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**Corporate Social Responsibility for Social Impact: Approach to Measure Social Impact  
using CSR Impact Index**

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# **Corporate Social Responsibility for Social Impact: Approach to Measure Social Impact using CSR Impact Index<sup>Σ</sup>**

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## **Abstract**

*Corporate Social Responsibility (CSR) has assumed a new meaning in today's world, given that it has extended the boundaries of the firm into the society. In this paper we discuss the broad patterns of CSR practices among top 200 Indian corporations. We explain the concept of CSR in the Indian scenario, the social issues addressed by the Indian corporations, and methodologies adopted by them to address those issues. We also discuss how these CSR activities bring change in the lives of these disadvantaged and deprived people. It will help the readers to understand the current state of Indian CSR, its impact on the Indian society, and how to measure the impact of CSR initiatives using a newly proposed CSR Impact Index.*

According to World Business Council for Sustainable Development, 2001, CSR is “the commitment of business to contribute to sustainable economic development, working with employees, their families, and the local communities”. The Indian government is also mulling over a new Companies Bill in the Indian Parliament clause 135(5) of the same bill prescribes that every company with a net worth of at least Rs.5000 million (\$1 is approximately Rs 55), or turnover of at least Rs. 10,000 mn, or a net profit of at least Rs. 50 mn will have to spend 2 % of its three years' average profit on CSR activities (The Financial Express, 2012). Given that almost a third of the country's population lives in poverty and penury, CSR provides Indian corporations a readily available and highly impactful opportunity to prove and establish the legitimacy of their actions by moving beyond charities and vanilla rural developmental activities. More objectively, it will tend to counter-balance to some extent, the impact of the huge negative externalities that commercial activities tend to create in the developing societies they operate in, also new business models emerging out of these innovative hybrid partnerships may give rise to unforeseen fortuitous results that will give a boost to economic growth in this emerging market.

In this paper, we aim to discuss the contemporary understanding of CSR practiced by companies operating in India, through their CSR initiatives, novel implementation approaches, and stakeholder issues, and concerns. We present the finding of our research on top 200 Indian companies using content analysis. Through this discussion and explanation, we explain the current CSR orientation of companies in India.

## **Methodology**

To investigate the landscape of CSR activities in India, we collected data regarding the CSR policies and practices of top 200 public listed companies in India, which are categorized in “A” category by the Bombay Stock Exchange (BSE) of India. We decided to take this sample of top 200 companies as it contains a good/healthy mix of industries cutting across sectors. We used content analysis to generate the

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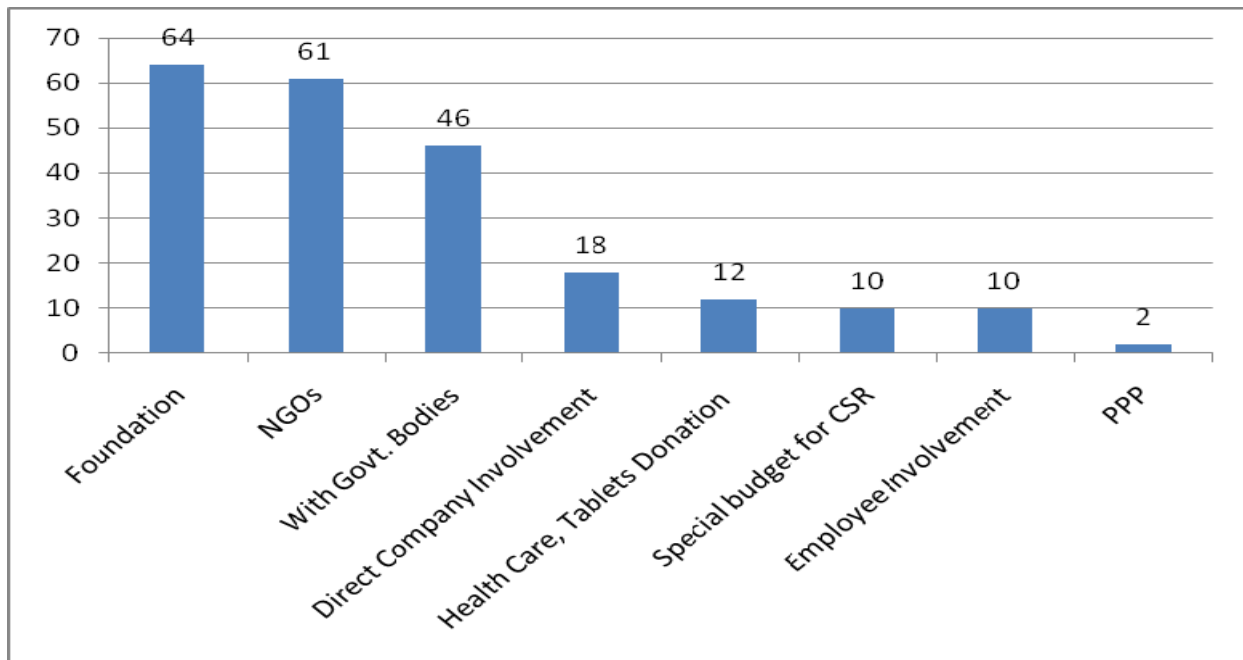
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underlying themes in our data since content analysis is a “technique for making inferences by objectively and systematically identifying specified characteristics of messages” (Holsti, 1969). Content analysis has been widely used in corporate social and environmental responsibility research (Gray et al., 1995). Given that CSR literature suggests that organizations increasingly use CSR activities to position their corporate brand in the eyes of the consumers and other stakeholders through their annual reports (Sweeney and Coughlan 2008) and websites (Maignan and Ralston 2002), we collected data using these public sources.

We made an exhaustive list of all CSR areas in which the companies work and methodologies employed by them for carrying out the same, as reported by them in these public sources. We coded the areas of work for CSR, by these companies into 7 broad categories, these are ‘Education’, ‘Health’, ‘Community Welfare’, ‘Entrepreneurship Development’, ‘Environment’, ‘Market Place’ and ‘Rural Development’. These areas of societal development work is not related to the core business of the companies examined and is pursued by them on voluntary basis as there is no statutory requirement on any of the corporation to pursue in such activities.

### CSR Approaches in India

Based on our study we present the following chart that depicts the major approaches used by top Indian corporations to pursue their CSR activities.



**Chart 1: CSR Approaches adopted by Firms in India**

(Numbers in the chart denote, the number of companies out of 200 companies in our sample)

64 corporations, in our sample of top 200 Indian corporations have their own dedicated foundations to carry out their CSR activities. Foundations are not for profit organizations created for serving the society through various activities such as education development etc. In India foundations are generally registered as charitable trusts for the purpose of social development through poverty eradication programs, healthcare development programs etc. Hindustan Unilever, an Indian FMCG major promotes Unilever foundation, set up 2 years ago which to work towards improving the lives of poor in local communities and simultaneously nurtures markets of the future. The Unilever Foundation is a key initiative taken by Hindustan Unilever to achieve its ambitious goal of helping more than one billion people to improve their

health and well-being and, in turn, create a sustainable future. (Unilever Foundation,2012) Therefore, CSR works through foundations of firms not only to achieve the compliance objectives but also to build markets for the future, where no market exists today.

62 out of the 200 Indian companies in our sample of the companies in India work with NGOs, charitable trusts and other like-minded organizations for achieving their objectives of carrying out development in the society in which these organizations operate. For example Jet airways, India's leading airline with the widest domestic network and operations in 24 international destinations across 4 continents, works with several NGOs to carry out its CSR activities.

46 of the companies in our sample of work in collaboration with different government agencies for carrying out their CSR activities. For example, Essar Oil, which is a fully integrated oil company with refining capacity of 18 mmtpa in India and over 1,400 Essar-branded oil retail outlets across India. Essar's CSR is guided by E3 model, Entrepreneurship, Education and Environment. (Essar Foundation, Guiding Principles, 2012). This corresponds with the United Nations' Millennium Development Goals also endorsed by the Government of India.

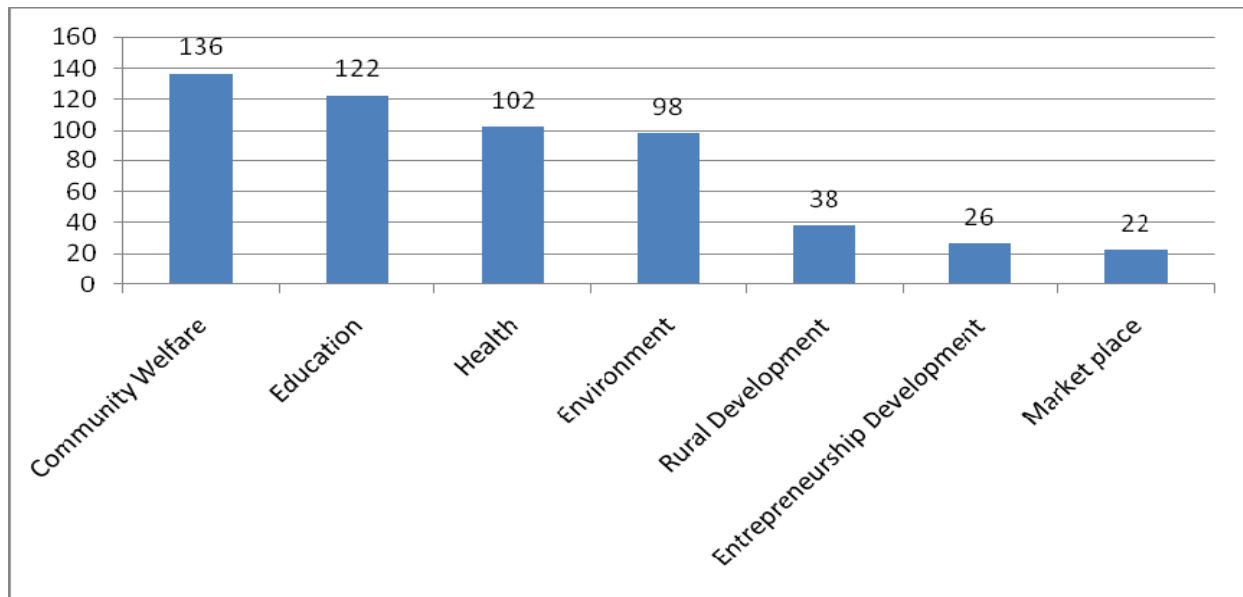
18 companies in our sample, were involved directly in CSR activities. For example, Havells India Limited, a \$1.3 billion and one of the top 5 lighting companies of the world provides mid-day meals to around 350 government schools in Alwar district of Rajasthan, covering 30,000 students per day (Havells, CSR initiatives, 2012).

12 companies, in our sample pursue their CSR by provisioning health care facilities for the backward sections of the society. For example, GlaxoSmithKline Pharmaceuticals Ltd. one of the oldest pharmaceuticals company in India having a turn over of Rs 26,990 mn, and employing over 3500 people has as a mission statement "to improve the quality of life by enabling people to do more, feel better and live longer".

10 companies in our sample maintains special funding for CSR activities and also keeps provisions of reserve funding for CSR for the next financial year so that the CSR plans and activities of the company can be planned and carried out strategically through out the year. For example, Oil and Natural Gas Limited (ONGC), emphasizes transformation of the organization from "Philanthropy" to "stakeholder participation".

10 companies in our sample also report to involve their employees directly to pursue its CSR activities with the local community members. For example, HCL Technologies Ltd., has a unique program named 'Power of one' that refers to every HCLite spending a day in the community and experiencing the power of giving.

Two companies, Ranbaxy Laboratories Ltd., and Educomp Solutions limited, in our sample of 200 Indian companies, mention practicing public private partnership (PPP) as a model to carry out their CSR activities (Ranbaxy, Corporate Social Responsibility,2012 ; India Can, CSR activities, 2012). These two examples of CSR through PPP model are contrasting, since Ranbaxy is an example of pure CSR, while Educomp resembles CSR via social entrepreneurship model. The domain of the CSR activities of the 200 companies in our sample is given in chart 2.



**Chart 2: CSR activities (number of companies) practiced by Indian Corporations**

### **Implications of the Study**

Our study shows that most companies in India engage with local communities near their area of operations, and the beneficiaries of CSR activities are generally the local population. The companies should try to develop scalable models of CSR that can be extended across the nation using local NGO's in each geographical area, a very helpful resource yet at a low cost. Scalable models will be helpful in expanding the socio-economic impact of CSR activities of the corporate. Larger socio-economic value creation can then be equated as a proxy for legitimacy that goes beyond local communities in the near vicinity of the business operations. But taking a more holistic view of CSR is irreplaceable since currently, in our sample of companies, we observe that most firms have adopted the same sectors for CSR (e.g., healthcare, or education), and then they spend CSR budgets on a project to project basis (doing some health camps, adopting a village, building a road, maintaining a facility, and so on). Such project to project variations in CSR initiatives is seemingly devoid of a strategy, and also shows a lack of synergy with business operations. An attempt to align the business strategy with CSR strategy will help firms to leverage their CSR expenditures. Therefore, we suggest a directional change in perspective Indian corporates take in planning and strategizing their CSR operations in India.

### **Towards a new measure for CSR's Impact-CSR Impact Index**

According to the recently passed Companies Bill 2012(replacing 1956 Co. Act) CSR spends and reporting have been made more stringent. Clauses 134 and 135 specifies that companies with net worth more than Rs 500 crores, or turnover more than Rs 1000 crores, or net profit more than Rs 5 crores are required to constitute a CSR committee to formulate CSR policy for the company. Companies now would have to spend a minimum of 2% of average net profit earned during preceding three years before formulation of the policy. Bulk of academic literature suggests that CSR done by organizations is largely self-serving, rather than being useful to society largely.

Given the above, we propose in our article that it is important to devise a new measure for evaluating the effectiveness of firm's CSR so that the motivation for doing CSR does not remain only economic, but moves towards ethical/ideological imperative. Moreover, the new measure should not be input driven, but more output and process driven.

We note that Section VII of the Companies bill lists the following activities that qualify as CSR initiatives:

- Poverty eradication
- Promotion of education, gender equality, and women empowerment
- Reducing child mortality and improving maternal health
- Combating AIDS/HIV, malaria, and other diseases
- Ensuring environmental sustainability
- Employment-enhancing vocational skills and social business projects.
- Relief and funds for socio-economic development such as for welfare of SC/ST, OBCs, minorities, and women.

Since companies are now mandated to stick to the above list of activities, CSR Impact Index that we propose to measure the effectiveness of firm’s CSR should measure if the activities carried out by the firms are not merely done for compliance, but created net positive socio-economic impact.

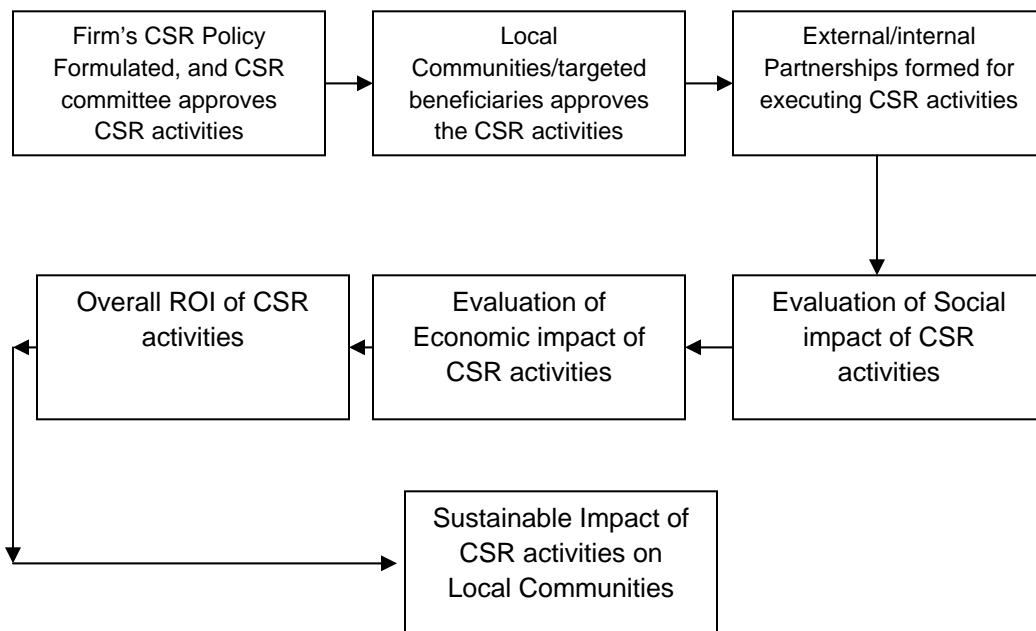
We therefore propose that *CSR Impact Index (CSRII)* work as following:

**Normative guidelines to measure CSR Impact Index (CSRII):**

- i. Does the CSR activities carried out as per the recommendations of the firms’ CSR committee and CSR policies?
- ii. Do the local communities that are the targeted beneficiaries (TB) require these CSR activities?
- iii. What forms of partnerships were developed or used for these CSR activities?
- iv. What is the social impact of the CSR activities (on TB)?
- v. What is the economic impact of the CSR activities on TB?
- vi. What is the ROI of the CSR activities?
- vii. Is the CSR impact sustainable?

These normative guidelines are presented in form of an executable plan in Figure 1 below:

**Figure 1: Planning and Executing CSR Impact Index**



While point 1 is internal to the firm, we propose that atleast 2 external parties, including one representing the TB, audit the remaining points in the above checklist.

For point ii, we propose that survey of a representative sample of TB/local communities by NGO engaged with the firm for the CSR activities be carried out, and report shared as a public resource ( e.g., on firm's website).

For point iii, we propose that a written report of the nature of partnerships, and value created and delivered by all partners be documented, and shared as a public resource.

For point iv, CSR's social impact be measured as following:

**Social impact index= Net improvement in quality of life, and number of lives affected due to the nature of the CSR activity and based on the needs of the TB ( in terms of increase in awareness in social, economic, health, environment, education, political, and other areas of life etc)**

For point v, CSR's economic impact be measured as following:

**Economic impact index= Net improvement in incomes, wealth, savings, and assets, and number of lives affected, due to the nature of the CSR activity, and based on the needs of the TB( in terms of economic value created, income-generating assets created etc).**

For point vi, we propose, that ROI of CSR activities be calculated as following:

**ROI = (Net Social Value created for TB +Net Economic Value created for TB)/Financial Investment of the firm.**

For point vii, we suggest that ROI be calculated by external auditing firms every 6 months after the beginning of the project, until atleast after 5 years of the completion of the activities to ensure that the impact is sustainable, and was not short-lived.

Finally, we also propose that to deter firms to leverage these CSR activities to their own benefit, the firms must show that their CSR activities are carried out in regions that are atleast 500 kms away from their regions of operations (manufacturing plant, offices, mining sites etc).

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