

A Pragmatic Approach to CSR Evaluation: A Comprehensive Framework

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ABSTRACT

Post Globalization Indian companies started making CSR a part of their Business strategy rather than merely restricting it to charity or philanthropy. The most significant breakthrough in CSR took place in 2013 with the introduction of idea of 'mandatory CSR'. With an enormous increase in the scope of CSR, the companies are struggling to align their organizational objectives with CSR goals. The companies are focusing on Stakeholder engagement, identifying implementation partners, capacity building, and effective project implementation. What is amiss is impetus on monitoring and evaluation of CSR activities. A number of CSR rating agencies have come up with their own indices, but they lack in adequate transparency on evaluation criteria and methodology. There is also inter-agency divergence with respect to company's evaluation and ranking. This paper proposes a comprehensive and realistic framework which can be implemented in the Indian context for evaluating the CSR activities.

KEYWORDS: Mandatory CSR, Monitoring & Evaluation framework

INTRODUCTION

The EC¹ defines CSR as *“the responsibility of enterprises for their impacts on society”*. To completely meet their social responsibility, enterprises *“should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders”*.

The World Business Council for Sustainable Development (WBCSD) defines CSR as²*“the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large.”*

GLOBAL- EXISTING CODES / STANDARDS / GUIDING PRINCIPLES ON CSR

Universal Declaration of Human Rights:

Adopted by United Nations, this declaration paved way for many international human rights standards for all sectors entities.

UN Global Compact

An international multi-constituent, voluntary initiative based on internationally accepted ten principles in pursuit of a more sustainable inclusive global economy. The ten principles covers human rights forced labor, child labor, environmental challenges and responsibility, non discrimination, freedom of associations, collective bargaining, corruption, etc.

Global Reporting Initiative (GRI)

Since its founding in 1997, the GRI has been addressing the need for standardized approaches to corporate sustainability reporting. In 2006, GRI published Version 3.0 (G3) of its Sustainability Reporting Guidelines emphasizing performance indicators, which contain a separate section titled “Human Rights” with nine performance indicators.

Organization for Economic Co-operation and Development (OECD)

OECD guidelines contain recommendations on core labour, environmental standards, human rights, competition, taxation, science and technology combating corruption and safe guarding, consumer rights.

Social Accountability 8000

‘SA 8000’ standard for social accountability was created in 2000 by the Council on Economic Priorities Accreditation Agency (CEPAA). SA8000 developed by an international coalition of businesses, trade unions and non-governmental organizations (NGOs) on the basis of International Labour Organization (ILO) conventions - the Universal Declaration of Human Rights and the UN

convention on the Rights of the Child. The SA8000 code of practice is broken down into nine key areas child labour, management systems, working hours, compensation, disciplinary practices, forced labour, health & safety, freedom of association & collective bargaining and discrimination.

Principles for Responsible Investment (PRI)

It is a set of global best practice principles for responsible investment. It provides a framework for achieving better long term investment returns and more sustainable markets.

Equator Principle

Equator principle is a set of environmental and social benchmarks for managing environmental and social issues in development project finance globally. They were developed by private sector banks-led by Citigroup, ABN AMRO, Barclays and West LB and were launched in June 2003.

Role of International Labour Organization (ILO)

ILO seeks the promotion of social justice and internationally recognized human and labor rights. It formulates international labor standards in the form of conventions and recommendations setting minimum standards of basic labor rights.

International Organization for Standardization (ISO) 26000

ISO an International Standard setting body is developing a new standard on Social Responsibility namely ISO 26000 to be published in Nov., 2009. ISO 26000 is intended for use by all types of organizations and in all countries and to assist organization to operate in a socially responsible manner.

Occupational Health & Safety Advisory Services (OHSAS) Standard

OHSAS 18001 is applicable to any organization which aims to establish a health and safety management system at work.

INDIAN CONTEXT- THE COMPANIES ACT, 2013

In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013. The CSR provisions within the Act is applicable to companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of five crore INR and more. The Act encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities. The Act lists out a set of activities eligible under CSR. Companies may implement these activities taking into account the local conditions after seeking board approval. The indicative activities which can be undertaken by a company under CSR have been specified under Schedule VII of the Act.

India has not been able to meet its MDG goals as specified by UNDP. It is also lagging behind in providing the basic amenities to its population. India has successfully reduced extreme poverty by half (47.8% in 1990 to 20.5% in 2015), but extreme poverty targets are low and India is still a home to 300 million poor which is a bigger challenge. Moreover India ranks at the first position in the Top 10 undernourished countries in the category of developing countries of the world. Despite 86th constitutional amendment (right to education), RTE act, a larger number of students remain out of school According to the Bureau of planning, monitoring & statistics, the dropout rates of students of Standard 1-5 is 19.8%, Std. 1-VIII is 32.9% and Std 1-X is 48.1 %.

Quality of education is also a major concern. As per the India Skills report 2015, only 37.22% of surveyed people were found employable - 34.26% among male and 37.88% among female. NSSO reports showed that only 10.1% of the labour force had received vocational training, with only 25.6% among them receiving a formal vocational training. India ranked last among 60 countries on labour productivity (World Competitiveness Yearbook, 2012). Demand for Skilled Workforce: CII (2009) had projected Incremental Human Resource Requirement till 2022 at 201 million, making the total requirement of skilled work force by 2022 at 300 million. The above figures indicate the need of

providing skills to the youth of India which can be fulfilled if the companies work hand in hand with the government.

India also fares poorly in Gender parity. Women constitute nearly half of the countries' 1.25 billion people and gender equality — whether in politics, economics, education or health — is still a distant dream for most. This fact was driven home again sharply by the recently released United National Development Programme's Human Development Report (HDR) 2015 which ranks India at a lowly 130 out of 155 countries in the Gender Inequality Index (GII). India trails behind most Asian countries, including lesser developed Bangladesh and Pakistan which rank 111 and 121 respectively, and fares not much ahead of war-ravaged Afghanistan at 152. The GII reflects gender-based inequalities on three vital parameters: reproductive health, empowerment, and economic activity. India's record, dismal on all three counts, is especially disquieting when it comes to representation of women in Parliament. Just 12.2 per cent of parliamentary seats in the world's largest democracy are held by women as against 19.7 in Pakistan, 20 in Bangladesh and 27.6 percent in Afghanistan. Even some of the poorest nations — such as Tanzania, Zimbabwe, Rwanda, Uganda, Mozambique— are way ahead by having over a third to half of their parliament seats occupied by women. Health remains a niggling worry as well with Indian women's maternal mortality rate (MMR) being one of the world's highest. The country witnesses 190 deaths per 100,000 live births as compared to 170 pregnancy-related deaths per 100,000 births in both Bangladesh and Pakistan, states the HDR. Even in terms of the percentage of women receiving secondary education, Bangladesh at 34 per cent outsmarts India at 27 per cent. On labour force participation rate for women, as compared to Bangladesh's 57 per cent, India is at 27 per cent. The only parameter where India scores marginally better is the adolescent birth rate or the number of births per 1000 women aged 15 to 19 years. The lack of adequate sanitation and safe water has significant negative health impacts. As per the NSSO reports, only 52% of the rural households and schools have toilets. Natural disasters affects the society everyone alike although the nature of impact varies from bad to worst. The critical and catalytic role the corporate sector can play in mainstreaming disaster management and is an inalienable part of corporate social responsibility.

In addition to Schedule VII, if the Companies focus their CSR programs on these areas, they will be contributing to capacity building, empowerment of the underprivileged, social upliftment, and inclusive growth of the nation.

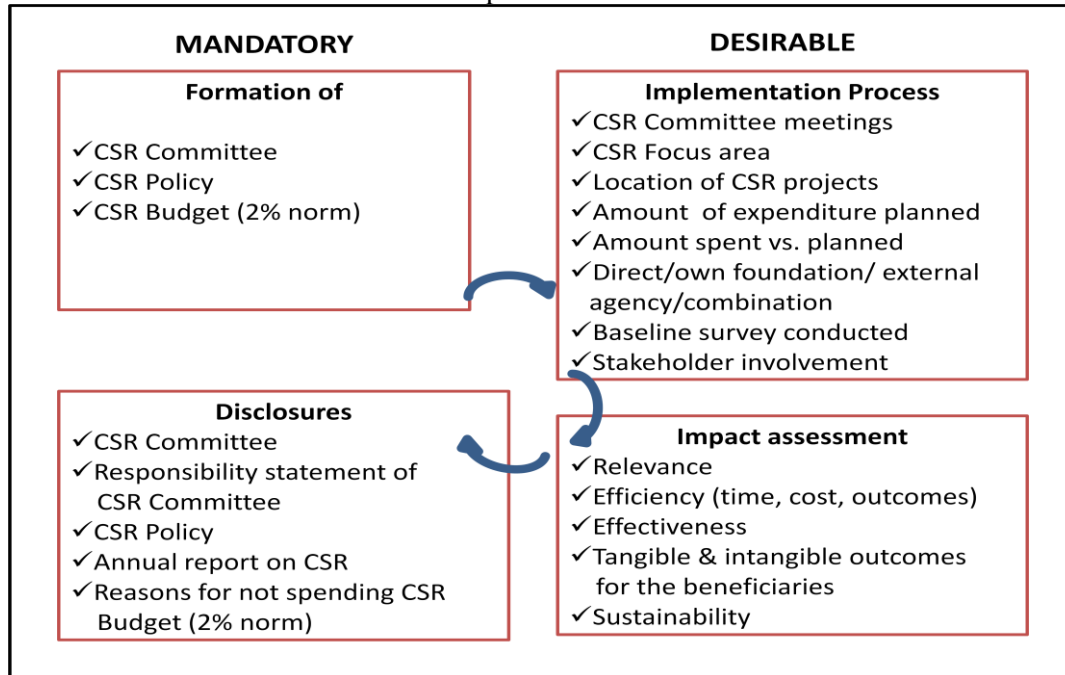
CSR EVALUATION

What gets measured gets valued (as well as improved upon).

An organisation can communicate the total value of its work to internal (employees) and external (consumers, investors, suppliers, community) stakeholders; and more pertinent attention is paid to the social, environmental and economic value that the business creates. The quality of life of the community is impacted through the CSR activities. Hence, a continuous process of monitoring and evaluation system yields good results in enhancement of the socially responsible activities. CSR evaluation aims to make the program planning & management more effective. The company can have a detail grasp of the impact of its work. While stakeholder demand for sustainability and the impact of companies' actions grows, evaluation methodologies vary a lot. There is no standard metric and there are contradictory points of view on how to capture the impact of a social action. Though there are various principles and tools available to evaluate CSR activities of a company, it is difficult to implement any tool in Indian context.

CSR Evaluation in India consists of some mandatory parameters as prescribed by Clause 135 of the Companies Act, 2013. However, for a more comprehensive evaluation, certain desirable parameters also need to be taken into account. Companies can go for a self evaluation by introspecting on the nuances of the CSR Implementation process and impact assessment.

Fundamental components of CSR Evaluation



While conducting the evaluation of CSR program, enquiry has to be done whether the CSR Committee has been formed as per clause 135, whether the committee has framed the CSR policy and whether the mandatory 2% budget has been allocated for CSR. However what is more relevant is asking if the CSR Committee meetings are taking place as per the directives, what is the focus area of CSR and whether it is in alignment with the development needs of the country, what is the location of the CSR projects, amount of expenditure planned for the project, whether the project is being implemented directly, or through the companies own foundation or through some external agency or is it a combination of both, whether the focus area or CSR activities have been decided subsequent to a baseline survey in the geographical area. The level of involvement of the stakeholders gives credibility to the CSR activities.

The impact assessment should investigate the relevance of the activities conducted; examine the efficiency as regards time, cost and the outcomes. It should also study the achievement of planned outcomes; scrutinize the tangible and the intangible outcomes for the beneficiaries and the sustainability of the initiative.

Finally, we should inspect compliance of the mandatory disclosures like constitution of CSR Committee, responsibility statement of the CSR Committee, CSR policy, Annual report on CSR, and if the planned amount has not been spent then the reasons for not spending the planned budget.

We propose a framework for CSR evaluation with respect to Indian context, keeping in mind, the areas of social development of the country. It suggests the Focus areas for CSR Program, project areas, related CSR activities, the target (outcomes expected) and the evaluation criteria. Rating will be based on the points calculated.

List of Focus Areas, Project areas and activities are INDICATIVE and not EXHAUSTIVE

Focus Areas for CSR Program	Project Area	Activities directed at :	Target (as per the base line survey)	Amount spent	Amt. % of total CSR funds	Impact Analysis (beneficiaries & project sustainability)	% of Target achievement
ENVIRONMENT	Carbon Emissions	<ul style="list-style-type: none"> Reducing carbon emissions 					
	Resource usage (energy, water, paper)	<ul style="list-style-type: none"> Energy saved Water saved Paper saved 					
	Effluents & Waste	<ul style="list-style-type: none"> Safe disposal of waste water Management of solid waste 					
EMPLOYEES	Health & safety	<ul style="list-style-type: none"> Reducing accidents Providing safety gears/safe work environment 					
	Grievances	<ul style="list-style-type: none"> Reduction in grievances 					
	Training	<ul style="list-style-type: none"> Employee training 					
COMMUNITY	Eliminating Hunger & Poverty	<ul style="list-style-type: none"> Eradicate hunger Curb malnutrition Stop food waste 					
	Gender equality & women empowerment	<ul style="list-style-type: none"> Women representation Women protection 					
	Primary education/Youth literacy	<ul style="list-style-type: none"> Reducing dropout rates Developing minimum standards of educational attainment Increasing Literacy rate 					
	Imparting vocational skills	<ul style="list-style-type: none"> Skill development programs 					

	Drinking water & sanitation	<ul style="list-style-type: none"> • Construction of tube wells • Water purification plants • Construction of toilets in public places /rural schools 					
	Disaster management	<ul style="list-style-type: none"> • Contributing to disaster management 					
	Specified cases under Schedule VII of Companies Act 2013	<ul style="list-style-type: none"> • Protection of national heritage • Measures for the benefit of armed forces veterans & dependants. • Funds provided for technology incubators • Rural development projects 					

CSR Evaluation sheet

CONCLUSION

Framework for CSR evaluation needs to be simple, relevant, contextual, and convenient to use. It should include other stakeholders.

Other Areas		Target	Impact
Suppliers	Supplier assessment		
Product	Right price, Right product		
Customer	Customer satisfaction, Privacy, Trust & Transparency		

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