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Developing Communities around Factories through Strategic CSR : A Critical Step towards Shared Value in India

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DEVELOPING COMMUNITIES AROUND FACTORIES

through Strategic CSR - A Critical Step towards Shared Value in India

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Sattva is a Bangalore-based advisory and consultancy which co-creates inclusive businesses that are scalable, global and sustainable. Sattva works with social organizations, corporations and funders to help them find their “magic quadrant” where they can maximize their social impact along with economic value.

It assists organizations in designing and executing inclusive models that are innovative, economically viable and add equitable value to all the different stakeholders involved in the chain, in 16 States in India, Nepal and other parts of South Asia.

KEYWORDS

- INDIAN COMPANIES ACT
- STAKEHOLDER ENGAGEMENT
- LOCAL COMMUNITIES
- SUSTAINABILITY
- BUSINESS STRATEGY

The Indian CSR context has changed in the last few years (particularly following the amendment to Section 135 of the Indian *Companies Act* in 2013): there is now a requirement for corporate firms to devote 2% of their net profit to social impact. The stake is particularly crucial for extractive and manufacturing companies, as community engagement and development is essential to gain their social license to operate. Through the cases of Ambuja Cements and other Indian companies, this article presents the four key factors of success of such strategies: co-creation, sustainability, local teams and long-term investment

INTRODUCTION

Corporate Social Responsibility (CSR) is gaining momentum in the Indian business strategic agenda, after the Indian *Companies Act* made it compulsory in 2013. This political turn has accelerated the evolution in CSR approach by Indian firms: CSR has evolved from a philanthropic action, disconnected from the firm’s activity, to a strategic asset for a sustainable business future. This is particularly true for firms that engage closely with local communities that live around their plants to gain and/or strengthen their social license to operate.

However, the new centrality of CSR in business needs to be carefully planned by companies’ senior management. Sattva’s strategic framework has been designed in this perspective. It aims at helping senior management to identify how a firm can succeed in making different interests converge and benefit all stakeholders equally.

Sattva’s strategic framework will be explained in the first part of the article. In the second part, the article will focus on key factors of success of a CSR initiative. Finally, we will conclude with a detailed case-study on Ambuja Cements, part of the cement conglomerate LafargeHolcim, and its CSR experience in India.

1. CSR IN INDIA: FROM PHILANTHROPIC INITIATIVES TO STRATEGIC SHARED VALUE OPPORTUNITIES

1.1 A NEW CONTEXT: THE 2013 AMENDMENT TO THE INDIAN COMPANIES ACT

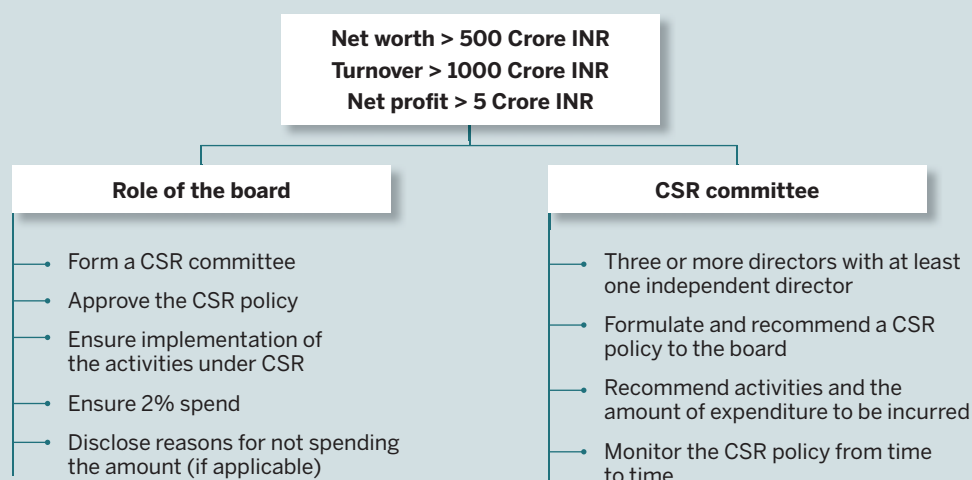
Indian CSR context has recently undergone a radical legislative reform. Whilst previously, corporate actions with regards to social responsibility were neither compulsory nor regulated anyhow, the Section 135 of the *2013 Indian Companies Act*¹ introduced, *inter alia*, several provisions that aim at defining a new regulatory framework for CSR - making CSR compulsory to a large number of firms. This evolution is the result of strong social pressures and expectations in a country that, in spite of being one of the largest and fastest-growing economies in the world, still has to cope with 21,3% of its population living below poverty line² (World Bank threshold of \$1,9 per day) and a relatively low Human Development Index (0,609 in 2014, ranking India at 130th position³).

In this context of uneven distribution of the benefits of economic growth, companies have been growingly pressured towards participating in the development of communities impacted by their activities. The Indian Parliament's adoption of the *Companies Act* in 2013 responds to these social demands. The new text came into force on 1st April, 2014, but its introduction had been initially prepared by the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs)⁴, edited in 2011 by the Ministry of Corporate Affairs. This document's principles have also been scrutinized in 2012 on Indian top-100 companies by the Securities and Exchange Board of India (SEBI), for the purposes of the Annual Business Responsibility Reporting⁵.

The Indian *Companies Act*'s provisions on CSR concern firms, both public and private, and both Indian and foreign, that are included into at least one of the following thresholds: (1) a net profit of minimum INR 5,000 million (€65 million); (2) a turnover of minimum INR 10 000 million (€131 million) or (3) a net worth of minimum INR 50 million (€650,000). These companies are now obliged to spend at least 2% of their average net profit of three years on CSR activities on the Indian territory. Areas under which companies can undertake CSR in compliance with the *Act* are also listed in the *Act*'s Schedule VII.

This main innovation in Indian corporate legislative framework is expected to concern at least 16 000⁶ Indian companies (according to the Indian Institute of Corporate Affairs), many of which are Small and Medium Enterprises (SMEs). It is estimated that these companies will spend INR 90,000 million (€1,175 million) in 2015-2016 fiscal year and up to INR 200 billion (€2,620 million) in the subsequent years in order to comply with the *Act* - many of them undertaking CSR activities for the first time. Moreover, these activities shall be made public by the companies (online, on their strategic documents and on *ad hoc* CSR documents). The *Act* also provides that companies affected by its provisions will have to constitute a CSR committee with at least three directors (with slightly different rules for some particular firms). The following diagram summarizes the CSR governance required by the *Act*:

Role of the board and the CSR committee



Source : PwC India: "Handbook on Corporate Social Responsibility in India", report commissioned by the Confederation of Indian Industry (CII), 2013

1 <http://www.mca.gov.in/Ministry/pdf/CompaniesAct2013.pdf>

2 World Bank, 2015 (www.povertydata.worldbank.org/poverty/country/IND)

3 UNDP 2015 Human Development Statistical Tables (www.hdr.undp.org/en/data)

4 http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf

5 See the August 13th, 2012 SEBI circular on business responsibility reports : http://www.nseindia.com/content/equities/SEBI_Circ_13082012_3.pdf

6 <http://thecsrjournal.in/dr-bhaskar-chatterjee-on-corporate-social-responsibility/>

The Act hence clearly states that CSR has to be fully integrated in a company's business strategy and thus has to be defined at the highest decisional level, involving board members of the company. As a result, the Act does not solely provide a compulsory framework but it also, and more importantly, aims at changing the national "philosophy" of CSR. Whereas CSR-related activities have long been implemented by companies in India, they were not, traditionally, integrated into the corporate strategy. In this sense, when they were indeed aware of their social potential, Indian companies acted more as philanthropists, without a clear social impact goal, a set timeline or a strategic evaluation of value for their core business. As a PwC report on CSR in India points out⁷, "in keeping with the Indian tradition, [CSR] was an activity that was performed but not deliberated. As a result, there is limited documentation on specific activities related to this concept". In terms of value for money, traditional CSR in India was more about reinvesting profit that had already been made, rather than

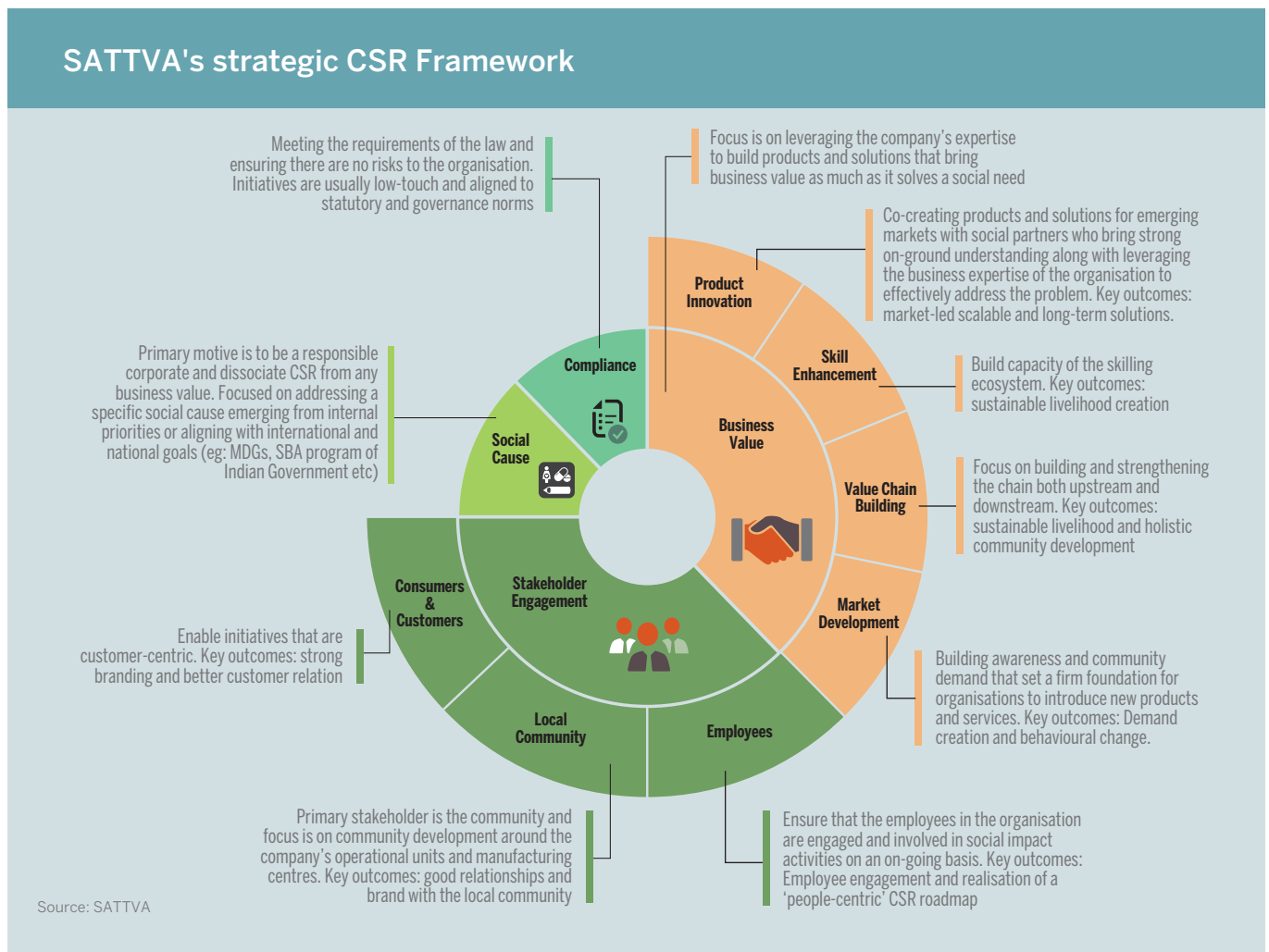
rethinking how to make those profits, in a manner that could be beneficial to both the company and the local community.

1.2 SATTVA'S STRATEGIC CSR FRAMEWORK: AT THE CROSSROADS BETWEEN BUSINESS AND SOCIAL RESPONSIBILITY

In this new context, Sattva developed a strategic CSR framework, aiming at assisting companies in rethinking their CSR strategies, by articulating these elements further. Indeed, at Sattva, we believe that the most effective CSR anchor lies at the intersection of identified benefits to a community, benefits for the firm to engage in such an activity, and the company's expertise in creating value by implementing the strategy. From these variables, we draw four ideal-types of CSR anchors that define what the company's objective in terms of social impact can be:

- The "compliance" type of CSR, mostly limited to low-risk financial contributions to social programs, e.g., the Prime Minister Relief Fund (eligible to the Act's compliance) ;
- The "social cause" CSR, which consists in project-based philanthropy, disconnected from business ;
- The stakeholder engagement-based CSR, focusing either on employees, on local community or on customers;
- The "business value" CSR approach, strongly focused on company's expertise and equitable value to both business and society.

⁷PwC India: "Handbook on Corporate Social Responsibility in India", report commissioned by the Confederation of Indian Industry (CII), 2013



1.3 COMMUNITY ENGAGEMENT: A KEY ASSET TO STRENGTHEN LOCAL COMPANIES' ACCEPTABILITY

The stakeholder engagement-based CSR approach is particularly suitable and relevant to companies with plants in rural or peri-urban disadvantaged areas, and willing to analyse and improve community development around their factories. This "local" approach to CSR is also the one promoted by the Indian *Companies Act*, that structures CSR by articulating it around three main points: (1) its target group; (2) its geographical base; and (3) its sector and issue. Regarding community engagement strategies, the latter choice (sector and issue) is widely left to the company's appreciation, as the topics listed as CSR activities in compliance with the *Act* are numerous: health and sanitation, environment, extreme poverty alleviation, employment and skills, education, gender equality, etc. As to what concerns target group and territory, the *Act* is more directive, as it strongly advises companies to focus on specific segments of a community, e.g. on the marginalised and disadvantaged populations, and to privilege actions that are geographically contained in the local or « catchment » area of a business.

For companies that leave a tangible print on the local environment and communities, as extractive or manufacturing companies' plants, local community development is an asset to strengthen their reputation and engagement around their factories. "Local community" refers to those population groups that are situated within the company's ecosystem, i.e. approximately within a 50km of radius from the plant. A strategic CSR approach will hence focus on understanding local needs (e.g., social development), articulating them with business needs (e.g., gain social license to operate) and launching initiatives that respond to both and that are realistically feasible with regard to the company's expertise. CSR is hence strongly anchored around plants in order for these companies to earn and/or consolidate their social license to operate in these communities.

2. KEY FACTORS OF SUCCESS: HOW TO SUCCESSFULLY ENGAGE LOCAL COMMUNITIES?

Key factors have to be kept in mind by companies that are willing to launch a community engagement strategy. As a matter of fact, for a company that has already gained some local license to operate, a wrong step can mean going back to starting point again, and lose all legitimacy that it struggled to conquer.

We identified four key aspects that a company should keep in mind when launching local CSR programs:

- Sustainability
- Co-creation
- Local team
- Long-term investment

2.1 SUSTAINABILITY

Ensuring that a CSR initiative is sustainable is primarily achieved by developing a healthy relationship with local communities and working with them as partners. Rather than treating them like beneficiaries and mere receptacle of corporate donations, the company should work on teaming up with the community, and other local stakeholders like the Government, rural entrepreneurs, etc. to create winning collaborations that can sustain over the long-term.

Example

A leading materials manufacturing company with plants across India has worked on the creation of institutional structures that are community-owned and community-led and can create

2%

share of net profit that companies that come under the Section 135 of the Indian *Companies Act* (ICA) have to spend on CSR activities

€1,2 BILLION

estimated total amount spent in 2015-2016 fiscal year by Indian companies on CSR programs

a strong foundation for the sustainability and in the long-term, self-sufficiency of CSR operations. This company is now working with local community-based organizations that have a deep relationship with the local community, and funds the formation of "Self-Help Groups", "Producer Co-operatives" and "Farmer Groups", including support in provision of financial access, training, capacity building and development of local infrastructure. Over the last 3-4 years, the company has managed to create over 4,000 such groups and leveraged over one-third of the investment in partnership with the Government.

2.2 CO-CREATION

As sustainability, co-creation is crucial to ensure that the community has a stake in the development scheme, and hence fully engages in order to achieve the success of the CSR initiative. Co-creating solutions with the community, rather than adopting a top-down approach, is the best way to ensure these will be feasible, accepted, and successful. This means that the company will not necessarily implement the exact strategy it had planned. On the contrary, it requires a sense of compromise and adaptation to how the community envisions its own development.

Example

Danone has adopted this principle in its CSR activity. The Danone Ecosystem Fund has been created to support all stakeholders involved in Danone's ecosystem (small agricultural producers, small suppliers, proximity distributors, etc.) in order to generate powerful social change. The Fund is designed to support initiatives with general interest purposes, which are identified by Danone subsidiaries in the territories where they operate. Selected initiatives add value in three areas: employment, skills and employability, and micro-entrepreneurship. The Fund works with a manager from Danone and a partner from the non-profit sector to co-design, co-manage and co-monitor the project over time. NGOs or community-based organizations facilitate dialogue between communities and provide expert knowledge of the local context. This co-creation process commits Danone to evolving its practices and models through partnerships with local experts.

2.3 LOCAL TEAM

Having a dedicated on-ground implementing team is an essential feature. A local team, contrary to a corporate one, lies at the interface between the company and the community. By its knowledge of the field, it can easily avoid mistakes and it can re-orientate the strategy as soon as difficulties or blockages emerge. In addition, its proximity with the community is the guarantee of continuous corporate/community dialogue and personal engagement of team members in initiatives that affect their own community.

Example

A large health insurance company, Max India¹, has adopted this approach in its nation-wide immunisation programme in India, as part of its CSR initiatives: the programme is solely run through partnerships with local non-profits in remote villages. These local non-profits work intimately with the community, understand the socio-cultural context and are able to track the patients' progress and issues throughout the year - making health a year-round activity rather than merely during the health camp. Complementing the efforts of these non-profit partners, local units of the insurance company – doctors and other health professionals – volunteer skills and expertise to the health camps over weekends, thus ensuring that local teams are strong from both a technical and community linkage perspective.

1 <http://www.maxindiafoundation.org/initiatives.html>

2.4 LONG-TERM INVESTMENT

Finally, long-term investment is the condition for success of local CSR initiatives and of their most valuable outcomes. As a matter of fact, what is most valuable in CSR initiatives is also what takes more time to be built: trust, social license to operate and reputation, and the belief that the corporate will stay with the community in attaining the long term social outcomes like better health, infrastructures or livelihoods. Long-term engagement is thus crucial if the company is willing to achieve these objectives, by establishing a trustful relation with the community. Without mutual trust, the money invested can be frittered away in mere activities and the initiative's impact can become unsustainable.

Example

This principle guided Tata Consultancy Services (TCS), a technology company of the TATA group, when 12 years ago it started a pioneering Computer-Based Functional Literacy program following their core philosophy of "bringing together your core competencies to serve the community". The project has been using computers, multimedia presentations and printed material to teach uneducated adults the most basic of the three R's: reading. Through partnerships with NGOs,

TCS' training program has reached over 200,000 people, and emphasises how long-term vision in program design and investment can lead to significant social innovation that brings together the core expertise of a company with the social expertise of non-profit partners. Since its launch, the software has been translated in 9 Indian languages and in Arabic, has travelled to Africa, and has cut learning time for each learner from 200 hours to just 40 hours.

3. REALISING THE 'TRUE VALUE' OF COMMUNITIES: CSR AT AMBUJA CEMENTS

To illustrate this article, we wanted to present a detailed case-study of a company which has implemented an ambitious CSR programme in India: Ambuja Cements - a part of the global cement conglomerate, LafargeHolcim, and one of the leading cement industry players in India since 1986.

The community has always been a primary stakeholder for Ambuja Cements Ltd. (ACL) and the company has a long history of innovating for sustainability and social impact, presented at the forefront by its 'True Value' initiative.

ACL believes that 'True value' is the result of environmental and social value adding to economic value. The core objective of the corporate responsibility projects at Ambuja is to empower communities to recognise their true value and work towards its fulfilment - with Ambuja serving as a catalyst to help the community develop with the same strides as the company. ACL focuses on Agro- and Skill-based Livelihoods and Entrepreneurship, Water Management, Women Empowerment, Health and Sanitation and other related issues across the communities around its factories and areas of operations (21 locations in 11 States).

All CSR initiatives at Ambuja are driven by a dedicated Foundation – Ambuja Cement Foundation (ACF), with over 439 members in its countrywide CSR team – that was set up 23 years ago with the idea of bringing together professionals working with a systematic and strategic approach towards solving community issues.

The reach and impact statistics achieved by ACL over the last 3-4 years reveals a sustained process of community development and empowerment:

- 25,000 youth trained in over 38 locally relevant trades with a 75% placement rate;
- 28,000+ farmers supported in capacity building, cost optimization and yield increase through the Better Cotton Initiative;
- 1,142 SHGs promoted and supported with a focus on livelihoods and empowerment (2 federations have been promoted as apex organisations);
- ACF has extensively worked on water resources development management at several locations by supporting communities for construction and/or renovations of more than 2,000 different water harvesting structures. The extensive programme on water has helped ACL achieve the 'water positive' status 4 times (assured by Det Norske Veritas - DNV).

The following CSR practices and principles at Ambuja Cements have ensured buy-in, whole-hearted participation and ownership among the community and are worth emulating:

A bottom-up approach to assessing needs

All ACL programmes are designed through bottom-up need assessment discussions. Ambuja's Foundation has set up a rigorous process of

assessing local community needs through multiple rounds of focused discussions that bring together women's groups, farmers, youth, village administration and local *Panchayats* (elected local governing boards in India). Programme design is based solely on what the community resonates with as important issues to them. This ensures subsequent buy-in and cooperation in all activities undertaken by the Foundation.

Collectivization and community empowerment

ACF actively promotes community ownership, control, access and maintenance of resources through peoples' participation and strengthening of community-based institutions. ACF has funded and encouraged the formation of many such groups like associations gathering water users, *Pani Samitis* (local committees on sanitation and water), Watershed Committees, Farmer Groups, co-operatives or Self-Help Groups (SHGs). For instance, in Sanand, the Participatory Irrigation Management (PIM) project was implemented with 36 Irrigation Cooperative Societies and 3,408 farmers with 5,150 ha of land. Their work has earned the 21 Water User Associations a one-time functional grant of INR 4.6 million (€60 000) from Sardar Sarovar Narmada Nigam Ltd., and other grants. In Chandrapur, ACF has been focussing on Community-led Total Sanitation since last about 2 years – village development committees are promoted and strengthened through rigorous processes and capacity building programmes. This has resulted in 9 villages achieving 100% toilet coverage and overall improvement in general sanitary condition. A similar programme is being replicated at other locations as well.

Several SHGs and farmer groups trained 3-4 years ago have now further aggregated as Federations at the district level. These Federations have also been able to take up and replicate models like the Open-Defecation Free efforts of ACF in neighbouring villages, furthering the impact.

Leveraging native wisdom

ACF has always worked by leveraging the traditional knowledge systems of the local community to craft local solutions to issues. For example, in the water-scarce areas of Rajasthan, ACF worked by reviving traditional water harvesting structures called *khadins*, which prolong irrigation throughout the year. ACF has local teams, numbering anywhere between 2 and 40, to implement programs on the ground, supported ably by the last mile community mobilizers such as *sakhis* (healthcare) or *bal mitras* (education).

Partnerships and sustainability

ACF has actively reached out to build partnerships with local banks, non-profit institutions, other companies, development agencies, policy makers and the Government in a process to make ACF projects sustainable through effective collaboration. Examples of partnering are many: ACF implemented 550 rooftop harvesting systems under the Coastal Area Development Programme supported by WASMO, an agency of Government of Gujarat; Gruh Finance has provided revolving fund to federations promoted by ACF for sanitation and income generation programmer; NABARD has partnered on watershed projects, micro irrigation promotion, skill training etc. at several locations; Apollo Tyres partnered for awareness and prevention of HIV/AIDS at 4 locations; Schneider, Taj and other companies have partnered on various skill development initiatives; etc. In 2014-15, 14% of the total budget spent on ACF programs was leveraged from the Government and donor agencies, 13% came from people's contribution and 18% was facilitated directly to communities on various development projects.

Empowering women in the community

ACF supports as many as 1,142 Self-Help Groups (SHGs) across locations, facilitating change through the creation of empowered women's groups. ACF supports the entrepreneurial activities of these SHGs through funding, regular training, and promoting income-generating activities.

Women from various villages have been stepping out of the shadow and creating a difference in their roles as a *sakhi*, a *bal mitra*, an artisan, a farmer or an entrepreneur. Across locations, women in SHGs are involved in activities such as dairy development, nurseries, vegetable farming, mushroom cultivation, incense-stick making, handicrafts and food processing. These activities have been instrumental in creating a value for women's work while strengthening their entrepreneurial spirit.

Process and systems rigour

From utilising the strengths of a central management and distributed implementation team for efficient functioning, to creating rigorous field reports and documentation, comprehensive monitoring of outputs and third party audits for completed programs, case study booklets and knowledge dissemination, ACF has put in place the necessary rigour and systems to realise a strategic long-term CSR program that is deeply connected to the local contexts and communities around the 22 plants across the country.

For Ambuja Cements Ltd, the 2013 *Companies Act* has only served to enhance reporting of work as the company has always been spending more than the stipulated 2% of its profits on community development.

CONCLUSION

This article has explored how CSR has evolved in India in the last decade. The example of Ambuja Cements and other Indian firms showed how CSR has now become a key asset for companies and is strongly linked to strategic business planning. These experiences are also inspiring for other companies wishing to engage in long-term strategies with local communities, as they highlighted the key factors of sustainability of a CSR initiative: a bottom up, locally rooted approach that crosses the local needs with the firm's capabilities, and that aims at empowering the community and teaming up with stakeholders. This is what Sattva considers the most successful strategy for a firm to gain its social license to operate around plants.

The CSR initiatives to come, triggered by the enforcement of the 2013 Companies Act in India, will certainly strengthen Indian firms' strategic vision and operational know-how on CSR.