

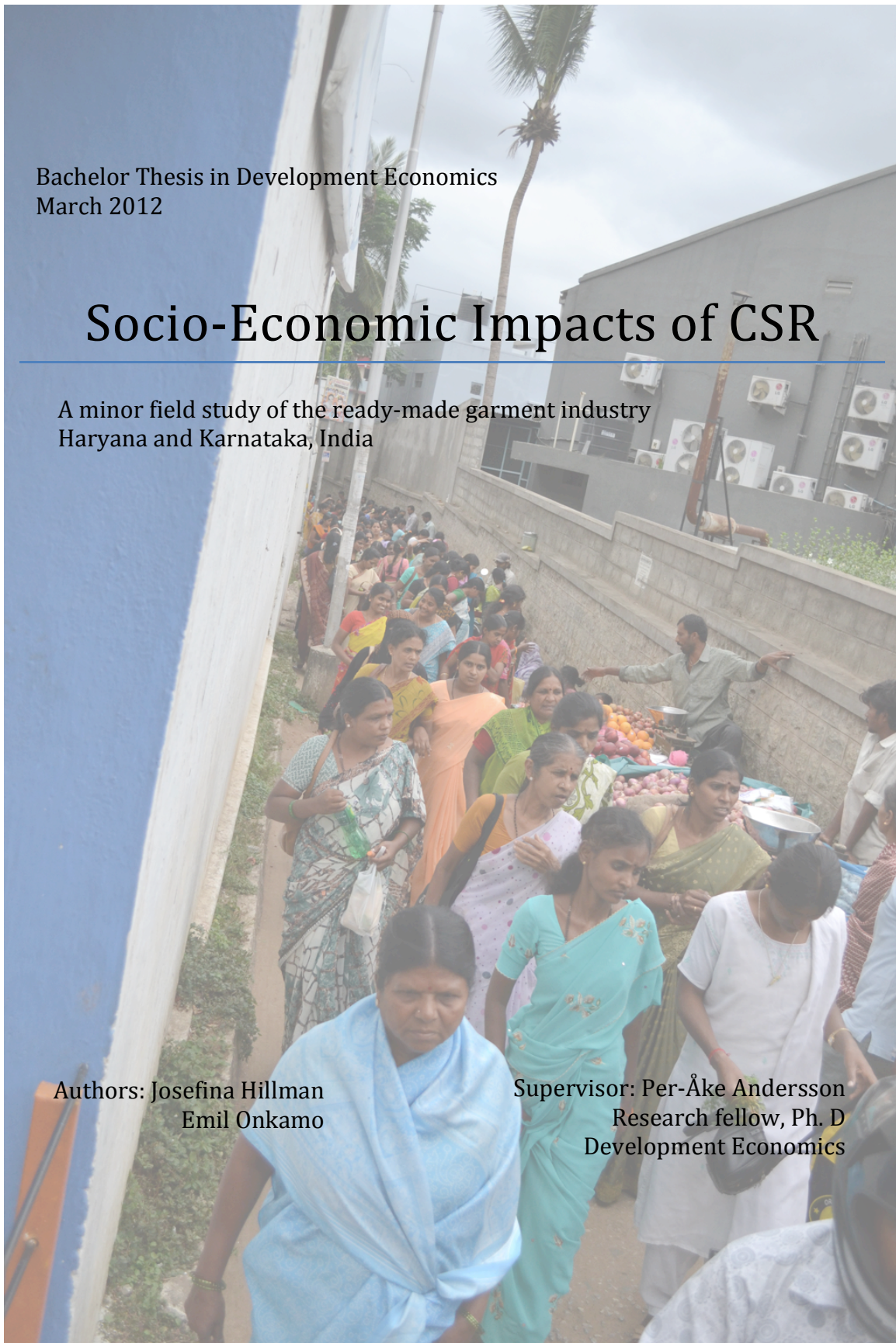
Bachelor Thesis in Development Economics  
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# Socio-Economic Impacts of CSR

A minor field study of the ready-made garment industry  
Haryana and Karnataka, India

Authors: Josefina Hillman  
Emil Onkamo

Supervisor: Per-Åke Andersson  
Research fellow, Ph. D  
Development Economics



UNIVERSITY OF GOTHENBURG  
SCHOOL OF BUSINESS, ECONOMICS AND LAW

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## **Abbreviations**

<b>AFW</b>	Asian Floor Wage/Asian Floor Wage campaign
<b>COC</b>	Code of Conduct
<b>CSR</b>	Corporate Social Responsibility
<b>EOU</b>	Export-Oriented Unit
<b>ESI</b>	Employee State Insurance
<b>ETI</b>	Ethical Trade Initiative
<b>FDI</b>	Foreign Direct Investment
<b>GDP</b>	Gross Domestic Product
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit
<b>H&amp;M</b>	Hennes & Mauritz Aktiebolag
<b>ILO</b>	International Labour Organization
<b>NCR</b>	National Capital Region
<b>NGO</b>	Non-Governmental Organization
<b>NTUI</b>	New Trade Union Initiative
<b>NTP</b>	National Textile Policy
<b>MDG</b>	Millennium Development Goals
<b>MEM</b>	Mazdoor Ekta Manch
<b>MFA</b>	Multi-Fibre Arrangement
<b>MNC</b>	Multinational Corporations
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>PF</b>	Provident Fund
<b>R&amp;D</b>	Research and development
<b>Rs.</b>	Indian Rupees
<b>SLD</b>	Society of Labour and Development
<b>SME</b>	Small and medium enterprises
<b>TNC</b>	Transnational-corporation
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Program

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## Abstract

Globalization and the emergence of global value-chains have changed the way business relates to society. CSR has emerged as a concept promoting equality throughout multi-national corporations different subsidiaries. International labour standards are to be enacted through voluntary commitments by corporations in developing countries, sometimes in place of functioning law enforcement.

This minor field-study set out to gather information on a number of parameters related to this socio-economic development. Divided into sub-questions the primary theme of the research was to explore whether development can be traced to voluntary CSR commitments. The study took a multi-stakeholder perspective, evaluating the opinions of different actors affiliated to the ready-made garment industry. An interview study with workers was the primary core data.

From the material gathered during the field-study this report concludes that some areas of international labour standards are successfully improved by CSR implementation. These areas were limited to tangible factors such as access to medical facilities, safety equipment and the payment of minimum wages. Other areas regulated by international standards such as employment conditions, freedom of association and the right to collective bargaining are noted to be largely unaffected by CSR initiatives. From this it is concluded that while CSR has the potential to be a tool for development, implementation is currently limited to certain areas.

**Keywords:** *CSR, India, garment industry, development economics, codes of conduct, Global Compact, socio-economic development*

# 1. Introduction

The garment industry is flourishing with new production units commencing business across the globe daily. From an international trade perspective, Southeast Asia holds a comparative advantage with a huge population of easily accessible, low wage potential industrial workers. In India, the world's second most populous nation, the garment and textile industry employs some fifteen million workers, with four million of these in garment manufacturing. This number is rapidly increasing. In order to safeguard workers rights the United Nations and its subsidiary International Labour Organization have declared a number of fundamental principles and rights for all employment within their member states. Implementation of these international labour standards is proving a tough challenge for governments and transnational corporations. Corporate measures to secure these standards throughout their supply chain often goes by the term Corporate Social Responsibility, CSR.

Over the last decades this notion of corporate responsibility as an important business aspect has rooted. Today it is a well-established aspect within the business models of most manufacturing multinational corporations. The struggle to improve conditions for workers is supported by rigorous national labour laws. Trade unions and civil society organisations join forces in the hard work to reach international labour standards. With all actors allegedly on the same side, the side of workers – shouldn't poverty and unfair treatment soon, if not now, be a thing of the past? Unfortunately this does not seem to be the case. Answering why this is not happening is far ways outside the scope of this minor field study but it is from this outline we have drawn our inspiration.

## 1.1 Research objective

The purpose of the study is to evaluate whether Corporate Social Responsibility can be seen as a meaningful tool in promoting socio-economic development within the Indian garment industry. In order to understand this it has been necessary to lay clear *what* constitutes Corporate Social Responsibility and *how* it is implemented in the context of the Indian garment industry. The study has taken a qualitative, personal level micro perspective of development, limited to the experiences of a small sample of garment workers and industry associates in Delhi and Bangalore, India.

The aim of this study has been to evaluate some of the opportunities and limitation for CSR to improve working and living conditions for garment workers. CSR commitments are often implemented by multinational companies through codes of conducts given to their suppliers. Thus, the objective of this study has been to compare statements and codes of conducts of companies involved in the garment manufacturing industry with the findings of a worker interview study. In doing this, the study evaluates which factors of corporate

responsibility that translates into perceived social or economical development and to which degree codes of conducts are implemented.

## **1.2 Delimitations**

The study has been limited to the “first tier” of the export-oriented garment manufacturing – by which is intended the sewing and stitching of ready-to-wear garments. International corporations often claim responsibility only for the suppliers with whom they have direct contracts. While lower tiers including weaving, dyeing and spinning employ a greater number of workers the codes of conducts and CSR-commitments in their current form are primarily relevant to the first tier. This has been a necessary delimitation.

Corporate social responsibility in its broader definition includes not only social and economic commitments but also environmental concern. Limiting harmful procedures and protecting the environment is highly relevant in the garment and textile industry. In yearly reports and official presentations of CSR programmes a separation and distinction between social and environmental commitments is customary. This study has excluded the environmental impact of CSR, and instead focused on economic and social development.



## **2. Methodology**

This chapter will present the data collection methods used and introduce the main research questions. Furthermore this chapter also presents background information and a conceptual overview of the different groups of respondents and interviewees from which the research results are drawn. The chapter concludes with challenges and potential methodological problems that have been encountered.

### **2.1 Choice of method**

The methodology of the research has been primarily qualitative as the goal has been to provide information on a personal level of socio-economical development among garment workers. This has been done under the premise that such development may be associated with CSR commitments. However, a broader view is also included in the research method to crosscheck findings with relevant theoretical and political factors. Quantitative data has to some degree been relevant when assessing a country and industry profile.

The initial stage of research included gathering of secondary data and establishing a theoretical framework regarding the concept of CSR, a regional overview of the Indian and global garment industry. These sections are presented in corresponding chapters of the report and will be related to throughout the presentation of empirical results and in the discussion. During this period a thematic orientation of subjects covered by codes of conducts was also gathered. Our research questions were devised from this material. The second stage of research constituted of a two month field study in two of India's garment manufacturing hub areas; the NCR area in the north of India and in Bangalore, state capital of southern state Karnataka. During this period primary data was gathered through individual and focus group interviews with garment workers. The field study also included in-depth individual interviews with representatives of organizations associated to the garment industry.

### **2.2 Research questions**

1. To which degree are CSR commitments successfully enacted in practice?

There are numerous certifiable international standards and international corporations typically construct individual sets of codes of conducts. Most if not all of these standards stem from international conventions on human and labour rights, and broadly cover the same aspects. Our purpose is to assemble a general assessment of how well these aspects are improved by CSR commitments.

2. Is CSR perceived as a meaningful tool for social and economic development?

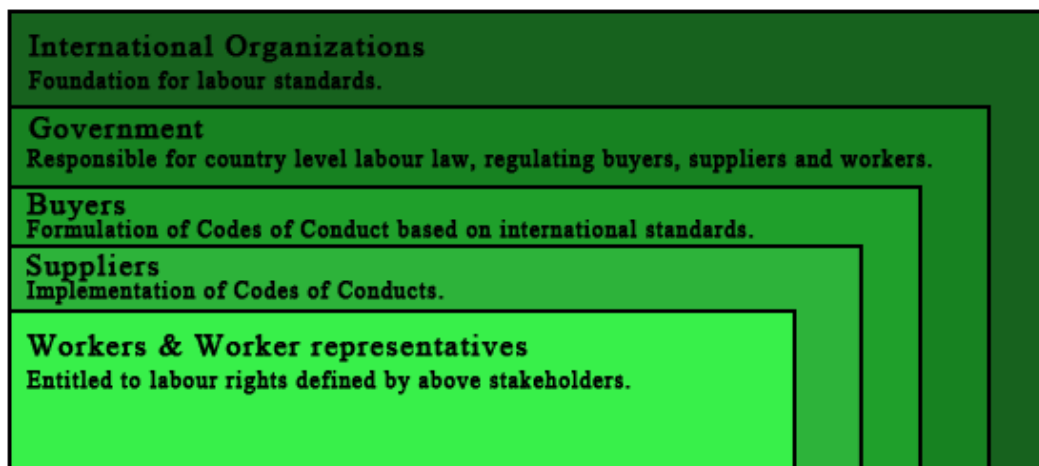
The concept of CSR has been widely criticized, yet it has also cemented itself in modern business. This study aims to analyse the perception of CSR and its meaningfulness in terms of social and economic development among stakeholders in the Indian garment industry.

3. What are the opportunities and limitations of CSR?

Being a loosely defined discourse, CSR is in constant change, but in essence it is a concept meant to harmonize working conditions globally. The purpose of this study has been to evaluate enabling and disabling factors for CSR to function in an Indian context.

## 2.3 Operational concept definition

The following section will introduce the main stakeholder's respective roles in the research and how they are put in relation to the main concept. This section also describes the procedures and design of the interview study with each group of actors, including some of the sub-questions that we tried to answer through the field study. Our conceptual idea is that CSR commitments may to some degree affect social and economic conditions among garment workers. Illustrated below is a conceptual map of stakeholders, illustrating how Corporate Social Responsibility also can be traced top-to-bottom from international organizations to grassroots worker level.



### 2.3.1 Worker's profile

The main unit for analysis in this study is the research material gathered from worker interviews. From our theoretical framework of codes of conducts and Global Impact we decided on a number of key subjects meaningful to discuss in order to evaluate impacts of CSR. These subjects were put into a questionnaire

upon which all worker interviews were based. Summarized there were four key parameters analysed through a number of indicators;

- Working hours and conditions: Health and safety, overtime
- Employment conditions: Contracts, wages
- Labour welfare: Benefits, bonuses, maternity leave
- Workers representations: Union presence, discrimination and harassment

### **2.3.2 Trade Unions and NGO's**

This group includes independent researchers, trade union representatives and NGO's. These interviewees have experience from working with issues that CSR is meant to address, both independently and as workers representatives. Including this group provides a significant insight in the Indian garment industry and a bridge between the theoretical concepts of CSR to the more practical implications of its implementation in an Indian context. Questions included in these in-depth interviews on CSR have been:

- What is your general opinion on CSR?
- Can you identify changes derived from implementation of CSR?
- What are the main strengths and weaknesses of CSR?
- Do you perceive CSR as a tool for social and/or economic development?

### **2.3.3 Employers**

In order to understand the motivations and limitations for employers to implement codes of conduct in their manufacturing three management representatives were interviewed in open semi-structured interviews. As representatives of expanding, exporting companies these respondents provided insight on the development in recent years from a manufacturer's perspective. These interviews aimed to explore;

- Opinions on workers representation and freedom of association.
- How CSR initiatives are expressed or demanded by buyers.
- General opinion on CSR initiatives among suppliers.
- The auditing process and compliance to codes of conduct.

### **2.3.4 Buyers**

Analysing a number of major buyers codes of conducts was a part of the initial gathering of secondary data and was done prior to formulating further research objectives. The selection of buyers was based on the criteria that they operate in India and that their codes of conduct be applicable uniformly through

their supply chain. Many of the areas covered by codes of conducts are aspects also associated with social and economic development. This served as the foundation for deciding on research questions and finding relevant parameters to analyse through the field study. All interviews done in field largely focused on the degree of implementation and what opportunities and obstacles are present in the garment industry. Our contact with buyers in field was limited to one informal, semi-structured interview with a CSR coordinator.

### **2.3.5 Government**

The lowest common denominator among all codes of conducts is adherence to the labour law. National labour law thus is a part of the regional framework. Basic understanding of this framework was gathered as secondary data in the initial research. The role of government and impact of labour law was also a recurring secondary topic during interviews in field, which nuanced the secondary data with primary sources. No government representative was interviewed.

### **2.3.6 International Organisations**

International organizations play a key role in unification of labour standards globally. Further these organizations are largely responsible for how the CSR discourse is defined on an international level. In interviewing representatives of these organizations the aim was to explore:

- What constitutes CSR in India today?
- Limitations and opportunities for CSR in an Indian context.
- CSR as a tool for social and/or economic development.

## **2.4 Challenges**

During the field study a number of challenges were encountered. Including two separate geographical areas and a multi-stakeholder perspective in a ten-week study made time a critical factor. Some would be relevant interviews were given limited follow-up and others had to be cancelled. Further, our sample size and number of interviews was also strictly limited by the constraint of time. A longer time frame would have allowed for deeper research in each tier of stakeholders, and a more fundamental tracing of CSR from “top-to-bottom”.

Another challenge was communication and language. All representatives of NGOs, unions and organizations were interviewed in English, a language perhaps more native to them than to us. There are still cultural aspects to communication that are hard to give justice in text and some limitation to expressing oneself in a foreign language. For all worker interviews an interpreter was used. This may or may not have distorted or biased both questions and answers, creating an uncertainty regarding validity that is hard to make up for.

The key challenge and most influential limitation to our worker interview study in the form it was executed was the non-random sampling. Reaching workers as a foreigner in India without assistance of local resources would have been excessively difficult with our time constraint. We relied on our contacts in field, primarily community organizations and trade unions, to assist us in finding workers for the interview study. These organizations certainly have some bias regarding our research subject. Even if not intended on their side, our sample held an unusually high number of union members, compared to the industry norm. While this is not necessarily a uniformly negative aspect when assessing impacts of CSR it is still a challenge to account for.

### 3. Regional framework

*In order to understand why it is relevant to study the impacts of CSR in an Indian context, this chapter gives a brief introduction to the country, its role in the global garment industry and the laws regulating labor rights in India.*

#### 3.1 Country profile

India is both a fascinating country and a spectacular paradox. The country is one of the world's oldest civilizations, consisting of a poly-ethnic society of more than one billion people. Being the home of over two-thousand ethnic groups, birthplace of four major religions and with twenty-two official languages spoken throughout the geographically diverse country, India is dazzlingly full of contrast. At the same time India is the world's largest democracy and an increasingly important actor on the global stage in the twenty-first century.



India is a country full of complexity where the colorful mixture of ethnicities, religions, castes, rich and poor has led to a vibrant society. Since gaining independence in 1947, India has struggled to integrate this large diversity of people by trying to create a strong democratic unitary state. Critics have claimed that in the long run, the divergence of the people will cause disintegration of the young democracy. History has shown that despite the unrest caused by religious tensions and ethnic conflicts the Indian Union has, at the very least, succeeded in maintaining its boundaries and upholding the sovereignty of the Indian states. (Ganguly & DeVotta, 2003)

India of today is the world's fourth largest economy. As in most developing countries the Indian economy still relies heavily on village-based agriculture. Over 70% of the country's massive population lives in villages and the agricultural sector employ approximately 60% of the total workforce while only contributing roughly 18% of the country's GDP. (The Economist, 2008) Unemployment, underemployment and low productivity are all identified as central problems in the Indian economy. In order to address these issues and strengthen the country's economy the government of India has pursued liberalization reforms since 1991, promoting a market-based system in place of the previous socialistic economic regime. With an annual growth rate of around 7% in the time period of 1997-2010, the reforms have certainly had effect and have made India one of the world's fastest growing economies. (CIA, 2010)

However, this rapid growth has not benefitted the Indian population equally, instead as both OECD and UNDP has addressed; the gap between rich and poor has grown in the country. The human development index of India is at 0.547 below the South Asian region average. (UNDP, 2011) While saying this it must however also be noted that there is an exceptionally wide disparity within the country between the most successful states and the worst off states. (OECD, 2010)

### **3.1.1 India as an actor in the global garment industry**

The garment industry is often described as being one of the most globally integrated networks of production and manufacturing. In large, it is controlled by leading international buyers and retailers who coordinate “design, production and distribution of garments within highly mobile and globally dispersed ‘buyer-driven’ value chains”. (Dicken, 2007) Further, garment and apparel manufacture is often seen as a “springboard” for national development, and a typical starter industry for countries engaging in export-oriented industrialization due to its labour-intensive nature and low entry costs. (Geraffi & Frederick, 2010)

In 2001 the government of India enacted the National Textile Policy (NTP), aimed at enhancing competitiveness of Indian garment and apparel production and increasing the country’s share of total world exports from the 2000 figure of 3% to a desired 10% by 2010. Among the policy changes brought by the NTP were

- Allowing foreign firms to invest up to 100 per cent in the ready-made apparel production without export obligations.
- Easier and swifter approval for investment proposals involving foreign equity.
- Financial programs with subsidised loans for investment in technology up gradation within textile and apparel manufacturing.
- Preferential tariffs for exports and imports.

These policy changes were also meant to prepare the industry and to conveniently be able to accommodate the expected rise in demand following the upcoming abolition of the multi-fibre agreement (MFA) in 2005. The MFA regime of quotas had been in place since the early 70s and strictly limited the opportunity for developing countries to export garments and textiles. The design of the quota system was meant to protect the domestic industries of the European Union and the United states.

January 1, 2005 marked the end of over 30 years of restricted export access for India to the lucrative consumer markets of Europe and North America. Since then the value of garment exports from Asia’s developing countries to the world market has almost doubled, with China by far the largest exporting nation.

*Table 1: Top 15 World Apparel Exporters  
Per year, values in \$US billions.*

Country/ Region	2000		2005		2008	
	Value	%	Value	%	Value	%
<b>World</b>	<b>197.7</b>		<b>277.1</b>		<b>361.9</b>	
China	36.1	18.2	74.2	26.8	120.0	33.2
EU-27 (c)	56.2	28.4	85.5	30.8	112.4	31.1
Turkey	6.5	3.3	11.8	4.3	13.6	3.8
Bangladesh (b)	5.1	2.6	6.9	2.5	10.9	3.0
<b>India</b>	<b>6.0</b>	<b>3.0</b>	<b>8.6</b>	<b>3.1</b>	<b>10.9</b>	<b>3.0</b>
Vietnam (b)	--		4.7	1.7	9.0	2.5
Indonesia	4.7	2.4	5.0	1.8	6.3	1.7
Mexico (a)	8.6	4.4	7.3	2.6	4.9	1.4
United States	8.6	4.4	5.0	1.8	4.4	1.2
Thailand	3.8	1.9	4.1	1.5	4.2	1.2
Pakistan	--		3.6	1.3	3.9	1.1
Tunisia	--		3.1	1.1	3.8	1.0
Cambodia (b)	--		--		3.6	1.0
Malaysia	--		--		3.6	1.0
Sri Lanka (b)	2.8	1.4	2.9	1.0	3.5	1.0

As illustrated in *Table 1*, the Indian government's ambitious target of a 10% share of the world market has not been reached – on the contrary India's share of total apparel exports has been stagnant at around 3%. However, the total value of the exports had almost doubled by 2008 where estimates put the total value of garment exports between 10.9 and 11.5 billion \$US. Textile and apparel manufacturing together account for up to 12% of the country's total export basket. (Ministry of External Affairs, 2010) The sector is also the largest provider of industrial employment. The economic importance of the industry makes the national textile policy an important macroeconomic factor.

### **3.2 Labour law**

When discussing corporate responsibility and accountability in the garment industry, labour law is a relevant factor. By common definition a functioning judicial system is a part of a country's development. The lowest common denominator found among all corporation codes of conduct is the absolute prerequisite for all subsidiary suppliers to follow national labour laws. In many other aspects CSR and labour law are also overlapping. If codes of conducts are improving adherence to labour law it is by this definition contributing to development.

India has what at the very least can be described as a robust set of labour laws. The central government imposes over 55 different labour laws or acts and the system of partially autonomous state jurisdiction introduces another 150 acts. Labour law of India has been criticized for its cumbersomeness, inflexibility and lack of modernization. (The Economist, 2010) Many of the laws and acts date back to the colonial era and have seen very little revision – even though implementation and enforcement has been a practical impossibility. (Kaushik, 2006) The strict laws paired with being a developing country has as in many



other countries led to a series of problems. In the words of author Rajkumar Adukia “*the labour laws are so numerous, complex and ambiguous that they promote litigation rather than the resolution of problems relating to industrial relations.*” Instead of adopting a more progressive stance, to some degree adapting law making to globalization, India boasts one of the largest informal sectors of the world.

A list of the most relevant laws regulating the labour market in India follows below: (Ministry of Labour and Employment, 2011)

#### *Working hours and conditions*

- The Factories Act, 1948, regulates working hours and workplace conditions regarding safety and health for garment workers. Within this act it is concluded that “no adult worker shall be required or allowed to work in a factory for more than nine hours in any day” and that should this occur “...he shall, in respect of overtime work, be entitled to wages at the rate of twice his ordinary rate of wages” (Chapter VI)

#### *Industrial relations*

- The Industrial Disputes Act, 1947, provides legal room for negotiations in the event of conflict. This includes a guaranteed one-month notice in case of retrenchment for any worker employed one year or more. Additionally the act guarantees workers compensation upon retrenchment proportional to the length of their employment.
- The Indian Trade Unions Act, 1926 and 2011 amendments act, recognizes the right of workers to organise into trade unions. Union membership is by law associated with a set of certain rights and obligations.

#### *Benefits*

- The Employees’ State Insurance Act, 1948, provides legal foundation for sickness benefit, maternity benefit, disablement benefit and medical benefit for low-income workers.
- The Employees’ Provident Fund Act, 1952, seeks to make a provision for the future of industrial worker after he retires or in case he is retrenched, or for his dependents in case of his early death.

#### *Wages*

- The Payment of Wages Act, 1936, regulates the timely payment of wages without any unauthorized deductions by the employers.
- The Minimum Wages Act, 1948, ensures the fixation and revision of minimum rates of wages in respect of certain scheduled industries involving hard labour.

## 4. Theoretical Framework

### 4.1 Globalization of labour markets

CSR has emerged as a result of the unification of the world's economic orders, a phenomenon more commonly called globalization. To understand the concept of CSR one must also understand the broad picture of global value chains and the effects of globalization. The last decades have seen an on-going process where regional economies, societies and cultures have been connected to a widespread global network of trade and communication. Three key features characterize economic globalization; liberation of international trade, expansions of foreign direct investment (FDI) and the increase of massive trans-boundary financial flows. Global outsourcing and sub-contracting in the name of efficiency and decreased costs have shifted production to the cheapest destinations. (OECD, 2007) This development has led to a large division between the high paid labour force in the north and the low paid labour force in the south.

Global value chains have overtaken the local narrow value chains. Multinational corporations (MNC's) choose to locate production based on where necessary skills and material are available to the most competitive cost. This ability to find profitable opportunities in foreign markets and setting up subsidiaries and affiliates abroad have given MNC's a major role in shaping the global economy. (Dicken, 2007) Although MNC's are the major actors, small and medium sized enterprises (SME's) also move closer to the global markets as they function as specialized suppliers. However, the SME's also face increasing challenges and competitiveness to reach the international markets which creates *"pressure to merge with other firms in order to achieve the critical mass required support R&D, training of personnel, control over firms in lower levels of the chain and to fulfil requirements in terms of standards and quality"* (OECD, 2007).

The garment industry is a prime example of this pattern of buyer-driven, MNC controlled, global value chains. Corporations such as Wal-mart, GAP and Nike are "manufacturers without factories", employing subsidiary SME's around the globe as suppliers. The MNC's are separating physical production from design and marketing and are specializing in retailing, marketing and branding. The bargaining position of a producer in a buyer-driven value chain is low which puts an immense pressure on the workforce in these labour-intense industries. With vulnerable, flexible and highly competitive labour markets, the informal economy has room to grow. Manufacturing is split into decentralized, specialized production units, some of which are unregistered or informal. (Gereffi & Memedovic, 2003)

Outsourcing employment to developing countries exposes corporations to a different legal system than producing at home would. An unfortunate characteristic among many developing countries is an insufficiency in

enforcement of labour law. Social and political institutions have failed to keep up with the rapid globalization of the world economy. Responsibility for labour rights is sometimes sub-contracted away and replaced by more informal relationships. This sets up workers for problems such as lack of employment security, low wages, minimal social protection and abysmal benefits. This is where Corporate Social Responsibility steps onto the scene. In place of the absent international and national governance there has instead been an increase in consumer awareness and a growing concern for worker's rights within global supply chains. Consumers and owners demand responsible corporations. (Wils, Stephen, 2010)

## 4.2 International organisations and CSR

What can be expected from corporations? The International Labour Organisation (ILO) is a specialized agency in the United Nations that focuses on the development of international labour rights and social protection at work. ILO has a unique tripartite structure where worker- and employer representatives have an equal influence towards governments in discussions and policy-making processes. The organization has 179 member states including India. The main function of ILO is to formulate international labour standards and conventions and recommendations. It is also the organizations duty to monitor the implementation of these in the member states. Since it's founding in 1919, ILO has adopted 187 conventions and 198 recommendations covering a broad range of issues including human rights at work, employment policy, human resource development and occupational safety and health.

The Rio Conference on Environment and Sustainable Development in 1992 set up UN, ILO, OECD and a number of multinational enterprises to a commitment towards improving society and the environment. Included in this was a provision to protect basic human rights and workers right. (Global Compact, 2007) It is from this commitment that ILO developed the definition of CSR which is most commonly used today: *"Corporate Social Responsibility (CSR) is a way in which enterprises give consideration to the impact of their operations on society and affirm their principles and values both in their own internal methods and processes and in their interaction with other actors. CSR is a voluntary, enterprise-driven initiative and refers to activities that are considered to exceed compliance with the law."*(ILO, 2006)

CSR by this definition incorporates adherence to national law. Further, there are eight fundamental principles of workers' rights derived from conventions on human rights:

1. Equal Remuneration Convention (No. 100), 1951
2. Right to Organize and Collective Bargaining Convention (No. 98), 1949
3. Forced Labour Convention (No. 29), 1930

4. Abolition of Forced Labour Convention (No. 105), 1957
5. Freedom of Association and Protections of the Right to Organize Convention (No. 87), 1948
6. Minimum Age Convention (No. 138), 1973
7. Worst Forms of Child Labour Convention (No. 182), 1999
8. Discrimination (Employment and Occupation) Convention (No. 111), 1958

Regardless of geographic location, corporate citizens are bound by these principles. At the International Labour Conference in 1998, the ILO adopted the Declaration on Fundamental Principles and Rights at work (Fundamental Declaration). The declaration states that all member states must, through its membership in ILO, respect, promote and to realize these principles concerning the fundamental rights which are subject of those conventions. In the international debate on CSR, these are also the fundamental principles, which are considered essential labour rights. In fact, most CSR initiatives, including codes of conducts are based on the Declaration on Fundamental Principles and Rights at Work. (ILO, 2002)

In 1999, the UN Global Compact initiative was launched. The initiative is a platform based on the voluntarily choice of companies to commit to responsible business. The idea was to create a platform for the widespread network of specialized UN agencies connected to worker's and employer's organizations, NGO's, academic institutions, municipalities, corporations and all other types of organizations involved in the field of CSR. The initiative asks companies to enable, promote and use their influence in the areas of human- and labour rights, environmental protection and fight against corruption to support and take part of the United Nation's Millennium Development Goals (MDGs). The content of the Global compact initiative is 10 universal principles derived from the previously described ILO Declarations on Fundamental principles and Right's at work (1998), the Universal Declaration on Human Right's (1948), The Rio Declaration on Environment and Development (1992) and The United Nation's Convention against Corruption (2003). Because of its universality, the 10 principles are applicable in all of the 191 member states of the United Nation despite the national legislations in those areas.

The 10 principles that the Global Compact initiative asks companies to respect are the following: (Global Compact, 2007)

1. Support and respect the protection of internationally proclaimed human rights
2. Make sure that they are not complicit in human rights abuse
3. Uphold freedom of association and the effective recognition of the right to collective bargaining
4. Uphold the elimination of all forms of forced and compulsory labour

5. Uphold the effective abolition of child labour
6. Uphold the elimination of discrimination in respect of employment and occupation
7. Support a precautionary approach to environmental challenges
8. Undertake initiatives to promote greater environmental responsibility
9. Encourage the development and diffusion of environmentally friendly technologies
10. Work against all forms of corruption, including extortion and bribery

When studying codes of conducts it is apparent that these principles, along with the eight fundamental principles found by ILO, lies as the absolute core of corporate commitments. This theoretical background reveals that Corporate Social Responsibility stems from the broader definition of global development goals.

### 4.3 Criticism to CSR

CSR has a large number of proponents, favoring its introduction to global value chains and hailing it as an achievement of modern corporatism. However, the concept has also received harsh critique from a wide range of different groups. The role of multinational corporations in the developing world has been extensively discussed since the 1980's, with frequent accusations of violations on human- and workers rights and negligent environmental concern. Proponents of CSR claim that corporations do care and try to limit the negative effects of business to the benefit of both the businesses and the societies in which they function. By implementing measures of responsibility companies are contributing simultaneously to the development of universal human rights and to the economic growth. Critics on the other hand claims that the increasing interest for social responsibility among enterprises changes the role of corporations in the society and points out a number of weak points.

Historically, many companies, academics and politicians have been rejecting CSR because they have seen it as unnatural to the capitalistic principles of "business as usual" and a barrier to trade. These thoughts are connected with traditional business management theory based on Milton Friedman's famous statement that there is *"only one social responsibility of business: to use its resources and engage in activities designed to increase its profits"*. According to this view, there are no incentives for firms to have any social or environmental objectives, as their only objective is to maximize profit. However, business scholars have tried to combine profit-maximizing objectives with social objectives suggesting that CSR can lead to a higher long-term profitability.

Other critics have claimed that social justice is in the domain of state regulation and that the state has an obligation to monitor corporate social programs. CSR is by definition voluntary, and corporations cannot be trusted to fill functions traditionally associated with the state. In the absence of state

regulations, CSR initiatives can be hard to sanction for non-compliance. Critics claim that companies only choose to implement CSR initiatives in consideration to what is the business case rather than in consideration to actual social-, economic- and environmental issues. From this perspective CSR standards and codes of conducts can only be trusted to a certain degree. Corporations may be trusted to abolish child labor and slavery; practices with little direct financial motivation to continue when compared to the risk of a consumer backlash. These critics claim that CSR cannot be trusted to recognize the right to a living wage or freedom of association as this would work to a commercial disadvantage. (Blowfield and Frynas, 2005)

#### **4.3.1 What CSR means to developing countries**

Another major concern in the field of CSR is what the concept means to developing economies. Some would argue that CSR is a work in progress and is not yet defined. Others claim that the CSR concept has become too broad, allowing too much individual interpretation. Compared to how well established the concept of CSR is within management and business there is very little research made about the actual impact of CSR initiatives in developing countries in general, and India in particular. During the research made for this paper only a few secondary sources examining the impact of CSR initiatives were found. Ethical Trade Initiative, which is an alliance of companies, trade unions and NGO's committed to improve working conditions in global supply chains, conducted a study on CSR between 2003 and 2006.

The ETI study found that there had been both major and minor impacts on working conditions in the Indian garment sector following implementation of codes of conducts. Improvements in the areas of health and safety had a very strong correlation to implementation of codes of conduct. Commitments to CSR had also led to a minor impact on worker compensation in terms of payment of minimum wages and social and pension benefits. The study found that very little had been done to implement living wages, even though most codes of conducts prescribe them. Overtime had been reduced to some extent but this was not only seen as an improvement as some workers prefer overtime for the additional income. The study suggested that there was a lack of effectiveness in implementation, to some degree confirming the earlier mentioned critics of corporate motivations. According to the ETI study positive impact on freedom of association and discrimination was almost nonexistent. The study could not find any case where an agreement on collective bargaining was reached as a result of code of conduct implementation. Perhaps the biggest flaw in code of conduct implementation found by the ETI assessment was the lack of employment security. Direct workers without contract and workers who were hired by third-party contractors were almost in entirety excluded by the benefits associated to codes of conducts. (ETI, 2006)

The ETI study provides useful insight on corporate social responsibility and

codes of conducts. It reflects on the potential benefits of implementing codes and the current ineffectiveness. The parameters analyzed in the ETI assessment and other CSR reports; wages, overtime, employment conditions, health and security etc., are largely the same as the ones we have chosen for our worker study.

## 5. Results

The following chapter presents the result of the in-depth individual interviews and focus group interviews made with workers and industry affiliates in field. Main topics are our findings regarding parameters identified as central in codes of conducts, labour law and the 10 principles of United Nations Global Compact.

### 5.1 Employment conditions

#### 5.1.1 Contracts

In general, offering workers an employment contract is required of suppliers, both from labour law and buyer codes of conducts. One example is H&M's code of conduct from 2010: "All employees are entitled to a written employment contract, in the local language, stipulating the employment terms and conditions. The employer has a responsibility to ensure that all employees are aware of their legal rights and obligations." (H&M, 2010) In both Delhi and in Bangalore a clear majority of the workers in our sample lacked a proper appointment letter/contract. While a majority of the workers recalled having signed some sort of contract upon employment most never received a copy of this document. Some workers also pointed out the issue of illiteracy, with written contracts sometimes working to their disadvantage.

Instead of providing employment contracts several employers used a system where workers received personalized ID-cards with their photo and name on it. This card gave them access to the factory and was typically handed in to management when entering the factory and returned to the worker by the end of the shift. A number of workers pointed out that this system created uncertainty. It could happen that if a worker misbehaved or did not reach production target management would refuse to return his or her ID-card. With no possession of a formal contract to back up employment this was a catastrophic scenario for workers. We could not discern whether the ID-cards legally could be considered a proof of employment, should such a dispute occur.

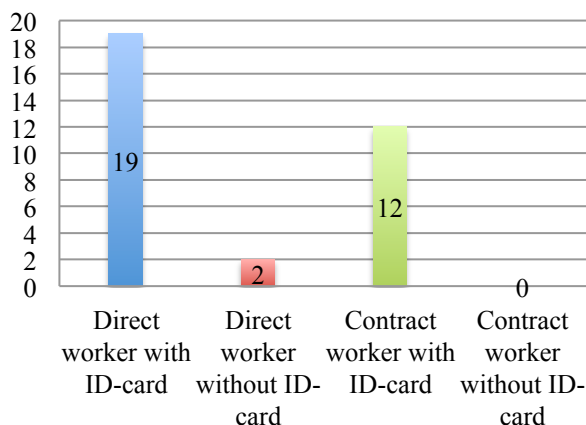


Fig. 1



Among the workers we interviewed, 19 out of 33 respondents had an ID-card but not a contract or application letter. Two of the workers had no form of identification at all while twelve out of 33 had both a contract and an ID-card. When looking at the results we found that most of the workers that received both application letter and an ID-card belonged to one of the focus groups in Bangalore. In this group the workers told us that a lot of things had changed in the last ten years, yet it had not been until very recently that the suppliers had offered contracts.

### 5.1.2 Wages

Many codes of conduct mention the right to a decent wage, ensuring the ability to provide for oneself and one's family. As H&M puts it in their code of conduct: *"everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity"*. This is derived from the Universal Declaration of Human Rights Article 23:3, which is used as a guidance concerning their ambition for suppliers and business partners. (H&M, 2010) As in most codes of conduct, H&M's minimum requirement is to pay the statutory minimum wage, which is supposed to reflect the actual living cost. However, looking at an overview of the statutory minimum wages in the state of Karnataka (Bangalore) and in the state of Haryana (Delhi), minimum wages are around half of what organizations like the Asian Floor Wage Campaign suggests as living wages. (Table 2)

Table 2. Overview of Minimum & Living Wages.

	Source	Daily Wage, 8 hours	Monthly salary*
Karnataka minimum wage <sup>1</sup>	Department of Labour and Employment, Karnataka	Rs. 161,72	Rs. 4204,72
Haryana minimum wage <sup>2</sup>	Department of Labour and Employment, Haryana	Rs. 183,61	Rs. 4773,86
Suggested living wage <sup>3</sup>	Asian Floor Wage foundation	Rs. 306,4	Rs. 7966,4
*Based on a 6-day working week.			

<sup>1</sup> Labour Department, Government of Karnataka

<sup>2</sup> Labour Department, Government of Haryana

<sup>3</sup> AFW Campaign, 2011

The AFW living wage is calculated as the wage required for a worker to supply for a household of two adults and two children. It is based on an extrapolated food basket and a standard daily calorie intake of 3000 calories per adult. The ratio between food expenditures and of other basic needs, such as clothing, housing, healthcare, education and savings is assumed to be 1:1. This means that half of the income is spent on food, which in turn would give an Engels coefficient of 0.5. In developmental terms an Engel coefficient in this range typically excludes individuals from absolute poverty. (UNSP, 2005)

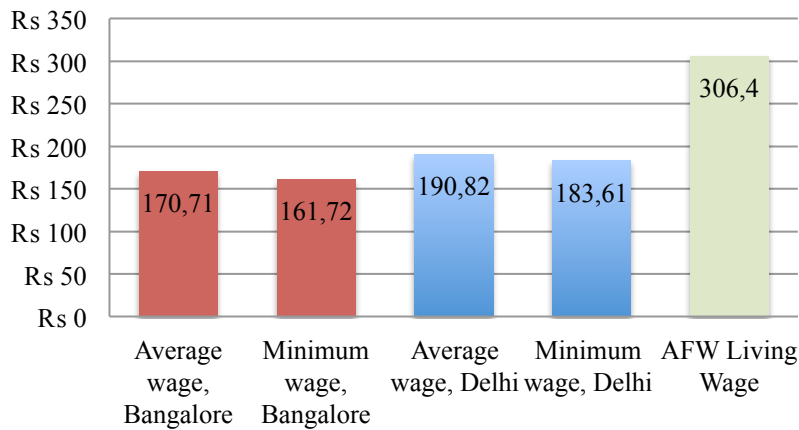


Fig. 2

In both the state of Karnataka (Bangalore) and the state of Haryana (Delhi) the average wage among our sample was above the statutory minimum wage. This is interesting when put in relation to the lack of knowledge of minimum wages. None of the interviewed workers were aware of the state minimum wage. However, the minimum wage is based on an 8-hour working day as regulated in the Indian labour law but many of the respondents worked more than this. In one focus group workers stressed the issue that the wage was getting more tightly connected to the number of pieces that the workers produced during the work shift. If the workers hadn't finished the production targets during their regular shift, they were forced to work without payment until those pieces were made. Uncompensated overtime due to unreasonable production targets is per common definition a form of forced labour. It is explicitly forbidden in most codes of conducts, Indian labour laws, the ILO "Forced labour convention" and the fourth principle of the UN Global Compact.

During our interviews, especially in Bangalore, many of the respondents voiced concern over that their wages had not improved at the same rate as the dramatic rise in prices that has been seen in the last years. India's Minimum Wage Act includes allowance to compensate for inflation (Minimum wage act, 5.7, 1948) but according to a CIVIDEP representative, this allowance is not always provided. Between 1986 and 2001, the minimum wage declined in real terms by 10 percent based on calculations on the consumer price index (CIVIDEP Garment Sector and Unionization). After 2001, this development is likely to have

continued, as average inflation in India over the last five years has been around 10% per year. (Worldwide inflation data)

In the Swedish brand KappAhl's latest code of conduct it can be read that the wage paid to their workers should be *"sufficient to cover basic needs for the employee and their family as well as provide some additional income."*(KappAhl, 2010) In contrast to this, none of our respondents answered positive to the question if they were able to save any portion of their income. The only exception was one female worker in Bangalore who took part in a community micro-credit program, saving Rs. 100 monthly.

## 5.2 Working hours and conditions

### 5.2.1 Working hours

The working hours in the factories differed slightly within the sample but were in general around 8-9 hours depending on the lengths of lunch hours and tea breaks. According to Indian labour laws, adult workers are not allowed to work more than 9 hours per day or 48 hours per week. If they do so, they shall be paid twice the amount of the regular wage (The Factory Act, 1948).

Within our sample most workers, especially in Bangalore, stated that they worked more than regular working hours. Some of these chose to work extra hours to earn extra income (three out of 31 as seen in fig. 1.2) but most of the workers (21 out of 31) told us that they were forced to work extra hours to finish the settled production targets for the day. This type of forced overtime work violates most codes of conduct, in the words of H&M's code from 2010: *"Overtime work must always be voluntary and compensated in accordance with the law. Piece-rate work should not be exempted from the right to overtime compensation."* (H&M, 2010) Seven out of 31 did not have overtime work.

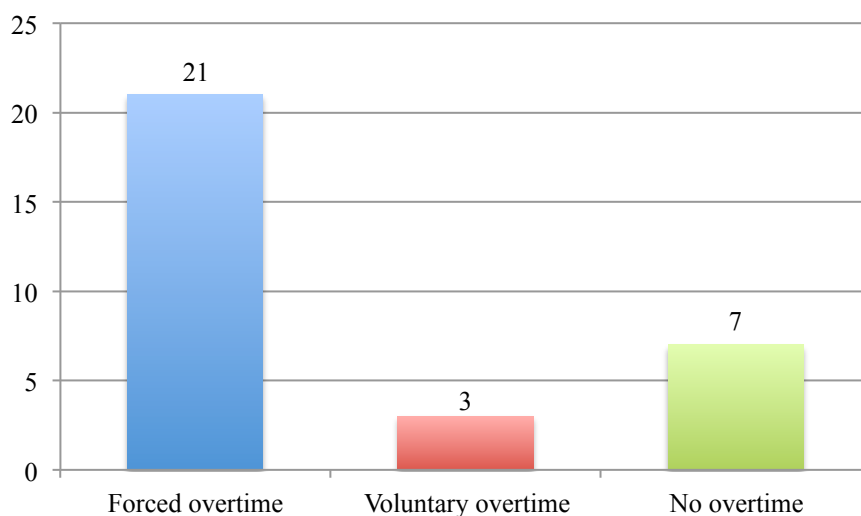


Fig. 3

In some of the factories, overtime work was outsourced to sub-contractors. Most factories offered extra shifts during evenings, Sundays and occasionally

also night shifts. 14 of the 31 workers stated that for working these extra shifts they received double payment for overtime work as dictated by labour law and codes of conduct.

### 5.2.2 Health and Safety

There was a great difference between the respondents in Delhi and in Bangalore when answering the questions on health, safety and medical facilities. In Delhi several workers from one specific factory stated that the working environment was unhealthy. During the warm summer month's coolers did not work and occasionally workers would faint from exhaustion. These circumstances are not accepted as healthy working environment as regulated in many codes of conducts, for example the retail brand Gap formulate this criteria in their health requirements for suppliers: *"The factory (shall be) well ventilated. There are windows, fans, air conditioners or heaters in all work areas for adequate circulation, ventilation and temperature control."* (Gap, 2007)

In Bangalore the situation was different. All of the workers had access to health check-ups. A nurse was available in all of the factories from where we met workers and all of the workers also had a possibility to meet a doctor weekly or once every other week. One worker told us that this had not been the situation 10 years ago and that conditions at work had improved much since then. The workers told us a gruesome story that occurred just a few years ago. A pregnant woman was not allowed leave when she was getting into labour and no nurse was present at the factory. The woman gave birth on the street outside the factory and the baby could not be saved. This story had hit the local newspapers in Bangalore and caused a great deal of tumult. After this happened many of the suppliers were swift to improve the medical facilities in the factories. Nowadays, the workers told us, almost all factories have their own ambulance in case of emergencies and a nurse available for first-aid.

The accessibility of security equipment is also a criteria for a healthy working environment, Gap specifies it in their code of conduct as: *"Appropriate personal protective equipment—such as masks, gloves, goggles, ear plugs and rubber boots—is made available at no cost to all workers and instruction in its use is provided."* (Gap, 2007) In both Delhi and Bangalore the workers we spoke with told us that security masks and gloves were available in the factories. Many of the workers told us that the equipment was a nuisance and hindered them to work efficiently. Management would only insist on the workers using the equipment when buyers or auditors were present at the factory, indicating a very lax attitude towards safety.

## 5.3 Labour welfare

### 5.3.1 Provident fund and Employee State Insurance

In accordance to labour law all employers are obliged to make monthly contributions to each worker's Provident Fund (PF) and the Employee State Insurance (ESI). The PF is a mandatory savings plan for retirement and emergencies and ESI allows workers to get medical and health services from specified government facilities. (The Employee' State Insurance act, 1948) The Provident Fund requires the employers to make a monthly payment to an individual account number for each worker. The workers need access to this account number to be able to withdraw from the fund or to prove possession. (Employee' Provident Fund and Miscellaneous Provision Act, 1952)

In Bangalore, all of the 22 respondents from the worker interviews reported that they have the ESI and that the factory management provides monthly deposits for the PF. The same results are found among the respondents in Delhi, all claiming that their factory management are supporting the ESI and PF. During the worker interviews we found two key problems regarding the payments of PF and ESI. Some workers reported that they did not know for certain whether their PF and ESI were paid to the correct amount, as it was not specified on their payslips. Other workers reported not having access to their account number for the Provident Fund, which would be necessary for them to prove their eligibility. It was not clear whether the factory management intentionally withheld this information or not.

### 5.3.2 5-years bonus

In some factories, bonuses were paid after 5 years of employment as dictated by the Payment of Bonus Act. In other factories, workers were intimidated or persuaded by management to terminate their employment temporarily as to cancel the continuity required to be eligible for the 5-year bonus. This violates both Indian labour law and many codes of conduct. The major retail brand Gap has suppliers in both Gurgaon and in Bangalore, in their most recent code of conduct it can be read: "*The factory shall not modify or terminate worker's contracts for the sole purpose of avoiding the provision of benefits*". (Gap, 2007) It must be noted that a majority of the respondents in our sample had not worked any longer than one or two years in the same factory, therefor the prevalence of this kind of behaviour could not be documented. As no conclusive result could be found among our sample, the subject has been excluded from the discussion.

### 5.3.4 Maternity leave

According to Indian labour law, a three months maternity leave is mandatory and according to the Cividep representative, most factories in Bangalore follow this requirement. The workers with whom we discussed maternity leave agreed that most suppliers honoured this regulation. However, the Cividep also mentioned that a major problem is that the mothers are not allowed to bring their infants to the factory after three months. Some factories in Bangalore have introduced policies where pregnant women must take leave when entering the eight-month of pregnancy. Every factory with more than 300 workers has to provide a crèche or other childcare facility. While most factories follow this, the standard is very poor and the crèche is rarely attended by trained staff or guarded at all. As no conclusive result could be found among our sample, the subject has been excluded from the discussion.

## 5.4 Workers representation

### 5.4.1 Union presence

According to Indian labour law workers of any enterprise with seven or more employees are allowed to form and register a trade union. (The factory act, 1948) The right to freedom of association and collective bargaining are core principles of the UN Global Compact and ILO conventions. A restraint in this field study was that the majority of the workers were members of trade unions and/or community-organisations for garment workers. The sample was obviously biased as this is not the typical case in the Indian garment industry. Overall in the garment sector five per cent of the workforce is union members. (Cividep, 2011)

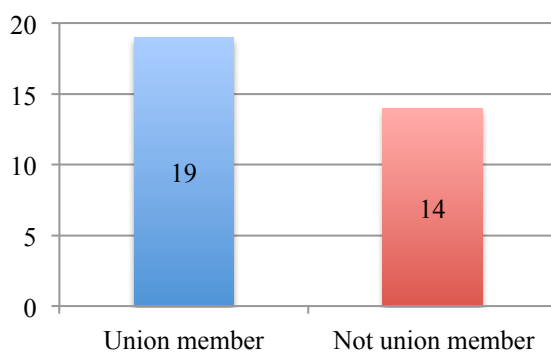


Fig. 4

All union members in the study were aware of the legal right to freedom of association and the right to collective bargaining. Compared to interviewed non-union workers, union members generally held a much more negative view of their working and employment conditions. Workers that were not union affiliated expressed a greater satisfaction with their employment and less discontent towards factory management. The interview study could not discern

the reason behind this; whether it was due to their working conditions actually being better or not.

According to an interviewed trade union researcher the alleged satisfaction among non-union workers could be due to the fact that they see their employment as short-term. The garment industry has a very high turnover of workers and, according to the interviewed researcher; most workers remain for less than two years in the same factory. This, paired with poor safety of employment undermines any incentives to join struggles for long-term benefits. Another explanation to the attitude of the non-union members is suggested to be fear to express their concern on working and employment conditions. Several interviews point to that even though brand codes of conduct uniformly uphold freedom of association in the garment industry; manufacturers are in reality extremely hostile to any attempts at unionisation. Workers are often victimised for being active in unions, or even becoming union members. During the interviews with factory managers, the collective argument used by management representatives was that there was no need of trade unions as the manufacturing factories followed labour laws and that workers committees or similar were present at all factories.

#### **5.4.2 Discrimination and harassment**

The code of conduct for Gap reads: *“The factory does not engage in or permit psychological coercion or any other form of non-physical abuse, including threats of violence, sexual harassment, screaming or other verbal abuse.”* (Gap, 2007) In Delhi, five of the respondents complained on verbal abuses and foul language from the management. A supplier that, according to trade union representatives and media, is a supplier to Gap employed all these respondents. (The Guardian, 2010) The same workers were very unsatisfied with the working conditions and all of them were also union members. They claimed to be particularly punished and harassed by the management due to their union membership.

Among the other respondents in Delhi and Bangalore none of the workers were willing or able to answer our questions on discrimination and harassments, not even in focus group interviews. This left very limited data for our analysis but some of the reasons behind the unwillingness to answer our questions will be discussed in the following chapter.

## 6. Discussion

*The following chapter will discuss the findings of the field study in relation to the main research questions. In order to answer the question the chapter will introduce views, attitudes and opinions of all stakeholders interviewed for this study, affiliated to the garment industry.*

### 6.1 To which degree are CSR commitments successfully enacted in practice?

#### 6.1.1 Employment conditions

*Contracts:* As can be found in the result of our field study, a majority of the workers lacked proper protection of employment, working without formal contracts or appointment letters. The ETI study, presented in the theoretical framework, concluded that insufficient employment security diminishes the positive impact and purpose of codes of conducts and CSR. Despite the fact that the majority of the workers lack the protection of formal employment, one NGO representative claimed that a positive development has been noticeable in Bangalore. During the last two years appointment letters has been handed out to workers, to some degree formalizing their employment. However, this is an outcome she attributes to the lobbying of NGOs and trade unions rather than implementation of codes of conduct or CSR commitments by buyers.

Representatives of ILO and GIZ claim, on the other hand, that the implementation and stricter auditing of the codes has lead to improvement in all sectors, including employment security. According to factory managers the ID-cards that most workers receive, functions as a sort of appointment letter. This claim, however, is not supported by the results of the worker interviews. As the card can be dispossessed or withheld by management for alleged misbehaviour or failure to achieve targets it, according to the workers, is of little value.

*Wages:* As evident in our results, the statutory minimum wage was paid to all of the respondents in this study. It cannot be discerned whether the payment of minimum wages is directly related to CSR commitments, but the commitment is regardless fulfilled. However, when some codes of conducts in addition to minimum wages also suggest a *living wage* it opens up for interpretation. “*Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity*” is quoted from H&M’s code of conduct. (H&M, 2010) If the Asian Floor Wage Campaigns calculations are indeed correct (see *Table 1*) as some development research would suggest, there is still a significant discrepancy between minimum wages and *minimum living wages*. The government minimum wages are however calculated on a similar basis (Minimum Wage Act Section 4) as the AFW living wages. The CSR



commitments can thus be considered successfully enacted in the area of wages – but only if one also considers the government calculations to be correct. It was unfortunately not within the scope of our study to assess the quality of these calculations.

### **6.1.2 Working hours and conditions**

*Working hours:* Although the minimum wage was paid, a majority of the respondents claimed that the working hours were based on productions targets, overriding the criteria of an eight-hour working day. In general the overtime based on finishing production targets was unpaid. H&M code of conducts specifically says, “*Piece-rate work should not be exempted from the right to overtime compensation.*” (H&M, 2010) A Munnade representative we interviewed explained that production targets had been increasing considerably in recent years. Targets were constantly set according to the capability of the most efficient worker, leaving older workers with more overtime to finish the difficult targets. Workers in both Delhi and Bangalore also explained that voluntary overtime was quite common as a means to get some additional income. Factories that paid double rate for overtime were described as popular workplaces. CSR commitments to limiting overtime, or at least assuring fair compensation, seem to have had limited impact within our sample.

*Health and safety:* Most stakeholders including trade union and NGO representatives’ agree that improvements in health and safety have been made because of CSR implementation. When discussing the subject with a lawyer and trade union associate she told us that working conditions in the industry has been improving, but mainly in visible areas: “*Because of CSR implementation factories are cleaner, has new paint, safety equipment and are generally better on health issues.*”

Overall our result points to that the majority of the suppliers in Bangalore rather successfully enact CSR commitments in the area of health and safety. In Delhi there were some exceptions where suppliers largely neglected workplace health and safety. Still the workers suggested that improvements had been made in recent years in both areas. Previous research evaluating impacts of CSR, including the ETI study, comes to similar conclusions. Physical appearance, safety measures, access to proper safety equipment and medical facilities are some of the areas where suppliers goes to the greatest extent in implementing codes of conduct.

### **6.1.3 Labour welfare**

*Provident Fund and Employee State Insurance:* An area that seem to function in accordance to codes of conducts is labour benefits such as the PF and ESI. However, the fact that all workers in the study reported receiving the ESI and PF contrasts the previous result that the majority of the workers do not receive proper appointment letters. Workers without appointment letters cannot prove

that they are formally working for the factory; yet they claim to be covered by benefits such as the ESI and PF. Since neither trade union nor NGO representatives stressed the PF and ESI as an issue, it may very well be paid in accordance to both labour law and CSR commitments. This is slightly conflicting the findings of the ETI study, where it was suggested it that permanent workers were the primary benefactors of welfare means such as PF and ESI. Another interesting contrast is that while all of the respondents were aware of these benefits yet none of the workers were aware of the state minimum wage. We could not verify the payments of PF or ESI and thus whatever conclusion is made, needs to be seen with reservation of further research.

#### **6.1.4 Workers representation**

*Union presence:* Freedom of association and the right of collective bargaining together with the function of trade unions are sensitive topics. None of the factory managers interviewed in this study encouraged trade unionism or stronger worker's representation. The buyer representative interviewed wanted to make a distinction between freedom of association and trade unions. From a brand perspective it was argued that freedom of association was the workers right to freely make an informed choice as for who to represent them, not necessarily the right to be in a trade union. With this argument, CSR commitments were followed to some degree as most workers claimed to have access to workers committees or similar. However, as many of the workers also stated that they feared to join unions because of the hostile attitude from management, the criteria of a free choice of representation cannot be considered fulfilled. According to the Munnade representative, CSR commitment has helped improve conditions in the field of union presence in Bangalore. She claims the reason "*workers organisations are happening*" is mainly because "*buyers and retailers care more for conditions and their social commitments*".

*Discrimination and harassment:* The issue of workplace harassment and discrimination was also a sensitive topic among the respondents in this study. During informal discussions with Munnade and Cividep representatives, it was suggested that both discrimination and harassment is prevalent in most factories. As collected from the results of the field study, five respondents in Gurgaon admitted verbal abuses and foul language from management. The story of these workers was extraordinary as they worked at the same factory and their story had been covered in media. According to an article in the Guardian a year earlier than these interviews, the retail brands buying from this very same factory had began investigations to solve the workplace issues and violations to their codes of conducts, however, the situation for the 5 respondents in this study was still not disentangled. The unwillingness among other interviewees to discuss this topic makes the prevalence of discrimination hard to estimate. This also complicates how CSR-commitments can address and solve the issue of discrimination and harassment.

## 6.2 Is CSR perceived as a meaningful tool for social and economic development?

The ready-made garment industry in India has very polarized opinions regarding social responsibility and its meaningfulness. Different stakeholders prioritize different aspects of the concept, and thus end up with very varying conclusions on the subject. According to trade union representatives, NGOs and a majority of the workers, CSR in practice is a weak concept with a relatively small influence on working conditions and social development. Some of the workers we spoke with told us that the codes of conducts had changed things to the better, mainly in the areas of health, safety, the payment of minimum wages and benefits such as the PF and ESI. These workers expressed concern that the areas that they themselves primarily wanted to address such as payment of living wages, stronger freedom of association and better employment security was largely neglected.

*“I believe there should be a litmus test: are your workers allowed to join trade unions? If not, there is no CSR. It is as simple as that.”*

The view of the workers were also repeated by the AFW representative, quoted above. She stated that CSR is not really working, as there is no real freedom of association. She claims that workers trying to organize against employers risks being fired, and as long as this is happening CSR implementation will not work. The AFW representative is not alone in her criticism towards CSR. A researcher on the subject of trade unionism in India describes the same problem, claiming that CSR is largely meaningless *“unless the companies can be held to their CSR commitments, either by a vigilant trade union, or citizens group, or by government regulation”*. As presented in the theoretical framework, previous criticism towards CSR implies that without state regulation, companies can choose to implement CSR initiatives in consideration to what is the business case rather than in consideration to social, economic and environmental matters. The trade union researcher’s argumentation links to this criticism when he states that CSR has no real effect as it holds only voluntarily commitments. While CSR could be meaningful, it is not, as corporations cannot be held accountable to its social commitments.

Previous criticism towards CSR also suggests that some issues are more likely to be solved by CSR than others. Abolishing child labor or slavery does not compromise commercial advantage to the same degree that perhaps recognizing the right to living wages or freedom of association would, making the former issues much more likely to be addressed by CSR. The financial risk of encouraging stronger unions is very likely to be the explanation to the negative attitude from factory managers. One factory manager stated that *“the wages are the same everywhere”* suggesting that from a business perspective there are no incentives for any individual supplier to exceed minimum wages. In our study, factory managers claimed that there is no need for trade unions or for workers

to form their own representation. Both arguments indicates that the lack of financial motivation to encourage trade unionism and the payment of living wages prevents suppliers from fulfilling CSR commitments and thus to which extent a socio- economic impact from such commitments could be made.

On the other hand, companies CSR commitments have led to improvements in the industry, according to other stakeholders such as the ILO, the GIZ, buyers and other factory managers. A different factory manager argues that in the last five years social compliance among exporting companies has been significantly increasing. She contends that increasing buyer pressure, stricter auditing and standardized systems to assure responsibility significantly has improved working conditions. This development has also driven up costs of production for the exporting companies, leaving smaller margins for improvements in terms of wages.

According to the ILO representative interviewed for this study, the CSR concept is still perceived as charity for many stakeholders in India. However, he argues that this traditional view is evolving as even small and medium sized companies now implements CSR concepts and begins to follow guidelines such as the UN Global Compact. For business it is only business, he states, and it cannot operate in a vacuum. If CSR is what is demanded by the society and there is a business case involved, then change will happen. He continues: *“Mind-set change has happened mostly because of selfish reasons – business reasons. The area of CSR matters a lot for the brand image.”*

To summarize the previous reasoning, many stakeholders believe that CSR could be a tool for social and economic development. Even the critics towards CSR, such as the trade union researcher and AFW and NTUI representatives admit that physical appearance and factors like health and safety is better because of CSR implementation. The trade union researcher, however, claims that the reason for this may not be in an altruistic perspective for corporations but that corporation act in according to what is profitable. In accordance to previous criticism towards CSR, the financial motivation for improving health and safety is probably larger than the enactment of living wages and stronger representation for workers.

### 6.3 What are the opportunities and limitations of CSR?

*“CSR is still a rather new concept in India”,* states the ILO representative interviewed for this study. India has a culture of philanthropy and CSR is looked upon in the same way. Despite this, he believes that CSR commitments have potential to contribute to the country’s future development. According to him, a *“mind-set change”* is already happening in India, with more small- and medium sized enterprises beginning to explore the subject. While CSR is on the agenda he also argues for three fundamental premises upon which it must rely to be successful; it needs to be voluntary, it needs to go beyond legal compliance and it cannot be a substitute for governance. The ILO representative also claims that it needs to take time for CSR to form in India and to become relevant for development; *“today, small companies struggles for survival and needs to reach a particular stage to be able to work with CSR”*. This is largely in-line with the result of our field study. Large suppliers with thousands of employees seem to have a more modern approach to business and management, while smaller suppliers seem to still be struggling to establish and expand their business.

The buyer representative interviewed for this study claims that she recognizes a certain *“change in mind-set”* among suppliers. She describes how the attitudes from factory managers vary from factory to factory. Some of the suppliers producing for this brand has done so for over 25 years and knows what is expected in terms of social and environmental responsibility. Suppliers whom they have started doing business with more recently often needs to adapt gradually as the mind-set is not there from the beginning: *“When visiting some factories, telling them to fix one toilet means that the next time you visit, that toilet is fixed but all the other toilets are out of function”*. She claims that to successfully enact CSR commitments among suppliers, they need to be able to understand the value of implementing social commitments: *“Suppliers that follows our brand’s general Code of Conduct are favoured and get more orders, in that way we assure a win-win situation for workers, suppliers and brand image”*.

The argument in both these cases is that the more ambitious CSR commitments are undertaken by MNCs, the more the mind-set of responsible business will be established also among small and medium enterprises. CSR has the opportunity to “trickle down” in the long run, making for a more responsible business environment for a greater number of workers. From this perspective it is quite natural that CSR today may be about making suppliers realize why labour law must be honoured, so that they tomorrow can address other issues. There is some support to this idea in our field study. Conditions for workers in lower tiers of the supply chain, informal sub-contractors or non-export manufacturing are allegedly worse. While starting from an unacceptably low level, some changes indeed seem to have happened.

As mentioned in both the regional and theoretical framework; the garment industry has been rapidly expanding both globally and in India. Managers we spoke to were eager to tell of their expansion plans, growing turnovers and new production units – but not how this development would benefit implementation of CSR. Most workers we met during the field study were first generation industrial workers having migrated from rural agricultural areas. A very low knowledge of labour laws, standards and the concept of CSR in some ways undermine their implementation. Workers lack the ability to struggle for, or claim, their rights, simply as they are not aware of them. This further weakens the lacking incentives for individual suppliers, as previously mentioned in the discussion, to take a stricter approach to social compliance.

Another considerable limitation, mentioned by NGOs and trade union representatives is the voluntary nature of CSR. As Cividep decisively concludes in their manual on corporate accountability; *“the very fact that these (CSR) guidelines are voluntary means that there is no duty on companies to comply with them ... It remains without doubt that these guidelines cannot be used to regulate corporate behaviour or hold companies accountable for human rights abuses.”* (Cividep 2011) The argument in this is not that CSR is entirely without purpose, but that corporations can only be expected to commit to CSR to the degree that it is commercially viable. This limits the developmental impact to areas in which there is a business case for improving conditions.

As mentioned earlier in the discussion the multi-stakeholder perspective of this study reveals a deep polarization between stakeholders in the industry. This is worrying, as from our interviews there seemed to be a common goal among all groups; improving working and living conditions for workers. A representative of Society of Labour and Development claimed that socio-economic impact never was an objective of CSR and therefore buyers were unenthusiastic to discuss the matter. The suppliers felt threatened by what they claimed to be unreasonable demands of trade unions and that individual targeting of their factories was harmful for everybody including the workers. The buyer representative we interviewed told us that their commitments to find win-win situations were sincere and that this mind-set hopefully would be accepted throughout the industry. The inability to reach multi-stakeholder agreements on how development should be achieved is limiting not only the impact of CSR, but also the influence of other potentially positive developmental instruments.

## 7. Conclusion

Polarization between stakeholders interviewed for this study makes the answer to the question whether CSR commitments do contribute to the socio-economic development divided. NGO and trade union representatives determinately stated that without trade unions or meaningful workers representation no consequential development of workers' rights or conditions could take place. On the other hand buyer representatives and the representatives from ILO and GIZ claimed that CSR commitments have already had a positive effect on the socio-economic development and that the concept was worth encouraging. Both statements are true within their respective limitations.

The results of our worker interview study also supports that these divergent answers were both partly true. The CSR commitments that were most successfully implemented through codes of conducts were in the areas of payment of minimum wages, labour welfare and worker health and safety. Least improvements had been made in the field of employment security, working hours and workers representation. Thus; CSR commitments are successfully enacted in practice but only to a certain degree. The main limitation of the CSR implementation seems to be the negative mind-set among many suppliers, as they consider CSR only a burden minimum efforts are put into the enactment of codes of conduct. However, through the interviews with supplier and buyer representatives we also gained the impression that this attitude was changing as more and more suppliers saw the "business case" or win-win situation brought by CSR.

Understanding both the potential and the limitations CSR has to tackle development issues seems to be the key. There is still a lack of consensus of what constitutes CSR and for which areas it is best suitable to help addressing social and environmental problems. CSR initiatives may not work for all issues, in all circumstances or all of the time but there are certainly some contributions that can be derived from them. Reflecting on what would enable a successful implementation of CSR commitments, we believe that buyers and suppliers need to have a mind-set of CSR both as a business tool and a developmental tool. Both buyers and suppliers need to be responsive to these both sides of CSR, not neglecting an active civil society that puts pressure on the companies to continually address worker's issues. As found in the previous discussion, this type of attitude of responsible business as a "*win-win*" situation is growing in the garment industry, mainly among large retailers and well established suppliers. From this reasoning we conclude that CSR is contributing to the socio-economic development within the garment industry of India. Having this said, there are still areas in which implementation is critically lacking, and CSR is failing to live up to its claims.

Our field study found that CSR commitments through codes of conduct are focused on improving certain specific areas; outcome standards measured by auditors, visible factors inspected during buyer's visits and potential risk factors. Health and safety, payment of minimum wages and labour welfare to some extent have all been improved by CSR. For CSR initiatives to contribute to deeper socio-economic development it must find efficient ways to incorporate process rights, freedom of association or the right to collective bargaining. Unless this can be done, only tangible factors will improve from CSR, leaving issues such as harassment, discrimination and poor employment conditions unsolved. In this, we also reach the conclusion of NGOs and trade union representatives that CSR is not really working without workers representation.



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## 9. Appendix

### 9.1 Sample profile

*This section provides an introduction and some background to the interview sample of the field study.*

#### 9.1.1 Workers

*Group 1 – NCR area.* The first sample consists of 10 workers employed as tailors in Gurgaon, Haryana state. All workers were interviewed individually in semi-structured interviews. The age of the workers varied between 20 and 40 and the number of years of experience between a few months up to 5 years. All participants in this sample were migrant workers from neighbouring states Bihar or Uttar Pradesh, having moved to Gurgaon due to poverty and underemployment in their home provinces. The selection of this sample was non-random and in part assisted by field-workers of Mazdoor Ekta Manch whose role is described later.

*Group 2 – Bangalore area.* The second sample group consists of two focus groups of 8 and 9 respondents respectively and 5 semi-structured individual interviews of workers in the Mysore Road area in Bangalore. All respondents in this sample were native to the Karnataka state with a majority having moved in from the rural areas. The age of workers in this sample varied between 20 and 50 and the number of years of experience from 1 up to 15 years. The proportion of union members in this sample was significantly lower than in Group 1. The selection of respondents both for the individual and focus group interviews was assisted by field-workers of organizations Munnade and CIVIDEP, both described later.

#### 9.1.2 Trade unions and NGO's

The *Society of Labour and Development* (SLD) is an independent NGO located in the NCR-area. SLD focuses on labour rights and works at a grassroots level to build and support labour organizing. SLD also works with campaigns to raise awareness of worker's right issues.

*Asian Floor Wages* (AFW) is a network representing over 70 trade unions and NGO's across Asia. AFW works around the concept of living wages and aims to limit alleged suppression of wages and promote labour rights. AFW tries to raise consumer awareness through global campaigns in association with other organisations such as the Clean Clothes Campaign.

*Mazdoor Ekta Manch* (MEM) is associated with the SLD and functions as a trade union for workers in the area of Gurgaon. Indian labour law protects trade unions and the purpose of MEM is to represent its members in negotiations with

employers. MEM is also a community-based platform working with local social empowerment helping workers to address social issues. MEM is not affiliated with any political party.

*New Trade Union Initiative* (NTUI) is a national trade union federation formally established in 2006 by a number of formerly independent trade unions active in both the organized and unorganized sector. The term “new initiative” stands for a common goal to offer the opportunity for every worker at a given production plant to be able to join a union without having to choose from a political point of view. Therefore, the NTUI is not affiliated with any political party but instead promotes a democratic process where union representatives bargains for collective agreements on a production plant level.

*Cividep* is an NGO located in Bangalore. Cividep support workers unionization and organizes campaigns for labour right’s and corporate accountability together with other organizations. Cividep also conducts research on labour and social standards in sectors as the garment and electronic industry.

*Munnade*, Women Garment Workers Front is an organization for women workers in the garment industry in Bangalore. The organisation is community-based and aims to empower women when dealing with workplace issues or/and issues related to civic amenities and welfare.

### **9.1.3 Suppliers**

*Company A* is a family-owned company founded in Delhi in 1986. The company’s production is situated in the Gurgaon area where it has 7 production units employing 1450 workers. Current plans include expanding production by opening one additional production unit every 2 years. The company is mainly targeting the European and North American market and all production units are 100% EOU. Clients include H&M, Indiska, and Cellbes among others and sales are conducted primarily through buying houses in Delhi.

*Company B* is divided into four sister concerns, where one of the concerns has 17 production units and a head office in the NCR area. The number of employees in these production units is around 6000 and the management consist of 236. The company is 100% export-oriented and focuses on in-house readymade garments. The company produces woven, knitted, leather and home-furnishing products. Some of the clients to this company are: Wal-mart, Calvin Klein, GAP, Target and Armani Exchange.

*Company C* is a family-owned business with approximately 1900 employees where around 40 is a part of the management. The company’s head office is located in Gurgaon and the main production unit is situated in Manesar (NCR area). The production is focused on ladies wear and most of the clients are brands primarily from the European market such as Ellos, La Redoute, Pimkies and Mango. The company is 100% EOU.

### **9.1.4 Buyers**

The interviewed buyer is a *multinational corporation* that has separated physical production from the departments of marketing and design. All production is outsourced to small and medium sized suppliers all around the globe, with the majority located in Asia. To be able to secure decent labour standards, this buyer uses their own Code of Conduct and compliance is assured by the corporation's own auditing program. As our purpose of this study never was to analyse individual buyers and brands we chose to keep this buyer anonymous.

### **9.1.5 International organizations**

*The International Labour Organization (ILO)* is a United Nations agency responsible for overseeing international labour standards. ILO functions as a multi-stakeholder mediator between governments, employers and workers. Key programmes of the organization include shaping policies promoting *decent work for all*. The India office of ILO situated in Delhi runs projects promoting responsible enterprises, gender equality and strengthening labour inspection services among others.

*Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)* is a federal enterprise under the German government whose mission is to support the government in the field of international cooperation for sustainable development. GIZ's management model is a form of "demand driven aid", working in cooperation with host country governments and partner organizations in order to achieve tailored models for sustainable development and employment promotion.

## **9.2 Regional manufacturing hubs**

The Indian ready-made garment manufacturing is geographically fractionalized into five major hub areas: southern Tirupur, Chennai and Bangalore, western Mumbai and northern Delhi. Each area is characterized by a specialization in a certain type of manufacturing.

### *National capital region*

The National capital region (NCR) includes New Delhi, the entire metropolitan area of Delhi and some areas of neighboring states Haryana, Uttar Pradesh and Rajasthan. New Delhi and its metropolitan area being the political epicenter of the country and an economically progressive region have seen a tremendous growth in population in the last decades. Through government decision large parts of Delhi are designated residential area, having lead to a phase out of the cities manufacturing industries to neighboring states. A large

portion of the garment manufacturing of the NCR area is located in Gurgaon of Haryana state, near the New Delhi city border. Compared to other manufacturing hubs the ready-made garment sector of NCR has the highest value added in production. NCR is one of the hubs that have developed most in recent years, with newly established manufacturers using relatively modern technology. Many manufacturers have focused on embroideries and the Gurgaon area produces almost exclusively for the export market. Vicinity to impoverished states Uttar Pradesh and Bihar has caused significant workforce migration to the NCR.

### *Bangalore, Karnataka*

Bangalore is the province capital of Karnataka state in Southern India. Bangalore has a long history as one of the country's leading innovative cities. Today the city is primarily identified as the leading hub for information technology in India. Bangalore is predicted to be one of the world's fastest growing cities in the next decade due to its growing industrial and service sectors. Garment manufacturing is one of the most major employers of industrial workforce in the city. The garment industry of Bangalore has a predominantly female workforce, a majority of them native to either Bangalore or nearby rural areas in Karnataka state. When comparing to India's other hubs the Bangalore area has specialized in high volume manufacturing with very large production units specializing in specific pieces of clothing.

## **9.3 Interview guide for semi-structured interviews with workers**

1. How old are you?
2. From where are you?
3. Why did you decide to work here in Bangalore?
4. In which company do you work?
5. What are your duties?
6. For how long have you worked on the company?
7. Was/is it easy to get a job in the garment industry?
8. Do you have any contract paper, identity card, to prove that you work in the company?
9. What is your working hours?
10. Are you forced to work more than 8 hours per day?
11. Do you want to work more than 8 hours per day?
12. What is your wage per day/month? (Now and joined.)
13. Are you given pay-slips?
14. Do you get PF and ESI paid by the company?
15. Are you aware of the minimum wage, dictated by state law?
16. Do you get the double rate for overtime?
17. What are your average food expenditures per month?

18. How much do you pay in rent per month?
19. Are you able to save any money?
20. Do you send money to family or relatives?
21. Does the company provide provisions such as maternity leave, childcare etc?
22. Have you experienced or heard of any discrimination in the factory?  
(Gender/religion/political/union)
23. Do you consider your workplace safe? (Protection equipment, fire equipment)
24. Does the company provide medical facilities or health checks?
25. Do the buyers visit the factories and are you allowed to meet or talk to them?
26. Are you aware of the codes of conduct at your company? (If so, what is your opinion about them? Good/bad.)
27. Is there any active trade union at your factory?
28. Are you a member?
29. Does the company have a policy on trade unions?
30. Are you aware of the content of the Government Labour Law?
31. Do labour department officials visit the factory?
32. Are you allowed to speak with them?
33. How do you experience your current working conditions?
34. Since you joined the company, have there been any major changes in working conditions?
35. If you have any complaints or workplace issues, does the management listen to you?
36. Overall, are you satisfied with your work?

#### **9.4 Interview guide for semi-structured interviews with NGO, trade unions and buyers representatives**

1. What is your position/role?
2. For how long have you been involved with this organization?
3. Could you briefly describe the work and purpose of this organization?
4. What is your general opinion on Corporate Social Responsibility?
5. What do you believe are the strengths and weaknesses of the CSR concept?
6. Have you seen any changes in the garment industry that can be derived from the implementation/commitment to CSR?
7. Do you believe CSR could be a meaningful tool for the social and economic development in this industry? Why/why not? If not; what would be needed?
8. What is your general opinion on current Labour Laws in India? Sufficient/insufficient? Compliance/enforcement?
9. How would you describe the situation for trade unions and workers rights to organize in the garment sector?
10. To be able to change current working conditions for the workers to the better, where do you believe that the major initiative must come from? (The export oriented companies, brands and retailers, through trade union campaigns or through governmental policy's and labour laws?)