

Chapter 2

Introduction

Nestlé has just completed one centenary of its involvement in India, where it started its trading activities in 1912. During this long 100 year partnership, both the company and the country have evolved very significantly. Some 50 years ago, very few people, if any, could have predicted that India would jettison its image of ‘Licence Raj’ and become an emerging economic world power. Neither would have they been able to foresee that Nestlé would be the world’s biggest company in the food, beverages and nutrition sectors and a trailblazer in fostering the interdependence between commercial activities and social goals, now widely embraced by the corporate sector as Creating Shared Value. This enduring, growing and symbiotic partnership between the company and the country has served both parties well as they continue to reap long-term, mutually reinforcing and rewarding benefits in every sense. It also stands as a good example of how private sector participation can seize local opportunities to trigger rural development whilst supporting national priorities and goals.

The decade following India’s independence in 1947 was a socially and economic difficult period for the country. For nearly the subsequent five decades, India followed an import substitution industrialization model as the overriding socio-economic philosophy to stimulate domestic manufacture and contribute to self-sufficiency. The country’s *dirigiste* approach was guided only by the belief that “India should produce whatever it can and India should export whatever it produces” (Bhagwati and Desai 1970: 466). The philosophy behind the model was to reduce foreign dependency by locally manufacturing necessary products and creating an internal market to sell them (Rodrik 2005).

The Government thus formulated and imposed an overall framework under which all industrial development activities would occur. The 1951 Industries Development and Regulation (IDRA) Act laid the foundations for administrative control on all manufacture and production. Simultaneously, the centrally planned economy imposed a series of controls on inputs, outputs, land, labour, etc. Prices, quantities, quality and production targets were all State-determined and supported by a highly convoluted and officious system. Over time, licensing requirements became increasingly complex and stringent and were subjected to arbitrary changes in Government policies and bureaucratic dictates. Industrial activities were

subject to a myriad of procedures, often somewhat arbitrary, and requiring the approval and clearance of overlapping and uncoordinated ministries.

Nestlé had been exporting condensed milk and baby food to India since 1912. However, in 1958, the Indian Government decided to ban imports of milk powder and other manufactured milk products to conserve foreign exchange and stimulate domestic production capacity. Within this State-planning system and inward-looking industrialization policies, Nestlé was invited to consider the possibility of establishing a milk district and setting up a dairy factory in Punjab. In 1959, intensive negotiations between the Indian Government and Nestlé took place to define the area from which the company could be permitted to buy fresh milk. The area was finally fixed at 11,000 km² around the village of Moga in the state of Punjab.

At the time of the construction of the factory at Moga, the area was a place of abject poverty, widespread malnutrition, mud-built houses and low-productivity. Subsistence agriculture was the main economic activity. Over 80 % of the population lived in small villages averaging 250 resident families, with six persons per household. Water supply, irrigation systems and transportation were mostly animal-operated. Houses did not have access to piped water. Sanitation facilities were primitive and only very few scattered villages had access to electricity (Sandhu 1978, 1981a, b, c, d; 1988; Nestlé 1993). The area's challenging socio-economic conditions might have been one of the reasons as to why the Indian Government selected Moga for Nestlé to establish a factory there, hoping its presence would contribute to its social and economic development and the welfare of the population within a reasonable timeframe. However, this is only a hypothesis. Despite intensive research, no historical document could be found as to why the Indian Government selected Moga.

Before production could start, Nestlé had to secure the supply of its main input, milk, in an area where there was no milk culture and the dairy sector was largely informal and unregulated. Milk sold was subject to widespread adulteration and arbitrary marketing practices. Not only was dairying a low-input, low-output supplementary income-generation activity to agriculture, taboos and social-religious reservations regarding the commercialization of milk discouraged sustaining, let alone increasing production levels.

Despite the country's long historical tradition of dairying, poor breed, neglect of animal health and lack of proper and adequate feed, ensured that the then prevailing milk yields were extremely low. Moreover, the region almost had no dairy cows and whatever limited buffalo milk was produced was used primarily for household consumption. The milk culture and knowledge and expertise on milk production simply were not available in the area. Faced with these serious constraints, and honouring the agreement made with the Government of India, Nestlé planned to take all the necessary steps to transform the area into a thriving milkshed.

In addition, all too often changing import substitution policies posed significant problems to the private sector as the Government unilaterally altered industrial policies without any serious discussion or consultation with the involved stakeholders. Policies on dairy development were no exception. Not only were many business operations micromanaged by numerous Government dictates, but also the

companies had to permanently look out for sudden, and imposed requirements that could substantially alter the sustainability and the overall economics of their prevailing business models and thus profitability. A good example of this sudden shift came in 1972, when the milkshed area was re-demarcated and part of the area where Nestlé was allowed initially to collect milk was ceded to various other Government milk schemes (Food Specialities Limited 1972).

By 1991, when the ‘Licence Raj’ model was being dismantled, Nestlé’s exclusivity to buy milk within a specified area was completely withdrawn and competition for buying milk from the area intensified because of the arrival of new competitors. Following national economic reforms and liberalization, the Milk and Milk Products Order (MMPO) came out in 1992. This legislation was put in place to regulate the local production of milk and dairy and included sanitary and hygienic controls to ensure product quality.¹

By then, and after sizeable investments and efforts, the company had successfully developed and organized a reliable and sustained dairying culture and a functional supply chain in the area. The challenges Nestlé faced during the first three decades, first to successfully establish a factory and then to assure its steady expansion, were truly complex as well as immense. They ranged from rigid input and output pricing policies, to poor infrastructure and the total absence of a dependable and long-term framework for promoting a competitive dairying sector.

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¹ India’s compulsory regulatory legislation for the dairy industry was long framed in two main documents. The Prevention of Food Adulteration Act, 1964, includes a section specifying the standards and minimum quality levels to be achieved in milk production. Additionally, the 1992 Milk and Milk Products Order requires all units handling more than 10,000 L of liquid milk per day or more than 500 tonnes (t) per annum to get a processing and distribution permit. The order also specifies the milkshed area and lists the basic hygienic conditions to be maintained at the premises (India’s TEDO, undated). In 2011, the Food Safety and Standards Authority issued an overarching regulation to consolidate numerous previous policies regarding food products including milk and milk products (Karmakar and Banerjee 2006).

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Biswas, A.K.; Tortajada, C.; Biswas-Tortajada, A.; Joshi,
Y.K.; Gupta, A.

2014, XIII, 115 p. 13 illus., 2 illus. in color., Softcover

ISBN: 978-3-319-01462-3