



## Case study 3: Foods and Inns (Chittoor Division)

### 1. Background

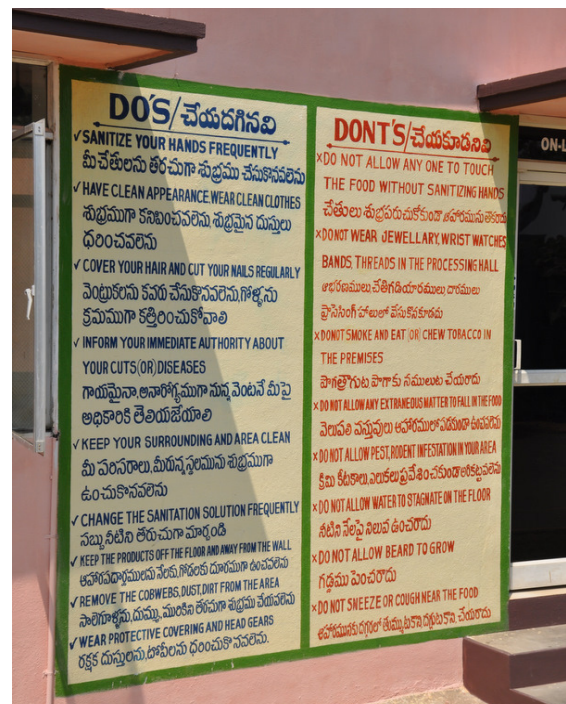
This case study has been developed on the basis of the SUSBIZ India programme running from 2007 to 2009 (www.susbizindia.org). The case studies were finalised in May 2009.

Foods & Inns is located in Chittoor in the state of Andhra Pradesh in the Southern part of India. The company is a leading producer of fruit pulp and is part of the SUSBIZ project on the recommendation of its Danish customer Orana. Foods & Inns processes more than 6000 tonnes of mangoes per year, emerging as the largest mango fruit processor and exporter in the country. Apart from mangoes annually 600 tonnes of papaya and 1400 tonnes of guavas are also processed. The Foods and Inns unit at Chittoor is one of 4 units in the Foods and Inns group.

The vast majority of the workforce at Foods and Inns is employed indirectly through contractors. The contract workers come every season; some of them are hired locally, but most are brought in from neighbouring states, e.g. Tamil Nadu, Karnataka as well as states further away as Maharashtra. During the season, the workers live in shelters provided by the company.

Foods & Inns is unique compared to the other SUSBIZ companies because of the labour practices and the level of management systems

in place in the company. Foods & Inns was certified to the ISO 9001 international standard for quality management systems. The company was also in the process of obtaining certification to a food safety management system in line with the ISO 20000 standard. Being a large export oriented company in the food industry, well structured quality and food safety management systems have been a prerequisite for being in business.



Do's and Don'ts related to food and production safety at Foods and Inns

## **Production processes**

Foods & Inns is fully operational only for 3-4 months between April and June as the activities are dependent on the availability of mangoes. During the peak season work is carried out 24 hours in a day, and around 700-1000 personnel are employed depending on the availability of fruit.

The operations begin with the purchase of fruits from the open market. The fruits are then received at the factory, weighed and checked for quality, and sorted to ensure uniform exposure to air to facilitate ripening and to prevent the fruits from rotting. This activity is carried out in sheds built specifically for this purpose. After a pre-designated period, the fruits are washed and sent for further processing. The fruits are peeled, the seed is removed and pulp is extracted mechanically. Prior to the removal of the seed and extraction of pulp, the fruits move on a conveyor belt, where foreign particles like sticks, leaves etc. are removed along with damaged fruit. Once the pulp is extracted, it is sent to large containers where the pulp is heated and sent to be packed as per customer requirements. Where the pulp is not packed in large containers, the pulp is sent to the aseptic plant for further processing and packing in large drums. Some of the pulp is also packed in tins of smaller quantities depending on customer orders.

## **2. Challenges Identified During Needs Assessment**

At the time of the needs assessment the management felt that there were no issues at the unit; it was indicated that audits on CSR and compliance aspects had been carried out by

some of their other customers and there had been no findings. It was also felt that the various certifications obtained by Foods and Inns, ensured that problems were taken care of. Moreover, it was indicated that the company planned to obtain certification to the SA8000 and OHSAS 18001 standards aimed at social accountability and occupational health & safety management. As such the management did not think useful inputs would come from the needs assessment.

However, the needs assessment identified areas of concern especially with regard to the living conditions of the workers. The shelters available to the workers were found inadequate to house the number of workers involved and the conditions of the housing were not appropriate. Food was being prepared in the open and there was a large risk of fire as the housing was made from dry coconut leaves which could catch fire easily and were highly flammable. Furthermore, fire fighting equipment was not available and training in fire fighting was not provided.

Sanitation was also an issue of concern. Safe drinking water was not provided and toilets and showering facilities were inadequate. For instance only four toilets were to be shared between the large number of workers and the only washing facility was not separated between male and female workers. This especially posed a stress factor for the female workers.

In the vicinity of the housing area an open well with a very low fence around it constituted a severe danger to workers and their children. Some seasonal workers bring their children when they stay at Foods and Inns. Thus the danger of children falling into the well was apparent.

Initially the management of the unit was reluctant to look into the housing aspect as it was felt that investment into something that would be used for only three to four months in a year would be futile. It was also felt that as the workers came from villages they were used to such conditions and moreover the workers did not have any complaints. The issues had been pointed out in previous audits, but since conditions were better at Foods & Inns compared to conditions in other factories, it was not a high priority. Considering the investments involved, it was indicated that in the next season things would be taken care of. After repeated follow-up, however, there was no progress.

Apart from the living conditions another key area was the working hours and the salary. While data was available on the hours worked and the salaries paid to the small number of persons employed directly by the company, similar data was not recorded for the contract workers. It was felt that recording the time for so many workers would be difficult. It was indicated that usually the sorting section worked two shifts while the peeling and de-seeding worked three shifts. Interaction with workers also indicated that they sometimes worked overtime, however, there was no evidence of payment of wages at a premium (double as per Indian law) for overtime. As the hours worked were not recorded, it was difficult to prove or disprove that excessive overtime existed in the company. Despite the fact the Foods and Inns has the legal responsibility for all workers, there was a feeling that as the workers were on contract, Foods & Inns did not have responsibility for them. Thus, systems for ensuring compliance to various labour standards were not in place.

According to the management, child labour did not exist, and boards stating the company's no child labour policy were posted at the factory. However, the agreement between management and contractors was silent on this issue. Since children of the seasonal workers were living at the housing facility of the factory, the issue needed attention.

Because of the high level of the existing management systems related to food safety and quality, no major issues existed with regard to health and safety at production areas. However, high heat levels occurring from heat generating machinery in the production and packaging areas was an issue that needed attention.

Due to the nature of the sector where Foods and Inns was operating, not many areas of environmental concern were identified. However, the disposal of waste in form of water from the washing of fruit and seeds and skins from the fruits was not dealt with in an effective manner. Though an effluent treatment plant was available, it was not operational, and though some seeds were sold for replanting, most of the solid waste was disposed off on land near the factory. The company had not given any consideration to obtaining permissions from the pollution control board for this disposal.

### **3. Action Plan Implementation**

Initially, progress was very slow on the action plan. However, with the intervention of the top management of the company from Mumbai and a change in the local management at the unit in Chittoor, in May 08, things started moving. A Senior HR official was designated to steer the implementation, and timeframes for actions on the pending issues were defined.

At the time of conducting the interviews for the evaluation of the SUSBIZ programme, the 2009 season had not yet started. Some of the initiatives mentioned below had been implemented in the late 2008 season and documented at the time of the evaluation visit; others have been planned and laid out, ready for implementation when the 2009 season begins.

### **3.1 Labour Standards**

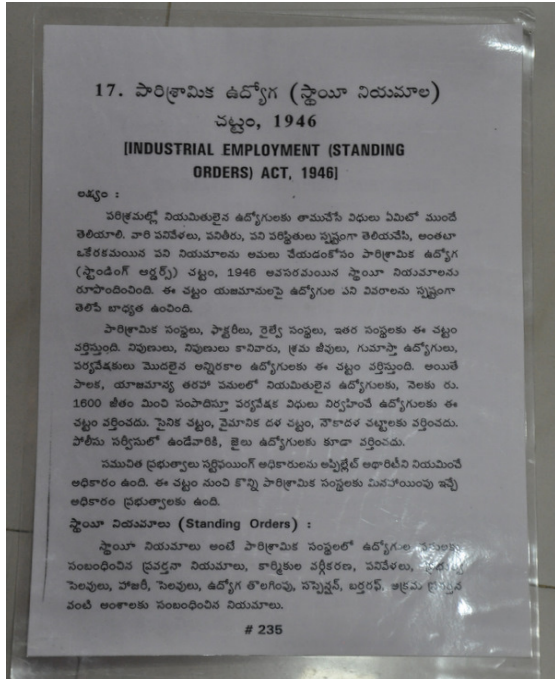
With regards to labour standards, actions on contract labour have been taken. Progress on the coverage under social security schemes such as the Provident Fund has been promised for the 2009 season and coverage of workers under The Workmen's Compensation Act will be extended to contract workers. The Workmen's Compensation Act provides compensation for workers and/or their dependants in case of employment related injury or death. Also, provision of minimum wages has been promised for the 2009 season.

Furthermore, Foods & Inns has obtained a license for employing workers on contract and the contractors will be asked to obtain the necessary licenses for the 2009 season as well. Two major contractors have already obtained these licenses. Compliance requirements (e.g. concerning child labour, premium for overtime hours, provision of minimum wages etc.) have been established and communicated to contractors; working hours of contract workers are being tracked manually until swipe card systems have been established. Permanent workers have already been provided with electronic swipe cards for recording working hours and payment slips are also provided. This system will be extended to cover contract workers as well during the 2009 season. However, management is not sure if the swipe

card system will be able to handle the large number of contract workers, so swipe card system and manual tracking of working hours will function simultaneously for a period of time. Furthermore, records of all payments and deductions with regard to contract workers are now being maintained by the contractors.

Actions on providing employees an opportunity to communicate with management have been put in place and committees have been constituted for this purpose. Foods & Inns has indicated that these committees will be extended to cover contract workers also during the production season. Procedures for disciplinary actions have been developed in the form of a legally approved Standing Order document displayed in the factory in the local language.

At Foods and Inns at least 50 % of the workforce is female. According to the management, sexual harassment has not yet posed a problem since the workers often come with their whole family and know each other from the villages. Yet, with such a large female workforce, an anti –sexual committee has been formed.



Standing Order document posted at Foods and Inns in local language. The Standing Orders explicate the disciplinary procedures the company is allowed to take towards employees and are validated by the local labour department

Suggestion boxes have been set up during the 2008 season. So far, suggestions on dustbins and water purifier in the canteen have been received and the request has granted.

### 3.2 Occupational Health and Safety

A major improvement at Foods and Inns is that new housing facilities made of concrete have been built. This has significantly reduced the risk of fire.

Proper fire fighting equipment has also now been provided in the cooking areas as well as in the housing areas. Training in fire fighting has been given to employees and will be conducted on a quarterly basis in the future. Both regular and contract workers will receive this training.



Housing facilities constructed at Foods and Inns. Before, workers were sleeping in houses made of coconut leaves posing a serious fire hazard. Now concrete dormitories have been constructed and fire fighting equipment established

A safety committee has also been established and meetings are held on a monthly basis. Emergency assembly areas have been identified and mock drills will be conducted during the 2009 season.

First aid boxes have been installed in the production areas in accordance with the Factories Act and systems for ensuring the contents are up to date have been established.

Regarding the well near the housing facilities, a wall around it has been built, significantly reducing the risk of workers or workers' children accidentally falling into it. Also, new toilets and showers with separate units for female and male workers are under construction.



*Construction of housing facilities at Foods and Inns. In the background on the left new dormitories can be seen, in the foreground a dormitory is under construction and in the background on the right, the well with its new elevated wall can be seen.*



*Toilets under construction at Foods and Inns. Before only four toilets existed and were to be shared between male and female workers. Now, sufficient toilets as well as showering facilities have been constructed for separate use between male and female workers*

Changes in the infrastructure lowering the high temperature have also been carried out. For instance, the heat generating machinery in the production and packing areas has been moved to other more suitable areas.

***“As a result of SUSBIZ, people from all levels of production are involved in training in fire safety, OHS and first aid so they know what to do in case of emergency”***

*Sunil Kumar Padhi  
General Manager – Corporate HR  
Foods and Inns*

### **3.3. Environmental Improvements**

Regarding disposal of waste water, the existing effluent treatment plant has been made operational and sludge from the plant is transferred to a leased piece of land for decomposition. Solid organic waste from production is now also decomposed at this site. Research into the legal requirements of this disposal revealed that decomposition of organic waste did not demand any permission from the pollution control board in the case of Foods and Inns.

### **4. Business Improvements**

Since production systems of Foods & Inns were of a high standard at the initiation of the SUSBIZ project, there was not much room for optimizing production. Yet, the improvements at Foods & Inns also contributed to a significant business improvement.

Whereas CSR was seen as a costly add-on to the business before the SUSBIZ project, now Foods and Inns sees it as an integral part of sound business management.

***“We have not done this for free, so we expect a return. We are not doing CSR for the sake of CSR, we are doing it with a business purpose”***

*Sunil Kumar Padhi  
General Manager – Corporate HR  
Foods and Inns*

First of all fire risk and sanitary issues related to housing conditions posed a major risk, not only with regard to workers health and safety, but also with regard to the stable and continuous running of the production. With a short production period of only 3-4 months, it is of critical importance, that the entire workforce is healthy and in a condition to perform at an



optimal level. Hence, the health and safety of the workforce is also a critical business asset. An outbreak of disease or a fire in the housing facilities would not only harm the workers, but would also mean a serious business risk.

From a more general perspective, high CSR standards also constitute an important business advantage for Foods & Inns. The typical buyers of Foods & Inns are large multinational soft drink corporations for whom high CSR standards in the supply chain is of increasing concern. Since their brand value is highly vulnerable to critical media attention with regards to social and environmental conditions in the supply chain, their choice of supplier can change quickly if CSR standards are found to be poor. Likewise, the ability to attract new customers is closely connected to the CSR standards of or at Foods & Inns.

***“Coca Cola India and Pepsi India were buying a small percentage from us before, now they are ready to buy 100 % of our production”***

*C. Chandra Sekhar  
Regional Head (Operations)  
Foods and Inns*

Moreover, a number of customers of Foods & Inns specifically brand their products as ethical. For these customers, CSR is an even more critical issues concern. Hence, the business advantage of the CSR initiatives resulting from engagement in the SUSBIZ program are of a more proactive management nature for Foods & Inns, than for some of the other Indian SUSBIZ participants.

#### **Business improvements**

- Improved health and safety standards at housing facilities have decreased the risk of infected products, diseases among workers and large scale fire accidents. Foods & Inns are particularly vulnerable to such issues due to the short production period of 3-4 months.
- Risk of CSR concerned multinational buyers turning down F&I in favour of other producers is significantly reduced. This issue is of critical importance especially to F&I, as a number of their customers specifically market their products towards the ethical consumer.
- Increased ability to attract CSR concerned buyers.

## **5. Future Activities and Challenges**

Though Foods & Inns was a late starter in the implementation of the action plan, serious improvements have been carried out. Thus, a very important improvement at Foods & Inns lies with the management. The management has undergone a significant change of perception of the issues confronting Foods & Inns with regard to CSR. Also, the management has become aware of the importance of high CSR standards from a business perspective. This holds a promising potential for continual improvements at the company.

***“There has been an 80 % change in our attitude towards CSR”***

*C. Chandra Sekhar  
Regional Head (Operations)  
Foods and Inns*

In the SUSBIZ India project, only the Chittoor unit of Foods and Inns was included in the SUSBIZ programme, the company is now planning to implement the action plan initiatives in three of its other units.

Since many of the issues in the action plan have been implemented and the ones which have not been implemented are planed for implementation in the 2009 season it can be difficult to outline the challenges ahead for

Foods and Inns. So far as the initiatives laid out for implementation are carried through, the biggest challenge for Foods and Inns will be to secure the dissemination of the initiatives through the organisation. This involves educating the workforce in using the established committees, making workers aware of the policies that has been designed and follow up on training in first aid and fire fighting. This is a particular challenge for Foods and Inns because of the seasonality of production. Though many of the seasonal workers are returning every season, new ones does come and this means that each year workers will have to be educated on using the committees etc.

***“We will continue the implementation of the action plan because it will help us jump into other things like certification to the social standard SA8000”***

*Sunil Kumar Padhi  
General Manager – Corporate HR  
Foods and Inns*

Another issue that the company will face relates to overtime. When tracking of working hours is established, the company will be able to correctly register the amount of overtime. Thus, the company then has to ensure that excessive overtime is taking place, and that overtime premium is paid.

#### Foods & Inns improvements at a glance

- Licenses have been obtained for employing contract labour
- Management will ensure that contractors have obtained necessary licenses
- Working hours will be tracked to ensure that overtime (as applicable) will be controlled and payment for overtime will be paid at a premium rate.
- H&S has improved. Risk assessment has been carried out and actions are planned
- Construction of significantly better and safer living and sanitary facilities are in progress and will be ready by 2009 season.
- Agreement has been signed with the contractor requiring adherence to legislation and to the no child labour policy of the company.
- Fire fighting and first aid equipment has been established and training is conducted.
- 22 employees have been trained in first aid techniques
- A physician will be available 24 hours a day during the mango season (May – July)

#### Text & Photo

Claus Aabling (Danish Federation of Small and Medium-Sized Enterprises)

Line Bech (Danish Federation of Small and Medium-Sized Enterprises)

Pranjal Goswami (SUSBIZ India)

Henning Høy Nygaard (Danish Federation of Small and Medium-Sized Enterprises)

Raghu RV (Versatelist Consulting India, Pvt. Ltd.)