

CORPORATE SOCIAL RESPONSIBILITY

MODALITY OF IMPLEMENTATION

DECEMBER 2017

CSR OVERVIEW

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- **Corporate Social Responsibility (CSR)** is a term often used interchangeably with corporate responsibility, corporate citizenship, sustainability, and sustainable development.
- Companies are facing new demands and are under growing pressure to be accountable not only to shareholders, but also to stakeholders, including:
 - Employees
 - Suppliers
 - Policymakers
 - Consumers
 - Local community
 - Society-at-large
- To satisfy these demands, firms are incorporating CSR into their corporate strategies and developing new approaches to their business.



CSR INTRODUCTION

Corporate social responsibility is a form of corporate self-regulation integrated into a business model. CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and international norms. CSR aims to embrace responsibility for corporate actions and to encourage a positive impact on the environment and stakeholders including consumers, employees, investors, communities, and others.



- Corporate Social Responsibility (CSR) refers to operating a business in a manner that **accounts for the social and environmental impact** created by the business.
- CSR means a commitment to developing policies that integrate **responsible practices into daily business operations**, and to **reporting on progress** made toward implementing these practices.
- Early CSR reports often focused on philanthropy as a driver of CSR. That notion has been supplanted by a broad commitment **to protecting and improving the lives of workers and the communities** in which companies do business.
- CSR reports now typically address **issues impacting virtually every area of operations**: governance & ethics; worker hiring, opportunity & training; responsible purchasing and supply chain policies, & energy and environmental impact.
- The term "corporate social responsibility" became popular in the 1960s and has remained a term used indiscriminately by many to cover **legal and moral responsibility** more narrowly construed.
- Companies are now challenged by stakeholders including customers, employees, investors and activists to develop a **blueprint for how they will sustain economic prosperity** while taking care of their employees and the environment

REGULATORY REQUIREMENTS VS EFFICIENCY IMPROVEMENTS

Regulatory requirements – for India

- Developing a transparent monitoring mechanism is a specific requirement as per the Companies Act, 2013
- The CSR Committee of the Company is directly responsible for monitoring the implementation of the CSR Policy under Section 135(3)(c)
- The Board is directly responsible to ensure a minimum spend of 2 percent of profit on CSR activities, report reasons for any unspent amount in the Director's Report and disclose its content on the company's website

Efficiency Improvements – Global

- Embed accountability and transparency in CSR project execution
- Ensure that CSR activities lead to desired outcomes
- Undertake midcourse corrections, thereby continuously improving programme implementation
- Ensure reliability and accuracy of CSR disclosures
- Effectively gauge the social returns on CSR investment.

CHANGING TRENDS IN CSR

CSR VALUE CREATION

Value	Purpose	Impact	Benefits
CSR as Value Creation	<ul style="list-style-type: none"> Innovative and promote sustainable business model 	<ul style="list-style-type: none"> Fundamental strategic and operational business impact 	<ul style="list-style-type: none"> Shared values (business Institutions and communities) Promote competitiveness and Innovation Promotes sustainable business model Integrates business into communities Develop human capital Incorporated into business strategy
CSR as Risk Management	<ul style="list-style-type: none"> Compliances 	<ul style="list-style-type: none"> Medium to high strategic and operational impact 	
CSR as Corporate Philanthropy	<ul style="list-style-type: none"> Providing funding and skills 	<ul style="list-style-type: none"> Little strategic and operational Impact 	<ul style="list-style-type: none"> Corporate Philanthropy and sponsorship Sort term benefit/not always sustainable Limited funds available Corporate competencies and other business assets not fully utilized Misalignment between business and social responsibility strategies and function Result in minimal social and business impact programs

CSR STRATEGIES

Strategic Dimensions	Traditional CSR	Traditional Strategy	Strategic CSR
Visibility	<ul style="list-style-type: none"> Irrelevant: Doing good is its own reward and is profitable in the long run 	<ul style="list-style-type: none"> Build customer awareness of product and brand 	<ul style="list-style-type: none"> Building customer and stakeholder awareness of product with CSR value added
Appropriability	<ul style="list-style-type: none"> Irrelevant: Doing good is its own reward and profitable in the long run 	<ul style="list-style-type: none"> Manage supplier, customer, and competitor relations to capture value added for firm 	<ul style="list-style-type: none"> Manage supplier, customer, and competitor relations to capture value added for firm
Voluntarism	<ul style="list-style-type: none"> Participate in social action beyond that demanded by the firm's interests and the law 	<ul style="list-style-type: none"> Firm innovation based on ability to learn: non-deterministic behaviour 	<ul style="list-style-type: none"> Participate in social action beyond that demanded by law
Centrality	<ul style="list-style-type: none"> Irrelevant: Doing good is tied to social need and not to core business mission 	<ul style="list-style-type: none"> Create value via product/service innovation 	<ul style="list-style-type: none"> Create value via product/service innovation linked to social issues
Proactivity	<ul style="list-style-type: none"> Anticipate changes in social issues 	<ul style="list-style-type: none"> First-mover advantage 	<ul style="list-style-type: none"> Anticipate changes in social issues that present market opportunities

KEY THEMES FOR CSR

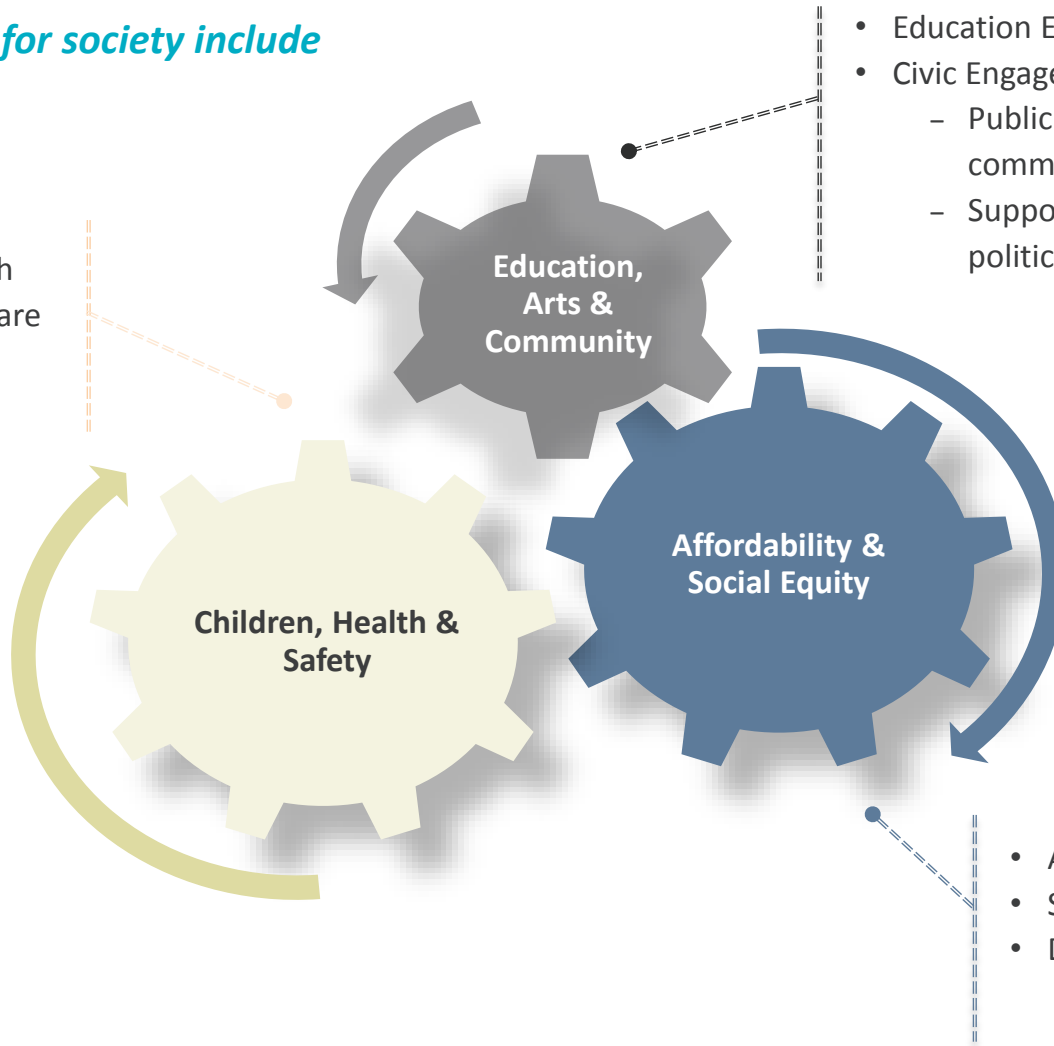
At a broader level, CSR impact can be seen at three levels:

People	Planet	Profit
		
<ul style="list-style-type: none">• Health, Safety and Security• Employee Development• Ethics and Compliance• Human Rights• Communities• Diversity and National Content	<ul style="list-style-type: none">• Pollution Prevention• Waste minimization• Resource conversion (Example energy)• Recycled products)	<ul style="list-style-type: none">• Returns for shareholders• Sustainable Products and services
Society	Environment	Business

CSR FOR PEOPLE

Key impact areas for society include

- Community Health
- Access to Healthcare
- Public Safety
- Human Rights

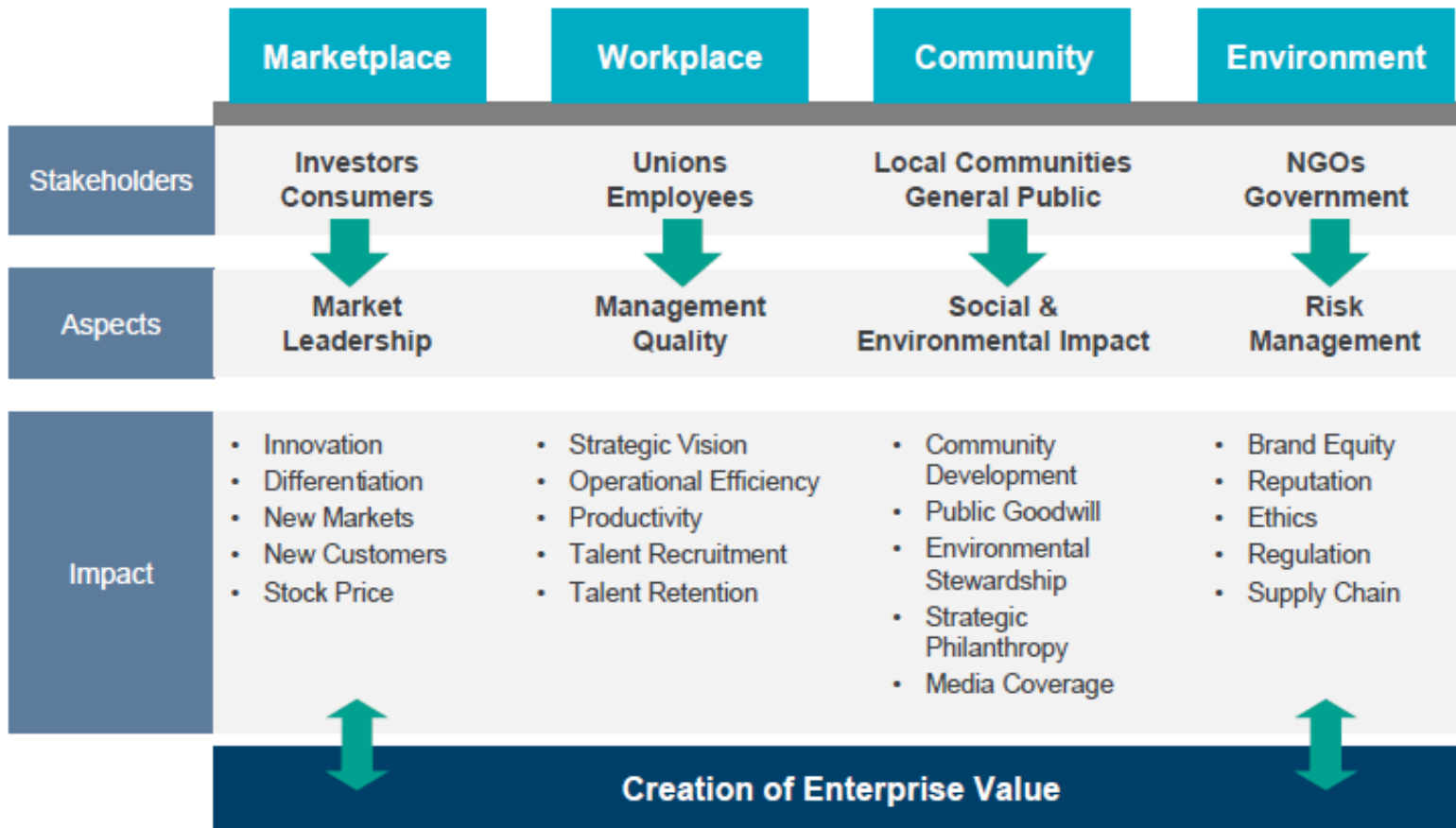


- Education Excellence
- Civic Engagement
 - Public involvement in sustainable community planning
 - Support for community planning political decisions

- Affordable Housing
- Social Equity
- Diversity & National Content

CSR FOR BUSINESS

Businesses are increasingly looking at CSR as a strategic level to create additional enterprise value:



CSR FOR PLANET

Key impact areas for planet include



Natural Systems:

- Ecosystems
- Habitat
- Water/Storm Water
- Air Quality
- Waste Management
- Resource Conservation



Planning & Design:

- Land Use (Smart Design)
- Transportation & Mobility
- Parks, Open Spaces & Recreation

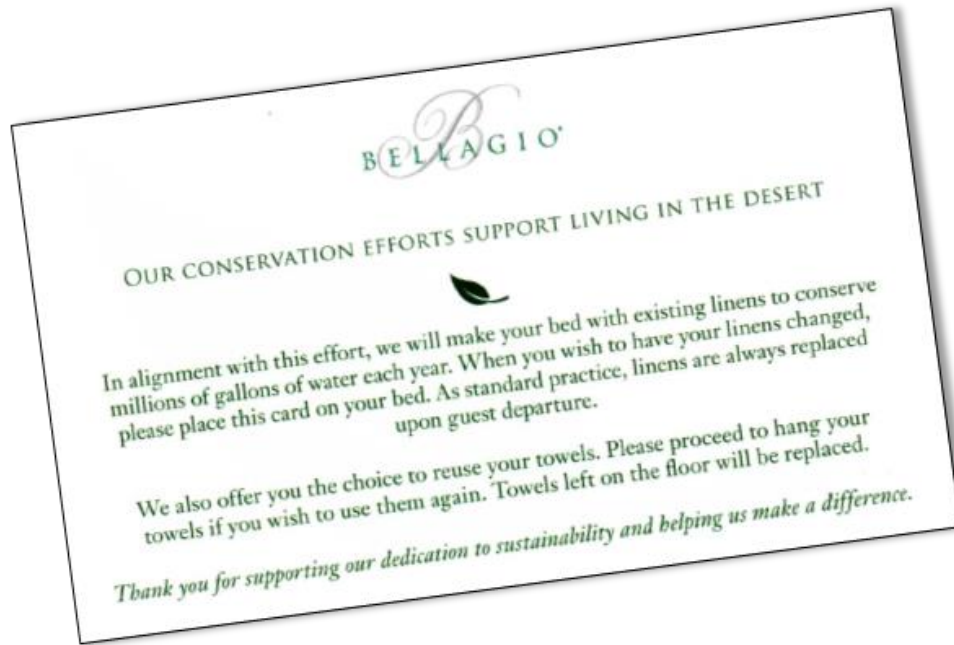


Energy & Climate:

- Energy Conservation
- Carbon Emissions
- Renewable Energy
- Green Buildings
- Waste to Energy
- Recycling

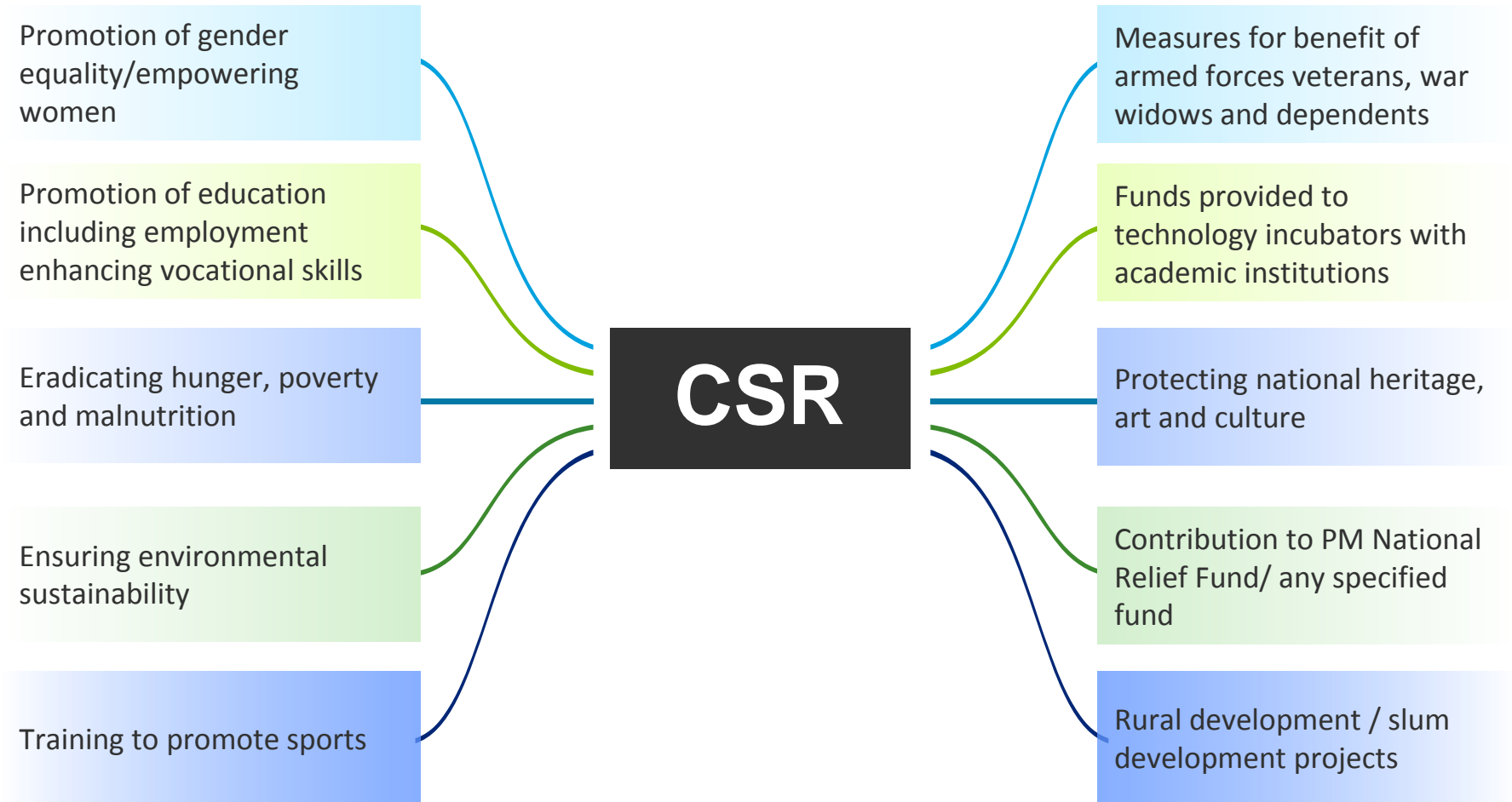
CSR IN PRACTICE

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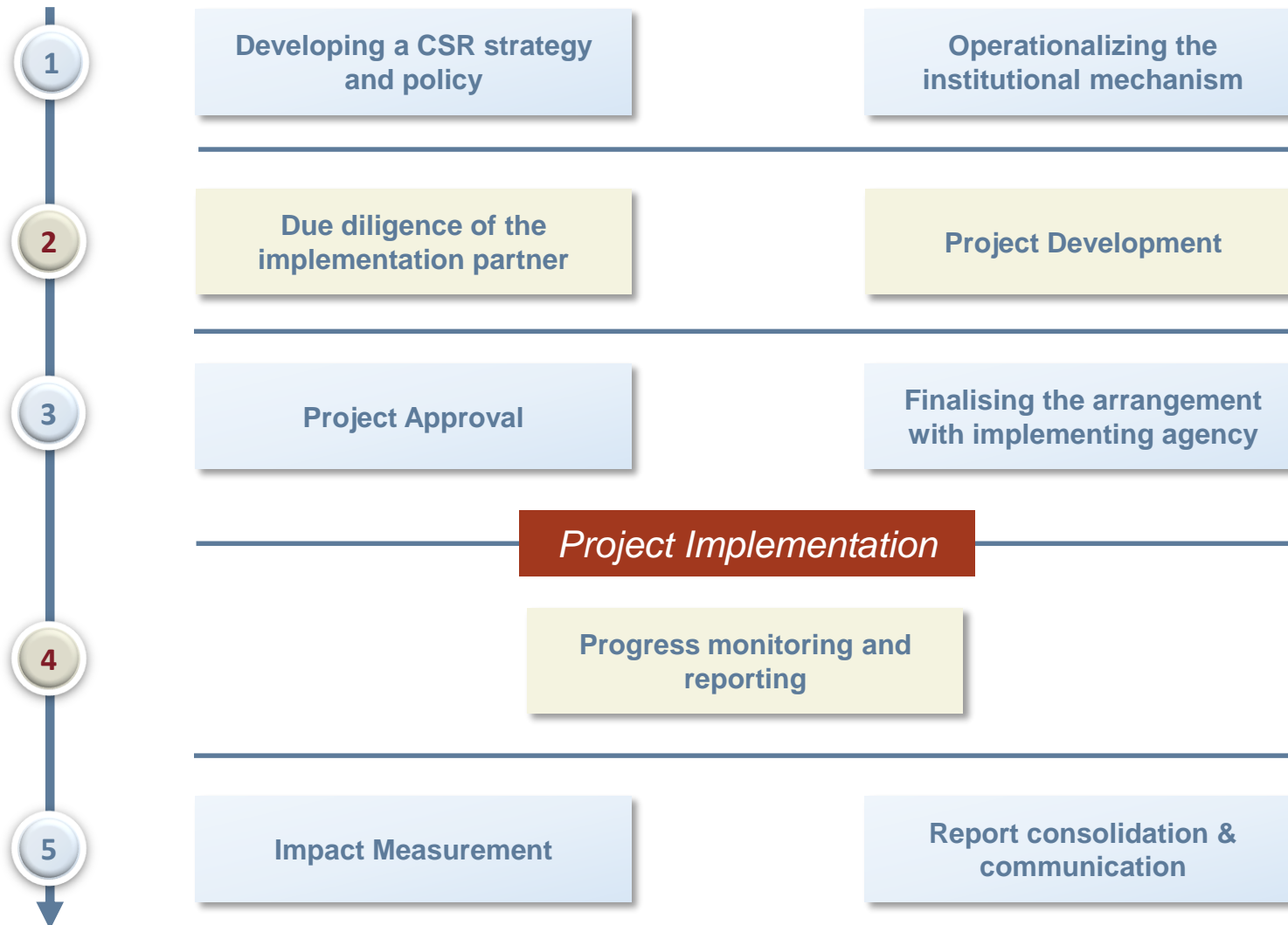
How are these claims validated?

CSR RECOMMENDED ACTIVITIES



CSR – PLANNING & STRATEGISING

CSR PROCESSES



CSR PROCESSES

1

Developing a CSR strategy and policy

CSR policy should:

- **exclude normal business activities** of the company
- contain a **list of CSR projects / programmes** which company plans to undertake

An effective CSR strategy should articulate:

- who it wishes to address i.e. the **target group**
- where it wishes to work i.e. the **geography**
- what **sectors or issues** it wishes to address

Operationalizing the institutional mechanism

Self-execution through:

- an in-house CSR department
- a company foundation with execution capabilities

Making **grants to an independent implementation partner** (which has a track record of at least three years). Factors consider for selection are as follows:

- Availability and access to implementation partner
- Customisation
- Cost of implementation
- Control
- Building expertise

CSR PROCESSES

2

Due diligence of the implementation partner

Primary Factors to be considered:

- Competence of the implementation partner
- Identity
- Management
- Accountability
- Transparency & financial capability

Secondary Factors to be considered:

- Organisation Structure
- Operations, systems and processes
- Human Resource
- Financial Capability
- Risk Management

Project Development

- A company may choose to implement projects through its ***in-house teams or in partnership with other agencies*** or a combination of both.
- Projects to be developed clearly with distinct baselines, defined activities, ***monitor-able targets & budgets***.
- In the case of multi-year projects, it is important to include a provision to ***undertake annual reviews*** which can form the basis to revise the project.

CSR PROCESSES

3

Project Approval

- **CSR committee** is ultimately responsible **to approve projects**. However, it can choose to delegate authority to a project approval committee consisting of company staff and outside experts with clearly defined roles and responsibilities.
- Every project must be formally examined and approved to ensure that each project is in line with the CSR strategy and policy, the **monitoring indicators are clearly defined** & relevant and there is an adequate budget available.

Finalising the arrangement with implementing agency

- MoU is required if the project is being **implemented by a legal entity / company foundation** (if it is a separate legal entity) other than the company's own CSR department.
- MoU should specify SLA's and the documentation it should provide in support of a disbursement request. Typically, these include the status of:
 - activities originally planned in the period
 - changes and the reasons thereof
 - planned and required funds for the period
 - utilised funds and bank balances
 - net funds required

CSR PROCESSES

4

Progress monitoring and reporting

- Progress monitoring is an **essential part of the directors' report** as per the CSR clause of the Companies Act, 2013
- Apart from compliance requirement, it serves the following purposes:
 - It **highlights any slippages** and helps to determine a corrective action that must be taken if need be.
 - It provides an excellent opportunity for learning: **what worked and what did not**. This can then be immediately applied to other projects.

CSR PROCESSES

5

Impact Measurement

- Identify **methods suited** to the context and size of projects and budgets
- Identify **skills set required** and accordingly appoint the team.
- Assist team to **prepare methodology for selecting a sample**, conducting surveys, focus group discussions collecting information on the identified indicators.
- Make provisions for the **site visits by the team**, involvement of the agency involved during the baseline and needs assessment.
- Prepare the report including **identification of lessons for future interventions**

Report consolidation & communication

- Project reports have to be **consolidated in programme related reports**, aligned with the CSR policy stated by the company as a requirement under the Companies Act, 2013.
- This report will also form a key input into the company's **SEBI Business Responsibility Report and sustainability report**.
- CSR committee may choose to go beyond the requirements of the Companies Act, 2013 and **issue a standalone CSR report**.

AUDITING CSR

QUESTIONS FOR AUDITING CSR

1

How would you approach an audit of your company's Sustainability Report?

2

What factors would you consider when conducting a risk assessment of your Sustainability Report?

3

From an audit perspective, what are your biggest concerns related to Sustainability Reports?

4

If your Audit Plan already includes a review of your Sustainability Report, what has worked well and what opportunities for improvement exist?

5

What challenges have you faced when auditing Sustainability Reports?

6

How does your company view its Corporate Social Responsibility initiatives? Are they considered a competitive advantage or a compliance requirement? How does that view impact the importance of CSR audits?

APPROACHES FOR AUDITING CSR

Auditing the Elements

- Governance
- Community investment
- Environment
- Ethics
- Health, safety, and security
- Transparency
- Working conditions and human rights



Stakeholder Focused Audits

- Customers
- Employees and their families
- Environment
- Affected Communities
- Shareholders
- Suppliers



APPROACHES FOR AUDITING CSR

- Multiple Elements
 - **Workplace:** Health and safety, environmental practices, ethics, and governance
 - **Marketplace:** Responsible advertising, supply chain management, product stewardship, disclosure practices, and privacy.
 - **Environment:** Responsible air, land, water, and energy use and compliance.
 - **Community:** Philanthropy, volunteerism, stakeholder building.
- Audits covering internal controls over CSR activities within each department or function.
- Audits of public disclosure of financial and non-financial information related to CSR activities.
- Audits of third parties for CSR contractual compliance.



PROTIVITI SERVICE OFFERINGS

1

Program Monitoring Evaluation & Impact Assessment

- Facilitate in forming a CSR Governance Committee and Defining roles and responsibilities; Assess and map various CSR activities presently being taken up against the various activities defined in Schedule VII of the Companies Act
- Facilitate in preparing an Integrated CSR and Sustainability policy; drawing a strategy, road map and estimation of budget required for implementing the identified CSR activities; supported by setting objectives and Performance Indicators and accordingly set long, mid and short term strategies
- Devise a mechanism to monitor and review the CSR strategies and assess the effectiveness of the CSR programs implemented, over a defined time period against the baseline set, Developing internal controls to track the community/sustainability investments- Conducting Internal Audit
- Conduct a review exercise, towards the end of the third quarter and final quarter of the Financial Year to assess the degree of performance of the CSR programs implemented and capture level of improvement and change, with a focus on a detailed Environmental and Social Returns on Investment for the CSR activities implemented, vis a vis the baseline set earlier, and assess the degree of impact of the projects implemented till date and thereby identify projects yielding higher societal impact and the ones which are leading to less/no positive impacts and accordingly devising a further strategy to retain and scale up the CSR projects
- Capture level of improvement and change in perception of the impacted stakeholders of the CSR projects on the foundation as a "Socially Responsible Corporate Citizen" in the Perception Index%

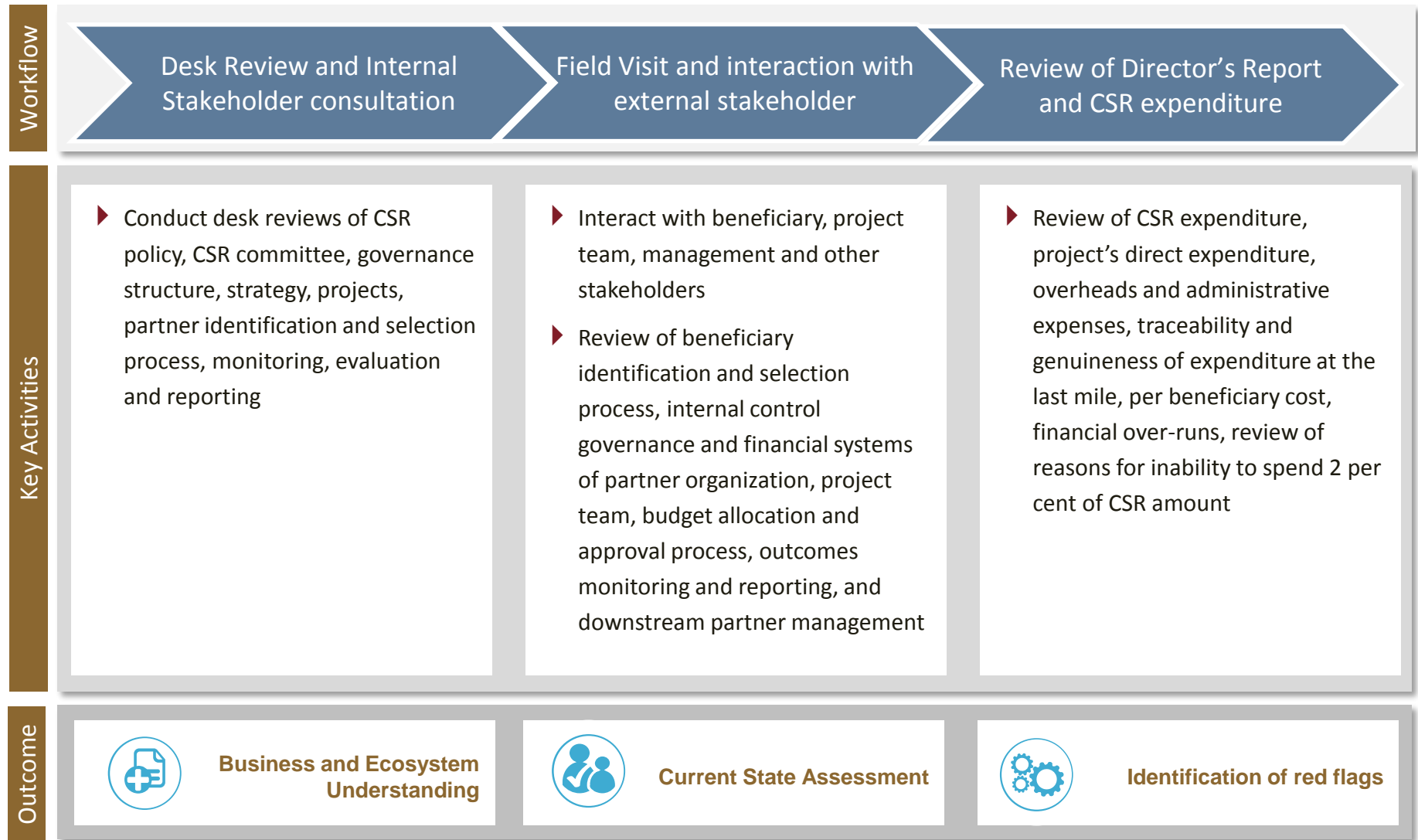
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Capacity Development Program

The interactive capacity development program would involve classroom training, quiz, group task, case studies, objective test that will broadly cover the following module:

- Understanding CSR concept, CSR in Indian context, dimensions, importance, need,
- benefits & short term/long term, prudent use of investment in CSR that gives return of investment in the form of social development
- Alignment of programs with schedule VII of the Companies Act, 2013. Social issues relevant to your business, impact of business & mitigation planning. Strategic planning, budgeting, framework design,
- project identification, formulation, implementation
- methodology, reporting & communication planning.
- Compliance procedure of The Companies Act 2013, International benchmarking,
- certification, guidelines & reporting i.e. U N Global Compact, GRI, ISO 2600, MDG emerging standard such as AWS etc
- Stakeholder theory & engagement, Embedding CSR in corporate culture.. Integration of programs with other development agencies, NGO, CBO's, social entrepreneurship.
- The program would focus on Management graduates and NGO professional who want to build a career in sustainability and CSR.

PROTIVITI APPROACH FOR CSR AUDIT



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