

A NOTE ON

# MODELS FOR FACILITATING WORKER WELFARE IN INDIAN INDUSTRIES

By CUTS International



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**“THE HIGHEST USE OF CAPITAL IS NOT TO MAKE MORE MONEY, BUT TO MAKE MONEY DO MORE FOR THE BETTERMENT OF LIFE.”**



**HENRY FORD**

FOUNDER, FORD MOTOR COMPANY



# Narratives on Worker Welfare

## PREMJI ON WORKERS' AND BUSINESSES' INTERESTS

The interests of workers and and businesses are deeply aligned, particularly in times of unprecedented economic crisis.

- Azim Premji

## BHARGAVA ON QUALITY OF LIFE OF WORKERS

If the quality of life of a worker is to improve, it can only happen if his employing company increases its ability to pay the worker better, to provide better facilities to the worker and ensure a better quality of life.

- R.C. Bhargava

## GANDHI ON LABOUR AND CAPITAL

The moment labour recognizes its own dignity, money will find its rightful place, i.e., it will be held in trust for labour. For labour is more than money.

- M. K. Gandhi

## THENGADI ON THE THIRD WAY

Labour should be considered a form of capital in every industry. The labour of every worker should be evaluated in terms of share, and workers should be raised to the status of shareholders.

- Dattopant Thengadi



# DEFINING WORKER WELL-BEING

FROM 'STAKEHOLDERS' TO 'SHAREHOLDERS'/ FROM 'LABOUR COSTS' TO 'HUMAN CAPITAL'

## WORKER WELL-BEING

 Dignified work and living conditions

Ethical Recruitment 

 Decent working hours

Safe and secure working conditions 

 Collective Voice

Family-friendly policies 

 Opportunities for skill enhancement

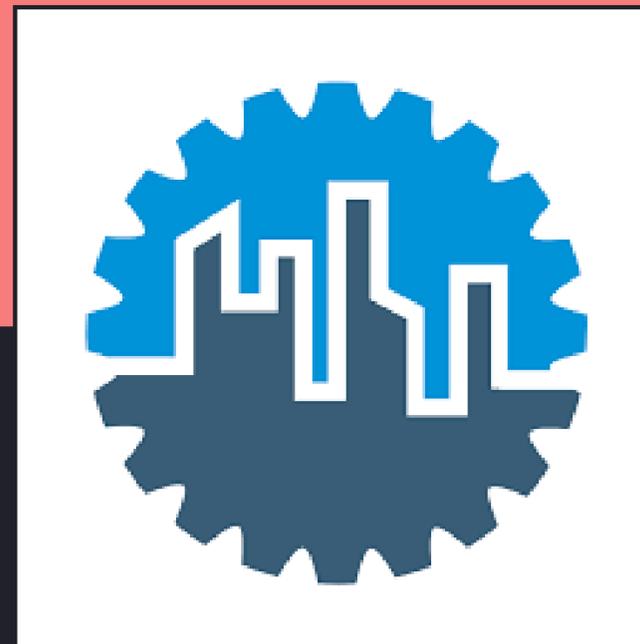
From 'minimal wages' to 'living wages' 



# EXISTING MODELS FOR WORKER WELL-BEING



STATE-LED



INDUSTRY-LED



COMMUNITY-LED

# State-led Models

## LEGISLATIONS, RULES & REGULATIONS

**Key Challenges:** Administrative burden, implementation challenges, legislative and regulatory loopholes

### LEGISLATIVE

Parliamentary laws using command and control approach to influence decisions of industries by enforcing measures of worker well-being. (E.g. 04 codes related to labour law, the Bonded Labour System Act, 1976, the Interstate Migrant Workmen Act, 1979)

### REGULATORY

State designing rules & regulations to give effect to legislative objectives and using administrative machinery for implementation, monitoring and feedback.

### GUIDELINE-BASED

State coming up with guidelines and voluntary steps to be taken up for ensuring worker well-being. (E.g. National Guidelines on Responsible Business Conduct (NGRBC))

# Business-led Models

## INTERNAL POLICY AND PRACTICES, PERFORMANCE-LINKED INCENTIVES

**Key Challenges:** Reluctance to adhere to voluntary measures, additional cost in the short-term, intermittent and uncertain market driving down margins

## MECHANISMS

- Legal obligation to fulfill the mandatory provisions for worker welfare
- Voluntary adherence to the 3rd principle of the National Guidelines on Responsible Business Conduct (NGRBC) which says that businesses should respect and promote the well-being of all employees, including those in their value chains
- Adherence to Voluntary Sustainability Standards set by an association of businesses aiming to improve employees welfare (E.g. Fairtrade)
- Other recognised ethical business practices focusing on quality employment



## CUTS SUGGESTIONS

- Self-regulated industry-wide adherence to provisions of NGRBCs
- Regular filing of Business Responsibility Reports along with 3rd part audits.

# Community-led Models

## UNIONISATION AND COLLECTIVISM

**Key Challenges:** Political interventions undermining the intended objectives, informal collusion between union leaders and industry managers, migrant workers having low political, social and economic capital

## MECHANISMS

- Collective bargaining through trade union movements
- Initiatives by Civil Society Organisations for improving worker-welfare (E.g. Conducting health camps; Providing access to financial services etc.)
- Setting up of jointly-owned and democratically-controlled cooperatives for achieving welfare objectives



## CUTS SUGGESTIONS

- Formation of independent trade union units
- Capacity building for workers, regarding laws and regulations

# Innovative Models

Revisiting the terms of industry-government-community compact

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## Twin Objectives

Aligning wages with skills to recognise workers as 'human capital'

Trying to balance the interests of different stakeholders including producer's interest, public interest, consumer interest

# LINKING PERFORMANCE WITH ECONOMIC INCENTIVES



## THE PRINCIPLE

- Regulating the final price of products based on an incentive mechanism which takes into account the ethical practices of a manufacturer or a retailer

## THE MODEL



- An algorithm can be used for providing enterprises with performance linked economic incentives
- **Final Price = Base Price + (Base Price x Performance Indicator Index)**

Here the performance indicator index can be calculated depending on an enterprise's performance on pre-decided standards

- A higher price for the final product will be linked with better compliance to ethical standards

## KEY STAKEHOLDERS

- Businesses
- Retailers
- Workers
- Government
- Third-party auditors



# LINKING PERFORMANCE WITH ECONOMIC INCENTIVES

## FRAMEWORK FOR IMPLEMENTATION

### IMPLEMENTATION MODE

- **Introducing the performance linked incentives as a pilot for manufacturers in select sectors/ industries with poor worker welfare and providing appropriate subsidies/tax incentives to the retailers/end consumers for preventing market distortions**

**OR**

- **Integrating the model with existing Government procurement platforms such as *GeM* for initiating ethical procurement**

### REGULATION APPROACH

- **Ensuring compliance to the standards for ethical practices using third-party audits**
- **Ensuring transparency and accountability in the implementation process using public dissemination of process and outcomes**
- **An initial hands-on approach by the Government for providing active support to the initiative, which will be gradually reduced as the process moves towards self-regulation**

# PERFORMANCE INDICATORS



## KEY FEATURES OF THE MODEL

- Identifying and setting indicators for performance of enterprises regarding ethical worker practices
- Measuring enterprises on the basis of these indicators to determine their performance
- **Using a rating system for setting performance benchmarks and incentivising businesses to improve ratings**
- **Setting up decentralised nodal implementation agencies with effective representation from industries, workers, CSOs and government departments**

## ENSURING COMPLIANCE

- Third-party audits and surprise checks

## BUILDING CAPACITIES

- Trainings and capacity building programmes for building the resilience of workers

## SPREADING THE WORD

- Public dissemination of performance ratings for ensuring transparency, credibility and consumer awareness

## KEY STAKEHOLDERS

- Businesses
- Government
- Retailers
- Workers
- Associations
- Third-Party Auditors



## SCALABILITY AND REPLICABILITY



- Tying up with relevant Government departments for standardisation of outcomes

# EXAMPLES FROM THE INDUSTRY

## FAIRWEAR - ENSURING ETHICAL PERFORMANCE OF MANUFACTURERS AND RETAILERS IN THE GARMENT SUPPLY CHAIN

### Who?

- Initiated as a joint effort of a Dutch Trade Union, **FNV** and the **Clean Clothes Campaign** for improving worker welfare in the garment industry, it is now a 130 member strong platform advocating for ethical labour practices
- Working with retailers across the world and manufacturers in 'production countries' to ensure a holistic change

### What?

- Aims to institutionalize the adherence to eight labour standards drawn from ILO conventions and UN's declaration on Human Rights
  - Freely chosen employment
  - Legally binding employment arrangement
  - Right to collective bargaining
  - No discrimination
  - No child labour
  - Payment of living wages
  - Reasonable hours of work
  - Safe and healthy working conditions

### How?

- Checks member brands' performance in terms of their business practices and labour conditions
- Conducts factory audits to ensure on-ground compliance with the standards
- Conducts trainings for workers and managers at the factory floor for empowering them
- Provides access to a complaint helpline for grievance redressal of workers

# CERTIFICATION AS REGULATION



## KEY FEATURES OF THE MODEL

- Using participatory mechanisms with effective worker representation for developing worker-welfare standards
- implementing them through existing or new voluntary associations
- Issuing certificates or licenses to members of the association as a tool for upholding the set standards

## ENSURING COMPLIANCE

- Third-party audits and surprise checks

## BUILDING CAPACITIES

- Trainings and capacity building programmes for building the resilience of workers

## SPREADING THE WORD

- Using logos and labels for spreading awareness about the initiative amongst industry players and consumers

## KEY STAKEHOLDERS



- Businesses
- Intermediaries
- Retailers
- Workers
- Associations
- Third-Party Auditors



## SCALABILITY AND REPLICABILITY

- Linkages with trade unions for expanding reach and ensuring worker representation
- Tying up with Government departments for their active support in a cluster-wise implementation of standards based on workers' conditions

# EXAMPLES FROM THE INDUSTRY

## GOODWEAVE - USING CERTIFICATION TO ENSURE ELIMINATION OF UNETHICAL LABOUR PRACTICES

### Who?

- Founded by Kailash Satyarthi as a grassroots initiative in the Rug Industry in India it now acts as a platform for ensuring good practices in the textiles industry
- Works with manufacturers and retailers for upholding ethical practices

### What?

- Aims to eliminate the following unethical practices
  - Child Labour
  - Bonded Labour
  - Forced labour
- Aims to institutionalise the following good practices
  - Worker welfare mechanisms
  - Environmental safeguards

### How?

- Provides certification to enterprises after inspection for adherence to the mandatory and voluntary standards
- Provides access to a local and global network of enterprises subject to compliance to the standards
- Provides products with a 'GoodWeave' tag for spreading awareness and ensuring credibility of the initiative
- Conducts annual audits and surprise inspections for ensuring compliance

### OTHER EXAMPLES



- *Ethical Toy Programme by the International Council of Toy Industries (ICTI)- protecting workers' rights in global supply chains*
- *Global Organic Textile Standard (GOTS) - ensuring environmentally and socially responsible manufacturing*

# WAY FORWARD

- Sustainability of models for welfare which operate on a compact between the workers, the businesses and the government can be achieved by ensuring necessary behavioral changes in all three stakeholders
- The role of the government in facilitating such approaches, though critical in early stages for ensuring smooth functioning, standardisation of outcomes and maximised coverage of industries and workers, will be minimised over time as the models move towards self-regulation

# SUMMING UP

## LOOKING AT LABOUR AS 'HUMAN CAPITAL'

***Initiatives aimed at worker well being are going to improve worker welfare and hence worker productivity.  
Thus investment in worker welfare is going to result in profits rather than costs***

### AN EXAMPLE FROM ECONOMICS: HUMAN CAPITAL PRODUCTION FUNCTION

- **Based on the principle that investment in human capital leads to higher profits for a business**
- **Links employee welfare with business performance**
- **Incorporates the impact of tangible (e.g. working hours) and intangible parameters (e.g. quality of working life) of human capital with productivity of an enterprise**

$$\begin{array}{ccccccc}
 \text{Revenue of an} & = & \text{Number of} & \times & \text{Rate at which an} & \times & \text{Total working} & \times & \text{Percentage of} & \times & \text{Quality of} \\
 \text{Enterprise} & & \text{workers} & & \text{enterprise} & & \text{hours per} & & \text{working hours} & & \text{working life*} \\
 & & & & \text{converts working} & & \text{worker} & & \text{spent in} & & \\
 & & & & \text{hours to revenue} & & & & \text{activities other} & & \\
 & & & & & & & & \text{than work} & & 
 \end{array}$$

\*calculated as the percentage of utilisation of intangible human capital



# THANK YOU

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