

SOCIAL STANDARDS AND SOCIAL COMPLIANCE : CORNERSTONES OF CSR

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What is CSR?

The recently conference on CSR with participants from the European Union as well as USA, China and other countries gave the feeling that there was a state of total confusion because everybody had his own definition of "corporate social responsibility" without making that clear to the audience. Some spoke at length about philanthropy and moral behavior. Others explained their way of proper accounting, presenting clean balance sheets which fulfilled all legal requirements and paying taxes as prescribed. This they said was their contribution to CSR.

Others explained in detail the practices of their companies of giving donations and support to NGOs and defined this as CSR compliance. There were also company representatives who elaborated on their involvement in rural development schemes understanding this as CSR. And there were speakers who described in detail a kindergarten, a school, a small microfinance scheme, health activities or measures aiming at the improvement of living conditions in villages near to their factories as corporate social responsibility.

There is merit in the opinion expressed on CSR. The social component is an indispensable part of the market economy. Germany established a "Social Market Economy." While the

market mechanism only takes care of the active players, the government has its tasks in the social field looking for those who are not able to fully participate in the market driven activities. These are the young, the old and the sick ones.

In a similar way as governments companies have social tasks and responsibilities. They have not only to look for profits and shareholders value, but for the well being of their employees. Former UN Secretary Kofi Annan tried to emphasize this by creating the Global Compact. Under this initiative big companies, mainly multinationals, commit themselves to do something positive in the social and environmental sector.

CSR Standards

CSR is not restricted to activities outside the companies. Since success begins at home, entrepreneurs and managers have to give special emphasis to social responsibility within their companies. Therefore it has become increasingly important in the western countries to fulfill social and environmental minimum standards. Today this socially compliant business is seen by many companies, governments, associations and NGOs as the core component of CSR. It is reflected in standards which relate to working hours, wages, proper documentation, health and safety, non-discrimination, avoiding child and forced labour, freedom of association and environmental cleanliness, e.g., through good housekeeping and other aspects of pollution. These Standards were developed in 1995; a bit later came SA 8000. The International Standard Organisation is coming up with an ISO 26000 social standard which will be valid for all member states. It will be voluntary, but will in a way guarantee the provision of basic human rights to the workers.

Today there is a strong movement to reach a situation where all products are made in a socially compliant way, i.e., always fulfilling the social and environmental minimum standards. Nearly all leading buyers and importers have made social compliance an integral part of their purchasing procedures. We from IGEP have been involved in this development for nearly twenty years now. We began with a first social norm to avoid illegal child labour in the carpet industry in 1991 (Rugmark). Five years later this was followed by a first comprehensive standard called ISES 2000. This standard was tested in a pilot project in the Indian shoe industry for the world's biggest shoe importer, the Deichmann Group from Germany, where it was a big success. Therefore it was later on used for the garment sector of India too. Subsequently the scope of ISES 2000 was extended to 15 other countries in the handicrafts, leather, auto and auto-components, engineering and others. Today this standard even covers the grave stones so that the Germans who are lying in the cemetery can really rest in peace because their tomb stone is not made with child labour as repeatedly claimed by many NGOs.

The acceptance in Germany and in the EU for these standards is growing. It is also growing in India; however, there are some difficulties in the process. Some industrialized countries want social standards to become a part of the trade regime of the World Trade Organisation. The Indian Government does not share this view. It wants the social standards and the social questions to remain within the ILO and to be seen as a voluntary exercise of the private and the public sector. This is at present playing an important role in the negotiations between the European Union and India about a Free Trade Agreement.

Apart from this there are debates about the interpretation of some parts of the standards. Regarding the minimum age of workers it is in India 14 years, while other countries are sticking to 15 years or even 18. For proper payment Indian companies fulfill their social responsibility by giving the officially fixed minimum wages. This is sufficient, but there are movements aiming at higher payments so called living wages. This is especially important in Bangladesh where the minimum wages are considerably lower and will be discussed therefore further on.

Current Scenario

The general trend suggests that these standards are growing fast under the constant pressure of the market and the NGOs worldwide. Buyers all over the world have no choice but to buy only from those companies which fulfill these social standards. NGOs and others find open ears especially in countries with a system of 100% export oriented units. The management of such companies is keen to abide by the wish of the buyers with regard to the standards as long as this guarantees good business.

However, there are difficulties too. There are many buyers and consequently multiple standards. This results in a lot of time, money and energy needed for audits and controls on the side of exporters/manufacturers. Some garment manufacturers in India, for example, have to undergo as many as 16 different audits. They all cover more or less the same parameters. But they are conducted to suit the wishes of different buyers.

In spite of this the Indian companies are quite open and receptive to controls or self commitment for social responsibility as long as this safeguards stable business. They have often difficulties with documentation, working hours,

safety and also with freedom of association. But when it comes to the corrective action plan and re-audit, the Indian companies register the highest rate of improvement in the world.

For an observer this apparently suggests that multiple auditing should be avoided. A breakthrough has been made in Germany and the European Union by a group called the Foreign Trade Association of the German Retail Trade (AVE). It has agreed that all their members may abide by one standard and that an audit or a certification by a member company will automatically be accepted and acknowledged by all other member companies. Because of its success with this procedure AVE has established a European Organisation (FTA) in Brussels which started the Business Social Compliance Initiative (BSCI). Today BSCI has more than 500 important buyers as members. Its massive success puts it as a model for the future. However, there is still some way to go. Wal-Mart does not work together with this group along with others major buyers like IKEA, Reebok and Nike who still stick to their own standards.

A special point of debate with the standards is that these are used by big buyers all over the world especially from the western countries vis-à-vis the developing countries. However, till today the western companies have not undergone audits or certifications according to these standards. There is a question mark as one enquires about the difference between a product imported to Germany from USA, Italy or China and India? Why only the Indian and the Chinese goods have to be audited and certified? Here discussions on higher levels may be useful for the future.

Apart from this standards cannot be used everywhere in the same strict manner. In some traditional sectors like handicrafts or carpet production, it is not possible to fulfill all the standards. It is difficult to even think of separate toilets

for ladies and gents where for miles there are no such facilities. The typical shortcomings of cottage industries have to be taken as an important point of consideration.

In addition, there is the question of country specific laws, multiple laws and the dilemma of which law should be followed. One possibility is to just stick to the ILO Conventions; the other would be to take the law of the manufacturing land and not of the country to which the product is being exported. In the case of child labour, for example, the age parameter is different in each country. United States would like it to be 18 years, ILO wants to have 15 years and India insists on 14 years. Similar differences exist with regard to working hours, social insurances and last but not the least minimum wages.

We should also be careful not to over estimate the wisdom of the people introducing and controlling the standards. It is all done by human beings and they might not have a grasp of all the relevant issues. In China, for example, the attitude of auditors is that they try to maximize the detection of failures. They do not just point out that wages are not sufficient or the documents are not complete, but would announce to the managers that they found 141 failures in the company. The capability to understand and provide company specific solutions for improvement at times go missing. And at the same time this reduces the acceptance of voluntary audits dramatically.

A big question is the costs of audits. Initially, in India, it was clear that the audits and controls would be paid by the buyer. Later on it was changed and today it is a common practice that the manufacturer has to bear all the costs. This would not be a problem as long as it is one audit, but as soon as it comes to 16 audits; it becomes a cause of concern.

Companies in India are nonetheless undergoing all the audits with the expectation and hope that audits will contribute further to their business. This cannot be guaranteed due to stiff competition and the ever changing market conditions.

This leads to a strong role of prices which may provoke the violation of standards. Take only the textile market. Everybody in India, Bangladesh, China or Vietnam tries to undercut the price of the competitor. This price war can lead manufacturers and contractors to employ child labour, underpay home workers and look for other non-social ways and means to minimize the production costs. Therefore we see so much overtime, maximum working hours and use of migrant labourers who are ready to work in all eventualities.

This also makes the issue of contract labour a big social problem. These workers come with a contractor. They have no trade union and no law maker who is looking for them. All undesirable practices regarding maximum working time, over time payment, employment of child labour, no old age pension, unhealthy working conditions etc. are to be found here and not taken up by anyone.

To add to all this, there is in some cases also a dichotomy of interest in the buying companies between the board members who are in charge of corporate social responsibility and those who are in charge for sales and profits. CSR experts are of the view that price is not the most important component. And if you hear NGOs from Switzerland, Sweden or other countries that are very well off, one gets the impression that this is true. But in the case of United States, Germany and other countries, price is still the major determinant of business. Sales people have to follow this dictate. In the financial crisis the first category of employees to lose their job were normally the members of the social departments. This is a fact that we regret, but it is the reality.

Conclusion

Corporate social responsibility as a basic human right is needed. It should be done in all factories all over the world. The Business Social Compliance Initiative (BSCI) is helping in this initiative in India. While the BSCI undertakes the job, it also makes it a point to tell the workers not only their rights, but also their duties. Social compliance is a way to stronger social partnership. The IGEP Foundation has been appointed to be the representative office of BSCI in India. For BSCI and its members, IGEP functions as the contact point, information centre and service provider in all questions and activities related with social compliance and auditing procedures.

There is two decades of experience in bringing working conditions in line with international requirements and wishes of buyers – from avoiding child labour to comprehensive standards. IGEP developed its own standard ISES 2000/2020 early and was instrumental in building the BSCI audit system. IGEP is also accredited to certify companies according to ISO regulations.

Functioning in a partnership approach and carrying out the auditing assignments as an integral part of export promotion is important. The issue of CSR has to be taken up in the spirit of partnership.