

The Gaps in ESG part of Corporates

Why in news?

The ongoing shutdown at Apple devices contract manufacturer Foxconn's Sriperumbudur facility shows the gap between the commitments made by corporates under ESG part and the harsh reality of reducing manufacturing costs.

What is ESG?

- ESG stands for **Environmental, Social, and Governance**.
- They are a set of standards for a company's operations that socially conscious investors use to screen potential investments.
 - Environmental criteria consider how a company performs as a steward of nature.
 - Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates.
 - Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

What is the issue?

- The Foxconn unit was shut after the predominantly female workforce staged a flash strike against poor food and accommodation
- A food poisoning incident at the plant sent 159 workers to hospital and left more than a hundred others requiring medical attention.
- The facility is likely to stay closed at least till January 7, as Foxconn worked to restructure its local management and work on improving worker facilities.
- Earlier workers from Apple's another contract manufacturer Wistron, had gone on strike protesting poor work conditions and unpaid wages.
- Both in Wistron and at Sriperumbudur, the facilities were found to be horribly inadequate not even meeting the low Indian official standards.
- In both cases, the labour contractors were unofficially blamed for the mess and Apple pointed to its "**Supplier Code of ethics and supplier responsibility standards**".

What is the role of contractors?

- The labour contractors perform a vital task on the supply chain ensuring availability of large numbers of skilled labour at the lowest possible price.
- They fill a necessary space in the gap left by the huge information asymmetry between employers and workers in the Indian labour market.
- The contractors source and bring in workers from the hinterland.
- They often take responsibility of providing housing and food (at a considerable cut of the wages the worker earns).

What are the problems?

- **Poor living conditions**- Often, contractors provide unhygienic accommodation and food to the labourers.
- **Wages**- Most of the contractors pay low wage and sometimes labours are denied the timely payment of wages.
- **Political nexus**- The full power of the state machinery is often used to silence the victims, not convicting the perpetrators.
- In the Foxconn case, local police had confiscated the phones of many women workers and called the parents of many of the young women workers warning them to keep their children in line.
- **Cost management**- The never-ending pressure to reduce costs leads to utilisation of the role of contractors.

What is the status of ESG implementation?

- **Environment**-Environmental impact is now strictly monitored and regulated in most parts of the world.
- Where there is a real or perceived failure, there can be catastrophic impact on business as happened with the Sterlite copper plant in Tamil Nadu, which was forced to shut by popular protest even though it was technically found to be compliant with environmental regulations.
- **Governance**- between the amended Companies Act and the compliance requirements for publicly listed companies, there is considerable control and oversight, at least on paper.
- Powerful promoters/CEOs can change those tasked with overseeing their conduct to their will, as witnessed by the repeated corporate governance scandals in the recent past.
- **Society**- It involves all direct stakeholders like investors, workers, suppliers and customers as well as indirect stakeholders in society at large.
- Failure to comply with Corporate Social Responsibility(CSR) requirements under the Companies Act was made a criminal offence through an amendment in 2019.

What is the way forward?

- Leaving large parts of ESG, particularly in the “S” pillar, to voluntary compliance, is not going to get us anywhere.
- Indian experience from tax compliance to observing Covid protocols has shown that carrots are of limited use and sticks work much better.
- We need pragmatic amendments to our existing laws to ensure that the reality of actual business practices is recognised (such as contract labour use).
- Punishment for non-compliance should also be sharply enhanced.

References

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