relation men-women and with respect to the caste system. Dutch companies try to take both aspects into account by recruiting workers only on the basis of qualifications.

In the Indian context however this seems not to be sufficient to ensure participation of women and 'casteless people' (dalits) in higher qualified jobs. In practice there is a high participation of women in the labour market, but they are mainly employed in low qualified jobs in informal labour, like production in stitching units and work on the land. For example, women hardly seem to profit from the boom in the ICT sector. The same can be said about the lower castes. Several companies employ dalits, and say that they treat them the same as other castes, but in practice they still have the lowest jobs.

Companies attribute the low participation of women to the fact that they need highly qualified personnel and fewer women enjoy high education. One company did not find it necessary to implement affirmative action plans.

Security of employment

This is an important issue in the Indian context, taking into account that in India a lot of 'informal labour' takes place (around 92% of the economy), which give workers no legal protection at all. Security of employment is mainly an issue in the supply chain. While none of the interviewed Indian companies gave information on this issue, it is most likely that (lack of) security of employment is an important issue, since a lot of outsourcing takes place. This is especially so for sectors like textile and leather, diamond cutting and agriculture. Without monitoring and audits companies have no

way to verify if and to what extent security of employment is being practised by their suppliers.

Security of employment also plays a role with respect to the type of contract a company offers its employees. A regular contract offers much more security of employment than contract labour which is mostly used for seasonal work. Above that employees with a regular contract usually also enjoy other benefits, like higher wages, social security benefits and career development. There is a large distinction between business sectors in this field.

- Industrial companies and sectors which need qualified personnel (like banks and ICT) state that they offer regular contracts.
- Companies active in sectors in which a lot of seasonal work takes place (like food-processing, seeds, leather garments, tourism) work mainly with contract labourers.
- Companies which outsource (part of) their work do not seem to interfere with the type of contract their suppliers offer to their labourers.

Living wage and social security

All companies state that they pay salaries according to local standards, which is either the legal minimum wage (mainly SMEs) or the (higher) average income in the sector. Several of these companies mentioned that they have a large turnover of staff. Workers shift from job to job in search of higher wages. Only if a company is active in a sector where competition in educated personnel is high, like in the ICT sector, salaries are much higher.

Large MNCs claim they pay more than the local average and some have developed a transparent salary system for the whole company.

According to one trade union the fact that a company pays more than the local average does not always imply that these wages are of a sufficient standard (living wage): if a company is located in a backward (agricultural) area and the company is a pioneer in the industry, then it is obvious that the wages they pay are higher than the local average.

Companies' practice on social security benefits differs greatly. It is not clear what exactly influences this. Most Dutch companies did not know exactly what benefits the daughter company provides, which indicates that they do not have a uniform policy on this within the holding. It seems that this is delegated to the Indian company.

Health insurance and medical care seems to be the minimum companies offer. Several companies also contribute to pension funds. In general only employees with a regular contract benefit from the company's social security scheme.

Working hours

Respect for the maximum amount of working hours is not specifically mentioned in the CSR policy of Dutch companies. In the Indian context this aspect however deserves special attention since exploitation of workers is broadly practiced. No evidence of such practices was found with respect to the Indian daughter companies.

Occupational health and safety

Besides child labour, occupational health and safety receives most attention of Dutch companies with a CSR policy. Especially in industrial companies safety measures are regulated at corporate level.

- A company active in the chemical industry and one in the car industry claim that they apply the same safety standards worldwide.
- An agricultural company provides protective measures against pesticides and has developed handbooks on health and safety.
- A large MNC has developed guidelines on health and safety.

Dutch SMEs claim they abide local legislation, and stakeholders confirmed that they have not seen negative examples among Dutch companies. They consider it to be the responsibility of the Indian government to ensure these laws provide sufficient protection.

According to a trade union, in general, working conditions do not go beyond basics, i.e. what is obliged by Indian law.

The research did not show bad examples with respect to the Dutch companies or their business partner in India, but this does not give any guarantees with respect to the supply chain. The risk of unsafe and unhealthy work conditions in the supply chain is especially high in business sectors like leather and agricultural products grown on plantations where working conditions are harsh.

An interviewed Dutch company active in the field of leather indicated that it did not know what health and safety risks are connected to work in tanneries in India.

Training

Most companies provide training to their personnel. Companies active in agriculture also provide training in the supply chain (middle-men and farmers) to teach them how to optimise crop output. This is not only to the benefit of the company (better quality crop) but also enables farmers to increase their income.

Sector specific findings

While all companies have an explicit or implicit social policy, business sectors have a distinct approach:

- The tourist sector hardly interferes with working conditions of contractors and sub-contractors. It only acts upon complaint, e.g. if a hotel owner complains to guide that the agent has not paid him yet.
- The industrial sector is quite concerned with occupational health and safety. Same standards are ensured by using, among others, the same machines worldwide (another reason for this is to ensure same quality).
- Working conditions seem worse in the agricultural sector (down the supply chain) and in the leather industry.

3.4 __ Consumer protection

Safety

In general, companies pay a lot of attention to product safety and quality in order to fulfil requirements of their buyers. Product safety is ensured through the supply chain, by means of audits and training.

Right to information

Information towards consumers seems to be mainly focussed on product information and to a much lesser extent on processes.

Only one code of conduct explicitly mentioned transparency to customers and society on products and processes.

Companies provide product information to consumers on the package. It is not clear if companies provide information upon request. Most information streams are probable channelled through stakeholder representatives like NGOs. No findings are obtained on information to Indian consumers.

Sustainable consumption

Several companies have sustainable products in their assortment, but it is not profitable since it is still a niche in the Netherlands. These companies do not market these products very actively; they do have some information on their website. According to companies there is no market for sustainable products in India.⁸ One company however sees potential for sustainable energy.

Impact product on local market

According to an Indian NGO companies and western NGOs pay too little attention to the CSR impact of the marketing of a product on the local market. The introduction of a consumer society in a developing country will cause shifts in consumer patterns. This might have a negative impact in an extreme case, e.g. if a western company markets toothpaste as a healthy and necessary product, it is likely that the poor consumers will start buying this product. But for consumers with limited financial resources this might imply that they will no longer buy fruit for their children.

It was not possible in the context of this project to deeply research the impact of the 'Dutch' products on the Indian market. No indications were found of malpractice. Two companies incorporated this aspect in their CSR policy with respect to infant nutrition:

- One MNC producing infant nutrition explicitly states in its sustainability report that "We are careful to support efforts by public bodies to ensure that marketing of these supplements is transparent and does not encourage mothers to give up breast-feeding."
- Another producer of among others infant nutrition mentions in its code of conduct that it believes that breast feeding is the best way to ensure normal health and development of babies during the first four to six months of life. However, where mothers do not breastfeed or additional nutrition is necessary, there is a legitimate role for infant formula.

⁸ Please note that CUTS has done a study in 1998 titled "Concept Testing of Green Consumption" showing that 5% of the population in four metros (Delhi, Mumbai, Chennai and Calcutta) are willing to spend 10% extra on green products.

3.5 ___ Tables with findings on social CSR aspects

3.5.1 ___ Human rights and respect for national sovereignty

NGO Principles from CSR Frame of Reference	CSR policy of Dutch companies	CSR practice in India
1. Promotion of human rights in host country	<ul style="list-style-type: none"> • Support for fundamental human rights is incorporated in several codes of conduct. • One company makes the reservation: “in accordance with what reasonably can be expected from a commercial organisation” and another company: “support for fundamental human rights in line with the legitimate role of business”. • Several SMEs remarked that they are a-political and therefore not concerned with the political situation in a country. • Most Dutch companies consider human rights to be a political matter. They are of opinion that the Dutch government and international institutions (EU and UN) should give guidance to companies on such matters. • Silent diplomacy was mentioned as a possible strategy when human rights violations rise in a host country (MNC). • Several companies developed human rights manuals for management, with explanations of human rights and dilemmas which may rise in practice. • Not all codes of conduct are translated into practice yet. Human rights are not always a priority for a company. E.g. A large industrial MNC acknowledged that its policy on human rights needs to be further elaborated. • In the tourist sector sexual exploitation of women (prostitution) is an issue. The interviewed tour operator mentioned that it “cannot control 	<ul style="list-style-type: none"> • <i>Bottleneck</i>: Several Indian daughter companies maintained a distance from political issues and therefore declined to take a position with respect to human rights violations in the country. It concerned companies which mother company has a policy on human rights. • <i>Bottleneck</i>: Implications of the a-political standpoint of a MNC became clear with respect to human rights violation in Gujarat: if a conflict situation still enables the company to perform its business there is no role for the company to interfere in the situation. • Indian NGOs see it as an obligation of companies to take a stand on human rights violations: “Short term interests prevent companies to do so (they want to keep the relation with the government smooth), but it is in the long term interest of the company to speak out: security, productivity and exports get affected, it will have a positive rub-off on public perceptions.”

	what tourists do in spare time.”	
2. Investigate the impact of business on human rights situation	<ul style="list-style-type: none"> • Social impact assessments are performed by one company. • Several companies have adopted a restrictive approach on the defence sector. • A bank mentioned that it does not finance certain business sectors, but did not want to make this information public. • A company mentioned that it does not have absolute no-go areas. Myanmar was mentioned as an exception, since the risk of public breakdown is very large. • Several companies enter into discussions with NGOs to assess the impact of a business operation on the human rights situation and make decisions on a project. 	<ul style="list-style-type: none"> • <i>Bottleneck</i>: No examples were found of involvement of Indian stakeholders in the decisions of companies with respect to human rights situations. • The involvement of governmental institutions in the host country can be supportive to prevent a negative impact on human rights: the Guidelines of the Reserve Bank of India require that banks ask clients for certification with respect to conflict diamonds to prevent financing of conflict diamonds. This is subsequently checked by customs when the diamonds are exported.
3. Refer to international human rights standards and treaties	<ul style="list-style-type: none"> • Only a few companies refer to specific international accepted standards. Most companies refer to human rights in general. 	<ul style="list-style-type: none"> • No findings in this research.
4. Guarantee the human rights of employees and of the local community	<ul style="list-style-type: none"> • Companies make a distinction between responsibility for the human rights of employees and those of the local community: when asked, all companies feel responsible for the well-being of their employees, but make reservations with respect to support for human right of the local community. (See also under 1.) 	<ul style="list-style-type: none"> • No findings in this research.
5. Other human rights issues: <ul style="list-style-type: none"> • <i>Safety</i>: reference to Voluntary Principles for safety and security in mining industries formulated by US and UK. 	<ul style="list-style-type: none"> • <i>Safety</i>: If blackmail is involved then a company sees a role for the police. If the threat to safety is political of nature then there is a role for the local government and a limited role for the company: it will promote contact between the government and the (violent or violent-prone) pressure group, to the extent that it fits within the legitimate role of a company. • This same company provides training to its staff on safety issues. 	<ul style="list-style-type: none"> • No findings in this research.
6. Respect for national sovereignty and local communities	<ul style="list-style-type: none"> • Companies do not want to get involved in politics in the host country. This is outside the responsibility of a commercial business. • Companies mentioned that they respect the local culture, as long as it is not discriminative. • The management of several companies mentioned that they try to find an acceptable way how to deal with dalits (untouchables in Hindu caste-system) working in their daughter company, by treating them as equal as possible. 	<ul style="list-style-type: none"> • See example Gujarat under 1.

3.5.2 ___ Labour

NGO Principles from CSR Frame of Reference	CSR policy of Dutch companies	CSR practice in India
<p>1. Respect and ensure the freedom of association and the right to collective bargaining</p>	<ul style="list-style-type: none"> • This is mentioned in several codes of conduct. • The interviewed Dutch companies support trade unions, but have no positive view on Indian trade unions. One company stated that it is better to keep them out of the company. • Most companies mention that they ensure open communication in the Indian daughter companies when asked about trade unions. 	<ul style="list-style-type: none"> • <i>Bottleneck:</i> Almost none of the visited companies had a trade union. • According to several companies, employees are not interested to join a trade union. • Trade unions find it difficult to get into contact with employees when they are not educated. • In industrial companies 'yellow unions' are common practice. These internal unions have limited power to negotiate. A yellow union was found within one Dutch daughter company. • According to the trade unions, working conditions are better where workers are organised. • Communication in the Indian culture is more indirect than in the Netherlands. One company tried to overcome this by means of informal meetings, like birthday parties, drinks after work, sports. The method turned out to be successful. • According to a trade union not much collective bargaining takes place because workers try to protect their own job. • According to one stakeholder women in the leather industry start to participate in demonstrations of trade unions. • Several Indian stakeholders also expressed a negative impression of Indian trade unions. Some are of the opinion that trade unions are in league with political parties and therefore not independent.
<p>2. Do not engage or support the use of forced labour</p>	<ul style="list-style-type: none"> • This is mentioned in only a few codes of conduct. 	<ul style="list-style-type: none"> • No finding in this research.
<p>3. Contribute to the abolition of child labour</p>	<ul style="list-style-type: none"> • This is mentioned in several codes of conduct. • A large MNC developed special manual on child labour. • This is not allowed in-company (all companies interviewed). • Some companies explicitly forbid suppliers to use child labour, but the 	<ul style="list-style-type: none"> • In general child labour is considered to be poverty related. • One daughter company mentioned that its presence is a contribution to the abolition of child labour: "There is a significant behaviour change in villages where, with the increase in income, enrolment in

	<p>monitoring/auditing is weak. Auditing is difficult in the supply chain according to most companies.</p> <ul style="list-style-type: none"> In the agricultural sector: food processing and seed companies see child labour as the responsibility of farmers. It is impossible to monitor in the field. "At Dutch farms it is also common for children to work", according to one company. 	<p>school has also increased. It is evident that increase in income is a result of change in farming technology, due to the use of our seeds."</p> <ul style="list-style-type: none"> It is not easy to control suppliers. Not all companies take a clear position on child labour towards suppliers. All Indian companies emphasise the sensitive nature of child labour. <ul style="list-style-type: none"> "The solution is not to ban child labour but to ensure they are not exploited." "There is no child labour in the supply chain, because legislation and customers require so, but my own belief is that income can overcome poverty for children." (an Indian daughter company) "There is also the social problem of alcoholic fathers who are not interested in work. We have no answer to the attitudes of parents." (a NGO) "Employing your own children at your farm cannot be considered to be the same as employing child labour." (Indian company) "Western countries just want banning of child labour whereas the issue is more complicated. If you send children to more dubious and illegal activities, it is pointless. The need is to get them into education and to promote livelihoods." (Indian daughter company active in the diamond sector. It is known that a lot of child labour takes place in the diamond industry). Child labour is used in different sectors for specific jobs: work in the field (own farm, plantations, and tanneries). They work more than 10 to 12 hours a day under very bad conditions (in open sun, unhealthy environment leading to diseases). (a stakeholder) Child labour is less common in cities according to a stakeholder. Legislation is not consistent according to one stakeholder: "They say no child labour, but there is no minimum age for children in the Plantation Labour Act. It only makes a distinction between male, female and non adult, which includes both adolescents and children."
<p>4. Do not discriminate with respect to employment and occupation</p>	<ul style="list-style-type: none"> Non discrimination is part of most CSR policies. All recruitment policies are only on the basis of qualifications (also in companies without a CSR policy) Positive discrimination is not carried out anymore. 	<ul style="list-style-type: none"> <i>Bottleneck:</i> In India the percentage of female personnel in higher qualified jobs is very low, e.g. in the ICT sector. Companies do not have affirmative action plans. Gender equality is better in cities than outside (according to

	<ul style="list-style-type: none"> • Few companies explicitly mention no sexual or racial harassment in their policy. 	<p>stakeholder).</p> <ul style="list-style-type: none"> • Especially in the agriculture sector there is still a different treatment of men and women: in payment, in the type of contract: women are temps and men receive a contract, in the type of work: women do the work on the field which is very heavy, because farmers see this as a female job. • Women are mainly employed at lower levels than men. If they are employed at the same level in general there seems to be no discrimination in remuneration and other labour aspects. • Companies give physical hard work to men. But they look at local standards, e.g. weeding done by women even though this is physical hard work (out in the sun, bending). • Sexual harassment still plays a role in Indian companies, e.g. on tea plantations and tanneries. (stakeholder) • In India non-discrimination is also relevant with respect to the caste system, especially for dalits: according to all interviewed Indian companies no discrimination of dalits takes place. But in practice they mostly have low-paid jobs.
5. Ensure security of employment	<ul style="list-style-type: none"> • No explicit CSR policy was found on this aspect. 	<ul style="list-style-type: none"> • This seems to differ between business sectors: <ul style="list-style-type: none"> – In industrial companies there are mainly regular contracts, only temp jobs for jobs outside manufacturing. – In ICT most employees have a regular contract. – The tourist sector works with temps and contractors and subcontractors (yearly evaluated). One agent indicated that he feels that job security is not his responsibility. Because of pricing pressure from the Dutch company and other overseas companies he deals with, the agent has to select the party that gives him the best service for the lowest rates. – Leather garments: works mainly with contract labour, since it is seasonal work. A lot of outsourcing takes place by the Indian joint venture. The company tries to spread the demand of work to ensure continuous work to their suppliers. – Food-processing and seeds (agriculture): works mainly with contract labour (seasonal work).

		<ul style="list-style-type: none"> – Banking sector: works mainly with highly skilled personnel, who get permanent contracts. • <i>Bottleneck</i>: Indian daughter companies do a lot of outsourcing (stitching units, production). According to a NGO, companies give job contracts to smaller units to reduce labour strength. Many of these smaller units engage labour on a contract basis. • <i>Bottleneck</i>: Upward mobility of contract labour to get a permanent job seems none-existing.
6. Ensure a living wage	<ul style="list-style-type: none"> • Some codes of conduct mention: 'just and competitive salary'. 	<ul style="list-style-type: none"> • Large MNCs pay according to local standards but mostly on the higher side (own statement of companies). • SMEs pay mostly local salary (at least minimum wage). They do not consider whether it is a living wage or not. • A Dutch tour operator expects its agents abroad to select their subcontractors, like owners of hotels, transporters and drivers on the basis of their sensitivity for the safety and wellbeing of the tourists, the quality of their service and the price at which the agent offers this service. The tour operator does not set requirements with respect to the level of income for the sub-contractors. • <i>Good practice</i>: In the ICT sector, a Dutch daughter pays high salaries in order to attract highly qualified personnel. It performed research and involved personnel. • According to trade unions there are several <i>bottlenecks</i>: <ul style="list-style-type: none"> – There is no law enforcement of minimum wage. – Contract labour earns half of permanent workers. – Overtime is only paid double when a trade union is present in the company. • Many Indian daughter companies experience large turnover of staff, mainly for salary. • <i>Good practice</i>: One Indian daughter company received a positive judgement in the Hewitt test (this is a survey in India on comparison of salaries in companies). • <i>Bottleneck</i>: Salaries in the supply chain are not always fair: e.g. farmers do not pay legal minimum wage and pay women less than men (according to one stakeholder).

		<ul style="list-style-type: none"> • Income of farmers differs greatly. According to one company it depends on the input of the farmer and his crop management. • Workers on tea plantations are paid very little (according to one stakeholder, not tested). • The fact that a company pays the highest salary in a region is not always an indication that it pays (more than) a living wage. If the company is located in a backward (agricultural) area and the company is the pioneer in the industry, it is obvious that the wages they pay there are higher than those paid by surrounding companies. (information from a trade union).
<p>7. Ensure occupational health and safety</p>	<ul style="list-style-type: none"> • This is mentioned in nearly all codes of conduct. • Several industrial companies state that they apply the same (high) standards worldwide. • In the tourist sector: there is in general no involvement in working conditions of their sub-contractors (hotels, restaurants, and drivers). The tour operator will interfere only if a complaint is made, but this does not always have an effect. E.g. this tour operator wanted to improve working conditions of porters in Nepal (less weight and proper shoes), but according to a local agent it is a cultural aspect and porters do not accept changes. • SMEs in general abide local legislation. They consider it to be the responsibility of local governments to ensure that these laws are sufficient. • SMEs in food processing are mainly concerned with hygiene in the work place. • Several companies have internal guidelines on occupational health and safety. 	<ul style="list-style-type: none"> • Most Indian daughter companies and business relations use local standards/legislation. This is confirmed by a trade union: "in general working conditions do not go beyond basics." • One tour operator incorporates a visit to a weaving factory in India, to make Dutch tourists aware of working conditions in India. • Work conditions differ greatly between business sectors: <ul style="list-style-type: none"> – Tanneries (in general, not specific for Dutch company): long hours and night shifts for women, no protective measures, sexual harassment, workers need permission to use the toilet (information from a trade union). – Tannery (supplier to Dutch company): no protective measures. Results in health complaints, esp. from women workers. – Tea plantations: there is use of dangerous chemical sprays, oppressive enclave conditions, workers are denied drinking water. There were no bad reports on the Dutch company. – Diamond cutting: "working conditions are better than in textile" (according to a daughter company). – In ICT and industrial companies: same safety measures worldwide. • One industrial daughter company has appointed a safety officer. • <i>Bottleneck</i>: The food processing industry makes heavy use of fertilizers and pesticides (down the supply chain). This fact is not taken into account by the mother company. • For informal labour, working conditions are worse than for contractors

		and persons with regular contract.
8. Respect maximum number of working hours	<ul style="list-style-type: none"> No findings 	<ul style="list-style-type: none"> In the ICT sector employees make much overtime. But according to one company this is on a voluntary basis. Indians are hard workers and its employees like their jobs.
9. Provide training	<ul style="list-style-type: none"> Training of personnel is considered essential by most companies. Most companies have developed training programs. Career development is also mentioned in codes of conduct of large MNCs. 	<ul style="list-style-type: none"> Technical training for new personnel is quite common. Food processing and seed production companies also provide training down the supply chain. Farmers receive instructions on seed growing. One Company pays visits to monitor crop and educate farmers.
10. Guarantee handling of complaints	<ul style="list-style-type: none"> No formal procedures were found, except for one company which recently installed a procedure to protect whistle blowers. Several companies stressed the importance of an open culture between management and employees. This also implies that employees can forward their complaints. 	<ul style="list-style-type: none"> No finding in this research.
11. Provide timely information on reorganisations and collective discharge, and mitigate to the maximum extent practicable adverse effects	<ul style="list-style-type: none"> Responsible reorganisation was incorporated in one code of conduct. Another company made sure in a merger that it informed and involved employees that their company was going to be taken over. 	<ul style="list-style-type: none"> <i>Bottleneck:</i> according to a trade union there is a tendency among large MNCs to set up new factories in backward areas with lots of (tax) advantages from government and shut down old factories. <i>Bottleneck:</i> a Dutch joint venture merged with another company with the assurance that there would be no consequences for workers. After the merger they were told that the plant was unsafe so a Voluntary Retirement Scheme was introduced (VRS, meaning that employees do not contest their discharge in exchange for compensation). The result was that the plant was shut down. Some workers took VRS; others fought their case in court and won.
12. Do not use the threat to transfer the operations of the company to other countries as a means for influencing the negotiations	<ul style="list-style-type: none"> No finding in this research. 	<ul style="list-style-type: none"> No finding in this research.
13. Do not use double standards	<ul style="list-style-type: none"> No findings in this research. 	<ul style="list-style-type: none"> An Indian company which has back-offices for call centres maintains the same human resource policy for all personnel.
14. Employ and train local staff as much as possible	<ul style="list-style-type: none"> Most SMEs start with a Dutch managing director in the daughter company in India and only after a few years install an Indian manager. 	<ul style="list-style-type: none"> Most companies have Indian management and employ Indian personnel.
15. Enable worker representatives to	<ul style="list-style-type: none"> Most companies encourage an open culture within their company and 	<ul style="list-style-type: none"> No findings in this research.

negotiate and confer with decision makers.	daughter companies.	
16. Other labour issues: <ul style="list-style-type: none"> Social security 	<ul style="list-style-type: none"> No findings in this research. 	<ul style="list-style-type: none"> The social security benefits provided by Indian companies differ: <ul style="list-style-type: none"> Health insurance (is provided by most companies), Pension, Free health care to employees and local community. There are also extra benefits like transportation, towels, uniform, lunch, etc. Nearly all companies provide benefits only for those with a regular contract. <i>Good practice</i>: One daughter company also provided a pension fund for contract labour. The opinions on the service of social security benefits in India differ: While according to one trade union and a company social service conditions and social security benefits are a real concern, another trade union thinks it is very effective.

3.5.3___ Consumer protection

NGO Principles from CSR Frame of Reference	CSR policy of Dutch companies	CSR practice in India
1. Access to essential goods and service	<ul style="list-style-type: none"> No policy found 	<ul style="list-style-type: none"> <i>Good practice</i>: Several Indian companies provide free medical service to the local community.
2. Right to safety, with respect to: <ul style="list-style-type: none"> Physical safety Safety and quality Food, water and pharmaceuticals 	<ul style="list-style-type: none"> Safety is an important issue to all companies, e.g.: <ul style="list-style-type: none"> safety in use (car parts); food safety (e.g. precautionary policy on GMO) Safety is translated into quality aspects. Several companies mentioned that product and food safety is assured through training and quality audits 	<ul style="list-style-type: none"> No findings in this research.
3. Right to information	<ul style="list-style-type: none"> Banks pay attention to clear and unambiguous rates and conditions, do not incorporate unclear or hidden clauses in contracts and do not exert pressure on clients. Product information is included on the package of the product. 	<ul style="list-style-type: none"> No findings in this research.

	<ul style="list-style-type: none"> • One large industrial company provides transparency to customers and society on products and processes, e.g. by putting accidents on the Internet within 24 hours. • A tour operator informs tourists on health issues. 	
4. Right to choice in the market place	<ul style="list-style-type: none"> • No findings in this research. 	<ul style="list-style-type: none"> • No findings in this research.
5. Right to be heard	<ul style="list-style-type: none"> • Many companies involve representative stakeholders, but do not directly involve consumers (see also paragraph 2.4) 	<ul style="list-style-type: none"> • No findings in this research.
6. Right to obtain redress	<ul style="list-style-type: none"> • Few companies presented a formal complaint procedure. 	<ul style="list-style-type: none"> • Individual farmers brought one Dutch company to Consumers' Court because they suffered from poor germination of the seeds. The company sometimes settles outside court. Farmers do not object to this.
7. Right to consumer education	<ul style="list-style-type: none"> • No findings in this research. 	<ul style="list-style-type: none"> • No findings in this research.
8. Promotion of sustainable consumption	<ul style="list-style-type: none"> • Some companies have sustainable products in their production assortment. They state that it is still a niche in the Netherlands, and according to one company there is no market at all in India. • A tour operator provides objective information in order to give tourists the opportunity to take environmental aspects into account in choosing their travel destination. 	<ul style="list-style-type: none"> • One company is involved in introducing sustainable energy on the Indian market.
9. Right to privacy	<ul style="list-style-type: none"> • A bank indicated that it is important to ensure the clients' privacy. This is also a legal requirement. They also have to ensure the privacy of project partners. • The protection of privacy is often at odds with the transparency requirement. 	<ul style="list-style-type: none"> • No findings in this research.

4

Environmental CSR aspects

4.1 __ Introduction

Within the context of this project environmental CSR aspects are categorised as follows:

- General environmental principles, referring to
 - Principle of preventive action
 - Precautionary principle
 - Rectify environmental damage at source
 - Polluter pays principle
 - Greater environmental responsibility
- Environmental friendly technologies
- Biodiversity
- Energy, material and water use
- Emissions, effluents and waste

These categories are derived from the operational CSR Frame of Reference. There is a lot of overlap between the general principles and the others.

Paragraph 4.2 till 4.6 deal subsequently with the five environmental categories. At the end of this chapter a table is inserted with an overview of findings regarding all environmental principles.

4.2 __ General environmental principles

Environmental policy

Environmental principles are less specified in the CSR policy of companies than for example social principles. Most codes of conduct simply refer to respect for environment. Their practice however shows that they do have implemented specific environmental measures and that, as a matter of fact, environmental practice seems to be more developed than social policy and practices, also among the smaller companies. A plausible explanation is that a lot of environmental issues are regulated by law. Companies are therefore legally bound to implement measures. This also applies to the activities in India. Indian legislation on environmental issues is also quite far developed, although several companies and stakeholders indicated that enforcement is a major bottleneck.

Only a few companies actually refer to these environmental principles, which are derived from international treaties and agreements. Most of these principles are so generally formulated that the practical implications for companies are less clear, especially for SMEs. This is something NGOs and governments should take into account when approaching companies.

Precautionary approach

Most companies take this principle into account with respect to the quality and safety of their products, and less with respect to the environmental impact of their processes, products and services, unless legislation requires so.

This is different for companies involved with biotechnology. The controversy around Genetic Modified Organisms (GMO) forms a serious dilemma:

- On the one hand these companies think that GMO offers many opportunities to improve product quality, reduce the environmental foot print, e.g. by using fewer pesticides, and ensure food security. Also Indian daughter companies indicated they would like to use GMO.
- On the other hand, public opinion in the EU is not in favour of use of GMO and the political climate in the EU is very uncertain. Above that, companies are faced with the practical problem that it is (still) nearly impossible to keep streams of GMO products separated from non-manipulated products. The risk to be held liable if GMO food accidentally gets introduced in the EU is too high.

Taken into account the high investments GMO requires, Dutch companies have decided not to use GMO in food products and await further political decisions in the EU. They do perform research and are actively involved in public discussions on GMO. This is necessary to keep up to date with developments. Companies expect that the EU cannot uphold its restrictive approach towards GMO much longer. They also think that consumers and NGOs should refrain from their ambiguous attitude towards GMO. As one company illustrated this:

“With regard to transgenic plants, one cannot demand extensive studies, and call for the greatest thoroughness in any assessment, yet at the same time destroy the field trials that provide a guarantee for this assessment.”

Level playing field

Several interviewed companies belong to the so-called “innovators” and “early adopters” of environmental principles. They stressed that this requires high financial investments and makes the product price higher. According to these companies this can have a negative effect on their competitiveness, within the EU and also with respect to Indian companies. This statement might be valid for the profit in the short run, but research shows that this initial investment can result in greater gains in the long run.⁹

⁹ Study of CUTS on the Indian Ecomark scheme, 2003.

- Concerning the EU, one company mentioned that if the Dutch and other European governments stay passive with respect to laggards, this will eventually affect the decision of these leading companies to locate in the Netherlands/EU.
- Concerning India, Dutch companies are of the opinion that double standards are used. According to one Dutch company, foreign companies have to fulfil much higher (environmental) standards than Indian companies when investing in projects in India. This brings them in a disadvantaged position in comparison with Indian companies. "Then I wonder what do you want: that a project is implemented by a company that fulfils all international environmental standards, or that a company from a developing country implements the project without complying with those standards?" This company expects the Dutch government to play a much more active role and not to leave environmental interference only to NGOs. The company however provided no evidence that higher environmental standards are required from foreign companies, but apparently this is the perception of some Dutch companies.

Rectify environmental damage as a priority at source

Most companies confine environmental implementation measures to in-company measures. Not many initiatives with respect to the supply chain, i.e. product related, were found. Some good practices were found with MNCs which work on product stewardship with suppliers and perform impact assessments with respect to their projects or investments.

Several Dutch banks participate in an international initiative to apply environmental standards with respect to their private project financing, the so-called Equator Principles. It is not clear yet what the exact implications of these principles will be.

Companies which do a lot of outsourcing or work through middle-men or agents, have little knowledge of and/or interference with the environmental impact of processes earlier in the chain. Some examples:

- Farmers working for Dutch companies make excessive use of pesticides and hardly make use of water irrigation methods. This might be contributed to the fact that they are not aware of the environmental impact of this practice. Dutch companies give some instruction to their middle-men but see it as the final responsibility of the farmer to take action. This can result in pollution and degradation of land.
- A Dutch producer of leather garments does not interfere with the supply chain of its Indian joint venture, although the leather industry is considered to be one of the most polluting industries in India.
- Tour operator does not instruct its agent and subcontractors on environmental issues. It works with small scale hotels and private bus drivers, which usually have not taken measures to protect the environment. The tour operator is aware of this fact.

Polluter pays principle

Liability is a sensitive subject. Only one company explicitly mentions this principle in its guidelines and gave examples of compensation which it provided to local communities for environmental damage.

The absence of explicit statements in this field might result from the fact that liability is regulated by law. But often the perpetrator of environmental legislation (even if accidentally) cannot be traced, especially in India where enforcement is low. This results in pollution and no one taking responsibility.

"In the leather industry for example, whole areas are polluted by contaminated discharge of tanneries, but no one seems to take responsibility." (stakeholder view)

Sector specific findings

Industrial sectors, like the chemical industry, mining, and car parts, are further advanced in implementing environmental aspects into their company and activities

than social aspects. They also seem to be ahead of companies in other sectors. There are several explanations for this:

- Environmental issues have been incorporated into legislation much longer, especially with respect to 'grey' environmental issues, like emissions to water, air and land.
- These companies usually use the same machines worldwide which need to comply with the standards of the country with the strictest requirements. The same applies to their production methods. This has a positive impact on environment.

The banking sector is quite active in incorporating environmental aspects into their policy. This is partly a result of negative publicity in the past. They focus more on the environmental impact of their investments than on in-company measures, because their investment policy has a much larger impact on the environment.

Sectors with a lot of outsourcing, such as the leather industry, tourism and food, pay little attention to the environmental impact of the supply chain.

Implementation instruments

Although it is likely that most Dutch companies, also in India, have adopted in-company environmental measures, not so much evidence was found of product-related measures:

- Large MNCs with a sustainability report have developed environmental indicators and have formulated environmental targets.
- The sector organisation of tour operators in the Netherlands has developed a product-oriented environmental management system.
- The banking sector has developed the Equator principles, which contain (among others) environmental criteria for private project financing.
- An environmental NGO in India has developed a broad initiative on Corporate Environmental Rating and asked a large Dutch MNC to participate in this initiative. It refused, but the reasons are not known.

4.3 ___ Environmental friendly technologies

The development and dissemination of environmentally friendly technologies is mainly a concern of industrial companies. It is a prerequisite to stay competitive. Small companies have fewer resources and knowledge to invest in environmental friendly technologies.

In the development of new technologies companies are concerned about the position of the consumer and public, as is illustrated by the strategy on GMO.

While the food sector considers biotechnology an innovative technique which can reduce environmental impact of products, the companies are very cautious about using GMO, because public opinion in the EU is very negative. The concerned companies (3) decided to (temporary) stop using GMO.

Companies see less potential in introducing biological products on the Indian market, because the market is considered too small.

Technical innovation is not necessarily positive from an environmental point of view, as can be demonstrated by the developments in the leather industry in India.

Due to the increasing demand, the tanning process changed from vegetable tanning to the application of chemicals, which may cause enormous pollution, if no sufficient preventive measures are taken.

4.4 __ Preservation of biodiversity

4.4.1 __ Definition

Within the context of this project preservation of biodiversity is defined as policy aiming at the decrease of the *direct and local caused* impact on specific (geographic) defined ecosystems. By means of this definition biodiversity is distinguished from so-called “grey” environmental issues, such as litter or the greenhouse effect, even though there is an indirect relationship between the green and grey issues.

This project pays special attention to biodiversity, since this environmental topic is one of the spearheads in the policy of the Dutch ministry of environment. It is interesting to explore to what extent their policy has a rub off effect on the practice of Dutch companies in developing countries. Furthermore, biodiversity affects the activities of all companies in one way or another.

4.4.2 __ Policy of Dutch companies

Biodiversity is incorporated into the CSR policy of only a few companies.

- Recently several international banks formulated the Equator Principles which contain criteria for private project financing. These principles also mention biodiversity, including endangered species and sensitive ecosystems, and land use.
- A large MNC has formulated a biodiversity standard with respect to: protected areas, maintenance of ecosystems and contribution to conservation. It consulted IUCN to assist in developing a policy.
- While fish-processing is an industry which can cause great damage to biodiversity if no measures are taken, one Dutch company active in this field does not have a CSR policy at all, which gives reason to fear for the impact on biodiversity.

“Green” environment is a relatively new environmental issue and it seems that companies are more reactive on new CSR issues than pro-active.

- A reactive approach was demonstrated by Dutch banks, which only formulated an investment policy with respect to the preservation of forests after they had received a lot of negative publicity.

4.4.3 __ Practice of Dutch companies

Biodiversity can be influenced both negatively and positively through the activities of companies. The following examples illustrate the impact of the activities of Dutch companies on biodiversity. Most examples concern their practice in India, but if not available other examples are used.

Land conversion

One of the most important causes of loss of biodiversity is the conversion of natural areas into production areas, e.g. conversion of forests into agriculture. Negative conversion should therefore be an important issue in the CSR scans or risk/impact assessments of companies. Starting point is the extent to which an area is influenced by human being, which can vary from a pristine ecosystem to systems in which the

presence of human beings is very dominant. When a company analyses the impact on land conversion it should also look at the history of the production area in order to prevent future conversion or to stimulate compensation for negative land conversion. In that way positive conversion is also possible.

- A large MNC started a partnership with a local NGO for the development of mangrove afforestation and conservation affected by its operations. The proposal was submitted but the NGO has not heard from the company since then. The NGO suspects that the company is having difficulty to work out modalities with the government for securing land for this purpose. The government required that the company should buy the land which the company does not agree to. While environmental norms require that impacted bio resources are replenished, terms to obtain the land seem to be a bottleneck.
- Due to the arrival of (foreign) MNCs farmers are selling land to industries.
- A Dutch bank takes prevention of deforestation into account in its investment policy. How this works out in practice has not been investigated.

Land use

Another important issue is the amount of land or water which is necessary in order to produce a certain amount of product (productivity/acre). The higher the productivity the less space is required, which is better from the perspective of biodiversity. However, land use might frustrate other biodiversity aspects; for example, biological production methods have a positive impact on biodiversity from most perspectives, but usually require higher land use than intensive agriculture, because the productivity per acre is lower. In the long run, however, productivity of biological production methods might be higher, because soil does not get degraded so fast. In order to optimise the overall performance in the field of biodiversity a company needs to seek a balance between land use and habitat degradation.

- Several Dutch companies involved with agriculture (food, seeds and tea) make use of intensive systems, which may in the short term be positive from the perspective of land use. However, it may affect other biodiversity aspects such as soil degradation and when looked upon from the long term perspective it might also decrease the yield per acre.
- Industrial companies use land as well. There is a tendency to convert land from agricultural land to industrial areas. The Indian government also promotes location of MNCs in backward areas by means of all kinds of concessions.

Habitat degradation

This refers to aspects which, at first instance, have an impact on the a-biotic environment in an area (air, soil and water), but which will eventually affect the local biodiversity.

- Tanneries are concentrated in one area and cause pollution of adjoining lands and chemical polluted water flows to the vicinity. A tannery supplying to Dutch joint venture has implemented an effluent plant to drain the waste water. But according to a stakeholder it does not function well, meaning that this tannery also contributes to pollution of soil and water and, ultimately, may affect the local biodiversity.
- Due to heavy use of fertilizers in agriculture, water and soil get polluted. Furthermore, monoculture causes loss of soil fertility.

Disturbance of flora and fauna

Plants and animals can be disturbed in their natural environment by noise, light, odour, hunting or by human presence. This can result in disturbance of the eco-system. Companies can also contribute to conservation of natural elements in production areas.

- Initially a tour operator decided not to visit a degraded national park in Ecuador, in order not to cause further disturbance of the eco-system. Recently however they decided to offer the trip anyway, for commercial reasons.

- This tour operator contributes financially to projects in visiting countries that aim at the conservation of nature parks.

Introduction of invasive species

If invasive species (either plants or animals) are used in the production process, which can spread themselves in the surroundings this can cause problems, either because they mix with indigenous species or because they serve as food for predators (which will subsequently multiply themselves), or because they will compete with other species.

- The precautionary approach of Dutch companies with respect to the use of GMO is, among others, based on the risk that GMO products will mix with non-manipulated products.

Conservation of agro biodiversity

Agro biodiversity is being lost as a result of human population and development pressures and the rapid transformation of traditional agricultural systems. Recent development of plant genetic resources has focused on carefully matching the genetics to the environment. As a result, a tremendous number of highly productive, adapted genetic lines have been developed. From the biodiversity perspective it is highly important to conserve the remaining reservoir of genetic crop and animal diversity because it allows farmers to select stocks or develop new breeds in response to changing conditions.

- Dutch seed company has a gene bank in which it also conserves original species. It also ensures that different species cannot mix to avoid that the original species would be lost.
- Seed companies have introduced new species in India. If they do not take measures in the field to prevent mixture with traditional seeds, the gene variety of agro products is threatened. This on its turn may form a risk for the future food supply. (please note: it was not researched what measures the Dutch companies have taken to conserve agro biodiversity).

Over-exploitation

This is an issue when more animals and plants are harvested from the wild than can be supplemented by means of reproduction.

While food processing and seed producing companies say they instruct farmers on the need to rotate their crop, a research institute observed a negative impact on biodiversity, such as decline of soil fertility and the fact that soil becomes prone to pest and diseases. Apparently not enough measures are taken to countervail the negative influence on biodiversity.

Other issues

Companies might perform activities which are essential for the preservation of biodiversity. They can also offer compensation if it is not possible to completely reduce the biodiversity impact of its activities. Another more indirect contribution is possible by means of active dissemination of knowledge on best practices.

- According to tour operator the fact that it visits nature resorts is a guarantee that national authorities will do everything to conserve these parks. However, this is only so if it concerns eco-tourism or sustainable tourism. "Regular" tourism also has a negative impact on nature parks.
- Two companies offered compensation in some way: a tour operator contributes financially to projects for the preservation of nature parks and another company is involved with a project on afforestation of mangroves.

Supply chain

When determining the biodiversity impact of a product a company should first look at the impact of the supply chain. It should determine to what extent substantial biodiversity impacts may play a role in the different phases of the production chain. Companies appear to have little or no attention for this.

Several companies are working on the development of product oriented environmental management systems or have recently implemented one. But to what extent biodiversity is taken into account is not known.

4.4.4 ___ Legislative framework

Also within the Indian legislation the focus is more on the use and exploitation of biological resources rather than on their conservation.

According to a stakeholder there is a great need for a comprehensive biodiversity strategy and action plan in order to assess the current state of India's biodiversity and develop mechanisms, guidelines and concrete steps to implement this strategy.

4.5 ___ Energy, material and water use

These issues belong to the more traditional environmental issues which is reflected by the fact that most companies have taken appropriate measures to reduce energy, material and water use, also with respect to their Indian daughter. Companies also see the economic benefit of conscientious management of such resources.

Through minimalisation of materials the company can produce lighter products which has a positive impact on transport.

Most measures are taken in-company. Few initiatives are focused on the supply chain.

One company provides know-how and funds to encourage farmers to use drip irrigation but leaves it to the responsibility of farmers to actually implement appropriate measures.

4.6 ___ Emissions, effluents and waste

These issues also belong to the more traditional environmental aspects, at least within the Dutch context. Several companies have developed targets to reduce CO₂ emissions, greenhouse gas emissions, ozone-depleting substances, air pollution and acidification.

A tour operator offers the tourist the possibility of "Cool Flying" to compensate CO₂ emissions related to the flight. Please note: Cool flying is a program of the FACE foundation (Forest Absorbing Carbon dioxide Emission); a Dutch non-profit organisation specialized in tree planting for CO₂ credits.

Several bottlenecks were also indicated:

- A dilemma between environmental and social issues: a Dutch tour operator prefers to work with small scale bus drivers, who own their own buses. These buses are mostly old and more polluting than the buses of larger companies. The tour operator however does not want to break the contract with the bus drivers since they are to large extent economically dependent on this contract.

- Tanneries in one area are all connected to the same effluent treatment plant, but stakeholders indicated that this plant does not work properly.
- Farmers are not properly instructed on the negative impact of fertilizers and pesticides.
- Indian bureaucracy sometimes forms an obstruction to take appropriate measure. Authorities had to give permission for water treatment facility, but only allowed designs of one of their contact persons and did not accept the design of the Dutch company. According to the Dutch company they now have a malfunctioning installation.

In order to reduce the amount of waste companies have taken both in-company measures, and product related measures. Especially with respect to the latter several companies showed good practice. One example also demonstrates bottlenecks companies encounter:

A company started partnership with the municipality of Mumbai for handling their waste collection. They had to stop the project, due to corruption.

4.7 __ Table with findings related to environmental CSR aspects

NGO Principles from CSR Frame of Reference	CSR policy of Dutch companies	CSR practice in India
1. Respect the principle of preventive action	<ul style="list-style-type: none"> • Most Dutch companies have adopted in-company measures to improve the environmental impact • A tour operator adopted a policy on prevention and minimalisation of environmental impact of services. • A bank stated that it does not finance single side ships, because it implies not only an environmental but also a financial risk. • One MNC involved in mining mentioned that it performs environmental impact assessments. 	<ul style="list-style-type: none"> • <i>Good practice:</i> Most Indian companies have adopted in-company measures to improve environmental impact • <i>Bottleneck:</i> Nearly no companies have taken measures in supply chain.
2. Support a precautionary approach to environmental challenges	<ul style="list-style-type: none"> • A large industrial MNC continuously evaluates and improves its work method, processes, products and services to make them safe and acceptable for employees, customers, public and environment. • On GMO several statements were made by a two companies: <ul style="list-style-type: none"> – Precaution with development of new technologies, like GMO. – One company uses GMO but in a very restricted sense: namely by clearly stating this on the product label, and only when the safety of the ingredients and the product has been established for human consumption by the relevant authorities in each country. Furthermore, the medical effects or other advantages have to be sufficiently established. Also the used technology and its resulting product have to be sufficiently accepted by the public. – A seed producer indicated that it does not use GMO but that it is only involved with research on GMO. – Both companies see future in biotechnology and GMO. But pressure of consumers is too high now and the political climate in the EU uncertain. 	<ul style="list-style-type: none"> • GMO: one Indian daughter company would like to use GMO with clearance from the mother company. According to the company, GMO could be a solution to several problems in India: namely food security and less use of pesticides.
3. Rectify environmental damage as a priority at source	<ul style="list-style-type: none"> • A couple of companies mentioned that they are working on product-stewardship with suppliers. 	<ul style="list-style-type: none"> • <i>Bottleneck:</i> Farmers growing crops for food processing and seed producing companies appear to be not aware of environmental

		issues, e.g. the impact of use of pesticides and water irrigation methods. The Dutch company and daughter have little interference with farmers, because they work through middle-men.
4. The polluter pays principle and liability	<ul style="list-style-type: none"> • A large MNC incorporated the polluter pays principle in its business guidelines. Besides its internal guidelines it states that it follows national legislation in the field of liability and compensation. Sometimes it uses arbitrage. It determines compensation together with representatives of the community and governmental authorities. 	<ul style="list-style-type: none"> • <i>Bottleneck</i> in the leather industry: according to a stakeholder a whole area is polluted by the chemical water of tanneries and needs to be treated and channelled so it does not flow on the roads. No one seems to take responsibility. (Please note: this does not specifically concern the Dutch company).
5. Promote greater environmental responsibility	<ul style="list-style-type: none"> • Most large companies have incorporated respect for environment in their code of conduct. • Two industrial companies mentioned that they incorporate the same environmental standards worldwide. One company has formulated environmental norms on the basis of discussions with governments in the EU and United States. These are much higher than what Indian legislation requires. • A tour operator stated that small scale tourism is more environmental friendly, (although it at the same time acknowledged that small companies providing services to tourists (like family hostels, bus drivers) usually have not or only to a limited extent implemented environmental measures). The tour operator actively involves tourists in dealing sustainable with environment, among others by providing information. It also stimulates and supports concrete activities in the field of nature- and environmental care in the visiting countries (charity projects). • Banks: focus on environmental impact of investments rather than in-company measures. More benefit for society. Good practice: development worldwide policies on forestry and mining. • Company in leather industry had no information on environmental impact of leather industry in India, and certainly no policy. It only followed EU product legislation. 	<ul style="list-style-type: none"> • Most Indian companies follow national legislation with respect to environment. But there are differences between business sectors, which is also due to the different environmental impact of the production processes, e.g.: <ul style="list-style-type: none"> – <i>Bottleneck</i>: The tanning industry belongs to the most polluting industries. Governmental authorities are responsible for monitoring. Interesting finding in this project was that, contrary to evidence, the local pollution department mentioned that there is no pollution caused by the leather industry. One can wonder if this (wrong) statement also has an impact on the enforcement policy by authorities. – The daughter company of a Dutch bank mentioned that at the credit proposal stage it uses a checklist for the environmental impact of the finance project (e.g. concerning the chemicals used, the effluent discharges). • <i>Good practice</i>: One daughter company implemented a disaster management system.
6. Encourage the development and dissemination of environmentally friendly technologies	<ul style="list-style-type: none"> • An industrial company producing car parts aims at lowering the negative environmental impact of its product and to make transport means more efficient for example by designing trucks so that you need fewer trucks for the same job. The company provides free 	<ul style="list-style-type: none"> • <i>Bottleneck</i>: Little or no evidence was found on this issue in the supply chain. • <i>Bottleneck</i> (observed in the leather industry, although it does not concern the tanneries working for the Dutch company): Due to the

	<p>consultation to clients who seek expertise in reducing pollution possibilities.</p> <ul style="list-style-type: none"> • A chemical company stated that sustainability and safety play an essential role in its choice for production processes and products. It is developing techniques to recycle nylon in nylon carpets (in US factory), even though at the moment it is not profitable and their business partner pulled out. • One energy company considers it to be its responsibility to develop alternative sources of energy. • <i>Dilemma</i>: A company mentioned that GMO is a technical innovation which could offer certain advantages to improve product quality and reduce the environmental foot print. But the EU holds back developments. • <i>Bottleneck</i>: A small food processing company mentioned that biological products are not profitable because the market is too small; in India there is no market at all. 	<p>increased demand after 1970 the tanning process has shifted from vegetable tanning to the application of hazardous chemicals. Chemicals are polluting the adjoining agricultural lands and after a series of litigations even the Supreme Court ordered closure of some industries.</p> <ul style="list-style-type: none"> • <i>Good practice</i>: a chemical company mentioned that where possible it uses plastics instead of steel in products, that it makes use of flame retardants which are not halogen based. • <i>Dilemma</i>: One small food-processing company would like to encourage farmers to use drip irrigation. It has instructed its middlemen but it mentions that it cannot control beyond that. According to the company the implementation by the farmers depends on their financial ability and progressive nature.
<p>7. Contribute to the preservation of biodiversity</p>	<ul style="list-style-type: none"> • A bank has developed policies on forestry and mining, among others to protect biodiversity. • A seeds company has a gene bank collection, in which original species are conserved. It has developed an internal protocol to keep seeds separated from manipulated seeds to prevent mixture. This is also in its own interest, since seeds are their core business. • A large MNC has developed a biodiversity standard containing respect for protected areas, maintenance of ecosystems and contribution to conservation. • A tour operator has incorporated in its policy: conservation of natural resources and national parks. 	<ul style="list-style-type: none"> • <i>Bottleneck</i>: One small food processing company indicated that there is no degradation of land due to the rotation of crop. But according to a research institute the crop does have a negative impact on biodiversity, such as the decline of soil fertility and the fact that the soil is prone to pest and diseases. • <i>Bottleneck</i>: A mining company started a partnership with a NGO for the development of mangrove afforestation and conservation. The company has not given response yet to the project plan developed by the NGO. The NGO suspects that the company is having difficulty to work out modalities with the government for securing land for this purpose. The government required that the company should buy the land which the company does not agree to. While environmental norms require that impacted bio resources are replenished, terms to obtain the land seem to be a bottleneck. • <i>Good practice</i>: One large company gave much more compensation for mangrove land than it was legally required to. • <i>Bottleneck</i>: In India more and more farmers are selling land to industries where agriculture used to be the primary activity.

8. Reduce energy use	<ul style="list-style-type: none"> • Most companies have a policy on energy use. 	<ul style="list-style-type: none"> • No findings in this research.
9. Limit or alter material use	<ul style="list-style-type: none"> • Several companies have a policy to limit or alter the use of raw materials. • On company has a policy on efficient product design to reduce material purchasing, which leads to <ul style="list-style-type: none"> - reduction in waste, - use of recycled rather than virgin materials, - careful production planning to avoid obsolete stock • One company indicated that it looks for minimisation of materials, especially to be able to produce lighter products 	<ul style="list-style-type: none"> • No findings in this research.
10. Reduce water use	<ul style="list-style-type: none"> • An industrial company has a policy on careful engineering and good housekeeping to avoid water discharges. • A large MNC aims to use less water, especially in water-stressed areas. • A tour operator informs tourists to use less water in 'dry' areas. 	<ul style="list-style-type: none"> • A food processing company provides know-how and financing to encourage drip irrigation with farmers. But it leaves it to its middlemen to actually implement it at farms and does no monitoring in that respect. • <i>Good practice:</i> A food-processing company has adopted an effluent treatment process, but does not recycle the water. The water is used by neighbouring fields.
11. Limit emissions and effluents	<ul style="list-style-type: none"> • Several companies have incorporated reduction of CO₂ emissions in their policy: <ul style="list-style-type: none"> - A tour operator offers tourists "Cool Flying". - One company has formulated targets to reduce greenhouse gas emissions, ozone-depleting substances, air pollution and acidification. • A tour operator indicated several gaps in its policy: 1. It works with a German flight company, which means there is an unnecessary stop-over in Germany. 2. It does not make use of public transport in the visiting countries. Above that, private buses are mostly old, and produce more emission than new buses. The company has several times lent money to subcontractors to buy a new bus, but it had troubles getting the money back. • Some companies incorporate data on emissions in their sustainability report. 	<ul style="list-style-type: none"> • <i>Bottleneck:</i> The supplier to a Dutch leather company took measures (pipes to drain waste), but according to a stakeholder the effluent plant is not effective. • <i>Bottleneck:</i> Farmers supplying to a Dutch company seem not to be aware of the environmental impact of synthetic chemicals, even though they make heavy use of fertilizers and pesticides. • <i>Bottleneck:</i> one company installed a water treatment facility, which does not work well. Local government required that the facility would be approved by a certain researcher (contact of government), who according to the Dutch company, designed a malfunctioning installation.
12. Reduce waste	<ul style="list-style-type: none"> • Several companies have adopted in-company measures, e.g. 	<ul style="list-style-type: none"> • Several Indian companies indicated that they have adopted in-

	<ul style="list-style-type: none"> – Implement a waste management system. – take back PCs. • Or product related measures e.g. – Make packaging reusable or recyclable. – Production and supply of solutions for more efficient waste disposal (transport related means). – Reuse of solids, liquids and sludges, including turning it into saleable products. – Recycling of nylon carpet. Even though it appeared not profitable, the company still continues research. 	<p>company measures to reduce waste, e.g.</p> <ul style="list-style-type: none"> – solid disposal incinerator (beyond legislation) • One company started a partnership with the Mumbai municipalities to improve their waste collection system. The company wanted to continue the project but the project stopped because of corruption. • One company requires safe disposal of waste of its contractors. • One tour operator has an unwritten policy of not leaving behind any waste. It used to give a small monetary reward to the kitchen team for every used tin brought back from a site. (It is not clear why it has stopped this arrangement.)
13. Other principles	<ul style="list-style-type: none"> • Transport: tanker safety. • Welfare of animals / work on alternatives for animal testing. 	<ul style="list-style-type: none"> • No findings in this research.
14. Methods for implementation	<ul style="list-style-type: none"> • Several companies have developed environmental indicators and targets (large MNCs with a sustainability report). • The sector organisation for tour operators in the Netherlands developed a product-oriented environmental management system which all tour operators had to implement before November 2003. • In 2003 several large banks worldwide adopted the so-called Equator-principles which offer a framework to manage environmental and social issues in private project financing. (See also: www.equator-principles.com). 	<ul style="list-style-type: none"> • The Adventure Tours Operators Association in India conducts regular courses, of which environmental and cultural protection are a regular module.

5

Economic CSR aspects

5.1 __ Introduction

Within the framework of this project, the term “Economic CSR aspects” is used. It may be somewhat confusing since it does not refer to the profit aspect of business, like in the Triple P concept. It refers to aspects related to economic development of the host country. The aspects are derived from the CSR Frame of Reference and concern the following issues:

- Socio-economic development
- Corruption
- Competition
- Taxation
- Science and Technology

As mentioned in the CSR Frame of Reference, these principles have been incorporated in international standards, but are nevertheless still subject of discussion. The findings of this project might form a contribution to this discussion.

Paragraphs 5.2 till 5.6 deal with the respective principles.

5.2 __ Socio-economic development

Community development

Community development or involvement plays an important role in the Indian context. In the western context it would be called charity or corporate philanthropy, but in India contribution to the local community is seen as a part of the corporate responsibility of a company. Most Dutch companies leave room to their Indian daughter company to develop initiatives in this field; sometimes they have a special fund. It seems that daughters of large MNCs tend to develop initiatives which are more connected to the core business of the company or the interest of the employees. The ideas are often initiated bottom up. SMEs, which are more controlled by the Dutch mother company, find it difficult to find reliable NGOs and/or contribute to charities.

- Employees of one MNC proposed the idea to provide lighting along the road in the village which is used by them.
- One MNC provides free medical care to the local community, which to large extent exists of relatives of employees.
- One SME contributes to a foundation for abused women.

Companies also refer to several bottlenecks with respect to such initiatives:

- The short term expectations of stakeholders versus long term plans of the company.
- There are many NGOs and communities and each have diverse demands. This is difficult to reconcile with the companies' attempt to focus.
- How can a company ensure that NGOs spend the money as promised?

Contribution to macro economic development of host country

This issue is not incorporated in the CSR Frame of Reference of Dutch NGOs, but is relevant in the context of sustainable development. One should also wonder to what extent a western company has an added value to the economy of the host country at macro level. Added value does not only depend on the direct costs and benefits of business activities, but also on the external costs of these activities. These are the net benefits in terms of employment and income generation if the loss of jobs and sources of income in traditional sectors would be taken into account as well.

The practices of Dutch companies give some food for thought on the issue of contribution to macro economic development of the host country:

Positive contribution:

- Several companies, especially SMEs, mentioned that their mere presence in the country is a contribution to economic development. Employment generates a spin-off towards the local community, such as consumer spending, transport, real estate. This is especially so for the ICT sector in India.
- Increased export brings in foreign exchange.
- Companies introduce modern management styles into companies. These companies can be innovators towards other companies in the region and the government of India.
- Several companies are involved in scientific projects or contribute in other ways to transfer of science and technology in the country.
- A bank is developing a microfinance component in its business, which will be focussed on women. This can contribute to the emancipation of women in India.

Neutral or negative contribution:

- Several companies only produce for the western market. It is questionable to what extent they contribute at macro-level to the economic development of India.
- This is especially so if they are located in an export promotion zone, where they benefit from tax exemptions (see also paragraph 5.5).
- Local companies have difficulties competing with MNCs. This may cause unemployment and near monopolies for western companies (stakeholder referring to tea sector).
- Opinions differ about the effect of contract farming on the economic development of farmers in India:

- Contract farming ensures a steady and higher income to farmers (buy back guarantee). Dutch companies provide training to farmers and give them full support (companies). Farmers working for the Dutch company confirmed this.
- On the other hand stakeholders mention that the entry of MNCs has caused a shift from traditional grains to cash crop. This may threaten the production (and consumption) of traditional grains.
- Another effect is related to the use of hybrids. Since farmers cannot reproduce these hybrid seeds, they have to buy new (expensive) seeds each year, which makes them dependent of the company.

- It is not clear to what extent companies have an exit strategy. Most companies intend to stay for a longer period of time in the country, but in practice companies tend to move on if circumstances deteriorate (e.g. political turmoil, degradation of the land). The risks are especially high with regard to companies which do not produce for the local market. Their motivation to do business in India is mainly based upon reasons such as shortage of personnel in the Netherlands, cheap labour and favourable climatic conditions. This motivation is not a guarantee for a long stay in the country.
- In the assessment of the viability and feasibility of a project, governments and banks mainly look at costs and benefits which are directly connected to the project. The research did not show examples of companies also taking into account external costs.
- Economic development does not always mix with other sustainability issues, like environment or health.

A bank is confronted with this dilemma when it is asked by a government to invest, for example, in a dam. Environmental and or social aspects can be a reason to decide not to provide finances. But many times there is also a large economic interest involved for the country and its government. What will happen to the economy if the bank would decide not to provide finance? It can also have consequences for the bank, because it would run a great risk that the government would withdraw the bank's licences.

According to one stakeholder there is a need to define sustainable development.

- Initiatives that have the potential to make the community self-supporting should be encouraged and this is one criterion for sustainability. The problem is that companies are more focussed on resources, while local NGOs who can support the company in achieving sustainability are often absent.
- Companies should have a long-term approach towards sustainable development, continuously responding to the new developments. For example the construction of a road for the community will degenerate over time; new initiatives to counter these will also decay over time, and so on.
- Local staff insufficiently understands how to balance between business priority of the project period and needs of sustainable development. This is partly caused by the fact that they fear to fail the expectations of the mother company and therefore prefer to give an image of: "everything is going on fine and on time".

Other obstacles and bottlenecks

- Legislation and law enforcement

All companies mention legislation and law enforcement as a bottleneck in India.

Companies could act more rapidly and efficiently if legislation and enforcement would be proper and unambiguous.

- Poor law enforcement may encourage corruption.
- If Indian companies do not comply with for instance environmental legislation, this brings Dutch companies in a disadvantaged position.

- Bureaucracy

- It took one company almost two years to organise proper electricity supply.
- The Indian market is not transparent and difficult to enter (several companies).

5.3 ___ Corruption

Policy

All companies say that they have a policy on corruption, either written or more informal. Their anti-corruption policy includes avoiding both to pay bribes to public

officials or business partners and to demand bribes from others. Some work with a broader concept, especially banks:

- No use of confidential information for own benefit (bank)
- No insider trading (companies quoted on the stock exchange)
- Guarantee the integrity of the company's financial records (bank)
- No involvement in black money (bank).

Corruption is a reputation related issue: companies do not want to be associated with corruption. In the Netherlands it has become a legal issue as well, since foreign corruption can now be prosecuted in the Netherlands. This might explain why one company did not want corruption to be mentioned in the interview report.

Several companies make a distinction between corruption and facilitation payments and expressed that facilitation payments should not be considered as corruption. It is a way to avoid red tape, especially in a country like India.

It is not always clear how a company ensures compliance with its policy. Only a few companies mentioned implementation measures, others communicate it more on an informal basis:

- A manual to train staff.
- Whistle-blowers procedure, to protect employees that report corruption or fraud.
- Company has a policy not to pay bribes, but no 100% guarantee is possible.
- One company annually sends out a letter to its customers to communicate that it does not accept corporate gifts at all.

Practice

Most companies, both Dutch and Indian, acknowledge that corruption is an obstacle to do business in India and that they have been confronted with it some way or another, mostly at customs. Companies deal in different ways with these requests:

- If a deadline is involved, companies tend to be more flexible and pay the bribe.

One company admitted that it sometimes pays customs a bribe, if it means that they would otherwise not be able to deliver an order in time to their customer.

- The Dutch Chamber of Commerce advises companies to consult local authorities when a company is confronted with corruption, but companies do not always have confidence in them.

One company threatens to inform the Indian ambassador when he is asked to pay a bribe. This seems to work.

- Companies have also cancelled orders. In one case this resulted in death threats.
- Others simply refuse to pay the bribe and bear the consequences.

5.4 __ Fair competition

The principle of fair competition is accepted by most Dutch companies. Practice in India proves to be much more complicated. According to Dutch companies the Indian government protects Indian companies through import- and export taxation. For foreign companies it is hard to bring new products on the Indian market.

On the other hand, stakeholders argue that MNCs push Indian companies off the market. This is due to several factors:

- MNCs often introduce new products or products with higher quality standards than Indian products.
- In general MNCs are better organised than Indian companies. One stakeholder indicated that Indian companies failed to invest in improvements and that they are more concerned with short term profits.

Another problem occurs when Dutch companies choose their contractors mainly on the basis of price.

- The agent of a Dutch tour operator feels that competition is not fair since they are constantly undercut by other operators who wish to take their business with the Dutch tour operator away. They constantly have to keep driving their prices down, which is achieved by constantly changing hotels and the itinerary. This may have a negative impact on the CSR situation in the supply chain.

Companies expect both the Dutch and Indian governments to create a level playing field.

5.5 ___ Taxation

Developing countries try to attract foreign companies and investments by means of export promotion zones, where companies enjoy tax exemptions and other benefits. Due to these tax exemptions developing countries miss out on a lot of income. Apparently, this amount equals the amount of money they receive in the form of foreign developing aid. Although the companies located in such export promotion zones are operating within the law, one can question the benefit for the host country.

- NGOs often question the benefit for a country of companies located in export promotion and tax free zone, apart from creating employment. These companies only produce for the export market and can leave easily if circumstances become more favourable in another country.

Several interviewed companies, especially SMEs, make use of export promotion zones in India.

- A trade union claims that export promotion zones are exploitation zones since benefits are not passed on to employees. When asked, the companies maintained that the same labour legislation is applicable in these zones as outside them.
- One company admitted that companies try to keep trade unions out of these zones: "Trade unions start strikes and try to infect all companies within such zone."
- A trade union accused one Dutch company that it makes use of tax exemptions in backward areas, without being entitled to it.

When asked, companies acknowledged that they never gave it a thought what the impact is of such zones on the local economy. They denied that their stay is temporary. All companies intend to have a long term business in India.

5.6 ___ Science and technology

Transfer of science and technology is implemented in several ways:

- Training of personnel

- Developing partnerships
- Setting-up networks
- Participate in academic research
- Advise to local governments
- Seminars, workshops

Companies apply these methods in India to a certain extent.

In general companies mentioned that the mere fact that they employ Indian personnel is a way of transferring knowledge. This is a quite limited interpretation of this principle, since the expertise still stays within the company.

Several companies have been involved with partnerships with local authorities or NGOs or would like to participate in partnerships. For small companies it is difficult to find a reliable partner.

Several companies indicated they use patents on their products. Patents have a negative impact on transfer of science and technology because developing countries become very dependent on western companies.

- Farmers that buy patented seeds from a Dutch daughter company need to buy new ones each year. They cannot reuse these seeds nor do they have the technology to develop their own.
- The mother company indicated that there is a mutual dependency because the company depends on the farmers to grow the seeds. Taking into account the different economic positions of the MNC and the farmers, the dependency of the farmers seems much larger.

5.7 ___ Tables with findings on economic CSR aspects

5.7.1 ___ Contribution to socio-economic development

NGO Principles from CSR Frame of Reference	CSR policy of Dutch companies	CSR practice in India
1. Contribute to equal access to health facilities	<ul style="list-style-type: none"> No findings in this research. 	<ul style="list-style-type: none"> Several Indian companies refer to this aspect as part of their community development/involvement. This varies from free medical service to their employees, to the local community, to setting up medical camps, provide ambulance service, and disease prevention in camps in tribal areas.
2. Contribute to access to basic food, housing, sanitation and sufficient safe drinking water	<ul style="list-style-type: none"> According to one company the restrictive standpoint on GMO of the international community has negative consequences for developing countries (food security and environment). 	<ul style="list-style-type: none"> One company has a partnership with a NGO working with street children and supports a school for blind children. In the Dutch context this would be referred to as community development.
3. Contribute to education and access to information with respect to essential health problems in the community	<ul style="list-style-type: none"> A tour operator contributes financially to several education projects in developing countries it works in. None are located in India. It has a fixed budget for this. 	<ul style="list-style-type: none"> Some companies contribute to schools. In the Dutch context this would be referred to as community development
4. Promote respect for other socio-economic rights, like the right to work, social security, maternity leave, to take part in cultural life	<ul style="list-style-type: none"> A tour operator contributes financially to several environmental projects in developing countries it works in (none in India). It has a fixed budget for this. 	<ul style="list-style-type: none"> Several companies mentioned investment in infrastructure, (but in certain instances one can question if this is also to the benefit of the local community or only in its own benefit): <ul style="list-style-type: none"> Electricity, Internet, Roads (as part of a charity project). <i>Good practice:</i> A bank is developing a microfinance component. Microfinance is an important Indian contribution to the Global CSR understanding of the bank. Goal is to reach 1 million poor women in 5 years through support to intermediary organisations working in micro finance. The support to these women may stimulate them to become customers of the bank in the future.
5. Other issues: <ul style="list-style-type: none"> Macro-economic contribution to the 	<ul style="list-style-type: none"> The reasons for companies to establish in India are diverse: <ul style="list-style-type: none"> Opportunities of the local Indian market 	<ul style="list-style-type: none"> Most Indian companies and stakeholders refer to the broader concept of <i>community development / involvement</i>, which can involve different types of

<p>development of the country</p> <ul style="list-style-type: none"> • Legislation • Bureaucracy • Exit strategy 	<ul style="list-style-type: none"> – Shortage of ICT programmers in the Netherlands – Efficient and relatively cheap in the assembly and manufacture of spare parts. – India is a new growth market, esp. with respect to consumer banking. • Dutch companies see their mere presence in the country as a contribution to the economic development of the country. One company mentioned employment as its largest responsibility towards the local community. This has a spin-off effect, namely spending salary in local community. • Some expressed a limited view on socio-economic development. <ul style="list-style-type: none"> – They defined it as charity or corporate philanthropy. • One bank mentioned that the private sector is the motor of the economy and therefore governments and international institutions should direct their attention towards the private sector. According to this bank there is also a role for multinationals; instead of focussing only on investments they should also stimulate trade, like export from developing countries to other developing countries. • This bank works on socio-economic development at a high abstract level, like within WTO and World Bank, but also provides micro credits in slums in Brazil. • The bank stated that it is important in developing countries to keep the banking sector active. If banking sector crashes an enormous crisis breaks out like happened in Argentina. 	<p>activities, mentioned above.</p> <ul style="list-style-type: none"> • <i>Bottleneck</i>: Several SMEs indicated they would like to be more involved in community development. Obstacle is to find reliable partners. • <i>Bottlenecks</i> mentioned by the Indian daughter of a large MNC with respect to several of their initiatives: 1. stakeholders' short term expectations versus long term plans of the company. 2. NGOs and communities are large and have diverse demands versus the company's own attempt of focus. 3. Ensuring that NGOs spend the money as promised. • Large <i>bottleneck</i> in India mentioned by all companies: legislation and law enforcement. Companies could act more rapidly and efficiently if proper and unambiguous legislation and law enforcement would exist (nearly no examples were provided): <ul style="list-style-type: none"> – The legislation in India for the protection of Indian farmers is considered as an obstacle for foreign agro-companies. • Another <i>bottleneck</i> in India is bureaucracy. • <i>Bottleneck</i>: The Indian market is difficult to enter and not transparent. Stimulating measures by the Indian government are necessary according to a Dutch company. • <i>Bottleneck</i>: The fall of the tea price on the Indian auctions causes extreme poverty among tea workers. According to Indian stakeholders large MNCs are partly to blame for the fall of the tea price. Furthermore, tea planters require land reform legislation for agricultural products which will have an even more negative impact on the employment of tea workers. • <i>Practical obstacles</i>: bad infrastructure like energy and water supply. • <i>Positive</i> impact on macro-economic development by foreign companies: <ul style="list-style-type: none"> – The spin-off of the ICT sector is enormous in India: employment, good salaries, multiplier effect, e.g. consumer spending, transport and security, real estate (according to stakeholders). – Increased exports bring in foreign exchange (mentioned by companies). • Also <i>negative</i> impact of certain industries on macro-economic development: <ul style="list-style-type: none"> – Automation, mainly introduced by western MNCs, may cause closure of industries and unemployment. – Entry of MNCs has resulted in closure of Indian companies, which was also due to mismanagement by Indian companies (according to a trade union).
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		<ul style="list-style-type: none"> - Use of hybrids and patents creates dependency of farmers on MNCs, because they cannot produce these seeds themselves. This is a concern of farmers, since seeds are costly. • Opinions on the effects of <i>contract farming</i> (also by Dutch companies) were divided: <ul style="list-style-type: none"> - Due to the higher returns more and more farmers shift to cash crop. This provides good income, but is at the cost of grains which are produced for local consumption. - Furthermore, it creates a large dependency of these farmers on the western companies. If these companies move out, e.g. because production becomes cheaper in another country or region, because degradation of the soil or because political circumstances become less favourable, these farmers are left without income. Therefore, a proper exit strategy is necessary. - According to companies, this dependency is mutual. Contract farming also benefits the farmer: he receives full support, namely training, and due to the buy-back guarantee he is ensured of income. - One interviewed farmer agreed that they could obtain more profit with cash crop. They still continue to grow conventional crop farming, mainly to have more income. They had a positive view on the practice of the Dutch company because it is helping the farmers' community. - One company mentions that the Indian government boycotts contract farming. An explanation might be that the government worries that if all farmers switch to contract farming there will be no more need for HOPCOMS (horticulture produce co-op) which is an initiative of the government. • One stakeholder wondered what is the Indian share in business and development in fully owned Dutch companies. • One company mentions that western companies introduce modern management styles in Indian companies. Such companies can subsequently be innovators in the region. • According to one stakeholder there is a need <i>to define sustainable development</i>: <ul style="list-style-type: none"> - "A company might end up making the local community dependent on it to
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		<p>such an extent that the company would not be able to withdraw. Initiatives that have the potential to be self supporting by the community should be encouraged and this is one criterion for sustainability. Essentially it has to do with the resource intensive approach of the company on the one hand and the absence of local NGOs to anchor the program on the other.</p> <ul style="list-style-type: none"> - Furthermore, sustainable development also means to take into account the unidirectional future of development that leads to decays and so continuously keeps evolving responses, e.g. the construction of a road for the community will degenerate over time, new initiatives to counter these will also decay over time. “ - “There is an inadequate understanding by local staff with respect to balancing business priority of the project period with needs of sustainable development coupled with fear of failure towards the mother company. This appears to be the major stumbling block to institutionalise sustainable development at the local level” (stakeholder). • <i>Bottleneck</i>: Due to the significant influence of MNCs on the Indian tea market the brand of the tea becomes more important than the type of tea (e.g. Darjeeling). Due to the shift from loose tea to packaged tea, the tea price fell. Packaged tea is always a blend of tea types and is therefore cheaper. Tea therefore became available to more consumers. For farmers the consequences were however disastrous, resulting in extreme poverty. (stakeholder) • <i>Bottlenecks</i>: According to an Indian daughter company the Indian government needs to faster implement economic reforms, develop the infrastructure up to international standards and facilitate the business smooth operations to leverage the cost competitiveness of the country. • <i>Bottleneck</i>: Economic development of the country can clash with CSR issues, like ecology and health. E.g. the Loss of Ecology Authority set up by Union Ministry of Environment and Forests has asked tanneries of Vellore district to pay compensation to nearly 30.000 families as pollution charges. The Workers’ Union of Tannery and Leather processing units in Vellore have urged the Loss of Ecology Authority to review this decision. This would lead to complete closure of the industry in the district. (stakeholder) • <i>Exit strategy</i>: the period that a MNC stays in a developing country is
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		uncertain. E.g. a certain sector of the food processing industry moved completely from Sri Lanka to India, due to political disturbances there in 1990s. This could also happen to India if the local situation becomes less favourable.
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5.7.2__ Corruption

NGO Principles from CSR Frame of Reference	CSR policy of Dutch companies	CSR practice in India
1. Do not offer, nor give in to demands to pay bribes to public officials or employees of business partners	<ul style="list-style-type: none"> All CSR policies contain a paragraph on corruption. Also companies with no CSR policy state that they do not tolerate corruption or bribes. This policy is also adopted by the Indian daughter companies. One company has developed internal guidelines for corruption. One company has a procedure for whistle-blowers The Dutch Chamber of Commerce advised companies to consult local authorities when a company is confronted with corruption, but companies do not always have confidence in them. It is a reputation related issue: companies do not want to be associated with corruption. In the Netherlands it has become a legal issue as well, since corruption by Dutch companies abroad can now be prosecuted in the Netherlands. This might explain why one company did not want corruption to be mentioned in its interview report. 	<ul style="list-style-type: none"> <i>Bottleneck:</i> Nearly all companies acknowledged that they have been confronted with corruption in India and that it forms a major obstacle to do business. Some attribute it to the bureaucracy. <i>Bottleneck:</i> Some companies make a distinction between corruption and facilitation payments. Sometimes companies have to pay state officials, for instance at customs, money to obtain a permit faster or to pass the border. <ul style="list-style-type: none"> According to several companies these payments save them a lot of trouble. Other companies are quite clear they will not pay such bribes. One company considers small tips okay, but it is not clear where it draws the line. <i>Good practice:</i> One company threatens to inform the Indian ambassador when he is asked a bribe. This seems to work. <i>Bottleneck:</i> One company refused to pay a bribe when it filed a complaint with respect to the electricity supply. As a result it took years before the complaint was dealt with. This is partly caused by the fact that the company decided to locate itself in a residential area and not in the tax free park (for tax reasons). Facilities and infrastructure are less in residential areas (according to stakeholder). <i>Bottleneck:</i> One company cancelled an order when the vendor asked for a bribe. This resulted in life threats. A large MNC mentioned that it is not so much confronted with corruption, if it has a majority share in a project and has the authority to select its own business partners.
2. Do not demand bribes to obtain or retain	<ul style="list-style-type: none"> Most policies mention corruption in general and make no 	<ul style="list-style-type: none"> <i>Good practice:</i> One company explicitly mentions that no corporate gifts are

business or other improper advantage	distinction between paying or demanding bribes.	accepted. It annually sends out a letter to its customers to communicate this.
3. Other issues	<ul style="list-style-type: none"> Some companies use a broader definition of corruption: <ul style="list-style-type: none"> No use of confidential information for own benefit (bank) No insider trading Guarantee the integrity of the company's financial records (bank) Banks have added an extra dimension to corruption, namely no involvement in black money. 	<ul style="list-style-type: none"> No findings in this research.

5.7.3 ___ Fair competition

NGO Principles from CSR Frame of Reference	CSR policy of Dutch companies	CSR practice in India
1. Conduct activities in a competitive manner	<ul style="list-style-type: none"> Several companies have incorporated the principle of fair competition in their code of conduct. Two companies have worked out the principle in a manual for their staff. 	<ul style="list-style-type: none"> <i>Bottleneck:</i> According to Dutch companies Indian companies receive preferential treatment, since foreign companies need to pay heavy import- and export taxes. This forms an obstacle to bring new products on the Indian market. <i>Bottleneck:</i> Also the subsidy policy of the Indian government for local companies is mentioned as a major bottleneck. Due to the entry of MNCs Indian companies had to shut down. But according to a trade union this was due to mismanagement and not to cartelisation. Fair competition is no issue in ICT. IT companies are very transparent due to high competition (according to company and stakeholders). According to a stakeholder, large foreign car manufacturers (in general, not specific the Dutch company) protest against the import of second hand cars, because that pushes them off the market. <i>Bottleneck:</i> One company was accused of unfair competition because it attempted to obtain a monopoly in a certain business. <i>Bottleneck:</i> In the tea production the MNCs have nearly a monopoly because of the auction system, which is controlled and allegedly manipulated by them. (according to stakeholder) <i>Bottleneck:</i> The Indian agent of a Dutch tour operator feels that competition is not fair since they are constantly undercut by other operators who wish to

		take their business with the Dutch tour operator away. They constantly have to keep driving their prices down, which is achieved by constantly changing hotels and the itinerary.
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5.7.4___ Taxation

NGO Principles from CSR Frame of Reference	CSR policy of Dutch companies	CSR practice in India
1. Contribute to public finances of host countries	<ul style="list-style-type: none"> Few companies have incorporated the obligation to pay taxes in their code of conduct 	<ul style="list-style-type: none"> Several companies, especially SMEs, are located in export oriented units, where they enjoy tax exemptions. The tax benefit is a major reason to locate in India. When asked, the Dutch company indicated that it has not thought about the impact of the loss on tax money for the host country. A large MNC moved to backward areas where companies also enjoy ten years exemption and many concessions. According to a stakeholder it enjoys these benefits illegally, since according to the law a company is not entitled to the benefits if the old factory is closed.

5.7.5___ Transfer of science and technology

NGO Principles from CSR Frame of Reference	CSR policy of Dutch companies	CSR practice in India
1. Transfer S&T in order to contribute to the development of local and national innovative capacity	<ul style="list-style-type: none"> Companies indicated different ways in which transfer of S&T takes place: <ul style="list-style-type: none"> Developing partnerships Setting-up networks Participating in academic research Attending seminars and workshops Training of personnel Companies expect governments to create a favourable environment for scientific progress. 	<ul style="list-style-type: none"> All companies took care of training of local personnel. One company was working on the introduction of new technologies on the Indian market, like solar energy. <i>Good practice:</i> ICT technology has been translated into Indian environment. "The Brain Drain should be looked at as a Brain Gain." (general comment of stakeholder w.r.t. ICT). <i>Bottleneck:</i> Use of patents by several companies limits the transfer of science to Indian companies. <i>Bottleneck:</i> Several SMEs expressed the desire to develop partnerships in India, but found it difficult to find partners and financing.

6

Results workshops

6.1 Introduction

The project was concluded with workshops in India (Mumbai, 21st November 2003) and in The Netherlands (Amsterdam, 12th December 2003). The objective of the workshops was twofold:

- To present the findings and conclusions of the research to all relevant parties, i.e. the companies participating in the research, relevant governmental organisations and stakeholders, such as NGOs, consumer organisations and trade unions.
- To discuss possible solutions and make recommendations for follow-up activities.

Both workshops were well visited, although the participation of stakeholders was much higher than that of companies and governments. Several participants mentioned that this limited the depth of the discussion since the workshops now presented too much the view of stakeholders. Input from companies could have shed more light on the bottlenecks which are highlighted in this project. Some stakeholders also felt that the low participation of companies is an indication of their limited commitment to CSR.

The set-up of both workshops was the same:

- A presentation of the findings, in which CREM BV presented the findings and conclusions of the draft report and PiC gave an analysis of the factors that impact on the CSR policy and practice of companies (see paragraph 6.1).
- A panel discussion on the findings of the report. In the panel both companies and stakeholders were presented.
- Working groups which discussed several aspects of the findings. While the working groups in India focussed on the factors that impact on the CSR policy and practice of companies, in The Netherlands the working groups discussed the different role companies, stakeholders and governments should fulfil in order to improve the CSR practice of companies.

The following paragraph deals with the factors that impact on CSR (6.2). Paragraph 6.3 discusses the outcome of the workshop in India and paragraph 6.4 the outcome of the workshop in the Netherlands. For practical reasons only the main issues and recommendations raised are incorporated in the report.

6.2 __ Factors emerging from the research that affect CSR

PiC gave a presentation on factors resulting from the findings which have an impact on the CSR performance of a company. Several of these factors will need further research to understand their full impact and to find solutions how these factors can positively contribute to the CSR performance of companies.

1. Positioning CSR in the company

Companies have different ways of positioning CSR in their company:

- Business Principles: these are directly linked to business benefit and give more scope for strategic processes to participate.
- Ethical statement: this is directly linked to beliefs and indirectly to benefits. It gives scope to participate at various levels within the company (both management and work floor). It is however difficult to find a direct link with the bottom line in the short term.
- Reflected in practice: several companies had no written statement but indicated that their practice reflected their CSR policy. The risk occurs that the practice becomes inconsistent across different countries and segments of operations.

In practice, all three are needed.

2. Stakeholder engagement

Stakeholder engagement depends on two factors:

- Strategy: Companies tend to engage with different CSR aspects separately, e.g. on environmental and community impact. Companies could have looked at these aspects collectively, as the livelihood of the community and environmental issues are connected.
- Whose point of view is considered: For example, in one company the women do the weeding, which is physical hard work according to western standards, and therefore maybe less suitable for women. But the company says that according to Indian standards it is more acceptable. The stakeholder met in this case can become an interesting case subject in himself.

3. Cost reduction

Cost cutting measures can have an impact on CSR. For example, one company became a member of an export promoting zone in order to claim duty exemptions and at the same time choose to locate in a residential area to save on costs. It expected the same benefits (good infrastructure) as in the export promoting zone, but was pressured to pay bribes to avail this required infrastructure.

4. Enterprise architecture

Applying Porter's Value Chain Framework¹⁰ it is observed that many of the surveyed companies in India have hived out supplies, equipment, construction and other procurement activities which constitute support to the primary activities¹¹ in their value

¹⁰ Porter's Value Chain Framework is used to facilitate the analysis of the impact of the enterprise architecture on CSR.

According to Porter the goal of the activities that constitute a value chain is to offer the customer a level of value that exceeds the cost of the activities, thereby resulting in a profit margin.

¹¹ The *primary activity* of a company is directed at adding value to consumer. They are clustered around inbound logistics, operations, outbound logistics, marketing and sales and services. *Support activities* are clustered around the company's infrastructure, its human resource management, technology development and procurement. The firm's margin or profit depends on its effectiveness in performing the primary and support activities, so that the price the customer is willing to pay for the product exceeds the cost of the activities in the value chain. It is in these activities that a firm has the opportunity to generate superior value. A competitive advantage may be achieved by reconfiguring the value chain to provide lower cost or better differentiation.

chains. Viewed as a value chain system¹², the Indian counterpart generally appears to have taken the form of a value chain system member which is not necessarily in the Dutch company's value chain, either because the Indian counterpart is a separate legal entity or because it pursues support activities. It fulfils in these instances for example the role of a supplier value chain and/or a channel value chain. Such an enterprise architecture can improve efficiency but can have an impact on CSR in different ways:

- It reduces the direct responsibility of the company due to smaller value chains.
- By means of outsourcing the value chain shrinks. Each value chain will optimise its own profits.
- The tendency to maximise profits in multiple chains can result in exploitation at the producer's end, given that costs of switching supplier, channel or buyer for a producer are generally low.

5. Valuation of resources

The CSR practice of a company is affected by the way it values its resources, in two ways:

- Classification related: one company valued the quality of the labour on its fields as farm labour instead of plantation labour. The minimum wage for both these classes is different in ratio 1:2, so the company valued the labour lower than it should have according to the workers.
- Externality related: ecologically unequal exchange occurs, when poor countries in the south export primary products (minerals, agricultural or forestry products) at prices which do not take into account the negative local externalities¹³ caused by the extraction of the resources or the production of the export commodities.

6. Stage of life of business in the host country

The CSR principles manifest themselves in different forms and with different intensities depending on the stage of life of a business.¹⁴ This means that the company will have to evolve its responses to CSR claims of the stakeholders in the host country.

7. Consumer behaviour

The way a company 'selects' its consumers affects its CSR policy. For example, a company which produces for the cheaper segment claimed that it does not get enough incentives from consumers to implement a CSR policy, because consumers are not always willing to pay higher prices which would allow the company to compensate for higher production costs.

8. Situation in host country

This may affect the CSR practice in three ways:

- Expectation in the country: local NGOs expected a large Dutch company to play a leadership role in environment. The company however was not aware of this or did not want to play this role in India at that stage.
- Practices in the country: for example the occurrence of corruption in India or that of internal trade unions (a phenomenon which does not exist in The Netherlands).

¹² *The value chain system* consists of the supplier's value chain, the company's own value chain, the channel's value chain and the buyer's value chain.

¹³ *Externalities* are defined as the sum of all materials which are not physically included in the economic output under consideration, but which were necessary for production, use, recycling and disposal (Spangenberg et al. 1999: 15). These hidden flows do not enter the economic system, but can have wide ranging negative consequences for the local populations, who depend on the environmental quality for their own reproduction and for future activities. (Cabeza-Gutes and Martinez-Alier 1997).

¹⁴ One can distinguish the following stages of a business life cycle: start, growth, maturity, decline and death (Mark Fitzgerald).

- Government norms: One company was willing to rehabilitate mangroves affected by its operations but the government required that the company should buy the land. This formed a bottleneck for the concerned company.

9. Country of origin

A MNC in a guest country is impacted by the issues related to the country of origin, such as the relation between the two governments of the country of origin and the host country, the position of the home government on CSR and the emphasis it puts on certain CSR issues, the (lack of) political position of the home government with respect to CSR issues in the host country, the position of civil society on CSR issues and the bargaining power of civil society both in the home and host country.

6.3 __ Workshop in India

6.3.1 __ Input from the workshop participants

Operational CSR aspects

- *Accountability*: A stakeholder mentioned that the focal point in the CSR debate should be accountability of companies rather than responsibility.
- *Communication*: A valuable aspect of this project is that it has led to discussions within MNCs about CSR issues, because questions have gone up and down from mother to the daughter company and vice versa.
- *Stakeholder involvement*: A discussion is necessary to find where different organisations such as consultancies and trade unions can strengthen each others' work on CSR. Consultancies on their own can monitor companies' behaviour but without input and follow-up of trade unions it remains toothless. Trade unions and employees can make use of the technical expertise and more 'objective fact finding role' of consultants.
- *Business case*: The business case for banks with respect to CSR is to a large extent their reputation. They run a large risk if they invest in companies which contribute to environmental degradation and exploitation of labour. Therefore, the best protection for a bank is to know its customers, i.e. the companies or projects they invest in and the people putting money into the bank.
- *Business case*: Companies should realise that costs are not a valid reason not to adopt a CSR policy. The costs will not be enormous, if one compares it for example with the costs spend on advertising. Above that, the benefits will exceed the costs. It is a matter of priorities.
- *Policy development*: The drivers for the CSR policy of foreign companies operating in India should be national, a bottom up approach from daughter to mother company is necessary. The foreign company should not impose the legislation of its home country upon India. On the other hand it is necessary that India brings its legislation in line with international requirements. Concerning the CSR policy certain CSR principles work across countries; these are the so called core principles.
- *Implementation*: CSR is so far a game of heroes and heroines, where mainly the concept is being discussed. It has however not institutionalised yet.
- *Implementation*: The focus in the CSR discussion is now too much on the value aspect (content of the principles), but the process if and how CSR is implemented in the company is much more important.

- *Implementation:* If the mother company is willing to live up to its CSR obligations, both of itself and those of the daughter company, and is ready to pay the price, the daughter company would follow. One daughter company in the food-processing sector mentioned that its production costs are about 25% of the price that the parent ultimately earns. Undertaking CSR in its entirety would imply a tripling of production costs, which might force the mother to look for another country where production costs are lower. To avoid this, there is a need for globally institutionalising CSR practices by the mother companies. One domestic group in India integrated CSR compliance with the use of the brand name. Compliance can be at different levels and full enjoyment of the brand name comes with the highest level of compliance.
- *Monitoring mechanisms:* A trade unionist brought forward that CSR from the western perspective entails the assumption that companies and consumers will regulate CSR. There is however no such evidence, and therefore a third way should be introduced: social regulation. Market mechanisms will not be sufficient in order to force companies to comply with CSR standards. Even companies which claim to adhere to a code of conduct do not have any process or system to implement the code, monitor it or have it verified. Therefore, social mechanisms are necessary, at par with the expectations of society. From a labour point of view, this mechanism is provided by the right to organise and collective bargaining. Because by definition there will be a conflict of interest among different stakeholders a political process is needed to develop such a social framework. In other words, legislation is deemed necessary to ensure a balance for all concerned parties in the CSR practice of companies.
- *Supply chain responsibility:* The fact that no screening takes place of the supply chain, to a large extent due to the fact that the vendors are too small. The participants were of opinion that it is necessary to differentiate between the mother and daughter relation on the one hand and the suppliers on the other hand. A mother company cannot maintain it has a CSR policy if it cannot get the daughter company to comply. The supply chain in India is different however, since one cannot expect that the small suppliers can live up to the CSR expectations of civil society.
- *Verification:* verification of compliance with the CSR policy is essential. This could be done by a coalition of for example government, NGOs and trade unions.

Social CSR aspects

- *Women:* The position of specific disadvantaged/marginalised groups like women tends to disappear in the debate on CSR. Their interests may conflict with those of other groups, and therefore need to be specifically addressed.
- *Trade unions:* A trade unionist pointed to the fact that the CSR discussion involves a conflict among stakeholders by definition. A company needs to address all but how can it realise this? Workers could play an important role in the monitoring process. Many CSR models have been made but without participation of workers and trade unions. An internal instrument is necessary which involves the workers.
- *Trade unions:* The low participation of trade union in Indian daughter companies is a matter of concern. The company should implement a structure which enables the exercise of the right to organise and collective bargaining.
- *Work security:* The CSR policy of Dutch companies should also address the concept of informal labour in the Indian context.
- *Consumer protection:* One stakeholder indicated that consumers in India get insufficient information. For example, there is no legislation with respect to imported food products. In practice, producers first export the product and then re-import it so it does not have to comply with any rule. India is becoming a dumping

ground for products which cannot be sold elsewhere. Therefore, legislation is needed.

- *Consumer protection:* Another hiatus in consumer protection in India is that although there is a consumer protection act, many cases are in the consumer courts for years.
- *Consumer protection:* If consumers should be educated on CSR it is not effective to approach them on an individual basis. Transparency and communication is needed so that consumers know where the money goes.

Environmental CSR aspects

Not specifically addressed.

Economic CSR aspects

- *Economic development:* So-called hard issues should also be taken into account in the CSR discussion, e.g. the past four years 40% of investments has gone into mergers. This does not contribute to economic growth or employment.
- *Economic development:* A stakeholder pointed to the fact that MNCs are appreciated for their investment in India but it should be born in mind that they come to India for its low production costs. The operations by MNCs in India are therefore by definition in conflict with CSR. This statement was challenged, since there is a growing middle class in India which is partly employed by MNCs. India has research institutes and stakeholders which can further CSR with MNCs operating in India.
- *Economic development:* One stakeholder indicated that developments in India are not at par with the requirements in a period which is characterised by Foreign Direct Investment (FDI) and privatisation. It is always said that FDI by MNCs leads to employment but all figures show that the major employers in India are the small companies. Therefore, the stakeholder argued, India needs to look at CSR from the regulatory point of view. At the moment India is not up to this since regulation and enforcement will cost a lot of money.
- *Economic development:* A stakeholder pointed out that in India the banking sector has an important function in society, namely they finance other companies' activities and decide who has access to credit and lending. Banks should have an obligation to open rural branches, for example. The bank pointed out that the regulations in India are such that a commercial bank cannot open branches where they want to. Opening branches in rural communities is not feasible. On the other hand, the bank has recently started with a program which provides micro-credits to poor rural women.
- *Competition:* A small company pointed at the risks involved if it would have to comply with CSR standards. Companies producing "cheap" bulk products would be confronted with such a cost increase that the Dutch mother company would certainly move its activities to China or even back to The Netherlands. Indian companies use cost cutting measures in order to compete. Their first priority is employment, only then can they implement CSR in a win-win situation.

6.3.2 Recommendations from workshop participants for follow up activities

Companies

- Mother companies should ensure better understanding of CSR within the corporation at all levels. This can be achieved by creating work groups on CSR issues and encouraging adherence to the CSR policy by means of rewards.

Companies should stress that CSR leads to reputation enhancement of the corporation.

- Corporations should create CSR structures to involve the community, labour and other relevant stakeholders in decision making and compliance mechanisms.
- Transparency in the value chain has to be improved since this will lead to a better identification of bottlenecks through the chain.
- Mother companies should allocate budget to daughter companies so they can address CSR issues.
- The business case of CSR should be clear. Therefore profitability statements or a business plan should be formulated together with the CSR policy.
- Mother companies should require that the management reports of daughter companies contain a CSR implementation action plan and report on the implementation measures taken in line with the mother company's policy.
- Mechanisms should be developed to measure the initiative and commitment of companies to bridge the gap between legal requirements in the host country and CSR norms in the home country.
- The 'roots' of CSR in the company should be assessed by looking at the structure and processes in place which enable the enforcement of CSR principles.
- Companies should share examples of efforts, of e.g. joint partnerships, that removed bottlenecks to CSR.
- A toolkit should be developed for self assessment of companies on CSR performance.
- The mother company should be made accountable as it enjoys the (financial) advantages of global branding. Mother companies should connect the use of the brand name to compliance with its CSR policy.
- Companies should install a so called CSR cell within their company in order to facilitate stakeholder engagement. Without an internal structure it is not possible to involve the community.
- To give more priority to environmental issues greening costs should be part of the project costs.

NGOs and other stakeholders

- Civil society in India should be more involved with monitoring of CSR and networking in order to pressure mother and daughter companies.
- NGOs need to build capacity to engage with the private sector. Several methods are possible:
 - Research should focus on the business case of CSR elements and categories.
 - Universities and other institutes should work together to put CSR on the agenda, especially of business schools, research institutes, etc.
 - Sector specific round tables on CSR should be promoted.
- NGOs should also target SMEs to incorporate CSR principles.
- NGOs in the country of the mother company and NGOs in the country of the daughter company should work together to root out elements of corruption.
- The CSR Frame of Reference should also contain development goals, a focus on decent employment generation and stable vendor relationships with suppliers.
- Much more work is needed to educate Indian consumers on the needs for and the benefits and costs of CSR.
- NGOs should develop sector specific CSR best practices after a meaningful dialogue with the industry.
- NGOs should lobby with media corporations to regularly publish and do ranking on not only financial but also on CSR benchmarks.

- Within ISO a CSR lobby should be raised to involve stakeholders in the development of standards, especially with a view on incorporating the developing countries perspective.

Governments

- More comparative research with other EU countries, in which the concept of CSR is disseminated among companies, governments and civil society.
- A bottom up approach to CSR through community awareness is necessary to avoid the misconception of CSR being used as non tariff barriers.
- The Indian government should create a coherent legal framework for the operation of FDI.
- The Indian government should assure that action would be taken against corrupt officials in order to ensure that CSR is adhered to.
- The Indian government should make CSR compulsory by law. Legal mechanisms are required to ensure that the mother company and its subsidiary are legally and social accountable to CSR principles.
- Governments should promote CSR through its own machinery and introduce awards for good practices.
- The government should rebate expenditures on CSR through excise duty and sales tax.

6.4 __ Workshop in The Netherlands

6.4.1 __ Input from the workshop participants

Operational CSR aspects

- *Definition:* The representative of the employers' association preferred the use of the term Responsible Business Conduct above CSR and Socially Responsible Business, since it is about the behaviour/conduct of companies.
- *Implementation CSR policy:* Different opinions were expressed on how the mother company should ensure implementation of the CSR policy with the daughter company. Different suggestions were made:
 - By means of inspiration and incentives.
 - By means of sanctions and incentives.
 - Develop targets for the daughter companies.
 - Involve the daughter company in the development of the policy.
 - Develop minimum standards worldwide but translate these to the Indian practice together with the Indian counterpart.
 - Require the Indian counterpart to develop CSR targets and a management system for it.
 - Reward and punish employees of the daughter company on their CSR practice, e.g. in their salary.
 - Dutch NGOs should ensure that Indian NGOs enter into dialogue with the Indian company. At the same time the Dutch NGOs can address the mother company with respect to stakeholder involvement and practice of the daughter company. Dutch NGOs can also support the Indian NGOs.
- *Stakeholder involvement:* NGOs and trade unions in India traditionally address the government and not so much the companies because they feel the government is responsible.

- *Stakeholder involvement:* In India just recently a NGO Forum for CSR has been set up. PiC is one of the initiators of this forum. Already 23 NGOs and consultants participate in it. The first thing they want to do is to arrive at a common position on CSR like the Dutch CSR Platform.
- *Stakeholder involvement:* Certain strategies were discussed how Indian NGOs could address Dutch companies in India but the problem is that the Indian NGOs are not ready yet to cooperate. It will cost a lot of time. First awareness rising is necessary.
- *Stakeholder involvement:* There is not so much cooperation between employers' associations in The Netherlands and developing countries, only in the context of the ILO. The different employers' associations consider each other in the first place as competitors.
- *Stakeholder involvement:* The Indian government does not have a position on CSR. The two large employers' unions, CII and FICCI, have adopted a code of conduct with the Global Compact as starting point.
- *SMEs:* The distinction between large MNCs and SMEs can partly be explained by the fact that SMEs have a different strategy than large companies. SMEs operate with a short term view and large companies take the effects in the long run into account.
- *SMEs:* One stakeholder indicates that SME is a broad concept. There are also Dutch companies which only have a few employees in The Netherlands but have a very large supply chain. CSR should be taken up collectively, within the sector. The Fair Wear Foundation is a good example. SMEs are well organised both on sector and regional level. These organisations can achieve a lot.
- *Supply chain responsibility:* A trade union representative mentioned that the social policy of daughter companies of MNCs in general is not so bad, but the point is that MNCs are more and more outsourcing work. The number of employees of MNCs has drastically declined. The supply chain is becoming larger and longer. Competition plays a role in this, but it is also a method to avoid responsibility. Employees of MNCs in developing countries are constantly worrying about their jobs, and often less concerned about their salary and secondary benefits.
- *Supply chain responsibility:* The representative of an employers' association brings forward that companies are doing more and more but that it costs time to implement CSR. The question is much more "what is the legitimate role of business?"
- *State of the art:* one company wants to react to the negative impression of NGOs on the CSR behaviour of companies. Companies have achieved a lot in the last five years, but even the large companies are now in the middle of the process of changing their policy and practice. The pioneer phase is over and now the question arises what CSR means for the core activities of companies. When that has become clear, this will also affect small companies. SMEs have to be supported in the field of CSR.
- *Local legislation:* PiC is of opinion that the local culture in the host country is decisive for a company's behaviour. Foreign companies usually abide by the Indian law quite well. For example, the fact that one Dutch company accepted a contract workers union and another one which provides social security measures also for contract workers because of the influence exerted by the Dutch mother company.
- *Local circumstances:* One company remarked that with respect to the findings in the report some historical reflection is necessary. The problems companies encounter now in India used to also occur in The Netherlands. Dutch companies should support India in this.

Social CSR aspects

- *Consumer protection*: Consumers find it important to be well informed by companies. Research has been done in this field. At policy level consumers are expected to play an important role in the field of CSR, also in international fora like the WTO and Conferences on Sustainable Development (like, 'Johannesburg'), but then consumers have to be well informed. There is a gap in this respect.
- *Consumer protection*: Dutch companies use double standards with respect to consumer protection. Consumers in India are treated differently than Dutch consumers.
- *Trade unions*: There is disagreement with one of the conclusions in the report on trade unions, which is to consider alternative forms of employees' representation. The right to organisation is a fundamental right and requires consultation between employers and employees. The right to organisation is a problem in more countries. Trade unions are often actively obstructed. The relation between trade unions, employers' association and government in The Netherlands is very specific and cannot be compared with the situation in India where trade unions are more activist-oriented. Dutch companies should not use this argument to keep trade unions out of their companies.

Environmental CSR aspects

Not specifically discussed.

Economic CSR aspects

- *Competition*: When looking at the concept of CSR, one company indicated that the element of competition and costs should be born in mind. In the end it is about keeping business going.
- *Taxation*: The Dutch employers' association urges Dutch companies not to choose for tax exemptions in host countries but for political and social stability. India has a lot of barriers for companies that want to invest in the country compared to China. Therefore, India will have to bear the consequences.
- *Economic development*: A few stakeholders indicated that CSR is becoming "over-discussed". The discussion should be on the major problems behind CSR, like outsourcing, trade barriers, tendency to locate in low labour costs economies.

6.4.2 Recommendations from workshop participants for follow-up activities

Companies

- The research shows the importance of creating a level playing field to avoid that everyone shifts responsibility to another. There is also a role for the government to achieve this.
- SMEs need assistance in the field of CSR. Large companies can have a role in this, e.g. by setting up a working group for SMEs.
- Employers' associations should work together on information systems in the supply chain. In order to stimulate a dialogue between Dutch and Indian employers' associations Dutch companies which are already working on CSR should be involved. This will enhance the possibilities of the Dutch employers' association to participate.
- Mother companies should ensure implementation of their CSR policy by the daughter company in different ways: by sanctions, incentives, inspiration (e.g. training), brochures, setting-up sustainability teams, formulation of targets for and/or by the daughter company, accountability and reporting, involvement in policy development, etc.

- The mother company can delegate the responsibility for the implementation of the CSR policy to the daughter company under financial and management conditions. On top of that, external verification and reporting guidelines are necessary. However, the final responsibility should lie with the mother company.
- To ensure CSR in the supply chain companies should:
 - Pay a higher price for the product if necessary to achieve CSR goals,
 - Maintain steady and long-term relations with suppliers,
 - Offer management support and training to the supplier,
 - Offer clear specifications to the supplier on the expectations.
- To ensure the right to organisation the Dutch management together with Dutch trade unions should talk with the Indian management and Indian trade unions to see how they can cooperate.

NGOs and other stakeholders

- The suggestion was made not to use the term CSR with respect to SMEs. SMEs can not deal with a document like the CSR Frame of Reference. It does not fit in with their day to day business. A lot of SMEs are involved with CSR issues but will not name it that way. NGOs should start with discussions with companies in India on social issues. For this purpose they should make use of the direct relation between the Dutch and Indian company.
- Dutch NGOs can address the mother company with respect to stakeholder involvement and practice of the daughter company. Dutch NGOs can also support the Indian NGOs.
- Dutch NGOs can assist Indian NGOs by providing 'hard' business information on Dutch companies which the Indian NGOs can use in the negotiation. For Indian NGOs it is impossible to obtain this information on their own.
- Together with a Dutch NGO, Indian NGOs could file complaints on Dutch companies operating in India at the contact point of the OECD.
- NGOs both in The Netherlands and India should think about mechanisms to address companies and at the same time keep working together on concrete company cases and/or business sectors.
- The Dutch CSR platform can provide information and advice to the CSR platform in India and vice versa: which are bottlenecks, what are the strategic chances for co-operation, etc.

Governments

- CSR is in the first place a public responsibility concerning private economic actors. Governments should implement legislation which forces companies to operate social responsible. Otherwise it will not happen. A dynamic co-operation is necessary between government, companies and NGOs.
- The Dutch government should support SMEs in the field of CSR by means of a CSR centre ("MVO Kenniscentrum").

Conclusions and recommendations

The conclusions represent the main findings of the survey among, the interviews with and the workshops with Dutch and Indian companies and stakeholders. Within this project the CSR Frame of Reference developed by the CSR Platform of Dutch NGOs played a central role. An important element of this project was to explore and discuss both the scope of and limits to the responsibility of companies operating in the Indian context within the light of the principles incorporated in this Frame of Reference. The objective was to learn to what extent companies are able to implement these principles and where other actors such as governments and NGOs can and do play a role.

Paragraph 6.1 contains the conclusions on the policy and practice of Dutch companies operating in India. In order to make a comparison possible between the principles incorporated in the CSR Frame of Reference and the CSR practice of companies in India the conclusions are grouped according to the set-up of the CSR Frame of Reference. Paragraph 6.2 contains the recommendations which are specified with respect to companies, NGOs and other stakeholders, and the Dutch and Indian government.

It is necessary to maintain a certain level of cautiousness with respect to the following conclusions, since these conclusions are based upon the findings with respect to a limited amount of companies and stakeholders. Furthermore, the conclusions may give a too positive image of Dutch companies in general, since it can be assumed that those companies that were willing to participate in the project did so because they are interested in CSR. In general these are the companies that are already active on CSR or, at least, to a certain extent transparent in what they do.

7.1 __ Conclusions

General

- A broad *comparison between the CSR Frame of Reference and the policy* of Dutch companies leads to the following observations:
 1. Many large MNCs have formulated a CSR policy, which they make public, but CSR is not at all institutionalised yet in SMEs. This distinction is caused by several factors:
 - Limited resources of SMEs;
 - SMEs are mainly concerned with quality and see less benefit in CSR;
 - Limited definition of CSR by SMEs (no integrated approach);

- Greater reluctance of SMEs to be transparent (although the transparency of MNCs can also be questioned, see below);
 - Less public pressure from NGOs and other stakeholders;
 - Less or no CSR requirement of clients of SMEs;
2. In general the CSR policies of large MNCs cover the general topics mentioned in the CSR Frame of Reference, i.e. labour, environment and more economic related issues like corruption, fair competition and transfer of technology. SMEs, if any CSR policy at all, seem to focus mainly on labour issues.
 3. Companies are mainly reactive and less pro-active in the formulation of their CSR policy.
 4. In the relation between the mother and the daughter company it is not clear which company is responsible for the CSR impact of the business activities. While the CSR policy is developed at corporate level with no or very limited involvement of the daughter companies, the Dutch mother companies are of opinion that the implementation of the CSR policy is the primary responsibility of the daughter company. In practice, daughter companies only rarely involve the mother company in CSR dilemmas. The mother company runs the risk that the local CSR impact of decisions, taken at corporate level, will not or insufficiently be taken into account. Stakeholders that want to call the company to account are left in the dark which company they have to turn to: the mother company is responsible for the disputed decision but will refer to the daughter company since it is responsible for the implementation of the decision.
- A comparison between the *CSR Frame of Reference and the practice* of Dutch companies in India shows a large gap between them because:
 1. Monitoring of the CSR practice of the daughter company by the mother company is very limited, auditing is nearly absent.
 2. Communication on the CSR policy and monitoring of CSR compliance in the supply is very limited. This is of special concern since there is tendency among companies (also the interviewed Dutch companies) to outsource more and more work to other companies in India.

These issues will be more elaborately discussed below.

- *Dutch and Indian perception on CSR*: Besides the (perhaps obvious) differences of perception on and interests in CSR between NGOs and companies both in the Netherlands and India, there are also important areas in which the perception of Dutch companies and NGOs on CSR differs from the Indian perception.
 - Indian companies and stakeholders are more focussed on sustainable development, which is translated into a responsibility of companies towards the local community. According to Indian stakeholders companies should fulfil this responsibility both at community level - by means of *community development* projects - and at *macro-economic* level – by means of a long term (inter)relationship with the host country. These elements are not incorporated in the CSR Frame of Reference.
 - In the Dutch context community development is mainly considered as charity and not CSR and sustainable development at macro-level is beyond the international obligations on which the CSR Frame of Reference is based.

The Indian perception on CSR can partly be explained by the fact that it is coloured by the impact of macro processes that work against the poor, which is the environment within which companies operate.

Furthermore, the stakeholder perception in the Netherlands has evolved based on the initiatives of the Dutch CSR Platform and the positions taken by the Dutch government, employers' associations and unions (e.g. the advisory report of the Sociaal Economische Raad, 'Social Economic Council') while in India the process of evolving a (common) definition on CSR still has to take place.

Operational CSR aspects

- *The CSR policy* of companies is besides the size of the company also influenced by the business sector in which the company operates:
 - In industrial companies, like the chemical industry or the car industry, the culture is more no-nonsense. This makes implementation of 'soft' policy like social issues, more difficult.
 - Industrial companies are more focussed on environmental issues and less on social issues.
 - Banks focus their CSR policy more on their investment policy than on in-company aspects.
- *The CSR policy* of most companies is formulated in very general terms and does not contain explicit commitments. According to companies, CSR has to be tailor-made and their code of conduct is not a contract. Only a few companies are proactive on CSR issues. Most companies formulate their policy as a reaction to public attention and pressure.
- *Supply chain responsibility* receives little attention. Companies are more concerned with CSR related to their own production processes and are less product-oriented. Not knowing the supply chain carries the risk that suppliers do not comply with the company's own CSR principles. This is especially so for companies which outsource a lot of work, since in India a lot of outsourcing takes place to the informal sector, where, in general, working conditions and compliance with environmental standards are very low.
- *Implementation* of supply chain responsibility depends on several business factors:
 - Place in the chain: companies at the end of the chain are more confronted with requirements of retail.
 - Business sector: business sectors which outsource a lot, like agriculture and leather, usually do not try to interfere in the supply chain with regard to CSR issues.
 - Size of company: SMEs are less involved with CSR initiatives in the supply chain.
 - Relation with company in India: if it concerns a daughter company there is more involvement.
 - Pricing: fair pricing encourages better conditions in the supply chain and vice versa.
- External factors are also of influence:
 - Requirements of the buyer: supermarkets in the cheaper segment are less concerned with the CSR practice of their suppliers.
 - External pressure: NGOs tend to focus more on large and well-known companies.
 - Role of the government: lack of laws with respect to informal labour and poor law enforcement in India is a bottleneck for CSR in the supply chain
- *Monitoring and auditing* of CSR in the supply chain is mostly absent or very poorly developed. This is partly because companies find it very difficult to design monitoring mechanisms that work. In large part it seems to be a matter of unwillingness (no priority) or (pretended?) ignorance ("we trust our suppliers").
- *Stakeholder involvement* has become common practice among most large MNCs, but is hardly developed among SMEs. MNCs communicate their policy to their

employees and external stakeholders. SMEs communicate mainly on an ad hoc basis, when an issue occurs. The involvement of the Indian daughter company in the development of the CSR policy seems to be quite limited still, also among MNCs.

- *Communication with Indian stakeholders* is left to the daughter company, but these are not always instructed on how to deal with stakeholders. This can cause problems because the daughter companies tend to use stakeholder involvement as an instrument to obtain short time peace with the local community. Local leaders might misuse their position for their own material benefit.
- *NGOs' approaches* do not always receive companies' approval. According to companies, NGOs are mainly single issue oriented and focussed on media attention. In some instances companies have been confronted with representatives of local communities which were less concerned with general interests but more with their own gains.
- *Transparency* is strongly limited by companies' urge to keep matters confidential if it might help their competitors, embarrass or harm their clients or harm their own reputation. Companies tend to solve the dilemma between transparency and confidentiality on a case to case basis, also depending on outside pressure and the extent to which they have a systemic CSR policy. In the latter case there is usually more transparency.
- *Sustainability reports* are published by only a few large MNCs. *Auditing* of CSR compliance is rare and *independent external verification* only takes place by those companies which have published a sustainability report and then on a very limited basis, namely on consistency of information and not on factual accuracy.

Social CSR aspects

- *Human rights* in the host country pose companies for a dilemma. They consider the broader human rights situation to be the primary responsibility of governments and do not want to take a position on political decisions taken by the state, even if they involve human rights violations. One company indicated that it only gets involved if the situation does no longer enable the company to fulfil its own business principles.
- *Trade unions* are nearly absent in the Indian counterparts producing for Dutch companies. Dutch companies do not have a positive impression of Indian trade unions. This view is also expressed by several stakeholders in India.
- *Child labour* is integrated in the policy or stated conduct of all companies, even those with no CSR policy at all. Most communicate this also to their suppliers. This can to a large extent be contributed to the continuous (media) attention on this subject. Indian daughter companies are more ambiguous on the subject, meaning that on the one hand they do abide the policy of the mother company not to allow child labour in their company but on the other hand they mentioned that simply banning children from the workplace is not the solution to tackle the issue of child labour in India properly. Monitoring and auditing instruments with regard to child labour seem to be non-existing.
- While *non-discrimination* is allegedly integrated in the recruitment policy of all interviewed Indian companies, the participation of *women* in highly qualified jobs is very low in these companies. The same applies to the participation of *dalits* in the work process. Dalits are much more involved in low-cost labour in the supply-chain where recruitment policies and labour conditions are generally not based on laws or stated policies.
- *Consumer protection* is mainly focused on product safety and quality. Information to consumers seems to be limited, especially with respect to the production process. In their marketing strategy companies pay little or no attention to the CSR

impact of products on the Indian market. This issue is not addressed in the CSR Frame of Reference of Dutch NGOs.

Environmental CSR aspects

- *The environmental policy* of companies is mainly focussed on traditional “grey” issues, such as the use of energy, material and water, emissions and waste management. These issues seem to be properly implemented in their daughter companies, but less in the supply chain.
- *“Green” environmental issues*, such as biodiversity, are still relatively new and receive attention of only a few companies. It seems that companies are more reactive on new CSR issues than pro-active. The most important biodiversity issues for Dutch companies operating in India are land conversion, land use and habitat degradation.
- *GMO (Genetically Modified Organisms)* is an interesting issue in the field of environment. Dutch companies respect the precautionary approach of the EU but believe that especially for developing countries GMO offers opportunities to improve product quality, reduce the environmental footprint and ensure food security. However, it should be noted that in India GMOs are not necessary to take care of food security, since there is already a surplus and the problem is more the distribution of food than food production per se.

Economic CSR aspects

- *Contribution to socio-economic development* plays an important role in the Indian context. Companies are expected to contribute both to community development (responsibility at local level) and to have an added value to the economic development of the country (responsibility at macro level). These aspects are not incorporated in the CSR Frame of Reference. Another important observation in this context is that banks do not seem to take external costs and benefits into account in their investment criteria. These include the net costs of loss of jobs and sources of income in traditional sectors and the net benefits in terms of employment and income generation by the intended investments. Neglecting these external costs and benefits can have a negative impact on the economic development of the host country.
- *Corruption* forms an obstacle to do business in India, according to most companies. All companies have integrated statements against corruption into their policy, but most companies have not developed appropriate guidelines and procedures for their staff in this respect. Some companies make a distinction between corruption and facilitation payments and have a more flexible attitude towards the latter.
- *Unfair competition* occurs in India according to Dutch companies, in those situations where Indian legislation offers subsidies to India companies and not to foreign companies and where import and export taxes are only applied to foreign companies.
- *Tax exemptions*, like in export promotion zones, are mainly used by SMEs. They are not concerned about certain unfavourable consequences of such zones on the local economy.
- *Transfer of science and technology* is to a limited extent achieved by appointing Indian management and employing Indian staff. The impact of large MNCs in India is larger since a lot of them also participate in academic research projects and serve as think tank for the Indian government, though of course largely guided by their own long term interests.
- *An integral approach* of different CSR issues is not always possible as there might be conflicting demands. Social and environmental issues may be conflicting with

economic development. When such a dilemma occurs companies tend to give more emphasis to their own economic interests and/or to the matching interest of the host country. Since CSR is not very well developed in policy and especially in practice, so-called conflicting demands between economic interests and (other) CSR issues might be used to postpone working on better CSR policies and performances.

7.2 __ Recommendations

Companies

- Companies should make more use of CSR risk assessments or CSR scans. This will have an overall positive effects on their CSR policy and practice:
 - It will stimulate a pro-active approach of companies.
 - It will reveal sector and country specific CSR issues, on the condition that local stakeholders are involved in the assessment.
 - Supply chain responsibility will be encouraged if CSR aspects related to both the production process and related to the product (through the supply chain) are taken into account in the CSR risk assessment.
- A first step to ensure more monitoring and auditing in the supply chain is by integrating CSR aspects into the quality management systems.
- A CSR policy should not only be communicated top-down but should be supported by a credible stakeholder assessment and dialogue as well as clear implementation measures. If the daughter company does not fully understand or support the CSR policy of the mother company, the mother company runs the risk that its CSR policy will not be fully implemented. For example, in the case of child labour there is a friction between the policy of the mother company and the personal opinion of the management of the Indian daughter company (see above). While the Indian companies do tend to adhere to the policy of the mother company in their own workplace, nearly none of them seems to monitor child labour in the supply chain. Therefore, there is no reasonable guarantee that child labour is actively avoided. (More) involvement of the daughter companies in the CSR policy and development of auditing instruments for the whole holding can contribute to a better understanding and compliance.
- Companies could show their intention to be transparent by adopting an explicit transparency policy in their codes of conduct. The policy should be based upon the principle: “transparency, unless” and should explicitly state in what situations the company can deviate from this principle. Such clause will lead to a more uniform and unambiguous policy on transparency, since the company will have to justify non-transparency. This will benefit both clients and stakeholders. However, it can be expected that companies will show reluctance with regard to transparency of their own company, as long as there is no level playing field in this regard. This can only be dealt with by giving it a legal base.
- MNCs and NGOs should support SMEs by means of sector wide initiatives and exchange of best practices. This could be facilitated by the Dutch government via a CSR expertise and promotion centre.
- Companies could stimulate participation of women and dalits in higher qualified jobs by developing affirmative action plans. The resistance of several Dutch companies to implement positive discrimination measures for women might be based on the fact that in the Netherlands this stage has to a large extent already been passed. But in India it could still be a useful instrument. Companies could

engage with local NGOs to find ways to help stimulating education and training of women and dalits.

- Companies and NGOs should pay more attention to less traditional CSR issues, such as biodiversity and the socio-economic impact on development in general and the poor and oppressed, e.g. on dalits.
- In order to get a better picture of the socio-economical aspects related to their activities, companies should analyse what the net benefits in terms of employment and income generation would be if the loss of jobs and sources of income in traditional sectors (e.g. fisheries, utilisation of all kinds of mangrove products, deterioration of surrounding agricultural lands) is taken into account as well. The value of such (traditional) activities should also be calculated in commercial terms. This is especially relevant for banks. It might prove useful to develop an instrument to perform such integral quantified cost-benefit analyses. Since companies have competing interests in this regard, there is also a primary role for the Indian and Dutch government here. They should take this aspect up as part of their respective CSR policy.
- The Dutch employers' association VNO/NCW should set up a partnership with the Indian employers' associations CII and/or FICCI in order to stimulate CSR in India. Dutch companies that are already active on CSR in India should also be involved to provide support to the initiative.

NGOs and other stakeholders

- The CSR Frame of Reference of the Dutch CSR Platform should more explicitly deal with socio-economic impacts of companies, both locally and nationally, as well as with the issue of community development from a rights-perspective.
- Dutch NGOs should not only focus on large and well-known MNCs, but also on SMEs and on supermarkets in the lower price segment. Their strategy should be one of both dialogue, exchange of expertise and public pressure aiming at the sector rather than at individual companies. Dutch NGOs can use their network in India to achieve this.
- Stakeholders should combine their focus on specific issues with a joint approach to tackle the whole set of (evolving) CSR issues in order to have more impact on all businesses as well as government policy. The Dutch CSR Platform is a good attempt to work in that direction. Although a single issue approach is very effective to bring a certain issue to public attention, as may be proven in the case of child labour, it might also have the effect that companies will concentrate only on these single issues and ignore other – maybe more relevant – issues.
- Indian NGOs are in the process of setting up a CSR platform. They could make use of the experiences and expertise of the Dutch platform. Vice versa an Indian CSR Platform could be of tremendous importance for Dutch NGOs and unions. It would help to 'unite forces' and develop complementary mutually reinforcing programmes. The Indian CSR Platform could also serve as expertise network for foreign companies that want to settle in India.
- The position of labourers can be improved by making Dutch companies more familiar with Indian trade unions and their strategy of negotiating which is different from the one of Dutch trade unions. If no trade union is present, companies should be pressured by NGOs to adopt alternative measures, like company work councils, to take account of the interests of workers into account.
- NGOs could bring the CSR Frame of Reference a step further by developing it into a practical guidelines for companies, e.g. for specific business sectors, specific regions.
- The learning points of this project could be used by the Dutch Consumers' Union in their CSR index.

Governments

- SMEs *do* need extra incentives to adopt and implement CSR policies. Although the Dutch government is already promoting CSR with SMEs, apparently much more is necessary. The fact that lack of resources and expertise appears to be the main problem, should be an extra stimulus to set up a CSR expertise and promotion centre to work on better CSR practices in (groups of) SMEs and sectors in which they are strongly present.
- In order to stimulate CSR policies and practices in the supply chain the Dutch government could decide to develop a subsidy scheme in this regard. The present subsidy scheme for product oriented environmental management systems (Productgerichte Milieuzorg, PMZ) could serve as an example. Although this subsidy scheme will be cancelled next year, it has proven very suitable to stimulate companies to adopt environmental measures with respect to the supply chain of their products.
- Companies, but also NGOs, expect governments to create a level playing field, either by using the practice of innovators as an example or, in last resort, by means of legislation.
- Several suggestions for the Dutch government to encourage CSR among Dutch companies operating in developing countries are:
 - Develop country-based CSR toolkits for companies doing business in developing countries.
 - Encourage exchange of CSR information between chambers of commerce in both the Netherlands and developing countries.
 - Link CSR requirements to companies that want to participate in trade missions, e.g. the condition that they have to perform a CSR scan.
 - The same could apply to companies that want to apply for an export credit of the Nederlandsche Crediet Maatschappij (Dutch Credit Company). The Dutch government already requires companies that apply for such an export credit to sign the OECD Guidelines for Multinational Enterprises. The findings of this project could be used to set up a procedure that translates this requirement into both a pro-active policy to further CSR as well as a monitoring system for subsidised projects. It should also be explored to what extent additional CSR requirements can be developed for (other) subsidy measures.
- The Dutch government should provide more guidance on political sensitive issues which (can) affect the impact of activities of Dutch companies, also in a democratic country like India. It could for example have held consultations with companies that were operating in Gujarat during and after the government-supported massacre of Muslims in Gujarat as well as other stakeholders. On the basis of that, guidelines should have been developed on how to act.
- Governments should stimulate “green” environmental issues, especially among SMEs. A large obstacle appears to be lack of knowledge. The development of a toolkit for biodiversity could be very effective.
- The Dutch government together with NGOs could develop CSR country-based toolkits or fact sheets for the benefit of Dutch companies wanting to locate or invest in a developing country. The toolkit should contain the following information:
 - names and addresses of relevant local stakeholders.
 - what CSR issues are (deemed) relevant in the country?
 - which bottlenecks and what opportunities are there in the field of CSR?
 - how can companies overcome these obstacles?

- The Dutch agency Senter¹⁵ and Dutch development aid organisations could provide assistance to individual companies that want to make investments in the field of CSR, either financially or in expertise.
- The Dutch government should give a new dimension to CSR by investigating the *legal* implications of the CSR policy and practice of companies. Different questions are relevant, such as:
 - Can Dutch companies that (unknowing or knowingly) trade or use illegal products (e.g. conflict diamonds or illegal wood) be prosecuted in the Netherlands?
 - To what extent are companies liable for unjust or misleading sustainability claims?
 - Can companies maintain their claim that their code of conduct is non-binding?

“Does sustainable development imply that there should be no negative impact of business actions?”
(Indian stakeholder)

¹⁵ Senter is an agency of the Dutch Ministry of Economic Affairs which is responsible for subsidies, credits and fiscal measures and programs in the field of technology, energy, environment, export and international cooperation.

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