

# The Political Economy of Corporate Responsibility in India

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## Acronyms

AIDS	acquired immunodeficiency syndrome
AITUC	All India Trade Union Congress
APO	Asian Productivity Organization
ASSOCHAM	Associated Chambers of Commerce and Industries
BCCI	Bombay Chambers of Commerce and Industries
BIS	Bureau of Indian Standards
BMS	Bhartiya Mazdoor Sangh
BPNI	Breastfeeding Promotion Network of India
BSR	Business for Social Responsibility
CAP	community advisory panel
CCC	Clean Clothes Campaign
CCPA	Canadian Chemical Producers' Association
CEO	chief executive officer
CERES	Coalition for Environmentally Responsible Economies
CFBP	Council for Fair Business Practices
CII	Confederation of Indian Industries
CORE	The Corporate Responsibility Coalition
CREM	Consultancy and Research for Environmental Management
CREP	Charter on Corporate Responsibility for Environmental Protection
CRISIL	Credit Rating Information Services of India Limited
CSE	Centre for Science and Environment
CSM	Centre for Social Markets
CSO	civil society organization
CSR	corporate social responsibility
EITA	Engineering and Iron Trades Association
EMD	Environmental Management Department
ERA	Equal Remuneration Act
ESI	Employees' State Insurance
ETI	Ethical Trading Initiative
EU	European Union
FICCI	Federation of Indian Chambers of Commerce and Industry
GDP	gross domestic product
GRI	Global Reporting Initiative
GRP	Green Rating Project
GTZ	Gesellschaft für Technische Zusammenarbeit
HIV	human immunodeficiency virus
HLL	Hindustan Lever Limited
HMS	Hind Mazdoor Sabha
HUF	Hindu United Family
IBFAN	International Baby Food Action Network
ICICI	Industrial Credit and Investment Corporation of India Limited
ICMA	Indian Chemical Manufacturers Association
IDA	Industrial Disputes Act
ILO	International Labour Organization
IMRB	Indian Market Research Bureau
IMS	Infant Milk Substitutes
INTUC	Indian National Trade Union Congress
ISO	International Organization for Standardization

IT	information technology
ITC	originally Imperial Tobacco Company of India Limited; now known as ITC Limited
MFA	Multi-Fibre Arrangement
NCAER	National Council for Applied Economics Research
NCL	National Centre for Labour
NGO	non-governmental organization
ODS	ozone-depleting substance
IBFAN	International Baby Food Action Network
ICICI	Industrial Credit and Investment Corporation of India Limited
ICMA	Indian Chemical Manufacturers Association
IDA	Industrial Disputes Act
ILO	International Labour Organization
IMRB	Indian Market Research Bureau
PHDCCI	Progress, Harmony and Development Chambers of Commerce and Industry
PiC	Partners in Change
Plc	public limited company
PSU	public sector undertaking
RBI	Reserve Bank of India
RIL	Reliance Industries Limited
SA	Social Accountability standard
SACCS	South Asian Coalition on Child Servitude
SAVE	Social Awareness and Voluntary Education
SCM	Save the Chilika Movement
SDC	Social Development Council
SEDF	Socio Economic Development Foundation
SEWA	Self-Employed Women's Association
SME	small and medium-sized enterprise
TCCI	Tata Council for Community Initiative
TERI	The Energy and Resource Institute (formerly Tata Energy Research Institute)
TISCO	Tata Iron and Steel Company Limited
TNC	transnational corporation
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNICEF	United Nations Children's Fund
US	United States
US EPA	United States Environmental Protection Agency
USAID	United States Agency for International Development
WTO	World Trade Organization

## Summary/Résumé/Resumen

### **Summary**

Corporate social responsibility (CSR) is on the rise all over the world, and India is no exception. The history of corporate paternalism has played an important part in shaping community expectations and CSR practices in India. Civil society, consumers and other actors have increased the pressure on companies to adhere to social and environmental standards, and this new “civil regulatory” environment has had impacts on business in India. This paper considers corporate environmental and social behaviour in India, both in the past and the present, in an attempt to better understand the actual impact of CSR.

The paper is divided into five broad sections with the first section setting forth the issues in context. Section 2 covers the historical aspects of the business and society interface in India from the middle of the nineteenth century up to the present, and it determines the actors and the factors that have influenced the corporate responsibility discourse. Section 3 then presents the state of contemporary CSR in India, by detailing perceptions of the issue, and the initiatives undertaken by selected companies, industries, industry associations, non-governmental organizations (NGOs) and trade unions. It includes a discussion on certain codes of conduct related to labour and environmental issues. Section 4 discusses the drivers of corporate social and environmental responsibility in India, using a case study of the garment sector. Voluntary initiatives are examined in light of the macro changes unfolding in the Indian economy and society since the early 1990s, particularly by examining the characteristics of the labour market and the impact of labour, environmental and other regulations on business and society. This section also documents corporate management and governance practices. The last section contains a brief discussion on issues beyond voluntarism and judicial activism.

Philanthropy has been important in India since the middle of the nineteenth century, largely due to a strong heritage of community influence and paternalism among traders-turned-entrepreneurs. At the same time, the larger economic governance framework that was put in place by the state also influenced corporate practices toward labour and society from time to time. The Indian government’s socialistic policy agenda, which aimed at a more equitable distribution of resources, restricted the concentration of wealth to the hands of a few industrialists through strategies of import substitution, foreign exchange control, reservations for and protection of small-scale enterprises, industrial licence, and quota systems for raw material and production. This influenced business practices of the times. However, business was often reluctant to abide by such principles. As a result, interest in corporate philanthropy decreased, leading to an increase in corporate malpractice, and manoeuvring for survival and profits. All this was facilitated by incidents of corruption in state and national government bureaucracies. However, certain self-enlightened businessmen practiced and advocated ethical and responsible business behaviour, and issues of the social responsibility of business and stakeholder engagement were debated in India as early as the 1960s. In fact, there is evidence available of businesses going far beyond compliance and setting best-practice standards in labour relations and community development even before India’s independence in 1947. Some such best practices later became the basis for drafting related legislation after independence.

Despite the existence of trade unions, the trade union movement was not very effective in advocating for the rights of workers beyond issues related to wages and could not, therefore, contribute much to the larger corporate responsibility debate. To some extent, this shortcoming was offset by the emergence of other civil society actors in the form of NGOs and community-based organizations from the 1970s. However, NGO activism in the early phase was limited by government policies to the role of service delivery agents; it was only in the 1990s, when this role broadened, that NGOs started to have greater effect. However, they tended to influence state policies rather than confronting business head-on. Consumer boycotts, popular in the Western economies, have also been rare in the Indian context.

The response to corporate responsibility pressures in India has occurred mostly in export-led sectors and where the business is part of a global supply chain. The important issue of home-based workers was not addressed by international instruments for a long time and this, coupled with the lack of both the will and capability for monitoring, meant that businesses could exploit vulnerable groups of workers. Manufacturers catering to local markets did not experience the same demands and pressures to practise corporate social and environmental responsibility. Therefore, the locally developed certification and labelling schemes failed to attract the attention of local business.

Since the mid-1990s, CSR has been practised and debated by businesses, industry associations, NGOs and the government. However, there is still progress to be made. CSR is not institutionalized as a part of business practice; instead it is more of a “social good” left to the discretion of chief executive officers or top management. The agenda does not yet engage with CSR in terms of workers’ rights. Employee care is often left to employer benevolence. And while environmental care and total quality management have been driven by international competition as well as by legislation in India, compliance and enforcement are slack.

The nature of corporate actions and market-friendly regulations in India suggests that increased private sector participation in social and environmental affairs will need more vigilance from the government, not less. More importantly, we will need more democracy, not less, to create the space for various actors to operate and provide support and resistance, as required. The government will have to be re-engineered so that its regulation and monitoring role can be strengthened. In other words, it will need countervailing power outside the government-industry nexus. This requires democratic rights and institutions that can defend or advocate these rights, from courts to civil society institutions. The challenge, therefore, is to continue to build a vibrant set of civil institutions capable of feeding the corporate community and their markets with signals of success that orient companies toward social and environmental “goods”, and away from the “bads”.

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### **Résumé**

La responsabilité sociale des entreprises (RSE) a le vent en poupe dans le monde entier et l’Inde ne fait pas exception. Les attentes des populations et les pratiques des entreprises en matière de responsabilité sociale sont pour une bonne part le produit de l’histoire, celle du paternalisme patronal en l’occurrence. La société civile, les consommateurs et autres acteurs ont fait monter la pression et poussé les entreprises à adhérer à des normes sociales et environnementales, et ce

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