



CORPORATE SOCIAL RESPONSIBILITY

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CSR Ratings for 1000 largest Indian Companies including Power Sector Companies

The problems and issues that confront society today are too large and complex to be solved by government and NGOs alone. Sustainable solutions to society's problems can only be found through the collaboration and involvement of all who are part of it.

Companies have tremendous strengths; they have extremely capable people, technology, access to money, the ability of geographical reach, etc. Many companies worldwide and now even in India are more powerful than governments and even countries, and thus corporates are important stakeholders in society.

The Karmayog Corporate Social Responsibility Study and Ratings of Indian Companies was undertaken to explore and understand the role that corporates are playing and can play in finding meaningful solutions to the problems facing India today.

The Karmayog CSR Ratings also help to identify areas where corporates, government and civil society organizations can work together.

This is the second CSR study and ratings undertaken by Karmayog, the first of which was done in 2007.

Defining Corporate Social Responsibility and the criteria for rating

Definition

The Karmayog CSR Study and Ratings starts with the definition of CSR:

Corporate Social Responsibility is just about two aspects:

1. The steps taken by the company to neutralise, minimise or offset the negative effects caused by its processes and product-usage
2. The further positive steps a company takes using its resources, core competence, skills, location and funds for the benefit of people and environment.

Corporate Social Responsibility helps to define the contribution of a company beyond economic value and creating employment, and weighs this contribution against the damage done by the company through its products and processes.

Rating Criteria

A CSR Rating is assigned to a company based on a combination of Necessary, Sufficient and Negative Criteria that are listed below:

A) Minimum Necessary Criteria

Necessary parameters that make a company eligible for a particular rating level:

- If undertaking any CSR Activity - Level 1
- If CSR is linked to reducing the negative impacts of company's own products or processes - Level 2
- If CSR initiatives are for the local community - Level 3
- If CSR is embedded in the business operations - Level 4
- If innovative ideas and practices are developed for CSR - Level 5

B) Sufficient Criteria for Minimum Rating

The sufficient parameters indicate that the company can qualify for a particular rating if it fulfils the criteria listed.

- Company fulfilling the basic needs of society e.g. manufacture of food - Level 1
- Unique CSR activity which would not otherwise happen e.g. Developing a mapping and tracking software for adoption in India - Level 1
- Company reducing negative impact of others e.g. A company that makes water purification and waste recycling systems - Level 1
- Company adopting the GRI Framework for CSR reporting - Level 2
- Company's annual expenditure on CSR = 0.2% of sales - Level 3

C) Negative Criteria that usually determines the maximum possible Rating

- Companies in this category will not normally get a higher rating than the one shown.
- Companies that make liquor, tobacco, genetically modified crops - Level 0
- Companies that violate laws/rules/regulations - Level 1
- Companies engaged in high impact processes - Level 1

The Karmayog CSR Ratings are based on various parameters and are from Level 0 to Level 5 with Level 0 being the lowest (No CSR). The results of the ratings for 2008 show that 49% of the companies are not doing any CSR activity, and just 1% or 10 of the 1000 largest Indian companies studied have got the highest rating of Level 4.

There are 3 mandatory recommendations flowing from the premise that 'every company must do CSR', and these are:

- 1) A company must spend a minimum of 0.2% of annual sales on CSR
- 2) A company must publish its CSR activities in the annual report, or in a separate Sustainability Report
- 3) International guidelines for Environment, Health and Safety as well as for industry-specific processes exist, and a company must adopt these along with using its core competence for CSR, and must link CSR to its physical location and reach.

Analysis of the Power Sector

Results of Karmayog CSR Ratings for 46 Power companies		
Karmayog CSR Rating 2008	Number of Companies	Percentage of companies
Level 5	0	0%
Level 4 *	0	0%
Level 3	2	4%
Level 2	11	24%
Level 1	8	17%
Level 0 (Lowest)	25	54%
Total	46	100%

Following are the observations on the CSR activities of the Power sector:

- 46 out of 1000 companies are in the Power sector. These include companies generating, transmitting, distributing power, and companies manufacturing electrical equipment gensets, cables, lights, etc.
- 54% are doing no CSR.
- 96% of the companies are at Level 2 and lower.
- There are only 2 companies at Level 3: Suzlon Energy Ltd and Tata Power Company Ltd.
- Total Sales of 46 companies is Rs 140,000 crores.
- If 0.2% of sales is spent on CSR then annual CSR expenditure would amount to Rs 275 crores.

Importance of CSR Ratings for different stakeholders

The Karmayog CSR Ratings are important for industries and industry association, as they help in the following:

- To get a snapshot of the state of CSR in India
- To set benchmarks of CSR for companies to follow
- To prepare case studies and highlight best practices of CSR
- To provide consultation on CSR
- To work with Government and NGOs and international organizations to upgrade and improve CSR activities in India and to set milestones for companies
- To recognize companies doing good CSR activities by instituting awards based on these parameters
- To understand the huge scale and magnitude of the benefits that are possible if an entire sector spends at least the recommended minimum amount on CSR

Expected CSR activity for Power company

The CSR study also helped to identify several sector-specific CSR initiatives that should be taken up by companies of that industry sector, as these initiatives are directly connected to the processes and products of that industry sector. As a society, we would expect any company working in these sectors to be doing the following as an integral part of their CSR initiatives.

For the Power sector, one of the best possible CSR that any company can do is to 'Use renewable energy sources' as compared to fossil fuels and non-renewable energy sources to generate power.

In the Power Sector, of the 46 companies that are part of this study, Suzlon Energy is an example of a company that has pioneered the use of Wind Energy as a source of Power. Hence Suzlon Energy along with Tata Power are the two companies to get the highest rating of Level 3 amongst the Power Sector companies.

What can power companies do to reduce global warming?

Karmayog has undertaken a discussion on "What CSR activities a power company can do to reduce global warming?", among its 42,000 members, to get ideas and suggestions for CSR initiatives in the power sector. Some of the suggestions received are as follows:

- power companies to explore non-conventional (alternate) sources of energy
- companies to be penalized for wastage in power through transmission
- companies to reduce transmission loss by using energy efficient conductors
- companies to check power theft by having frequent inspections and stringent fines
- companies to put a complete stop to thermal power generation except waste energy with necessary anti-pollutant safeguards, and to generate only green and renewable energy such measures to be promoted and supported by the government
- companies to conduct an Energy Audit of their processes
- companies to implement energy conservation measures on a priority basis

Role of government and industry associations to motivate Power Cos.

- Government and Industry Associations to support companies generating green and renewable energy
- Government and Industry Associations to send letters of appreciation to those companies that succeed in substantial reduction in energy consumption and wastage
- Government along with Industry Associations to rate companies on the scale 1-5 based on a responsibility index. This result to be widely published. Tax concessions to be given to companies that secure high ratings.

Conclusion

Since Karmayog's first CSR study in 2007, there have been several developments regarding CSR in India. Government bodies such as the RBI, and the Petroleum Ministry are recommending both CSR expenditure and reporting by companies under their purview, and the Ministry of Corporate Affairs has recommended that social work activities be reported in the annual report. This reflects a growing demand from stakeholders for more responsible behaviour and contribution to society by companies.

The Karmayog 2008 CSR Study and Ratings presents a comprehensive picture of the state of CSR in India. It is hoped that this study will be an effective base for industry associations, government bodies, researchers and academia, and NGOs to work together with corporates in improving society.

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