CSR Study -

Ripple effect for change…

Submitted to:

NATIONAL FOUNDATION FOR INDIA

&

NFCG **National Foundation for Corporate Governance**

Submitted by

CII

Confederation of Indian Industry

Ripple effect for change

Introduction

CII has played an important role not only in promoting CSR activities, but also helping to frame the legislation of The Companies Act 2013.

To assess the CSR legislation impact on corporate India, CII commissioned a study in which a pan India survey was conducted to evaluate the new CSR legislative law's impact on the ground.

Recognizing that six months is a small time period to evaluate any big change, CII decided to check with a wider audience if the corporate world had stated responding positively to the legislation.

For this CII has commissioned a survey through Dexter Consulting covering 699 companies in India. The survey data was analyzed and reported by Intrim Business Associates.

The survey used a full spread structure sampling model. The sample size of the survey is based on three criteria:

- ✓ **The survey design** – survey includes approximately 42% CII member companies and 58% non CII members.
- ✓ **Fair industry representation -** equal numbers of non-CII members as survey participants.
- ✓ **Pan India coverage** – the survey sampling represents a wider range of national as well as regional industries and sectors.

Being the first survey, it was focused on the activities and not on attitudes and outcome.

The study is supported by National Foundation for India and National Foundation for Corporate Governance.

Illustrative queries from the companies in the survey were:

- ✓ Organization profiling of the company.
- ✓ Company's involvement in CSR Activities.
- ✓ Are you aware of a "The Companies Bill 2013"?
- ✓ In which year your Organization has started CSR Activity?
- ✓ What is your organizational vision pertaining to CSR?
- ✓ Total number of CSR initiatives executed by your Organization till date.
- ✓ Target audience /beneficiary group.
- ✓ Total no. of beneficiaries impacted/planned.
- ✓ Integration with Govt. Schemes.
- ✓ What are the issues/problems faced across various stages of implementation?
- ✓ Decision making process and involved people.
- ✓ Who all are involved in the decision making process of CSR Initiatives in your organization?
- ✓ Good and bad CSR activities.
- ✓ CSR Spend.
- ✓ What are the future plans of your organization in terms of CSR activities?
- ✓ ETC...

The total companies contacted for this survey were 699 on a pan India basis. The region wise break up is:

Table 1: Region wise spread of respondents:

Region	Respondents	%
East zone	71	10
West zone	271	39
South zone	121	17
North zone	236	34

The survey sample is fairly well represented as per zone wise and industrial spread. Out Of the total respondents, 42% of the respondent companies were CII members.

The inclusion of CII members and non-CII member companies are almost equal in numbers to assess the CSR related ground realities.

Table 2: Sector profile:

Company Sector	Numbers	%
Manufacturing	478	68
Service	215	31
Primary	6	1

The primary sector, which is an Agri based sector, has low CSR activities. Generally Agri sector does not qualify for CSR due to low asset base. Therefore, primary sector in corporate India is expected to be relatively low.

Although service sector contributes largest to GDP, the companies which qualify for CSR are fewer than in the manufacturing sector. The sample reflects the same. Since the GDP of the service sector is fairly high at 57% of total GDP in comparison with the manufacturing sector at approximately 15% in India.

The large number of small companies in service sector does not qualify for the mandatory CSR due to the fact that their turnover is less than Rs. 500 Cr. and profitability is lower than Rs. 5 Cr.

The manufacturer sector has relatively higher capital and operational investment in comparison to the service sector thus, higher chance of mandatory inclusion for CSR.

Table 3: Size wise profile:

Company Size	Numbers	%
Large	437	80
Medium	110	20
Size not mentioned	140	

The interesting fact is that 20% of the companies in the survey are in medium sector. The turnover of these companies may not be Rs. 500 Cr. But their profit might be equal or more than Rs. 5 Cr. Therefore CSR is not restricted to large companies.

Table 4: Status of corporate awareness of Company Act 2013:

Aware of Company Act 2013	Numbers	%
Yes	354	91
No	36	9
Did not response	309	

Out of total respondents' companies, 91% companies were aware of the Company's Act 2013. This indicates a higher level of CSR legislative awareness which is considered as a positive sign for the CSR future in India.

Table 5: Status of companies involved in CSR activities:

Companies involved in CSR activities	Numbers	%
Yes	659	94
No	40	6

94% companies were involved in CSR activities. This indicates the potential of CSR activities and its impact on society at large once it starts fulfilling its full potential.

Table 6: Background and profile of the decision makers and people involved in implementation of CSR activities:

Designation of CSR activities decision maker	Numbers	%
CEO level	12	9
Exe. Directors/ Directors level	37	29
Chairman level	15	12
Managing Director level	12	9
Vice President level	6	5
CSR Head level	16	13
HR Head / Manager level	12	9
Manager level	17	13
Did not reply	592	

According to the survey outcome, approximately 60% of the companies CSR activities are decided by top level management of the company. Only 13% decisions are taken at the manager level. This indicates the higher level of top management's involvement in CSR.

Table 7: Number of CSR projects initiated by companies:

Number of CSR initiatives	Respondent companies number
5494 till the date of survey	171
2066 in last 2 years	170

The total number of CSR initiatives executed by 171 companies was 5494 in numbers. 171 companies responded to this question out of 699 surveyed companies, rest 528 companies did not disclose.

In last 2 years 2066 CSR projects were executed by 170 respondent companies. The average outcome of the CSR projects in the past 2 years is coming out to be 6 projects per company per year, which is a healthy CSR project number.

Table 8: List of CSR activities:

various responses were mapped to the category specified under the Companies Act 2013. The analysis revealed the outcome asunder:

Sector	%
Eradicating extreme hunger and poverty	3
Promotion of Education	63
Employment enhancing vocational skills	9
Promoting Gender equality & Women empowerment	9
Reducing child mortality and improving maternal health	0.3
Combating human immunodeficiency virus, AIDS, malaria, & other deficiency	0.3
Ensuring environmental sustainability	28
Social business projects	0.1
Contribution to the Prime Minister's National Relief Fund & or any other fund set up by central government or the state government for socioeconomic development and relief and funds for the welfare of the scheduled caste, the scheduled tribes, other backward classes, minorities.	0.3

The CSR programs reported in the survey were 793. Some firms reported multiple programs. Sectoral analysis of the 793 responses reveled that leading spend was on 'promotion of education' and next major spend was on 'ensuring environmental sustainability'.

The survey outcome has indicated that the corporate sector has invested maximum CSR resources in the education sector. The reasons are:

✓ It is a continuation of previous activities.
✓ Is easy to implement.
✓ Inputs tangibly co-related to beneficiaries.
✓ Immediate branding and goodwill to sponsor company.

However, thirty seven percent is non-education projects, indicating new initiatives are starting to make a difference.

Table 9: Company with an in-house CSR department for undertaking responsibilities of CSR:

Company with a separate CSR department	Numbers	%
Yes	163	55
No	133	45
Did not respond	403	

Out of 296 respondents 163 respondent companies have a separate CSR department to undertake the responsibilities of CSR projects; this number is 55% of the respondent companies.

This indicates that 45% companies outsource their CSR projects in some form.

To get the optimal CSR outcome, 45% Indian corporate needs to establish in-house CSR department for CSR activities and policies.

Table 10: The analysis of the number of programs undertaken by the companies for CSR activities:

Subject	Activity Count	% of Survey
1 program	648	93
2 programs	514	73
3 programs	349	50
4 programs	141	20
5 programs	60	9

As mentioned in the earlier illustration (Table 3) 80% companies in the survey are large companies. Some of these large companies carry out multiple CSR projects and activities.

These programs are carried out in multiple sectors i.e. education, health, environment, skill development sector etc.
✓ 93% companies were engaged at the least in a single CSR program.
✓ 50% companies engaged in three types of CSR programs.
✓ 9% of companies were engaged in five types of CSR programs.

Table 11: Number of CSR activities undertaken by companies and their operating model:

Subject	Operational model	Numbers	%

Activities	**Outsourced**	131	27
	In-house	293	60
	Others	66	13
	Did not responded	2663	

The analysis indicates that 60% of CSR activities are undertaken by in-house departments of the companies.

The CSR activities outsourced to NGO's and other channels are combined at 40%.

This outcome indicates that there is a large opportunity for outsourcing the CSR project implementation to third party and/or NGO.

Implementation of CSR projects and activities are very specialized skill based operations. Therefore, a lot of scope is anticipated for a parallel CSR outsourcing management channel to carry out CSR activities in India.

Table 12: Corporate CSR activities integration with GOI schemes:

Integrated with GOI scheme	Numbers	%
Yes	123	15
No	706	85
Did not responded	2665	

The survey outcome indicates that the CSR activities integration with GOI social schemes is very limited. Only 15% companies integrate their CSR projects with GOI schemes.

85% companies carry out their CSR projects on their own.

There are multiple factors responsible for this trend, which includes delay in project approvals, release of funds, approvals, post project documentations, branding opportunities etc.

Table 13: Status of awareness of CSR activities followed by other organizations in own or other sectors:

Awareness of CSR activities in other organizations	Numbers	%
Yes	70	30
No	166	70
Did not mention	463	

The level of awareness of CSR projects of other companies is very low. Only 30% companies are aware of peer companies CSR activities.

The likely conclusion of this outcome is that CSR projects are not viewed as a competitive activity. What it means is that the companies are not eager to outrun their peer competition in social responsibility areas.

A change in the mindset related to CSR projects competitiveness in peer companies will change the CSR scenario and will be extremely beneficial to society at large and corporate India. This will enable new and innovative ideas in CSR projects for optimal outcomes.

Table 14: Linkage of CSR spending with the company's finances:

Is CSR spend linked with company's financial indicators	Numbers	%
Yes	87	39
No	136	61
Did not reply	476	

According to the survey outcome, 61% CSR spending did not link with companies Financials.

This indicates that the CSR projects have a higher stability and may not have an impact of financial fluctuation on CSR projects of the company.

Table 15: Companies' requirements for assistance in CSR implementation:

Requirement for assistance	Numbers	%	knowledge base	Implementation base	Networking base
Yes	91	38	52	44	37
No	151	62	NA	NA	NA
Did not reply	457		NA	NA	NA

The survey outcome shows that almost 40% respondents require assistance in CSR activities especially in the knowledge base.

Due to the new Company Act 2013, a large section of medium and small companies are included in the mandatory CSR listing. These new companies may not have adequate CSR related resources, thus they require assistance for successful CSR in:
- ✓ Knowledge.
- ✓ Implementation.
- ✓ Networking.

Issues and problems faced across various stages of implementing CSR.

Respondent's verbatim

In Ideation

- ✓ Acquiring different permissions from Government departments for CSR activities.
- ✓ It is always challenging to judge and undertake right CSR project where CSR program is actually required.
- ✓ Assistance in budget management and sector selection for CSR.
- ✓ Deciding the CSR budget for donations areas etc.
- ✓ Not getting the right skill for managing CSR projects.
- ✓ Lack of network to help successful CSR projects.
- ✓ How to identify the deserving students for the school scholarship?
- ✓ Ideation on how to help drought affected villagers.
- ✓ How to identify the right kind of organization for CSR partnership?
- ✓ How to work with government schemes?

Planning & Designing of Implementation

- ✓ Identification of the area where the school establishment inputs are needed for CSR implementation.
- ✓ How to identify the appropriate NGO for CSR project?
- ✓ How to identify the target beneficiaries for CSR?
- ✓ Issues like finding the right teachers for teaching the targeted courses.
- ✓ Problems in equal distribution of CSR resources among the target segment.
- ✓ Unanticipated and unaccounted situations which might occur during the CSR activities.
- ✓ What will be the level of acceptance by the CSR target group?
- ✓ Special permissions from government for different CSR activities.
- ✓ What if the CSR targeted group is not showing interest, it will be motivation problem and a skill problem to address the same?
- ✓ Which villages have to be selected?

✓ Identify right NGO which is working in drought affected area.
✓ How to optimally utilize donation?

Execution

✓ Making villagers aware about the CSR initiative.
✓ Mindset of communities and acceptance of CSR schemes by the corporate.
✓ Facing problem from the local vested interest groups because they want to take credit of the CSR activities. Sometimes they interrupt the CSR activities in the middle.
✓ Government approvals for CSR activities.
✓ Payments problem of government schemes.
✓ Manpower to support the CSR activities.
✓ In some case we face problem with state government, its 50-50 joint venture with government, then we have to face problem in funding from government.
✓ Lack of support from the local stakeholders for CSR activities.
✓ Scarcity of trained manpower to execute CSR projects.

Analyzing the response to the survey

Since the legislation is very recent, the response of Corporate India is seen as the best as; a directional indicator to understand if the response is currently:
✓ A Ripple effect.
✓ A Wave effect.
✓ A Tide effect.
✓ A Tsunami effect.

Table 16: The benchmark taken from the outcome of the survey response was:

Respond to Quantitive Questions	Respond to Qualitative Questions	Labeled
> 75%	> 75%	Tsunami effect
50 - 75%	50 - 75%	Tide effect
50 - 75%	25 - 50%	Storm effect
25 - 50%	25 - 50%	Wave effect
25 - 50%	< 25%	Ripple effect
< 25%	< 25%	Stagnant

Table 17: Survey respondent data benchmarking status:

Data availability status	Numbers	%
Qualitative	154	22
Quantitive	336	48
Insufficient / irrelevant response	210	30

Given the nature of the responses of the survey replies and quality of answers, the benchmark of the survey is labeled as **'Ripple effect'** for change in CSR. *(25 – 50% of Quantitive Questions reply in addition to < 25% of Qualitative Questions reply).*

The survey response shows that:
✓ The response to Quantitive questions were 48%.
✓ The responses of Qualitative questions were 22%.
✓ The responses which were insufficient and or irrelevant were 30%.