How companies can make a more visible impact through CSR

Identifying causes that have strategic linkages with their businesses will be key to success

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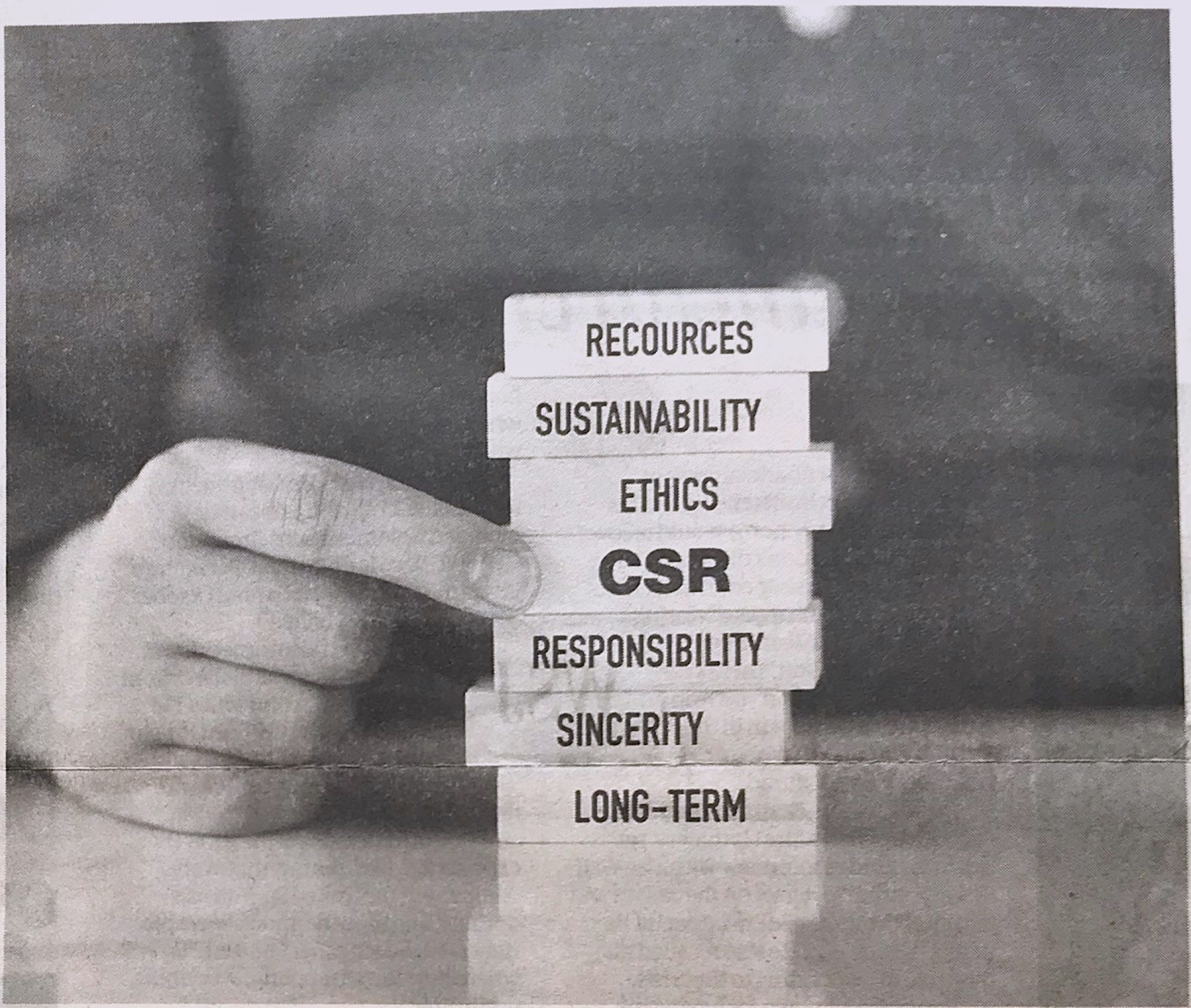

In 2014, the Union government made it mandatory for companies with a profit of ₹50 million or more, a turnover of ₹10 billion or a net worth of ₹5 billion to spend two per cent of their three-year average net profit on corporate social responsibility (CSR).

For 2015-16, the ministry of corporate affairs reported a 45 per cent jump in CSR spending, from ₹98 billion to nearly ₹140 billion. By now India should have seen the green shoots of such spending on the ground.

The data suggest that a large portion of CSR funds has flowed into various government programmes, pointing to corporate India's politically-driven spending. Interestingly, just 30 public sector undertakings contributed 33 per cent of the total CSR expenditure.

The number of firms spending on CSR has increased and India Inc seems to be warming up to the movement. But is it really? And, is it sustainable?

Interestingly, the number of companies having their own trusts and foundations to spend CSR funds, as well as those executing CSR projects directly, has gone up too. This is drying up funding for genuine non-profit organisations that do dedicated ground-level work.

Prior to 2014, how many corporations had set up their own foundations and trusts for social work? Or, have they discovered social responsibility now? Have any audits of their spending prior to and after 2014 been done? Why are more and more companies doing their own implementation on the ground when it is not their core business? Do they believe they will be able to add better value or lower costs of implementation by doing CSR work themselves? If not, why would they not outsource this to NGOs and other implementing agencies, as they would have done with their business?

In business, to increase shareholder value, the same companies would have outsourced processes where they were unable to add value or lower costs. Are they re-routing funds for something else? Questions get raised when the impact on the ground is not visible.

How can companies make a better, more visible impact? Instead of just donating money, companies should identify the right causes that have a natural affinity with their business. CSR is different from philanthropy; it is more strategic than just a specific donation.

While corporations give back to society, they should also build their business. Sustainable benefits can only come from developing the society around them. One good example is Tata Steel and what is visible in Jamshedpur.

Many companies use CSR funds as an inconvenient truth and make the chief HR officer or CFO responsible. Many others look at political benefits. Some others just want compliance. Clearly, the majority is still climbing the learning curve. The CEO typically provides guidance on where to spend and over time they stumble upon the right cause that aligns with their business strategy.

When there is an economic downturn, the first casualty will be CSR — globally we have seen all stakeholders in the value chain suffering. Companies should go beyond CSR, to CSV — creating shared value. Enterprises should identify initiatives that will generate economic returns for them, at the same time creating socio-economic value for all the other stakeholders in an ecosystem of maximising shared value, as against the current maxim of maximising shareholder value. That way, a reduced profit will not affect spending on socio-economic causes.

The concept of "shared value" looks at a positive sum — certain choices will strengthen the strategic position of the enterprise, a few key activities in the value chain, and simultaneously offer societal gains. India Inc should look for those elements in their value chain that can give them an edge and help advance society. In essence, CSR should be part of the enterprise strategy and not an expenditure mandated by regulators.

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Before companies discover the CSV concept, as a first step, they should identify causes that have some strategic linkages. They should then find partners having some commonalities to their mission. Here are a few steps to short-circuit the learning curve in driving impact:

■ Don't just allocate funds to NGOs and the cause. Get involved as a true partner, attend joint meetings and make valuable suggestions to bring in a more professional approach to managing the cause. Collaboration and co-creation are the success mantras.

■ Before inking any pacts, set clear objectives and expectations for aligning different stakeholders. NGOs should know that there is a business need when companies spend on social causes. Companies mostly look at long-term benefits from cause marketing and yet the issue of how much branding is enough is often a sore issue between companies and NGOs.

■ Encourage two-way communication. To build and sustain successful partnerships, companies and NGOs should keep communication channels open at all times. Substantial donors may get a board or steering committee position in the NGO, as in the case of the Village Transformation mission (VSTF) in Maharashtra, where Tata Trusts, Deutsche Bank and HUL are all part of the steering group.

■ Put metrics and reviews in place. Both partners should know if the mission is getting accomplished, and how. Companies can set two sets of metrics: One, to measure the impact on the ground and the other, on the level of awareness in the community.

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