

# Corporate Responsibility in the Natural Stone Sector: The Effectiveness of Voluntary CSR Initiatives in Achieving Sustainability

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## Introduction

In the global value chain of natural stone products such as pavement, grave stones and kitchen tops, many sustainability issues prevail. Research into sustainability issues in stone quarries and factories in India and China point to violations of all ILO Fundamental Conventions and other issues: untreated waste water discharge, bonded labour, no living wages, air pollution, excessive working hours, discrimination, no payment for overtime, child labour, occupational diseases, no safety measures and no right to collective bargaining. Quarrying is often poorly regulated, which means illegal mining is abundant and there is little control over labour conditions in the pits. On the basis of present knowledge, problems seem to be more pressing in India than China (Glocal Research, ICN and Stop Child Labour, 2015; Madhavan & Raj, 2005; Mining, Minerals and Sustainable Development, 2002; MLPC & Australian National University, 2014; SwedWatch, SOMO & IHLO, 2008; UNICEF & Centre for Responsible Business, 2015). The last decade has seen a rise of joint private sector voluntary initiatives which attempt to improve labour and environmental conditions in natural stone quarries and processing factories in emerging economies. This thesis analyses the effectiveness of five West-European Corporate Social Responsibility (CSR) initiatives in achieving sustainability in natural stone supply chains. To do so, nineteen semi-structured interviews were conducted with CSR initiative-, respective member company-, Non-Governmental Organization (NGO)- and other natural stone sector representatives from mid-April until mid-July 2016, as well as content analysis of publicly available information of the CSR initiatives. Three initiatives certify stones: Fair Stone, XertifiX and natural stone certification by Indian-German Export Promotion (IGEP), and two explicitly do not: Ethical Trading Initiative (ETI) Sandstone and TFT Responsible Stone Program (TFT-RSP). The central question in this thesis is:

How effective are West-European CSR initiatives in achieving sustainability in natural stone quarries and processing factories?

## Theory

### *Natural Stone Industry as a Less Visible Global Value Chain*

Global Value Chains (GVCs) depict production systems that are cross-border (Ramel, Mangelsdorf & Blind, 2015). In highly visible GVCs, lead firms are internationally popular brands who experience extensive scrutiny by international media and NGOs. As for those firms, brand image is inextricably linked to sales and therefore they are involved in trying to ensure their suppliers comply with their codes of conduct. The natural stone sector is a less visible GVC; consisting of Small or Medium-Sized Enterprises (SMEs) which are less capable of enforcing their codes in the chain. Furthermore, a wider set of actors pressurize supply chains to include elements of CSR, including regulatory frameworks, national media and less dominant firms (Lund-Thomsen & Nadvi, 2010). The authors found that external CSR pressures through the global value chain are less critical in less visible GVCs. This can lead to foot dragging behaviour by local suppliers. As a less-visible GVC, CSR is not something many natural stone companies are involved in. For long, conditions in the natural stone supply chain stayed unnoticed in Western Europe. According to Barrientos & Smith (2007), ethical trade will not be a priority for most corporations until good performance is properly rewarded. Data gathered for present thesis confirmed that for some companies, rewards in terms of security about orders was indeed a prerequisite for CSR. The European sustainable procurement policy could serve as such a reward incentive.

### *Limits of Codes of Conduct*

Scholars have found that codes of conduct are the primary CSR tools used by civil society organizations, such as CSR initiatives and NGOs, as well as corporations (De Neve, 2009). However, three limits of codes for improving working conditions in lower tiers of supply chains are recognized. Firstly, purchasing practices of importers often undermine compliance with codes of conduct (Barrientos & Smith, 2007; Harney, 2008 in Lund-Thomsen & Lindgreen, 2014). Secondly, many codes have been reviewed as weak in content as well as scope (Barrientos & Smith, 2007). Codes are more likely to have impact on tangible work conditions, such as the provision of Personal Protective Equipment (PPE) than on intangible process rights such as the right to collective bargaining, which are more sustainable (Lund-Thomsen & Lindgreen, 2014). Thirdly, corporate codes are criticized for being formulated without relevant input from workers and suppliers in developing countries (De Neve, 2009). Because their opinion is not taken into account, few suppliers feel ownership of the codes that are pressed upon them by their buyers. This makes the long-term sustainability of the implementation of CSR codes doubtful (Lund-Thomsen & Nadvi, 2010). Furthermore, CSR codes can be seen as enlarging inequalities in a neo-colonial way (De Neve, 2009).

A complicating factor regarding CSR code compliance in GVCs is the diversity in norms and values in different contexts, for instance the local and global perception concerning the acceptance of child labour. The global perception is reflected by the ILO Fundamental Rights at Work Conventions, which include the absence of child labour, and can therefore be claimed to be universally applicable (Lund-Thomsen & Lindgreen, 2014). This perception was adhered to by the CSR initiative representatives for the large part. Local suppliers often point out that in absence of proper education opportunities, work offers children necessary job training and contributes to the

family's livelihood (Lund-Thomsen & Lindgreen, 2014). A cultural relativist stance in this debate would emphasize taking into consideration the local context instead of demanding compliance to rights determined by dominant western ideas, which was in majority the opinion of member company representatives of the studied CSR initiatives.

### ***Compliance and Cooperation Paradigm***

Lund-Thomsen & Lindgreen (2014) observe how CSR in GVCs is shifting from a compliance paradigm to a cooperation paradigm. In the compliance paradigm, civil society and media pressurize international businesses to adopt voluntary codes of conduct for their suppliers in developing countries (Locke et al., 2008 in Lund-Thomsen & Lindgreen, 2014). Compliance is measured through social audits by third party commercial auditing firms, to keep up an appearance of independent control. This independency is however questioned, as continued business for the auditing firms depends on maintaining good relations with the paying clients, which can be either buyers or suppliers.

In the cooperation paradigm, buyers have been assigned a new role, from demanding changes from their suppliers to having to change their own procurement practices as well (Barrientos, 2013 in Lund-Thomsen & Lindgreen, 2014). However, there is no evidence yet that this new paradigm has significantly improved conditions at suppliers or that buyers are changing their procurement practices. The cooperation paradigm is also criticized for not including workers' and suppliers' voices, which makes it difficult for power relations to be altered. Furthermore, Lund-Thomsen & Lindgreen (2014) state that it is unlikely that large international firms are able to cooperate with each of their many suppliers, therefore the authors predict that traditional code compliance and control through social auditing will continue to play a large role. However, natural stone companies are often SMEs and therefore most likely have less suppliers. The cooperation paradigm emphasizes close collaboration and long-term, trust-based relationships between buyer and supplier (Oxfam, 2010 in Lund-Thomsen & Lindgreen, 2014).

## **Results**

### ***Codes of Conduct***

All the CSR initiatives have set up their own code of conduct and all initiatives except IGEP have published these standards on their websites. ETIs and IGEPs codes are both multi-sectoral, which means they are meant to be applied to different sectors, while the codes of Fair Stone, XertifiX and TFT-RSP are uni-sectoral. A uni-sectoral code is focused on the problems in a specific industry, which might attribute to its effectiveness in tackling those problems. All initiatives incorporate the ILO Fundamental Conventions in their codes, so the social dimension of sustainability is well accounted for. All codes have rules on wages, pensions and compensated overtime, so the economic dimension of sustainability is also taken into account. The environmental dimension is generally poorly included by the initiatives. TFT-RSPs code is the only one which has guidelines on access to judicial remedy and credible grievance mechanisms. Access to grievance mechanisms is a process right and therefore important for workers to gain a stronger voice and other entitlements. Corruption and bribery is only included in ETIs base code, while

this is known to be a problem in India. All codes include roughly the same requirements for safety and health of the workers, as well as contractual matters and social protection. Involvement in local communities and gender issues are however better incorporated in the codes of TFT-RSP and XertifiX than in those of ETI, Fair Stone and IGEP.

### ***Measures taken***

To ensure compliance to their codes, the certifying initiatives: Fair Stone, IGEP and XertifiX, assume a fairly coercive style. IGEP is placed within the compliance paradigm, while Fair Stone and XertifiX show characteristics of both the compliance and cooperation paradigm as they rely on an auditing system, but also expect their members to use their leverage to incentivize their suppliers to change. Auditing is the main tool for measuring compliance to CSR codes. However, audits are not always able to detect fraud or demand changes and therefore not very effective. Nevertheless, IGEP relies fully on measuring compliance through unannounced inspections, audits and corrective action plans, and Fair Stone and XertifiX for the large part; the latter two also provide trainings and workshops for workers and management. All three initiatives focused on local legislation and global agreements. As the universal applicability of ILO Conventions was undoubtedly assumed, it makes sense to use a general standard and to apply it to all companies in a supply chain in the same way. The fact that all of the certifying initiatives are based in Germany is explained by the focus of the German media on child labour associated with grave stones. This media attention motivated stone importers, for marketing reasons, to search for a way to prove to customers that their stones are produced without child labour. This focus on compliance for competitive advantage implies there is little intrinsic motivation for increasing sustainability in the supply chain and taking responsibility. Practically, there are some snags to labelling stones instead of issuing some sort of certificate to a factory or quarry. Especially when the intrinsic motivation to increase sustainability is absent and compliance is only strived for because of marketing reasons, cheating with labels is a considerable risk. The certifying initiatives see certification as the only way to ensure compliance to their standards and simultaneously to fulfil the need for proof of their members.

On the other hand, TFT-RSP and ETI Sandstone deliberately do not certify stones, because they feel certification only focuses on compliance and that is not enough for creating lasting changes. They are therefore fully embracing the cooperation paradigm and thus prefer a more collaborative engaging approach. However, as Lund-Thomsen & Lindgreen (2014) already noted, the line between the two paradigms is thin and it proves difficult to stay away from using audits to ensure compliance. By going 'beyond auditing'; doing more than checking compliance by working together with suppliers, the idea is to help workers claim process or enabling rights instead of only receiving outcome standards. This idea is consistent with literature as well as with the observed shift within CSR from the compliance paradigm towards the cooperation paradigm. Emphasis laid on the positive effect of long-term relationships between suppliers and buyers on improving labour and environmental conditions. Members of all the CSR initiatives often have good, long-term relationships with their suppliers and indicated that these relationships are valuable for creating change. The downside might however be that due to the large amount of trust which is built during those long-term relationships, importers believe that when they ask their supplier to comply with certain requirements from the CSR code in case, the supplier will just do

it at once. This often turns out not to be the case, showing that good relationships and trust can also cause issues to be covered up more easily.

### ***Achievements***

Regarding the concrete achievements the initiatives have made, results remain vague. Only TFT-RSP is publicly transparent about its accomplishments; the website informs that as of July 2015, three factories and one quarry have reached level one of their code. It also states which members have worked with these factories and quarry to reach this level. Participants regarded this number as low. However, TFT-RSPs openness and acknowledgement that changing labour and environmental conditions is a slow and laborious process enlarges the initiative's reliability as well as the assumed sustainability and therefore value of the achievements. As transparent as TFT-RSP is about its achievements, so opaque are Fair Stone, IGEP and XertifiX about theirs. Besides fulfilling the codes' minimum requirements to acquire the label, it remains vague how much and which quarries and factories participate in the certification schemes, even though all three initiatives said that 100% of their member's supply chain is known to them. None of them however shares this information publicly. Numbers on how many stones are certified also are not public. As far as the codes' minimum requirements go, where the minimum requirements of XertifiX are quite thorough, those of Fair Stone and IGEP do not convey much improvements for workers or the environment. IGEP only has one minimum requirement: eliminating all forms of child labour. Fair Stone's minimum requirements are only focused on safety in the workplace. While safety obviously is important, it is only one outcome standard area and improving workplace safety does nothing for achieving process rights. For the ETI Sandstone Group the achievements consist of establishing the State Forum on Natural Stone in Rajasthan, which is now functioning properly on its own, but its concrete results remains vague.

### ***Transparency***

Most of the CSR initiatives are not transparent towards the public regarding participating suppliers and progress, but were about their members, measures and standards. Public transparency about methods, difficulties and achievements offers the opportunity for outsiders to check what is going on and get involved. Transparency to members allows for members to ask questions and be critical, which could lead to learning and improving operations. All CSR initiatives have in common that the entire supply chain of their members in the areas they operate is transparent to them. Naturally, a prerequisite for working with suppliers is knowing who they are. Where the certifying initiatives just ask for a list of suppliers, TFT-RSP and ETI Sandstone go through a more extensive 'mapping procedure' as it turns out to be quite difficult to reach supply chain transparency down to quarry level. ETI, TFT and XertifiX publish annual reports, while Fair Stone and IGEP do not, at least not publicly. Even if Fair Stone and IGEP would write annual reports privately, by not sharing them the initiatives lose another learning opportunity: receiving feedback from others. Considering that Fair Stone has not revised its standard since its foundation as well as the fact that both do not publish annual reports, IGEP and Fair Stone are unlikely to be learning and improving thoroughly. XertifiX, TFT-RSP and ETI do make better efforts at improving themselves and thus are likely to become more effective in reaching their goals.

## **Conclusions**

Based on the findings of this study, it can be concluded that regarding effectiveness, the CSR initiatives for the large part fail to live up to the standards of participants of this thesis. Research participants deemed the CSR initiatives effective when suppliers comply to the initiatives' codes. Concrete numbers of compliance were however either small or not publicly available. Affecting initiative effectiveness, is the focus of the codes on outcome standards instead of process rights. As, especially in the cooperation paradigm, buyers are expected to engage with their suppliers in order to facilitate change, when they focus on outcome standards rather than process rights, the status quo regarding worker's rights is not likely to be changed. Furthermore, for the certifying initiatives, the business case of CSR prevailed as a reason to join. It would be naïve to assume that simply through cooperation labour and environmental conditions will improve, when the business case is the reason to do CSR and not, or barely, the commitment to act in a sustainable manner throughout their supply chains. Further, research participants regarded whether suppliers were intrinsically motivated and committed to change one of the most important elements for achieving compliance with the codes. True commitment is more likely to be achieved in the cooperation paradigm than the compliance paradigm, because simply imposing an externally designed code is unlikely to initiate lasting change, as suppliers lack a feeling of ownership of the rules.

## **Recommendations**

Building on aforementioned conclusions for future research is the recommendation for the CSR initiatives to incorporate local suppliers' and workers' voice in their methods. Including suppliers' and workers' opinions will encourage them to feel more ownership over the measures, which is necessary for assuring sustainable improvements in labour and environmental conditions and thus increasing the initiatives' effectiveness. Recommended also is for the initiatives to become more transparent, to the public as well as to the members. Greater transparency will lead to opportunities for critical involvement of the public as well as the members, which in turn could instigate learning and possibly lead to improved measures and achievements. Cooperation is likely to lead to more effective and sustainable results. However, in a less-visible GVC which the natural stone industry is, external CSR pressures are less critical for achieving change. And while collectively demanding changes based on similar codes might be effective for some issues, CSR efforts are as of now still voluntary and for most companies low or entirely missing on the agenda. A bigger impact could be expected of the European sustainable procurement policy for governments, as governments are large buyers of natural stone. That is, if it would be properly implemented which as of now is not the case. The way the natural stone sector is organized now, sustainability is still a far reach.

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