

Indian corporate responsibility

Asian giant on an ethical crash course

By Poulomi Saha

Only a few forward-looking companies have so far flown the corporate responsibility flag in India. But the rest will soon have to follow

Last year was a landmark year for Indian business. It began with the “India Everywhere” campaign at the World Economic Forum, where Indian business magnates, bureaucrats and economic pundits thronged the Davos platform. They pushed Indian investment in a big way. The rest of the year was spent putting their words into action.

Corporate takeovers by Indian multinationals reached new heights in 2006. The economy grew at 8.5% and is poised to overtake the UK, France and Italy within a decade, according to Goldman Sachs. By 2050, it will be second only to China. The high-profile Tata acquisition of Anglo-Dutch steel giant Corus appears to be only a sign of things to come.

Corporate responsibility has traditionally been the domain of a few enlightened companies in India. “The corporate brethren tend to leave it to the usual token CSR icons – Tata and Infosys – to provide stirring stories of social heroism, rather than come out with a compelling new story of corporate excellence,” says Malini Mehra, director and founder of the Centre for Social Markets, an Indian non-governmental organisation.

The notion of corporate responsibility in India has traditionally been tied up with philanthropy and community development.

“Philanthropy has been important in India since the middle of the 19th century, largely due to a strong heritage of community influence and paternalism among traders-turned-entrepreneurs,” say authors Atul Sood and Bimal Arora in “Political Economy of Corporate Responsibility in India”, a 2006 paper for the UN Research Institute for Social Development.

Philanthropy has now taken the form of foundations within companies that follow the Gandhian ideology of “giving back to society”. Such giving is the sole manifestation of corporate responsibility for many firms.

Modes of thinking

Shefali Chaturvedi, head of the Social Development Initiative at the Confederation of Indian Industry, says there are three kinds of Indian companies when it comes to corporate responsibility: big Indian multinational corporations that have proper corporate responsibility mechanisms in place; large national companies that appreciate the value of



India's new workers are demanding more from responsible business

corporate responsibility but have no inherent structures to show for it; and, the many small and medium-sized enterprises that are doing only piecemeal work at best.

“Most companies do not take society and the environment into consideration when planning their business activities; [they do this] only at the time of implementation, and sometimes they pay a huge price for it,” says Dinesh Agrawal, general manager of corporate social responsibility at the state-owned National Thermal Power Corporation.

Vishakha Das, CSR manager at IT services company WeP Peripherals, adds: “There are two CR myths with regard to smaller companies [in India] – they think it’s something for bigger companies with huge profits and they think it’s mainly a philanthropic exercise.”

There are forward-thinking chief executives and companies that have made corporate responsibility

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India and the environment: baby steps

According to the Intergovernmental Panel on Climate Change, India will become a major contributor to global carbon dioxide emissions if it does not take immediate corrective action.

India has so far refrained from joining any global greenhouse gas emissions reduction agreements. But recognising the need to respond to climate change, some Indian companies have started to think about carbon trading.

Nicholas Stern, economic adviser to the UK government, who has been touring the world to promote the findings of his climate change review, says he is optimistic. India is discussing the need to set up a carbon trading market where energy-efficient companies can sell their carbon reductions to firms in richer nations. He says companies are also adopting new efficient technologies as they begin to see the profitability in doing so.

Some proactive companies have been trying to address increasing water shortages by engaging in conservation and harvesting programmes. Protection of water supplies is a very sensitive issue in India. Coca-Cola’s plant in the southern state of Kerala was shut down when it was found using a lot of water for making its soft drinks, leading to depletion in groundwater levels in the state. Groundwater pollution is a serious environmental concern in India.

a solid pillar of the way they do business. But the greater number of Indian companies has failed to internalise corporate responsibility.

A lax regulatory environment and the absence of a joined-up civil society movement have not helped.

Foreign firms

While a community-friendly ethos has existed in India for a long time, large foreign companies have historically been responsible for bringing business ethics talk to India, under pressure from NGOs, consumers and investor groups back home.

But foreign companies are in fact often accused of operating to lower ethical standards in India than they do elsewhere, amid a lenient compliance and enforcement regime.

Take clinical trials, many of which are conducted in India by foreign pharmaceutical companies such as Novartis, Novo Nordisk, Pfizer and Glaxo-SmithKline. A huge patient population, speciality hospitals with modern facilities, 221 medical colleges and research costs about two thirds lower than those in the US make India an attractive destination for trials.

Clinical trials in India, however, have been mired in controversies over unethical recruitment of patients, exaggeration of results and the underplaying of risks associated with drugs being tested. A major BBC World Service investigation last year found global pharmaceutical companies doing little to improve such perceptions, while Indian hospital ethics committees and the national legal framework have proved ineffective in tightening procedures.

General Electric, for example, has been accused of not controlling the use of its ultrasound equipment in pre-natal sex determination across parts of India, which is allegedly contributing to cases of female foeticide, a serious problem in the country. Cheap credit offered by GE Capital to buyers has increased sales of the ultrasound machines in the north-west of India, alleges Sabu George, consultant with the Delhi-based Business and Community Foundation.

GE told Ethical Corporation it was committed to preventing the misuse of its technology and fully informed customers on the issues through terms and conditions of sale, product manuals and labelling on equipment. It says a customer must have a Pre-Natal Diagnostics Techniques certificate to buy GE's ultrasound machine.

The multinational leaders

Other sectors have also been under close scrutiny in India. Big brands in the clothing sector, for instance, have been working with Indian civil society groups to raise workplace standards at their suppliers' factories.

There are reasonably sturdy labour laws in India but enforcement has been left wanting. The informal sector that constitutes the larger share of

Emerging retail sector – possible impacts

The retail sector boom has become a favourite talking point these days in Indian business circles. India's retail market is worth more than \$200 billion and a market of such potential is hard to ignore. Reliance Industries, the first to jump on the bandwagon, now has 11 stores in the city of Hyderabad, having opened its first in September, and hopes to target at least 800 cities by 2011.

While national companies have been scampering to announce retail ventures, international giants have been lobbying the government hard to relax foreign direct investment laws in the multi-brand retail sector. Wal-Mart, however, was not prepared to wait. Exploiting a legal loophole, the company entered into a joint venture with Indian telecommunications leader Bharti Enterprises to launch a supermarket chain in India. The Indian left objected to Wal-Mart's "backdoor entry" but their protests found little favour with the foreign-investment-hungry administration.

Organised retail is expected to bring efficiency to food and agricultural supply chains in a country where poor distribution channels mean 40% of produce is wasted. It will also eliminate a lot of middlemen in the business and bring farmers closer to the end consumers.

There are, however, concerns. The US-based Association of Community Organisations for Reform Now has warned: "In the US, we used to get oranges from California and pineapples from Hawaii. Today, we get our pineapples from Malaysia and the Philippines because labour costs there are much cheaper. In the same way, once [Wal-Mart] enters the Indian market, if they find Vietnamese tea is cheaper then they will flood the Indian markets with tea from that country. If, in the bargain, the Indian tea market gets destroyed then little can be done about it."

The Indian government will have to balance the advantages in cheaper food and efficient food distribution with strictly monitored corporate power and expansion, if it wants to avoid public outcry.



Local communities are development allies

the labour market has suffered the most.

Homeworkers, for instance, have very little rights. For several years now, the UK's Ethical Trading Initiative has tried to address this with the co-operation of member companies such as Monsoon, Next and Gap. They are part of a National Homeworkers' Group consisting of suppliers, retailers and NGOs. This organisation is running a pilot project on improving working conditions in the fabric embellishment industry of Bareilly in Uttar Pradesh state, having drafted guidelines in July last year.

Child labour in India is prohibited in certain hazardous industries, but the government has been unwilling to apply a blanket ban on the employment of children. Among other companies, home furnishings firm Ikea is proactively addressing the issue through the economic empowerment of women in villages around its factories in north India. Ikea is also providing educational facilities for

India – facts

- Population: 1.095 billion (July 2006)
- Population below poverty line: 25% (2002)
- GDP: \$875.9 billion (2006)
- GDP growth rate: 8.5% (2006)
- Inflation rate: 5.3% (2006)
- Labour force: 509.3 million (2006)
- Labour force – by occupation (2003):
 - agriculture (60%)
 - industry (12%)
 - services (28%)
- Main industries: textiles, chemicals, food processing, steel, transportation equipment, cement, mining, petroleum, machinery, software

Sources: CIA World Factbook, Economist Intelligence Unit

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children employed previously at its suppliers' factories.

Caste discrimination remains an important issue that has not received much attention from companies in India. In the informal labour sector, Dalits, the lowest caste group in India, are paid at least 25% less than their upper caste counterparts. Discrimination within the educational sector against Dalits mean they remain unskilled and their opportunities are limited.

Referring to the furore raised over health and safety standards in India's ship-breaking industry in 2005, Coen Kompier of the International Labour Organization says the issue was not brought to attention earlier because the workers were Dalit migrant workers from the state of Orissa.

When it comes to freedom of association, with the exception of the growing "business process outsourcing" industry, which remains mainly union-free, most Indian industries have vocal worker communities. The right to raise a collective voice for workers' rights, however, often goes unused or is stifled, an example being the authorities' use of force in the workers' strike over layoffs at Honda's Gurgaon factory in 2005.

Touchy issues

Community groups have used their voices to send shudders through the political system. In West Bengal's Nandigram village, residents protested in early January over news that the state government had approved land acquisition for a Special Economic Zone to be set up by Indonesia's Salim Group. Seven people were reported killed in ensuing violence.

There was a similar violent dispute over alleged farmland grabbing by the state administration to make way for Tata Motors factory in West Bengal's Singur village. The state's left-leaning administration, keen on attracting investment back into the state, claimed farmers had been paid adequate compensation for their land, but it appeared not all farmers had agreed to part with their property. Tata Motors remained tight-lipped throughout the episode and started construction at the site under heavy security.

This followed a land acquisition dispute in Kalinaganagar, Orissa, in early 2005, involving Tata Steel, which led to the deaths of 12 tribal people in clashes with local police. In this case, too, Tata refrained from making any public statement, except to say it was a matter for the state government.

While HLL vice-chairman M K Sharma defends Tata as having been unfortunate in these episodes, Indian corporate responsibility commentators describe Tata's conduct in both these episodes as "disappointing".

The cases are examples of poor stakeholder engagement in India, says Viraf Mehta, chief executive of Indian NGO Partners in Change. He notes

Levering better business practices

Hindustan Lever Ltd, the Indian division of the global food and consumer goods giant Unilever, is among the few Indian national companies that have progressively incorporated corporate responsibility policies and practices in their business ethos.

But while HLL has adopted the same set of business principles and code of conduct as Unilever's other global subsidiaries, it has established an individual identity for itself in the Indian corporate responsibility field.

M K Sharma, HLL vice-chairman, says the company's corporate responsibility policies and practices are integral to the business.

Besides its flagship project, Shakti, HLL is involved in many other rural social and economic development projects, including India's largest private sector initiative to increase health and hygiene awareness among children.

Sharma highlights the potential of public-private partnerships in India. "PPPs are hugely important but grossly under-exploited," he says. Sharma believes inefficiencies in the Indian



Tea sector: "well regulated"?

administration, which partly result from corruption, mean much potential funding goes unutilised, and he advocates the setting up of PPPs to counter the bureaucratic hurdles. For this, he says, companies and NGOs should shed their "individualistic" attitudes and build a relationship of trust and collaboration.

The Shakti project is based on company board member C K Prahalad's "bottom of the pyramid" theory, which encourages businesses to target the entrepreneurs and consumers among the world's poor. Shakti gives HLL brand retailing rights to rural women from self-help groups. But critics are concerned the project unduly favours women who have collateral to back them up when taking micro-finance loans for their business. Sharma denies this.

Referring to HLL's tea business, Sharma rejects allegations made in ActionAid's 2005 "Tea break" report that workers on the company's tea plantations in India were exploited. He says the tea sector is very well regulated and HLL pays its workers more than the legal minimum wage and respects all their rights. He claims discussions with ActionAid had made clear the report was based on the experience of a temporary worker for whose livelihood HLL cannot be held responsible after the termination of his contract.

Sharma is confident that with rising consumer awareness and increasing foreign direct investment, corporate responsibility as a trend will pick up. For that, he says, the Indian government, which has done a lot on the policy side, will now have to work on the implementation of those policies.

that in matters of rehabilitation, there should be consensus and the company involved should engage with the communities. This can be done by offering shares in the new enterprise, assuring them jobs or an equivalent amount of cultivable land elsewhere. All information, says Mehta, about the rehabilitation packages and the land acquired should be publicly disclosed. Amita Joseph, director of the Business and Community Foundation, adds that companies need not always involve the state when acquiring land from local people; they can transact directly.

Some solutions

According to domestic corporate responsibility managers, Indian companies need to stop looking at local communities through the prism of charity and see them as allies in the development process. Multinational corporations, meanwhile, have to become culturally sensitive to the needs of Indian society, they say. This can be done through the adoption of country-specific policies and the recruitment of Indian professionals for the execution of these. Winning the trust of local communities and identifying the right partners to implement corporate responsibility initiatives on the ground will be among the challenges.

Joseph is of the opinion that corporate responsibility should now be legally mandated for all firms in India, imposing requirements such as a dedicated corporate responsibility department, fixed funding, and formal corporate responsibility policies and planning, with company size determining the requirements.

At present only five companies based in India produce CR reports aligned to the Global Reporting Initiative Guidelines. While Indian firms say there is little demand for these reports from Indian stakeholder groups, Yashashree Gurjar, head of corporate social responsibility at paper company Ballarpur Industries, says the reluctance to produce responsibility reports also owes a lot to political wrangling and civil society pressure in India.

"Transparency is perceived as a risk. It is thought if you are too transparent, it may not be good for you," Gurjar says, suggesting that warring political parties and the activist NGO community can use publicly disclosed information to damaging ends. Gurjar thinks there is a need to produce India-specific reporting guidelines if the gamut of India's complex social and environmental issues is to be fully covered.

Gerard Oonk, director of the India Committee of the Netherlands, says corporate responsibility needs to become much more "political" in India for it to attract companies' attention. Notions of responsible business need greater recognition from the central and state administrations, he says.

Greater transparency and disclosure are also required if companies are to maintain their credi-



Getting children from work to class

bility. There are now mandatory corporate governance standards for listed companies in India, but in a study conducted earlier this year by the World Bank, the quality of disclosure was found to be very low.

Drivers of change

But this appears set to change. With more and more Indian companies launching operations overseas, they are bound to come under the global media spotlight. Ethically aware consumer groups in the west will be keen to know that the goods they buy from India are produced in a socially and environmentally friendly way. International corporate responsibility promoting coalitions and NGOs will raise the heat too. And although investor groups in India are not very active on corporate responsibility yet, socially responsible investors from abroad may step up the pressure.

In India, where basic compliance is still a big challenge, going beyond compliance will soon become essential. The biggest Indian companies have always been revered and considered almost untouchable by society and regulators but they will now find themselves increasingly scrutinised in the international marketplace where every company wears its ethical credentials on its sleeve.

On home turf as well, with the local NGO community rapidly organising itself and consumers frequently using the new Right to Information Act, it will be very difficult for Indian companies to hide. Awareness is on the rise.

So, as India's economic growth reaches new heights, corporate responsibility awareness will have to reach company boardrooms. The Indian government will have to exchange its laidback and sometimes protectionist attitude for a more proactive stance. ■

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www.bcfindia.org
www.picindia.org
www.devalto.org