CSR CSR

The State of CSR in India 2004

Acknowledging Progress, Prioritizing Action

Background Paper

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A tradition of responsibility

India has one of the world's richest traditions of CSR (corporate social responsibility). This report focuses on the country's largest companies, capturing the strengths and weaknesses of current practice, and identifying priorities for future action. While much has been done in recent years to raise awareness on social responsibility as a business imperative, CSR in India has yet to achieve critical mass. If this goal is to be realized then the CSR movement will have to become much more business-like—with companies starting to set clear objectives, making real investments, measuring actual returns, and reporting performance openly.

To understand the current status of CSR in India, it is important first to map out the landscape and identify the main families of corporate responsibility. For long-established industrial dynasties, such as the Birlas and the Tatas, concepts of nation-building and trusteeship have been alive in their operations decades long before CSR become a popular cause. Alongside these are the leading Indian companies with strong international shareholdings, such as Hero Honda, HLL (Hindustan Lever Ltd), ITC, and Maruti Udyog, where local dynamics fuse with the business standards of the parent or partner. Another tradition emerges from the public sector enterprises, such as BHEL (Bharat Heavy Electricals Ltd), HDFC (Housing Development Finance Corporation), NTPC (National Thermal Power Corporation), and ONGC (Oil and Natural Gas Corporation), where social obligations remain an integral part of their business despite the march of privatization. And then there is the new generation of enterprises that has surged on the back of knowledge-based globalization, such as Dr Reddy's, Infosys, Ranbaxy, and Wipro, where less emphasis is on minimizing negative impacts and more on maximizing the positive spill-over effects of corporate development.

The emerging model of CSR in India

Mapping out these four families of CSR helps provide a context for understanding the emerging model of corporate responsibility in India. Looking across the current practices of leading Indian corporations, a number of core elements emerge.

- *Community development* Most large companies either have their own foundations or contribute to other initiatives that directly support the community upliftment, notably in health, education, and agriculture.

- *Environmental management* Environmental policies and programmes are now standard, and many companies have implemented the ISO 14 001 system throughout their businesses.
- *Workplace* Growing out of long-standing commitments to training and safety is a more recent emphasis on knowledge and employee well-being.

Table 1 presents a selected list of CSR innovations from some of India's leading companies.

Table 1 India Inc.: selected CSR innovations

Issue	*Company*	*Action*
Community development	Hindalco	Asian CSR Award for its Integrated Rural Poverty Alleviation Programme
Corporate giving	Indian Oil Corporation	Dedicating 0.75% of net profit to community development initiatives
Health	Larsen and Toubro	One of first corporates to launch an HIV/AIDS programme
Gender equality	NTPC	One of the few organizations to have a policy for the grant of paternity leave
Labour standards	ITC	First company in India to be certified to the SA8000 social accountability standard for its Chirala facility
Human capital	Infosys	Pioneering evaluation of human capital using an education index for its employees
Environmental management	BHEL	All BHEL units are certified to the ISO14 001 environmental management system
Energy conservation	Reliance	Energy conservation measures are saving the company 1150 million rupees per annum
Water conservation	Hindustan Sanitaryware	Reduced flushing WCs is estimated to save 2 billion litres of water
Disclosure	Tata I ron and Steel	First Indian company to publish a sustainability report in line with Global Reporting Initiative guidelines

Source Compiled from published data on company web sites

Comparing the CSR progress of India Inc. with the other emerging economies is difficult to achieve, not least because there are no global benchmarks. However, some proxy indicators are available. In September 2004, the International Organisation of Standardisation published its latest survey of the adoption of the ISO 14 001 environmental management system. At the end of 2003, over 66 000 certificates had been issued worldwide, up 16% on the year before. Of these, India had 879 certificates, a substantial growth from the 600 certificates in 2002. Yet, India lagged far behind China, which had over 5000 ISO 14 001 certificates in 2003, making it the country with the third highest number of ISO 14 001 registrations after Japan and the UK.[1] Another broader measure of corporate commitment to social responsibility is the UN Global Compact, a set of 10 principles launched by UN Secretary-General, Kofi Annan. Currently, 95 Indian companies have backed the Global Compact, slightly less than in Brazil, but on this occasion, considerably more than in China.

[1] The ISO Survey of ISO 9001–2000 and ISO 14 000 certificates, February 2004

CSR: a business necessity

In recent years, the 'business case' for CSR has been gaining ground, revolving around the idea that what is good for the environment, workers, and the community is also good for the financial performance of the business. A recent global survey by PricewaterhouseCoopers, in conjunction with the World Economic Forum, found that more than two-thirds of the 1100 CEOs polled believe that proper exercise of corporate social responsibility is important to profitability and can prevent the loss of customers, shareholders, and even employees.

Actively pursuing CSR strategies presents numerous opportunities for increasing competitiveness and profits. In its report, *Developing Value: the business case for sustainability in emerging markets (2002)*, sustainability presents a business case matrix, which relates sustainability aspects to a set of business success factors.

The sustainability aspects relate to

- governance and management,
- stakeholder engagement,
- environmental process improvement,
- environmental products and services,
- local economic development,
- community development, and
- human resource management.

The business success factors include

- revenue growth and market access,
- cost savings and productivity,
- access to capital,
- risk management and licence to operate,
- human capital, and
- brand value and reputation.

Research in several developing countries indicates a strong link between many of the sustainability and business success factors. In particular, eight areas of opportunity are found to be most relevant to the developing countries. These relate to the following.

- Cost savings from environmental improvements, eco-efficiency measures using less energy and materials, lower pollution costs and fines, reorganizing production processes, material flows, and supplier relationships.
- Cost savings from effective human resource management and increased labour productivity. Provision of training, health, and education benefits for workers; a clean and safe working environment; and fair wages are all factors that result in an increased productivity and reduced costs.
- Increasing revenues by innovating and developing new 'environmental products' and by- products from waste.
- Increasing revenue by building linkages with the local economy and employing local residents. A clear linkage exists between poverty reduction and business growth.
- Reducing risk through engagement with stakeholders such as employees, customers, NGOs, politicians, and other business partners. Such engagement assists the company in better management of environmental and social expectations, thereby reducing the risk of civil action and improving access to financial capital.

- Building reputation by increasing environmental efficiency and improving environmental responsibility. An enhanced reputation is often manifested in awards and recognition from governments, rating agencies, and public surveys.
- Developing human capital through better human resource management. A high quality work force is essential for competitiveness since it improves productivity, product quality, and innovation. A study in India covering 52 000 employees in 200 companies found a positive correlation between employment practices and financial returns.
- Improving access to capital through high standards of corporate governance that reassure investors on issues relating to shareholder and stakeholder rights, transparency and disclosure, and proper governance structures.

Another interesting illustration of the business case for CSR is provided by Bob Willard in his book, *The Sustainability Advantage: seven business case benefits of a triple bottom line (2002)*, where he presents seven sustainability strategies that lead to significant business opportunities. These range from reducing hiring and retention costs, improving productivity, decreasing expenses, to increasing revenue and shareholder value. Willard also provides a customizable spreadsheet into which company executives can insert their own data to see for themselves whether the case for sustainable initiatives will be a profitable one for their company. To test the assumption that good environmental and social programmes make good business sense, Willard uses a hypothetical computer company he calls 'SD Inc.', a composite of the top five global computer companies, IBM, HP, Compaq, Dell, and Xerox. SD Inc. is assumed to have 1999 revenues of 44 billion dollars, profits of 3 billion dollars, and 120 000 employees.

By integrating sustainability into their business model and in their mindset Willard shows that corporations can realize the following seven bottom line benefits.

- *Easier hiring of the best talent* Researchers estimate that the most important corporate resource over the next 20 years will be talented employees, many of which pay attention to corporate social and environmental behaviour. Willard shows how recruiting costs for SD Inc. could be reduced by 5% through a positive SD branding.
- *Higher retention of top talent* Studies show that talented employees tend to stay with a company when they have meaningful work. Willard shows how SD Inc., in embracing a sustainable framework, could avoid 38 million dollars in costs.
- *Increasing employee productivity* Willard discusses the connection between meaningful work and productivity, and shows that engaging the entire organization in sustainable development goals like zero emissions, self-sufficient energy production, zero waste, helping restore the planet's health, ensures that the company gets more output from its employees. SD Inc.'s productivity benefit translates into 756 million dollars, the equivalent of 12 600 extra employees.
- *Reduced expenses in manufacturing* Willard demonstrates savings opportunities through eliminating or recycling waste and redesigning processes to use less energy, water, and materials in manufacturing, which are the low hanging fruits of eco-efficiency.
- *Reduced expenses at commercial sites* A lot of unnecessary waste takes place at non-manufacturing sites. Through more judicious waste handling, energy efficiency, water conservation, and naturalized landscaping, SD Inc. can add 26 million dollars of pure profit.

- *Increased revenue/market share* By tapping into the trend of consumer preference for 'green' products, Willard shows how SD Inc. can increase its revenue by 5% a year (an extra 2.2 billion dollars) and increased profits of 150 million dollars.
- *Reduced risk, easier financing* Companies that show an environmental and social responsibility tend to be viewed as less risky and that can translate into cost avoidance, lower insurance premiums, reduced legal and regulatory costs, preferred rates on loans, greater investor appeal, and avoidance of lost revenue from consumer activist's actions.

CSR and development

With the retreat of the state in economic activity in India, the imperative for business to take up wider social responsibilities is growing. The situation is complex and India is facing a compounded set of corporate responsibility challenges.

The 'first generation' corporate responsibility agenda concerning conflicts between companies and communities over the control of natural resources is widespread. Examples include struggles between rice growers and shrimp farms, land disputes between plantation owners and indigenous communities, and resistance from communities to mining projects.

Yet India also faces a range of 'second generation' issues relating to hazards of industrial production, exemplified by the 1984 Bhopal tragedy, but now encompassing a growing number of incidents across the subcontinent where industrial air and water pollution, and the dumping of waste is going beyond the limits of social and environmental tolerance. And, finally, as the pace of urbanization continues and liberalization opens up India to global consumption patterns, many of its cities are simultaneously confronting the 'third generation' responsibility issues related to products and services, whether they are auto pollution norms or pesticide residues in mineral water.

Whereas business cannot be expected to take on the role of governments, in a situation where a majority of the population lives below the poverty line and has little or no access to basic public services such as health, education, water, and electricity, and where there are a multitude of complex sustainability challenges, CSR certainly has a potential for becoming a real tool for development—human, social, and economic.

The public's expectations of business are also growing. A TERI opinion poll in India[2] found that Indians feel that the business sector must play a wider and more expansive societal role. In addition to providing good quality products at reasonable prices, companies should strive to make their operations environmentally sound, adhere to high labour standards, reduce human rights abuses and mitigate poverty. But the poll also revealed that people are not yet judging companies in the marketplace according to these criteria.

Developing such market-oriented pressures could become a powerful lever for change.

One example of an initiative that emphasizes the development role of business is the Sustainable Livelihoods Project of the WBCSD (World Business Council on Sustainable Development)[3], which aims at doing business with the poor in ways that benefit them and the company. The success of this business model will be instrumental in shaping the future of CSR as a development strategy.

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[2] Kumar R, et al. 2002. ***Altered Images*, *the 2001 State of Corporate Responsibility in India***. New Delhi: TERI

[3] See WBCSD website <www.wbcsd.org>.

CSR tools: standards, codes, guidelines[4]

Within the development debate, advocacy and research on competitiveness, trade, and business development on one hand and on poverty alleviation on the other, often take place in separate camps. In both cases, 'the separate groups are like two adventurers following roughly parallel paths that do not cross'[5]. Opportunities for complementarities are therefore missed. Environmental and social standards, CSRCSR standards, are at the forefront of the struggle to find those complementarities, and operationalize sustainable development. Standards for sustainable development are used to drive a 'race to the top' rather than a 'race to the bottom' in which countries try to lure investment or exploit opportunities by lowering or not enforcing environmental or social standards.

Within a market economy, voluntary standards are considered to be more efficient, more flexible, and less discriminatory than state-imposed taxes and quotas in meaningfully integrating social and environmental concerns within economic growth.

Voluntary standards and associated codes and certification schemes are emblematic of globalization, linked as they are with the growth of international supply chains, a reduced role for state organizations, and recasting of regulatory systems. These standards, codes, and benchmarks are proliferating, often as part of CSR or risk management initiatives. Realizing that voluntary standards can have the same impacts on market access as government-led regulations, public policy and multilateral agreements in a highly politicized atmosphere are struggling to keep up. There is now a tremendous amount of interest in standards among civil society, industry, government, and multilateral institutions.

Whether standards relating to sustainable development – around environmental, labour, or ethical issues – are adopted by a firm depends on the prevailing commercial pressures and on corporate leadership. Some of the drivers are as follows.[6]

- Desire to enhance or sustain competitiveness through selling ethical or 'green' products (sustainability as embedded quality), or recruiting and retaining high-quality staff
- Risk to company brand or reputation (and hence shareholder value) as a result of consumer pressure or NGO campaigns
- Pressure from investors, lenders, and insurers
- Support from enlightened corporate leadership
- Threat of regulatory action or emerging legislation.

While trade associations may bemoan increased regulation, large companies may quietly welcome measures, which add a few bricks to the wall around the business that blocks new entrants to their markets. This logic applies to standards for 'sustainability' as much as to quality and safety. Voluntary self-regulation by individual companies or business associations is often initiated in the hope or expectation that best practice will become a legislated condition to market entry. Standards developed and implemented nominally in the name of 'sustainability' but rationalized within corporate strategy as a means to avoid risk, build barriers to competitors, or survive in an era of increased competition and trade liberalization, are

[4] This section draws upon previous work done by the author in collaboration with the International Institute for Environment and Development. UK. (***Standards and Sustainable Trade*** by Bill Vorley *et al.*)

[5] Reardon T and Barrett C B. 2000. **Agroindustrialization, globalization, and international development: an overview of issues, patterns, and determinants**. *Agricultural Economics* **23**(3): 195–205

[6] UK Cabinet Office 2000. ***Rights of Exchange: a performance and innovation unit report***. **The Role of Voluntary Initiatives**. Available at <http://www.cabinet-office.gov.uk/Innovation/2000/trade/contents.htm>

perceived to be less benign (subject to accusations of 'greenwashing') than standards arising from a core commitment to sustainable development. But outcomes for the environment, labour, or producers depend not so much on the commercial rationale for adopting a standard than on the sharing of costs and benefits of those standards along a supply chain over time.

The standards lexicon

The scope of standards can be national or international, and may be segregated by sector, for example, textiles, and bananas. They can be private and voluntary or mandatory.

Types of standards include the following.

1 Quality (for example, appearance, cleanliness, taste, and facilities)
2 Safety (for example, pesticide or artificial hormone residue, microbial presence, and use of safety features in hotels)
3 Authenticity (for example, guarantee of geographic origin or use of traditional process)
4 'Goodness' of the production process (for example, worker health and safety, environmental contamination, resource conservation, or ethical trade)

These four types of standards can be divided into *outcome* (product) standards and *process* standards. *Outcome* standards are the characteristics the product is expected to have when it reaches a certain point in the supply chain. Process standards (the so-called non-product process and production method or PPMs[7]) standards concern the characteristics of the process in the chain, from production of the raw product to processing into intermediate or final goods, distribution, and disposal. This distinction is the key as product and process standards are treated completely differently under the trade law.

Quality and safety standards are more likely to be *product* standards, while authenticity and 'goodness' standards are likely to be process standards.[8] Thus *standards in pursuit of sustainable development* are largely categorized as process standards relating to social and environmental performance of the production process. Mandatory domestic environmental regulations of production processes exist, such as limits to pollution emissions.

Within the *voluntary standards*, it is possible to segregate according to the *institutions involved in initiating the standards,*[9] as follows.

- Industry initiatives
  - Individual business action such as a supplier code of conduct. Most prevalent in textile, shoe, toy, and extractive industries as well as supermarkets. For example, Shell's 'Revised Statement of General Business Principles' or Sainsbury's 'Working with Suppliers Code of Practice'. These individual codes are not likely to be independently verified.

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[7] A PPM (process and production method) is the way in which a product is made. An important technical difference is between a product-related PPM (where the final product is distinguishable) and a non-product-related PPM (where environmental or social impacts occur during production, use, or disposal process but the product is substitutable). The World Trade Orgnization agreements accept the principle of discrimination between product-related PPMs (such as between organic and non-organic food) but do not allow countries to discriminate among 'like' products, whatever their different environmental or social impacts. The term 'PPM' has become more or less an accepted shorthand for non-product-related PPMs (UNEP-IISD, 2000). Where governments become closely involved with non-product-related PPM standards, such as the EU ecolabel or the famous dolphin-tuna case in the US, there may be a serious trade friction.

[8] This is not always the case; SPS (Sanitary and Phytosanitary Standards) may be a process (for example in use of stainless steel walls) rather than outcome (for example, in number of *E. coli*).

[9] *Resource on Voluntary Initiatives* at <www.unglobalcompact.org/un/gc/unweb.nsf/content/voluntary.htm>.

- Collective business initiative where a sector (business association) or country draws up a code of conduct. For example, Responsible Care Initiative, the Apparel Industry Partnership, or the NFU British Farm Standard, the WBCSD Guide to Sustainable Development Reporting[10]. Collective initiatives have also been drawn up and adopted by exporters in the South, such as the Kenya Flower Council code or the BGMEA (Bangladesh Garments Manufacturers and Exporters Association) code.

- Third party initiatives
  - Civic regulation where NGOs play a lead role in monitoring and regulating business activity, for example, organic labelling, fair trade labelling, etc.
  - Independent or multi-stakeholder initiatives where initiatives are drawn up independent of specific business interests, for example, ISO standards, Oeko-Tex, SA 8000, the GRI (Global Reporting Initiative), AA 1000, and AS standards.

- Joint government–industry initiatives
  - Policy-driven initiatives where frameworks are legally established but adoption is left up to business, for example, the EU eco-label, EU Directives for the Electronics Industry (Waste from Electrical and Electronic Equipment, Restriction of the use of Hazardous Substances, Energy using Products, etc.).
  - Partnership initiatives where governments or intergovernmental bodies are involved as convenor (and sometimes as funder) with business and other stakeholders, for example, ETI (Ethical Trading Initiative) Base Code, or inter-governmental codes such as the OECD Guidelines for Multinational Enterprises and the ILO's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, UN Convention on Biological Diversity, and UN Global Compact.

The major division within standards and codes for sustainable development are between environmental and social standards—they have typically been treated separately. Environmental codes have a longer history and have tended to be less conflictual than those dealing with social (especially labour) issues. Labour codes tend to be found in sectors, which supply consumer goods, particularly branded garments, footwear, sports, and toys, while environmental codes tend to be concentrated in primary and extractive industries (agriculture, forestry, and mining) as well as the chemical manufacturing industry.[11]

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[10] See also <http://www.sdportal.org/templates/Template8/layout.asp?MenuID=36>.

[11] Jenkins R. 2001. ***Corporate Codes of Conduct: self-regulation in a global economy***. United Nations Research Institute for Social Development. [Technology, business and Society Paper #2]. Available at <http://www.unrisd.org/engindex/publ/cat/p377.htm >

UN Global Compact

What is the Global Compact?

Through the power of collective action, the Global Compact seeks to advance responsible corporate citizenship so that business can be part of the solution to the challenges of globalization. In this way, the private sector – in partnership with other social actors – can help realize the UN Secretary-General's vision: a more sustainable and inclusive global economy.

The Global Compact is a voluntary corporate citizenship initiative with two objectives.

- Mainstream the ten principles in business activities around the world
- Catalyse actions in support of the UN goals.

To achieve these objectives, the Global Compact offers facilitation and engagement through several mechanisms: policy dialogues, learning, local structures, and projects.

The ten principles

The Global Compact's ten principles in the areas of human rights, labour, the environment ,and anti-corruption enjoy universal consensus and are derived from

- the Universal Declaration of Human Rights,
- the International Labour Organization's Declaration on Fundamental Principles and Rights at Work,
- the Rio Declaration on Environment and Development, and
- the United Nations Convention Against Corruption.

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption.

Human rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour standards

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
- Principle 4: Elimination of all forms of forced and compulsory labour
- Principle 5: Effective abolition of child labour
- Principle 6: Elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility; and
- Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies

Anti-corruption

- Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

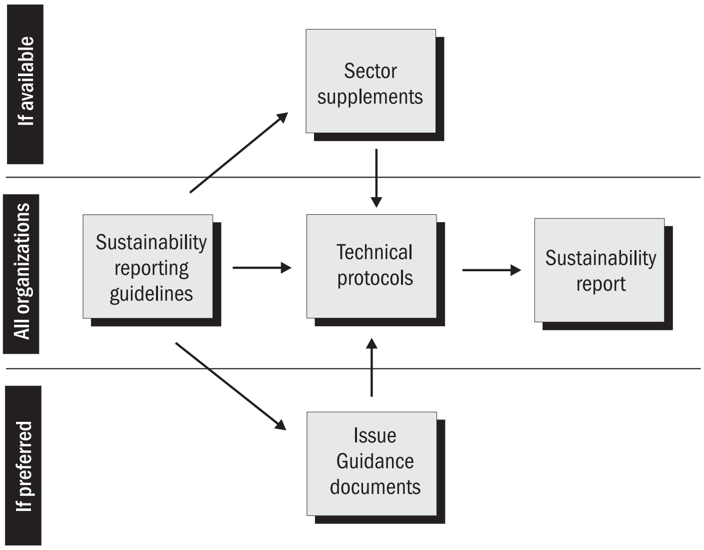
Source www.unglobalcompact.org

Global Reporting Initiative

GRI reporting framework

Through a unique multi-stakeholder process, the GRI (global reporting initiative) is developing a globally applicable framework for reporting an organization's sustainability performance. The framework presents reporting principles and specific content indicators to guide the preparation of organization-level sustainability reports. The framework documents listed below are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products and services.

GRI family of documents



The GRI family of reporting documents comprises two parts.

Reporting framework

- *2002 Sustainability Reporting Guidelines* The Guidelines represent the foundation upon which all the other the GRI reporting documents are based, and outline the core content that is broadly relevant to all organizations regardless of size, sector, or location. All organizations seeking to report using the GRI framework should use the Guidelines as the basis for their report, supported by other GRI documents as applicable.
- *Technical protocols* To assist users in applying the Guidelines, the GRI is developing technical protocols on indicator measurement. Each protocol addresses a specific indicator (for example, energy use, child labour) by providing detailed definitions, procedures, formulae, and references to ensure consistency across reports. Over time, most of the indicators in the GRI Guidelines will be supported by a specific technical protocol.
- *Sector supplements* GRI recognizes the limits of a one-size-fits-all approach and the importance of capturing the unique set of sustainability issues faced by different industry sectors (for example, mining, automotive, and banking). To address this need, the GRI is developing sector supplements through multi-stakeholder processes for use with the standard guidelines. Supplements are intended to add to, but not replace, the guidelines. These supplements are at an early stage of development but will grow in number and rigour over time.

Supporting documents

- *Issue guidance documents* The GRI expects to develop issue-specific guidance documents on topics such as 'diversity' or 'productivity' to provide reporting organizations with additional models for presenting and organizing the information in the guidelines and sector supplements.
- *Resource documents* Resource documents provide additional information or examples on specific topics of frequent interest to the GRI users. They includes topics such as HIV/AIDS where some reporters have a strong interest in disclosures beyond the material captured in the guidelines, or may include support for specific user-groups seeking to apply the GRI reporting framework to their organizations. Resource documents are a source of additional ideas, expertise, and knowledge to inspire both individual users and the future GRI working groups

Source www.globalreporting.org

Deriving competitive advantage in India

A number of factors are driving the increased adoption of CSR practices in the corporate India. Regulation obviously provides the baseline for corporate action, notably for employment practices and the environment. Beyond this, for many companies, being a good corporate citizen is a vital aspect of their identity, values, and vision. Far-sighted business leaders recognize that it is unsustainable for their companies to exist as 'islands of prosperity' in a sea of poverty. 'We must do something for the community from whose land we generate our wealth', says one leading CEO. Market forces are also propelling many firms to go 'beyond compliance', notably for those selling into international supply chains. No longer a legal necessity and a nice thing to do, CSR is emerging as a 'hard' commercial factor, linked directly to profits and brand value.

- *Boosting profits* Gujarat Ambuja, one of the country's leading cement manufacturers, reports that 'our efforts to achieve world standards in environment protection have had the happy outcome of substantially improving efficiency and profitability'.
- *Cutting costs* Reliance Industries' energy conservation measures have saved the company 1150 million rupees per annum.
- *Increasing revenues* HLL's Project Shakti creates income-generating opportunities for the under-privileged rural women, while giving the company an enhanced access to hitherto unexplored rural areas.
- *Strengthening brand value* In February 2004, Infosys was among seven international companies to be chosen in the first annual list of 'Top Brands with a Conscience'.
- *Enhancing reputation* The Oil and Natural Gas Corporation has found that its community development programme has 'generated tremendous goodwill and earned the company the reputation of being a company that cares'.
- *Improving morale* Tata Steel believes that helping the community also provides a new perspective to its employees, thereby strengthening employee morale.

Recognizing the limits

Yet, for all these signs of progress, CSR in India has yet to realize its full potential. Individual and collaborative initiatives continue to be dominated by self-assertion rather than accountability. There is certainly no lack of CSR programmes and projects in India: what is absent, however, are clear metrics for evaluating their actual impact in improving social conditions.

One quick indicator: of the 95 supporters of the Global Compact from corporate India, only one – Atlas Cycles – has produced the annual communication on progress that is expected of the Compact's supporters. And while most large corporations now disclose some information on their social or environmental programmes – with BHEL, Dr Reddy's, HLL, and TISCO in the vanguard – much of this remains highly descriptive and qualitative, lacking the rigour of common, quantified performance information that characterises the company financial accounts. Companies routinely claim that their employees are their greatest asset - and yet provide little evidence of how this asset is being valued and enhanced. Similarly, there are no generally accepted standards for measuring the success of the array of community development programmes that are now in place. Without this, it is difficult for companies and their stakeholders to judge the efficiency or effectiveness of these well-intentioned interventions.

Beyond the issue of assessing impact are broader questions of the incentives for companies to take action. In the language of economics, India's markets continue to exhibit an unhealthy profusion of negative externalities where the costs of resource use, environmental degradation, or community disruption are neither paid by those who incur them nor are reflected in actual prices. For example, India is already 'water stressed' and is on course to enter a situation of 'water scarcity' in the coming decades. Yet, the current pricing of water is below its real economic value, giving little incentive for companies to reduce demand and conserve.

Tragically, today's economic framework gives little encouragement for companies to consider the long-term—the essence of true sustainable development. Indeed, the pressure in financial markets is for an ever-more insistent focus on short-term shareholder value. Increasingly, it is becoming clear that the real CSR leadership is not just putting one's own house in order, but advocating the right conditions to reward responsible practice.

Becoming business-like

The underlying challenge for CSR in India is how to demonstrate a clear link between a company's own commercial objectives and the wider goals of society. Table 2 seeks to depict the linkages between these two agendas for each of the four 'capital' stocks critical for business and national success.

Table 2 Making the links

Capital stocks	*Internal objectives (examples)*	*External objectives (examples)*
Economic	Profitability	Per Capita income growth
Human	Worker productivity	Employee well-being
Social	Reputation	Welfare
Environmental	Resource efficiency	Sustainability

We are familiar with the outlines of a successful company: one that is profitable, productive, with a strong reputation and efficient in the use of natural resources. Yet, simply achieving these goals may not be enough to be a responsible company if profits do not lead to per capita income growth, if employee well-being does not improve, if community programmes do not raise social welfare, and if the company's eco-efficiency fails to sustain the underlying natural resource base.

Sufficient progress has now been achieved to demonstrate the case for CSR in India. The task is now to apply fundamental business principles to make CSR sharper, smarter, and focused on what really matters. This means rigorously focusing on priorities, allocating finance for treating CSR as an investment from which returns are expected, monitoring activities to ensure initiatives really deliver outputs, and reporting performance in an open and transparent way so that all can celebrate progress and identify areas for further action.

Making priorities

Building on existing good practice, four inter-locking priorities for action emerge.

1 *From philanthropy to social investment* India's inadequate social infrastructure means that corporate funding of community initiatives will remain a critical contribution to the national development for years to come. However, better understanding is needed of the performance of these programmes to enable companies to allocate their funding appropriately and for their stakeholders – notably affected communities – to be able to have a real influence on decision-making. In addition, there is a real opportunity for corporate action in this area to move upstream into core operations to make underlying business models 'pro-poor'. The WBCSD has recently pioneered an innovative approach to business and sustainable livelihoods, and in August 2004 the WBCSD and TERI held the first stakeholder dialogues in India to identify pro-poor business opportunities.

2 *Sustaining critical natural capital* India's natural resource base continues to be depleted through a range of pressures—technological, economic, social, and demographic. The result is often an acute 'resource crunch' leading to conflicts between companies and communities over scarce water or biomass resources, for example. A vital area of corporate commitment – particularly in resource-intensive sectors, such as metals and mining, power, and oil – is to develop clear programmes first to assess and then reduce the corporate footprint so that it rests within the available carrying capacity, thus ensuring equitable access, particularly for low-income groups.

3 *Ensuring transparency* Without disclosure of performance, there is no basis for evaluating corporate movement towards responsible business practice. Good practice does exist in India, but it is limited. Working with leading international institutions, such as the ACCA and the Global Reporting Initiative, there is a powerful opportunity to develop a core set of common CSR indicators that leading companies can use to communicate their performance, both internally and externally.

4 *Linking CSR and financial performance* In North America and Europe, socially responsible investment has become an important complement to CSR. In the words of the Association of British Investors, 'incorporating social responsibility can reduce portfolio volatility and increase returns' (*Risks, Rewards and Responsibility*, February 2004). If CSR is to be pursued on a truly sustainable basis by India Inc. then investors will need to appreciate the linkages with financial performance and understand the challenges of delivering long-term social returns in context of the ever-shrinking financial horizons. Opening a dialogue between the business and financial communities on social responsibility is therefore essential, and should help to provide a stronger analytical case for CSR.

Annexe 1

Resources on sustainability standards and market access

UN Global Compact
www.unglobalcompact.org/un/gc/unweb.nsf

BSR (Business for Social Responsibility) is a global partner for responsible business leaders. With more than 1400 members and affiliated companies worldwide, the BSR helps businesses achieve commercial success in ways that respect ethical values, people, communities, and the environment.
http://www.bsr.org/Meta/about/index.cfm

Ethical Trade Initiative
An alliance of companies, NGOs, and trade union organizations committed to working together to identify and promote good practice in the implementation of codes of labour practice.
www.ethicaltrade.org

CBI 'AccessGuide' for exporting to Europe
Information on non-tariff trade barriers, selected for companies and business promotion organizations who wish to export or promote export to the EU.
www.cbi.nl/accessguide

OECD Trade Policy pages
OECD work on trade provides analytical underpinnings to support continued trade liberalization and foster an understanding of trade policy linkages of public concern.
http://www.oecd.org

UNCTAD–WTO International Trade Centre
UN focal point for technical cooperation with developing countries in trade promotion
www.intracen.org/mds

Natural Resources Institute's NRET programme
NRET is committed to improving the benefits of trade in renewable natural resources for poor people and the environment in the developing countries, including building better standards (making standards relevant to the norms, values, and priorities of different countries and cultures; building effective and affordable monitoring, reporting, and verification systems; developing standards that can be used by small and medium enterprise; and defining social and environmental responsibility. The website includes *Theme Papers on Implementing Codes of Practice in the Fresh Produce Industry.*
www.nri.org/NRET/

VINET (Virtual Information Network for Ethical Trade in Horticulture)
VINET is an interactive website for managing social and environmental performance in commercial horticulture worldwide. It is a one-stop shop on what is going to happen in the development of good agricultural practice.
www.nri.org/vinet/

World Bank Standards and International Trade
Background papers propose a Standards Development Forum coordinated with the assistance of the World Bank, with a mission to develop the framework for a targeted financial assistance plan in modernisation of standards infrastructures for the least developed countries.
www.worldbank.org/wbiep/trade/Standards.html

Bridging the Standards Divide: Challenges for Improving Africa's International Market Access
www1.worldbank.org/wbiep/trade/Stds_Africa/AFRICA_STDS.html

Annexe 2

Initiatives on standards and market access

UNIDO initiative on trade facilitation
Includes proposals to 'provide a technical analysis of problems related to standards and technical regulations encountered by exporters, as well as advice to overcome these problems' and to 'contribute to strengthening the involvement of developing countries in international organizations active in, for instance, standards, metrology, accreditation, etc.'
www.unido.org/doc/330817.htmls

NEPAD (The New Partnership for Africa's Development) Market Access Initiative
Includes documentation on market access policy for agriculture, tourism, promotion of African exports, and removal of non-tariff barriers.
www.nepad.org

ISO Programme for developing countries 2001–03
www.iso.org/iso/en/comms-markets/developingcountries/iso+developingcountries-05.html

UNEP–UNCTAD Capacity Building Task Force on Trade, Environment and Development (CBTF)
Includes research on environmental standards and market access; production of and trading opportunities for environmentally friendly products; and eco-labelling and process and production methods.
See www.unep-unctad.org/cbtf/index

Regional and International Networking Group of organisations working for sustainable development (RING) project
A *Southern Agenda on Trade and Environment* proposed work area 'Standards for Sustainable Trade: Assessing Technical Assistance Needs Under the WTO's TBT Agreement.'
www.ring-alliance.org/

OECD project 'Development Dimension of Trade and Environment Policies'
www.oecd.org/EN/home/0,,EN-home-346-nodirectorate-no-no-no-24,00.html

The **Global Forum on Trade, Environment and Development** is a three-year facilitated dialogue intended to develop concrete policy options for action on key trade and sustainable development problems. The Global Forum was organized by the Carnegie Endowment and the Consensus Building Institute. An organizational steering committee of 20 representatives from the OECD and G77 governments, industry, NGOs, and IGOS surveyed 70–80 key leaders from around the world to set priorities. The first of five forums: *Achieving a More Balanced Market: the role of international standards* is scheduled for 24–27 June 2002, in Quito, Ecuador. It will focus on both systemic and pragmatic issues, and the relationship between international and national processes. An overview background paper is being prepared on international standard-setting bodies and the role of public and private actors in those processes. For practice implications, country case studies will look at what happens when the application of international standards affects particular industries in specific countries, with particular interest in the role of the standard-setting processes, national implementation, and international–national coordination experience.