
Emerging CSR Scenario in India

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Introduction:

Over the years, Corporate India has played a significant role in the socio-economic development of the country. Its innovative approach, appropriate technological interventions, skilled manpower, geographical spread and the capacity to compete with the best in the world has instilled much confidence and hope that India is well on its way to becoming a global super-power. Economic liberalization initiated at the start of the decade of the 90's has given much impetus to this process. The developing world now looks up to India to provide leadership on how corporates can integrate their efforts with the developmental processes in the country in a seamless manner. This synergy is critical if any nation intends to leverage the strength of its corporate sector for nation building.

Business and Development – Two sides of the same coin:

The growth and expansion of corporate India has also given an opportunity for businesses to unleash their latent power, reach, scale of operations and core strengths to contribute significantly to national development through 'enlightened and need-based'

Corporate Social Responsibility (CSR). It is heartening to note that through the years, some corporate houses have meaningfully utilized this opportunity and have adopted innovative ways to give back to society and the environment through their CSR activities. These interventions have been making a tangible difference and contributing significantly to national development. Many of these interventions also provide useful insights into how carefully crafted community intervention models can bring about positive social change.

One, therefore, feels a sense of hope and optimism that this progression will gain further momentum as we move together in partnership under the provisions of the new legislation enacted through Section 135 of the Companies Act 2013. The enabling provisions of this path-breaking legislation also have the potential to make a significant contribution to corporate governance, since CSR will now be directed right from the vantage position of the Board of every company that falls within the ambit of this Act and the Annual CSR Report will be part of the Directors Report each year.

Indian CSR – Our Agenda:

In a way, the dawn of a new era in Indian CSR is just round the corner and this is reason enough for all of us to be excited about the prospect of joining hands and making it work. It is important for us to realize that the Indian CSR agenda must focus on *our* needs, *our* requirements, *our* priorities. What must evolve is an *Indian* model that addresses *Indian* concerns. It must also be arrived at through a consultative process by engaging with all stakeholders. To do this, the government has been engaging in a constructive dialogue with all concerned in an effort to evolve the most practical and effective roll out.

Defining ‘Indian CSR’:

Various definitions of CSR have been doing the rounds for much too long. In a way, this landmark legislation gives us the opportunity to lay at rest this debate, and get on with the task of doing our best to make a difference - together. *CSR is the process by which an organization thinks about and evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of*

appropriate business processes and strategies. Thus CSR is not charity or mere donations. CSR is a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies do not limit themselves to using resources to engage in activities that increase only their profits. They use CSR to integrate economic, environmental and social objectives with the company's operations and growth.¹

Through CSR, a conscientious corporate would first assess the needs of the community and the environment through a consultative mode, formulate a CSR Policy as a response to this and initiate activities/projects through measurable budgets and timelines leading to impactful sustainable development. An alert CSR Committee of the Board of every such Company must closely monitor its CSR Policy to ensure that it is effective. This Policy may also need to be an organic document, and could be periodically reviewed to be in harmony with changing societal and environmental needs.

¹ As defined in the CSR Rules published online for feedback by the Ministry of Corporate Affairs, Government of India in September 2013

How CSR can play a catalytic role:

It is estimated that under the provisions of Section 135, about Rs. 9,000 – 10,000 crore per annum would be available for CSR activities. This constitutes a minuscule amount when compared to the government expenditure on social and community development through sectors like education, health & family welfare, livelihoods etc. Still, if effectively channelized, CSR efforts can firstly, play a catalytic role leading to better utilization and impact of government efforts and secondly, create strong synergies with civil society organisations. If this were to happen in a sustained manner through time and space, the end benefits would be much more than the sum of the contributions from all players. Also, re-inventing of the wheel is likely to be avoided as partnerships would lead to sharing of resources. This means a more efficient utilization of 'created' resource and its 'timely' delivery to the end beneficiary....a win-win situation for all!

Creating shared value in a 'mindful' manner:

Shared Value is a management principle that seeks opportunity for business in solving social problems. Companies can solve problems in three ways that can lead to competitive wins.

- 1. The first is to solve them through products and services.*

This requires defining markets in terms of unmet needs or social ills, and developing products that will change these conditions as they are purchased and used. Innovation and growth is typically fueled by a renewed sense of purpose in the business. We call this form of Shared Value reconceiving products and markets.

- 2. The second is to address them through the company's operations by consuming "public goods" as efficiently and productively as possible. Better use of natural resources, growing human talent or supplier capabilities can help businesses both in the short and longer term: by lowering costs and by ensuring future access to these goods. We call this form of Shared Value reconfiguring value chains.*

3. The third is to invest outside the company's operations to solve the problems that are most connected with the company's growth and productivity potential. Social conditions ranging from the rule of law, to infrastructure or the presence of supportive industries and academic institutions are all assets that allow businesses to thrive if they exist, or cause them to struggle if they are absent. Investing to build these assets helps unleash a company's growth and productivity potential. We call this form of Shared Value enabling local cluster development.

In all three cases, a company's opportunity to create Shared Value is unique to its business model and the social conditions that surround its operations. Shared Value creation starts with a deep understanding of social problems and their connection to the business.²

The value that business can bring to the table is more from empowering the disadvantaged sections of society by mobilizing its organizational, managerial, and innovative capacity to place them on a self-sustainable path of development rather than mere

² As defined by Mark Kramer and Michael Porter. Reference - <http://www.fsg.org/OurApproach/WhatIsSharedValue.aspx>

philanthropy. Meaningful scaled-up sustainable action is feasible if linked to the context of business with a longer term beneficial convergence. Today, we see that strategic CSR is in vogue in so far as it is helping companies make profitable business out of societal needs. Having said this, companies engaged in 'creating shared value' will need to suitably quantify in 'measurable' rupee terms the social benefit accruing to the community even as it generates commercial profit out of a societal need as part of its business activity. This may require the setting up of new accounting standards.....and above all a very mindful approach towards CSR through this route.

An opportunity for Corporate India to 'reinvent' itself:

Section 135 of the Companies Act 2013 is a landmark legislation on CSR for our country. The new mandate will provide a healthy environment for corporate India to play a more pro-active role in significantly contributing to community development and environmental conservation. This will be possible even as companies further develop their businesses through responsible governance processes. The provisions of the Act will not stifle

their creativity. Rather, it will provide a robust platform for business and industry to plan, design and implement their individual CSR interventions. The Act gives enough flexibility and space for companies to work as well as unleash their creative and managerial spirit. Having said this, what the new legislation would do is synergize efforts towards achieving larger national development goals. We all must understand that human and financial resources are scarce when compared to the enormity of human development and environmental conservation tasks that are at hand in our country. Collaboration and partnerships within this new mandate will strengthen the government's hand in reaching out to the masses in the quickest possible time with maximum impact.

Technology and social media today keep people abreast with latest knowledge and information, and communities that have not been suitably benefitted from this growth are becoming more and more uneasy about a lopsided model of development that consistently excludes them. CSR gives corporates a mechanism to bridge this chasm through dedicated socio-economic and

environmental interventions as also to strengthen the value of their brand in the process.

Importance of 'Prioritization':

Schedule VII of the Companies Act 2013 provides a list of areas keeping in view current national priorities, that CSR efforts may take up. Companies may use this for planning their CSR initiatives. It will be worthwhile to focus on certain key areas of national concern rather than spread themselves too thin. This should lead to better and more focused impact in minimum time, thereby adding to one's belief that collective, collaborative efforts can make a visible difference through CSR. Impactful achievement of CSR goals can thus, only be arrived at through proper prioritisation of efforts and effective collaboration between corporates, government and civil society. Such areas of work need to be identified and early action taken. This would strengthen our efforts and build faith that CSR can deliver at scale, without compromising on the quality of outcomes.

Critical role of Industry Associations and Chambers of Commerce:

The active support and participation of business associations and chambers of commerce in this unique endeavour would be crucial for the CSR agenda to succeed. They could act as hubs to further facilitate a process of constructive engagement and collective action with their respective member organisations. Such initiatives would go a long way in strengthening the delivery and impact of CSR efforts across the country. Feedbacks from such associations will provide useful information on how the CSR rollout is actually performing on the ground, and this would help in taking up mid-course corrections in the best interests of the country.

Role of Civil Society and NGOs in reaching the 'bottom of the pyramid' through CSR:

Let us also remember that CSR and sustainability can hardly be thought of without the active engagement of civil society actors. Historically, civil society and NGOs have played a limited role in the CSR scenario in India, but they have become increasingly

important and relevant in recent years. The number of NGOs has grown rapidly and the fresh emergence of civil society actors devoted to CSR issues has allowed NGOs to play a far more significant part. Today, civil society seeks to have greater influence on CSR efforts by acting as watchdogs and monitoring business activities, bringing stakeholders together for collaborative action on social issues and partnering with businesses to implement CSR programs. As we go forward, let us also remember that civil society institutions and NGOs have played an important role particularly in generating new ideas for CSR. Much of the thinking on what defines CSR and innovative CSR approaches have originated from them. This trend is likely to continue and gain further momentum.

The CSR Rules developed by the Ministry of Corporate Affairs give special reference to the role that NGOs would play as implementing agencies for CSR projects. Details of their participation, funds utilized etc. are now mandated to be disclosed in the reporting format. This will further strengthen the

participation of such organisations and hopefully lead to more constructive development at the grass-roots.

In times to come, therefore, NGOs are likely to play a pre-dominant role in conceptualizing, designing and implementing impactful development sector CSR projects. As true representatives of grass-root beneficiaries, it is the NGO which 'must' present the 'true voice' of the masses. Only then can Indian CSR become 'need-based' leading to the development of impactful 'Models of Socio-economic Intervention' around which grant proposals for CSR funding can be developed. For this to happen, CSR executives would be required to professionally engage with, and consult, NGOs as part of their ground level strategy. This requires the development of a trained cadre of CSR professionals and institutions such as the Indian Institute of Corporate Affairs need to take the initiative in this matter.

This is likely to rub-off and lead to forging of genuine Public-Private Partnerships (PPPs) between the Corporate, the Government and the NGO. The national development planning

and implementation would then become more 'bottom-up' rather than top driven.

Thus, Indian CSR has the golden opportunity to become a unique three-way combination that can significantly contribute to the process of 'welfare' reaching the 'real' beneficiary at the 'bottom of the pyramid'. The Indian NGO would then have played a watershed role to make this work.

Social Entrepreneurship – Endless possibilities for innovation to 'gain scale' and bring widespread 'positive change':

A Social Enterprise is a company (governed by the Company's Act) that applies commercial strategies to maximize improvements in social and environmental well-being. Its business model encompasses the undertaking of projects and programmes and offering of services and products in the social sector.

Social entrepreneurs are daring people who provide innovative, and often out-of-the-box, solutions to society's crying social, economic and environmental problems. Many of the issues they

confront are often hidden from public glare and so remain unheard, but alive within communities. The successful pilot efforts presented by these people generally lack funding and technology support, and therefore the solutions usually get forgotten with time. The new CSR scenario presents a wonderful opportunity for these pioneers to join hands with other stakeholder's to convert their niche efforts, in alignment with the country's development agenda, into large scale impactful projects and programmes that can perceptibly impact communities and the environment. This can lead to setting up of new Social Enterprise organisations through CSR support that can be run on the 'for-profit' principle of sustainability.

CSR initiatives can also partner existing well established Social Enterprises that can become their Implementing Agencies for delivering such development projects. Thus, a 'for-profit' model of CSR delivery can gain prominence and create shared value for business and the community.

For such 'for-profit' models it is important that the profits generated are ploughed back into welfare and environmental conservation rather than into peoples' pockets.

The 'R&D connect' – CSR as the enabler:

As the new CSR agenda rolls out, Research and Development (R&D) on the dynamics of this process will be another area that can have a significant impact on the welfare of our country. For this, a baseline of CSR in the country needs to be taken up in partnership among concerned institutions. The baseline could be done across geographies and sectors. A datum would then be available against which we would be able to measure the 'change' brought out by the rollout over various periods of time. Sector-wise analysis can also be facilitated in order to measure outcomes and impacts. Another major source of analysis could be the data generated at the level of the government as part of mandatory reporting on CSR.

If positive correlations are arrived at, it would mean that the CSR Rules that are framed by the government and based on which CSR Policy of corporates are framed, were on the right track.

Else, mid-course corrections would be needed to better align the CSR rollout with national needs and goals.

This dynamics, and the data coming out of it, can also provide a wonderful opportunity to researchers and academicians to delve deep into areas of human endeavor that interest them, document these in the form of case studies and books, and share them in the interest of larger public good. This is likely to lead to the development of a repository of exhaustive development sector literature that could be of much use to the Planning Commission, Government Ministries, CSR departments and Foundations, NGOs, economists, development sector institutions etc. Appropriate use of this literature can meaningfully inform the evolving development planning, implementation and impact assessment of projects and programmes across the nation.

The facilitative and enabling role of the government:

The government does not propose to dictate the type of CSR intervention that companies undertake. This should remain the prerogative of companies based on their own understanding and assessment of community needs and environmental concerns.

Also, the government would like to repose trust on the corporates and believe that they will meaningfully utilize the salient provisions of this Act to do real good. There is no reason why genuine intent will not find ways within an enabling environment that the Act seeks to provide. For this reason, the government would give adequate leeway to industry and devise practical implementation guidelines and self-reporting compliance mechanisms.

The Indian Institute of Corporate Affairs (IICA) has been mandated by the Ministry of Corporate Affairs (MCA), Government of India to play a facilitative role in order to bring all players – corporates, government, civil society and communities – together, in such a way that genuine and meaningful collaboration happens, re-inventing of the wheel is avoided through informed resource sharing, and national development is taken up with greater momentum and efficiency in a mission mode. To perform this function, the National Foundation for CSR (NFCSR) has been set up at the IICA. The NFCSR will work to constructively engage with all stakeholders and facilitate the

forging of effective partnership models, develop a database of good CSR practices, empanel outstanding NGOs and identify community based projects that CSR can support. It will also work to prepare a cadre of Certified CSR Professionals to develop efficient and robust delivery mechanisms for CSR programmes in Companies and NGOs. CSR Orientation Programmes for Director level officers and 3-5 day Management Development Programmes (MDPs) for CSR Heads and Senior Managers would also be taken up.

‘Project’ based approach to CSR: An effective way to measure spend and assess impact:

The passage of the Companies Act 2013 has brought about a regime where CSR activities would have to be measured in rupee terms, only then can they be reported objectively. In order to do this effectively, Corporates are encouraged to adopt a Project mode for their CSR activities. An activity will qualify as a Project when it has a start date and an end date; a fixed allocated budget; a baseline survey is undertaken to assess the starting point and an endline survey done to assess the final results; has

a specific time duration; is monitored and objectively evaluated, and the entire process is well documented . A project mode of CSR would not only capture the 'rupee' outlays but also help to emphasise the outcomes and impact of CSR programmes. Per beneficiary costs may also be worked out for various analyses. Successful projects can be replicated as also scaled up through effective partnerships.

Conclusion:

It is a significant and path-breaking development that CSR has been incorporated in the Companies Act 2013. This gives us a huge opportunity to do pioneering work and showcase our efforts globally - especially in terms of setting a standard in doing CSR that is *measurable in rupee terms* and implementing a framework of mandatory *self-reporting*. If done the right way, India has the potential to become a leader and a trend-setter in this domain. This aspiration can be fulfilled only if we work in partnership, collaborate and share. What makes this whole new endeavour of ushering in an era of concerted CSR especially difficult and

challenging is that there are few precedents elsewhere in the world.

As the importance of being socially responsible is being recognized throughout the world, governments are aware of the national competitive advantages won from a responsible business sector. Large corporations have progressively realized the benefit of implementing CSR initiatives where their business operations are located.

The Organization for Economic Co-operation and Development (OECD) established a set of guidelines for multinational enterprises in 1976, and was thus a pioneer in developing the concept of CSR. The purpose of these guidelines was to improve the investment climate and encourage the positive contribution multinational enterprises can make to economic and social progress. In addition to the OECD's 30 member countries, 11 observer countries have endorsed the guidelines. It is observed that, transparency in reporting enhances the focus on economic, social and environmental factors. It motivates companies to intensify their efforts in becoming socially responsible. Several

efforts have been taken by various governments, to encourage CSR reporting, such as incentivizing companies who voluntarily report their CSR activities or by taking measures such as mandating CSR reporting.

In 2007, the Malaysian government passed a regulation to mandate all publicly listed companies to publish their CSR initiatives in their annual reports on a "comply or explain" basis. Accordingly, all public listed companies (PLCs) in Malaysia have to either publish CSR information or they need to explain why they should be exempted. In another example, in 2009 Denmark mandated CSR reporting, asking all state-owned companies and companies with total assets of more than €19 million, revenues more than €38 million and more than 250 employees, to report their social initiatives in their annual financial reports. To enable transparency from businesses on the environment, social and governance front, France passed a law called Grenelle II, which mandates integrated sustainability and financial reporting for all companies listed on the French stock exchanges, including subsidiaries of foreign companies located in France and unlisted

companies with sales revenue of more than €400 million and more than 2,000 employees. Although some CSR standards are mandatory, there are others, which comprise of both, mandatory and voluntary standards.

For instance, in 2006 the British Companies Act mandated all companies listed in the UK to include information about their CSR activities in their annual reports; however, a full length CSR reporting was made voluntary.

A corporate responsibility index challenges and supports large organizations to integrate responsible business practices. Emerging markets such as Brazil, China and South Africa have become forerunners in CSR reporting in the developing world in terms of their involvement in CSR-related activities in order to promote the listed companies' credibility, transparency and endurance. The Johannesburg Stock Exchange was the first emerging market stock exchange to create a socially responsible investing (SRI) index in 2004. China has also encouraged CSR

*reporting in guidelines released through the Shanghai and Shenzhen Stock Exchange.*³

India is embarking on an exciting mission that can set benchmarks and establish altogether new credentials. For this experiment to succeed, we will need the commitment and understanding of the business world, the expertise and watchfulness of civil society and social entrepreneurs, and of course, a highly enlightened and enabling regulatory framework which is being provided by the government. If these work in tandem, then India stands on the threshold of an age in which its united strengths will be harnessed, to provide for its people, a significantly better quality of life than ever before.

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³ CSR in India – Potential to contribute towards inclusive social development; PHDCCI and E&Y, Global CSR Summit 2013