



CSR and the Companies Act, 2013:
Be Bold, Take Action

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Be a global leader in this new era of CSR-engaged enterprise



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- *Published 26 research reports and white papers*

Introduction

The Corporate Social Responsibility (CSR) rules in the Companies Act, 2013 will forever change the way CSR is conducted in India and throughout the world. Beginning April of 2014, large and medium-sized Indian companies will be required to spend 2% of their profits on charitable causes. This represents both a challenge to be managed and an opportunity to be embraced by the more than 16,000 registered companies that will be affected by the law.

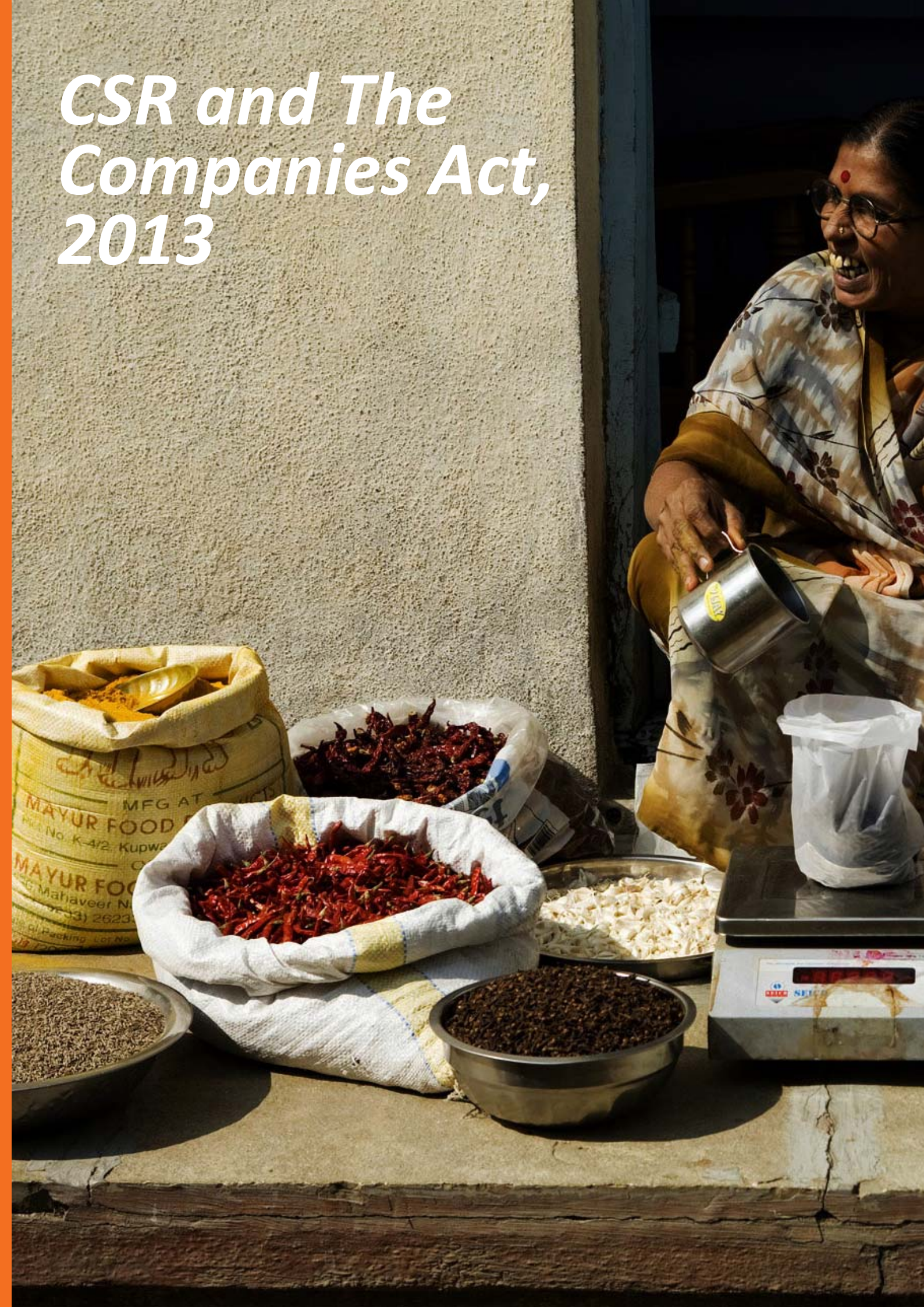
In passing this law, the Ministry of Corporate Affairs recognizes that corporates not only have the resources but also capacities and skills that enable them to spearhead social change in ways that are beyond the reach of both governmental and social sector organizations. Instead of increasing corporate taxes by 2%, the government decided to leverage the existing track record of India Inc. to catalyze tried and tested approaches bringing new strategies, ideas, and capital needed to tackle the country's most challenging social and environmental problems. From the 1,600 children under the age of 5 who die daily (due to diseases related to poor sanitation) to the appalling statistic that Indians have greater access to mobile phones than to toilets, targeted and sustainable CSR approaches are required. This is an enormous responsibility and leap of faith. Diverting vast resources away from corporations and into social projects can lead to ineffective investments or "dead aid". Alternatively, the estimated INR 20,000 cr in CSR spending can also lead to progress and prosperity that the country has never seen before. This may be the missing link enabling over 800 million people to access quality education, healthcare and livelihood opportunities necessary for inclusive growth.

India will once again be the inventor and incubator for new models, methods, and paradigms for tackling its most intractable and persistent problems. Working in partnership with strong civil society organizations such as Akshaya Patra, Magic Bus, Educate Girls, SNEHA and Aavishkaar, companies can integrate models of frugal innovation coupled with strong community engagement with their business acumen and networks to create impact at scale. The whole world will be watching and learning from the Indian experiment, and the stakes could not be higher. What companies do now will set the CSR trajectory on a path that will become entrenched. Countries and companies throughout the world will pattern their actions on the models developed by Indian organizations. The Indian corporations that are intentional and passionate about selecting and managing their social investments will be the leaders in the new era of CSR-engaged enterprise.

The key to CSR success will be to focus not on how much money is spent or on the goods and services provided but on the impacts these investments create for the welfare of society. Companies have built strong expertise in harnessing innovation at scale, a crucial gap for both civil society organizations and government initiatives. This transfer of knowledge (from companies to civil society organizations) will be critical to ensure lasting impact. To do this, companies will need to go far beyond understanding and complying with the law. They must develop CSR organizations, strategies, and processes that capitalize on the resources they have available and employ them where they can make the greatest impact. This report introduces the law and helps guide you through the basic issues as you reinvent your CSR strategies in 2014 and beyond. Also, drawing from the 2014 book *Measuring and Improving Social Impacts*, by Epstein and Yuthas, it will provide you with a roadmap for documenting and expanding the impacts you make.

The term 'Corporate Social Responsibility' or CSR has been defined in a variety of ways. Here we take a broad interpretation of CSR which encompasses social and environmental impacts from normal operations as well as through philanthropic endeavors. This perspective views CSR and sustainability as interchangeable whereby companies have a responsibility to balance the corporate mandate for profitability with the needs of stakeholders such as community members, trading partners, agencies, and others that are affected by corporate activities.

CSR and The Companies Act, 2013



The Companies Act, 2013, is scheduled to come into effect for fiscal years beginning April 1, 2014. While the Act contains many provisions that affect Indian companies, perhaps none has been the subject of as much discussion as Section 135, which covers CSR. The basic requirements are few, but the options for implementing the act are vast. The requirements of the Section 135, which covers CSR, are as follows:

Who is required to spend & how much?

The law applies to all Indian companies that are subject to the Companies Act, 2013. CSR requirements come into place during any financial year in which a company has:

- Rs. 500 crore or more net worth
- Rs. 1000 crore or more in turnover or
- Rs. 5 crore or more net profit

Companies that meet one or more of these conditions are required to spend 2% of the average net profit for the preceding three financial years on CSR initiatives.

What are they required to do?

Companies that meet the financial criteria also have organizational and reporting criteria.

- The board of directors must establish a CSR Committee. The Committee must have a minimum of three members.
- The CSR Committee is required to:
 - develop and report on the CSR policy and associated initiatives to the board every year
 - budget and monitor the CSR policy
 - report on the CSR policy and initiatives undertaken during the year as part of the report of the board, which is circulated along with the annual report
- The board is required to:
 - oversee implementation of the policy
 - ensure that 2% of profits are spent on CSR
 - provide justification in the event that CSR spending falls short of 2%
- If the board does not publicly explain reasons for its spending shortfall, the company is subject to a fine and possible imprisonment of officers.

Which activities qualify?


Schedule VII of the Companies Act lists a number of areas that may be included in CSR policies:

- Hunger, poverty, malnutrition, preventative healthcare, sanitation, safe drinking water
- Education, vocational skills and livelihoods enhancement
- Gender equality and women's empowerment
- Environmental sustainability and natural resource conservation
- Art, culture and national heritage
- Benefits for the armed forces
- Sports
- Rural development

The last provision in the law leaves open the possibility that other charitable issues may be prescribed at a later time. There are already signs that the allowable activities will expand to encompass a much broader range of issues than that listed in the Act.

These activities must take place in India and companies are expected to give preference to programs benefiting the local areas around which it operates.

The law makes it clear that the company need not implement its own CSR activities or rely solely on non profits to do so. Companies are allowed to contribute to the State or Central Government's socio-economic development and welfare funds or to the Prime Minister's National Relief Fund.



“The difference between what we do and what we are capable of doing would suffice to solve most of the world’s problem.”

Mahatma Gandhi

There has been some discussion about what activities cannot be categorized as CSR, but a few areas are unlikely to be accepted. The first is activity that enables a company to comply with other regulations mandated by the law, even when they may relate to CSR, such as emissions restriction and human rights rules. The second is activity that is conducted solely for the benefit of the company’s employees. Community vocational training, for example, is considered a CSR activity while training and other social benefits provided to employees is not. The third is activities related to urban development and urban public transport systems, which will not qualify as CSR expenditure. Lastly, one off donations to marathons, events, awards, advertisements, sponsorship of television programs are excluded from the scope of CSR.

What can be included in the 2%?

The most recent circular issued by the Ministry of Corporate Affairs encourages a liberal interpretation of the Act so as to capture the spirit of the law. It specifies that the Schedule VII activities are broadbased with the intent of providing flexibility to cover a wide range of activities. Moreover, it makes inclusions for key CSR personnel costs, employee engagement programs and donations to a corpus of any organization whose work is related to Schedule VII. This will be an area of much discussion and dispute in the coming years. Many companies will have difficulty determining which expenses to count as part of the mandatory CSR spending. This will be particularly difficult for companies that integrate CSR into normal operations rather than treating it as a separate philanthropic activity. In addition, there will be some gaming of the system. Companies may be tempted to meet the requirement by searching for and re-classifying existing spending as CSR rather than exploring ways the company can use CSR for social change. However, as argued below, with a carefully formulated approach to CSR, companies can find opportunities that generate long-term benefits for both the company and society.

Traditional Approaches to CSR



CSR has undergone several transformations over the past decades but the transformation led by Indian corporations will be the greatest yet. Early CSR focused on acts of altruism. As the public began caring more about the social and environmental impacts of corporate activities, companies began to use CSR as an opportunity for improving public relations and strengthening brand image sometimes through real CSR activities, other times through 'greenwashing'. Another shift occurred when companies decided that CSR could be profitable in some cases. Companies searched for opportunities such as reduction in energy use that could benefit society and the bottom line.

Today, there is a great deal of variation in both the level of CSR spending and the way that CSR is operationalized. Companies tend to follow one of three major approaches to CSR today: philanthropy, risk management, and business case. While each of these approaches has merits and companies have made great strides in CSR in recent years, we believe that they can do much more. In a subsequent section, we introduce a new, high-impact approach to CSR and walk you through the steps you can take to maximize the impact of your CSR investments.

Current approaches to CSR:

- Philanthropy
- Risk management
- Business case

Philanthropy is the most common approach to CSR. Under this approach, the CSR unit is separate from other organizational units. Some companies using this approach simply write cheques for a variety of causes often in response to requests from social sector organizations. Others conduct research to determine the issues they will support and to find good partner organizations with established track records of effectiveness. These established foundations, nonprofits, or government funds pursue their own missions and objectives. The corporate philanthropist contributes funding, time, and other resources to support these partners in pursuing their social change goals. While this approach to CSR is an excellent place to begin for companies that are in the initial stages of formalizing their CSR efforts, this approach does not take advantage of the broader contribution corporations can make toward social change. The impact that can be generated from the corporate philanthropist's cheques or volunteer hours are no greater than could be generated using any other donor's money and time and much of the value that could be provided to the social sector is lost. By requiring directors' involvement in CSR policy making and governance, the Companies Act, 2013, is elevating the status of CSR and helping to ensure that it is governed by people with expertise in the strategic and operational aspects of the company as a whole. This suggests that a philanthropic approach which separates CSR from other corporate functions is no longer viable in the long run.

*Focus on the
root cause
of the
problem*





Risk management approaches to CSR are more common among companies that have significant environmental impacts. Some companies that follow this approach focus mainly on compliance both with regulations and with community and market norms that define what a responsible company is expected to do. Violating these rules and norms would put the company at risk for fines, lawsuits, boycotts and other damaging actions by corporate stakeholders. Most large companies today actively manage social and environment risks and produce public reports that document their CSR efforts. These reports often provide information on a broad range of issues and typically follow a standardized format. Most popular among the world's largest firms is the Global Reporting Initiative's G3 format. Another highly respected standard is ISO 26000, the International Standard Organization's standard on CSR. These approaches focus on managing the negative impacts from operations and accompanying risks to the company by identifying, monitoring, and managing their performance in several key social and environmental impact areas.

Business case approaches recognize that corporate activity has costs and benefits for the company and for society. When resources are allocated to CSR, there must be advantages to the business that exceed those that would result from competing uses of those resources. Companies using this approach look for intersections between the problems that their actions create for stakeholders and problems stakeholders create for the company. Solving these problems creates both profits for the business and benefits for its stakeholders. A typical example is investing in clean technologies or energy-efficient equipment. However, companies using this approach could also look for opportunities across the value chain. For example, a company might invest in healthcare for a community in which its key supplier operates. The result is a healthier community and a more productive labor pool for the supplier, which improves the supplier's performance and reduces input costs. For many companies, despite many CSR opportunities available, they are able to only select those supported by a strong business case. This approach prioritizes monetary or strategic benefits for the company and supports only those CSR activities that create value for both business and its stakeholders.

While these approaches can certainly provide benefits to society, there are many problems that don't directly affect companies such as child abuse, property rights or poverty in remote regions. Under the business case approach, these problems will never be addressed through CSR activities. That being said, the cost of neglecting these problems will lead to a sub-optimal workforce for the companies. We believe that companies can create greater impact through their social investments by focusing on the root cause of the problem. In the next section, we provide an alternative approach in which companies use their most valuable and unique resources to provide maximum benefits to society.

***Be Bold
High Impact CSR***

Next

Level

India is at the forefront of developing a new approach to CSR that can have a much greater impact on society. By highlighting critical social problems and encouraging companies to put societal needs ahead of their own for their CSR spending, the new Companies Act enables new high impact CSR philosophies to emerge. Instead of focusing merely on fund disbursement, companies should use this opportunity to leverage their core capabilities and forge multi-stakeholder partnerships to address the root cause of the problem. Ecosystems will need to be created to enable differing interventions and players to interact and work together towards a unified goal.

What are core capabilities?

Core capabilities of the corporation are those unique strengths and resources that allow the company to compete effectively in a challenging marketplace. These capabilities enable the company to survive and make profit in the face of ongoing competition and a continuously changing environment.

Core capabilities can include:

Brand: attaching a social investment to a trusted brand might encourage people to believe that an intervention will be healthy and safe for them or beneficial in other ways.

Patents: a company might give permission for a patent to be used for social causes or might make patented products or processes available at steep discounts to governmental agencies or organizations operating in impoverished or underserved regions.

Products: a company might develop an extremely low-cost or durable version of a product suitable for impoverished environments. For example, tuition savings accounts enable families a way to deposit very small sums to save toward school tuition payments. Alternatively, a company might use its traditional products in socially beneficial ways by donating them or offering them at a discount to serve disadvantaged stakeholders.

Process knowledge: sharing process expertise such as that possessed by firms with advanced manufacturing processes or operating within tight cost or time constraints can enhance the performance of social sector partners.

Logistics: well-established supply chain and distribution technologies can be used to support delivery of goods and services to meet societal needs. There are many cases in which aid is available from governmental or other agencies but the challenge of distributing the aid to those in need is prohibitive.

Research and development: R&D expertise can be directed toward solving problems unique to remote or resource constrained regions. Capabilities such as miniaturization or dematerialization can be used to develop products that meet the needs of people in these regions.

Relationships: Corporations often have strong relationships with industry, governmental and other organizational leaders, investors or policy makers. These relationships can be used to provide network access, information, and resources to social sector organizations.

Media attention: some companies have the power to draw media attention to the causes they care about. This can increase public awareness of a problem and can be used to educate beneficiaries about their rights or the availability of desirable resources.

Information technology: the ability to gather, process, and analyze data can be valuable to organizations that lack the infrastructure and expertise to produce information that could enhance their impact. Companies can share resources to fill this gap.

General business capabilities are also valuable

Business competencies possessed uniformly across successful companies can also be of tremendous value to partner organizations and stakeholder groups. Skills in project management, policy and process design, financial management, human resources, logistics, information technology, marketing, and a host of other general administrative capabilities can be applied in ways that can build the capacity of nonprofits, community governors, and other organizations and groups. These stakeholders, who typically have a much better on-the-ground understanding of social issues and solutions, will as a result be more well equipped to deal effectively and creatively with the social challenges they face.

Just like individuals, companies are free to select whichever CSR activities they wish to support. A teacher can volunteer to build a school and a construction worker can volunteer in an adult literacy program. These individuals could provide much greater benefits if they were able to match their competencies with social needs. In a similar manner, when companies focus on employing their core capabilities in the service of social needs, they maximize the social benefits they are able to create.

*Leverage your
core capabilities
to ensure
impact at scale*

Building an Ecosystem



Traditional CSR has been focused on individual contributions vs. building and sustaining long-term initiatives to address and solve an issue. Companies assume that they are only able to influence change from within the company and do not realize that forging partnerships amongst multiple stakeholders can create a powerful multiplier effect ensuring lasting social impact. Even large foundations with significant capital and expertise rely on multiple partners to execute and implement programs.

For example, when the Gates Foundation decided to target polio eradication in India, they built a coalition consisting of state and central government departments, pharmaceutical companies, multilateral agencies, UNICEF, WHO, Rotary clubs and thousands of grassroots organizations to work in tandem towards this goal. This has led to India being polio-free for 3 years, “One of the most impressive accomplishments in global health, ever” stated Bill Gates. Each stakeholder’s contribution was critical to achieve this impressive achievement and it took long-term strategy and robust partnerships to achieve success.

According to the *India Philanthropy Report 2014* by Bain & Company, six actors typically form critical parts of an ecosystem:

Beneficiaries: recipients of the services. Companies often forget that beneficiary buy-in is critical to ensure impact similar to customer approval. While many statistics validate the need for social programs, analysis on why certain interventions work better than others is limited. Therefore it is important to include beneficiary inputs when designing and implementing programs.

Interventionists: skilled and semi-skilled workers who execute the needed services. NGOs have assembled strong dedicated teams many of whom come from the same community where the programs are being deployed. This ensures a greater desire to deliver high quality programs and provides immediate beneficiary feedback.

Infrastructure providers: physical establishments, technology and training centres to enable the services. Government infrastructure such as public health centres and industrial training institutes, technology and training providers such as Drishtee and Digital Green exist and can be leveraged.

Funders: sources of capital that support the activities of various stakeholders. In addition to 2% of net profits, additional capital can be raised from funding agencies such as the Bill and Melinda Gates Foundation and Sir Dorabji Tata Trust, central and state government programs and multilateral agencies. While funds may not go directly to the company, they can further enhance programs and be deployed to stakeholders.

Coordination bodies: strategic monitoring and decision making bodies for systemic progress. Organizations such as the Ministry of Health and Family Welfare, Confederation of Indian Industries (CII), National Association of Software and Services Companies (NASSCOMM) and Federation of Indian Chambers of Commerce and Industry (FICCI) can play a leading role. Companies may also take on the responsibility of becoming coordination bodies themselves.

Awareness creators: development agencies, mass media and research institutions. Hindustan Times, NDTV, Bloomberg, and Star TV can all play leading roles in creating mainstream awareness.

Through the creation of an ecosystem, companies can look at a multifaceted approach to solve pressing issues and leverage a greater pool of expertise and capital. While initially this may seem challenging, it is a sustainable, cost effective way to effect social change. It also mimics the corporate sector whereby companies do not function in a vacuum but rather are dependent on many stakeholders consisting of vendors, distributors, banks, investors, customers, media and government infrastructure to grow their business and ensure long term profitability.

Partnerships



Unfortunately, donors at times think the benchmark of success or impact is to ensure that an organization is the cheapest provider of a service instead of focusing on the impact of the program. For example, providing non-formal education to children for ½ hour a day will be significantly cheaper than training a new cadre of teachers from the community to work within government schools. That being said, if the teacher then goes on to teach 40 students a year for 20 years, the impact of that investment is far greater and more cost effective than the non-formal education program. Therefore it is important to understand the sector's and the organization's theory of change when deciding on partnerships. In addition, the following questions should be analyzed:

Management Team: How strong is the organization's management team in executing its current plan and its ability to adapt to greater scale? What are the existing capabilities and relevant experience of leadership? How can the partnership strengthen the organization's management team?

Model: How well does the organization's model allow it to carry out its programs? Has the program been a key component of the organization's total activities and has it been developed and improved over time?

Scalability: How scalable is the program in order to reach new geographies or impact new beneficiaries? What systems and processes can the corporate put in place for the organization to enable them to scale?

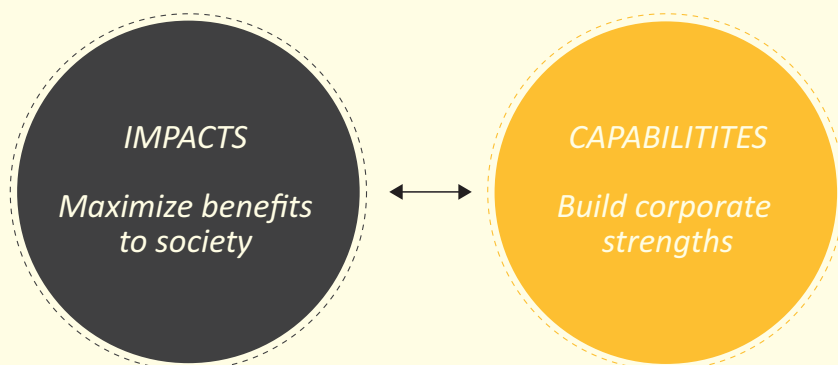
Sustainability: How diverse is the organization's current donor base? How can funding enable the organization to engage with other funders to diversify its funder base? What networks can the corporate tap into to build a stronger base of funders?

Impact: What is the quality of impact on the end beneficiary and is the program's impact sustainable in the long term? How can the corporate play a role by funding external impact studies to help validate the intervention and spread awareness of the model?

In essence, a high-impact, capabilities-driven approach is like a business case approach in reverse. Rather than looking for CSR opportunities that can provide the greatest benefits for the company, the company seeks out opportunities to provide the greatest benefits for society. By employing the most valuable and rare capabilities of companies throughout India, the social benefits can be dramatic. This approach can make every rupee and every minute spent on CSR activities go much farther. It can also help ensure that the feared negative consequences of reductions to corporate investments and tax revenues are far outweighed by the social and environmental improvements and broad economic development that will result.

The company will also benefit

In addition to providing high impact solutions to social problems, a high impact approach can provide dramatic benefits to the company as well. These benefits go far beyond the benefits of altruism, risk reduction, and cost savings associated with traditional CSR approaches. As companies consider how their capabilities can best serve social needs, they should also consider how the company itself can build capacities that will enable it to better serve both strategic and social needs in the future in ways that produce both long-term impacts and long-term corporate value.



Strengthened capabilities

First and foremost, the company will strengthen those capabilities upon which its competitive advantages are built. By using those capabilities to solve novel challenges, they will become more robust and agile. The level of innovation required to use these capabilities in new ways and in new markets can spur innovations in corporate operations and strategies as well.

Increased capacity

The innovative insights derived from tackling social challenges can spur creativity within the company in a variety of ways such as by taking experts out of their well-known environments and requiring them to work with new constraints, new people, and new problems.

Innovations in processes, technologies, products, and distribution methods can result as can innovations in the business model itself. By thinking about how to serve new markets and customers through its CSR endeavors, the company can gain insights into how to refine its own approach to serving its own core markets and customers or making amendments to its business model.

Employee engagement is also a well-known side effect of involving employees in CSR activities. Employees can develop new perspectives about the value of their own efforts and the efforts of their employers that can increase their levels of pride and commitment. Like the broader corporation, individual employees can also learn new skills and develop new bases of knowledge that can be applied in performing their job responsibilities. They can develop new relationships both within and beyond the company that can be sources of goodwill, information, and other benefits. For example, Vodafone's *World of Difference Program* has demonstrated a significant increase in employee morale, deep understanding of local issues and ability to meet and exceed targets with limited resources.

Of course, the corporate image can be enhanced through engagement in meaningful and successful CSR endeavors and this is sometimes the primary objective of CSR spending. However, beyond public image meaningful relationships with partner organizations and agencies can be formed or enhanced as well. Public/private partnerships, coordination along the supply chain, collaboration with industry peers and partnerships with community partners and non profits can provide sources of learning and a host of other valuable network resources.

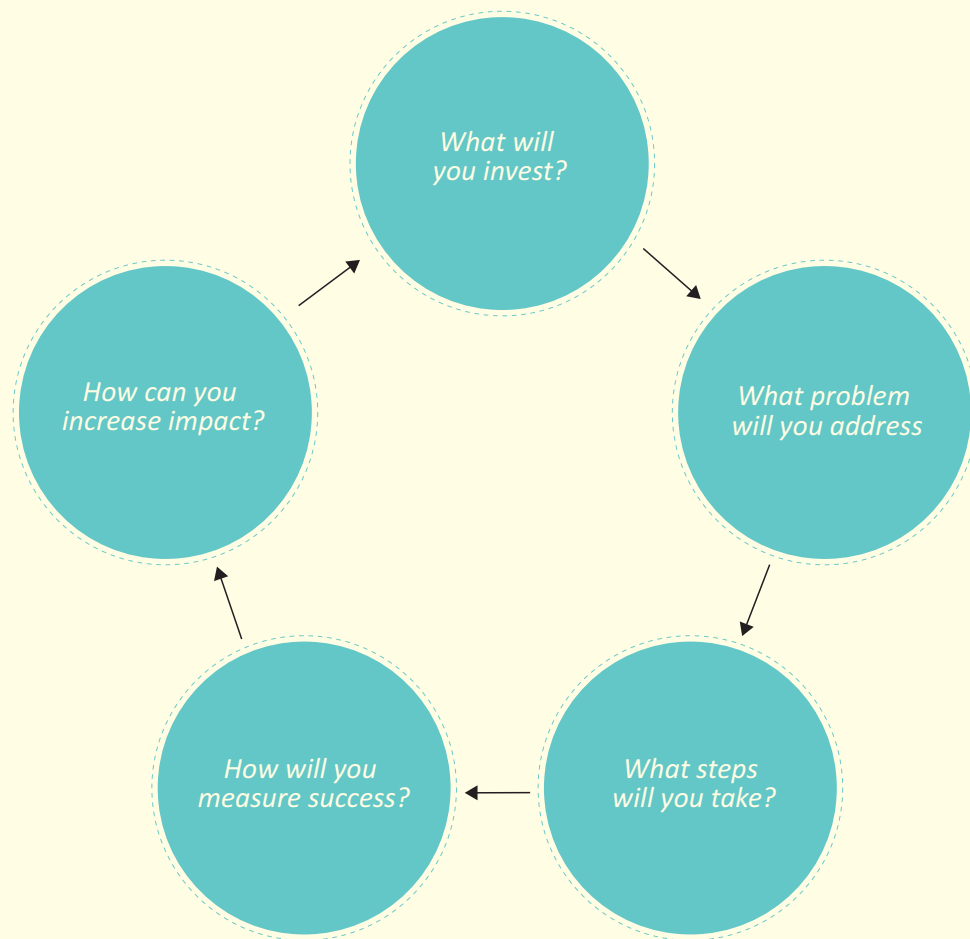


Spur corporate innovation by solving societal issues

Turning Capabilities Into Impacts



Here we outline a strategy that we believe can maximize benefits to society and help companies strengthen the resources that enable them to succeed in both their CSR and normal corporate endeavors. In describing this approach, we follow the steps of the Social Impact Creation Cycle introduced in *Measuring and Increasing Social Impacts*, Epstein and Yuthas, 2014.



What will you invest?

The first and most important step for CSR in the Social Impact Creation Cycle asks you to consider what you will invest. Beyond the 2% spending requirement, you will want to take stock of other assets that might be of value to partners and beneficiaries. These can include employee time, buildings, equipment, products and many other resources. In addition, as discussed in detail above, you'll want to determine the general business knowledge and skill and the core capabilities you are prepared to invest in pursuing your CSR objectives. You'll also consider what your company expects in return for its investment. At a minimum, the company should expect and demand that investments have the potential to generate beneficial social returns. It is not enough to provide funding and walk away. The company has a responsibility to ensure that the funds will be used to provide the promised outputs and that these outputs will produce social benefits and desired changes for the communities in which you will invest.

When companies invest in social businesses or other impact investments, they will expect financial returns in addition to social returns. While these financial returns will typically be below market rates, they are nonetheless important because they strengthen the business and fuel future social benefits.

What problem will you address?

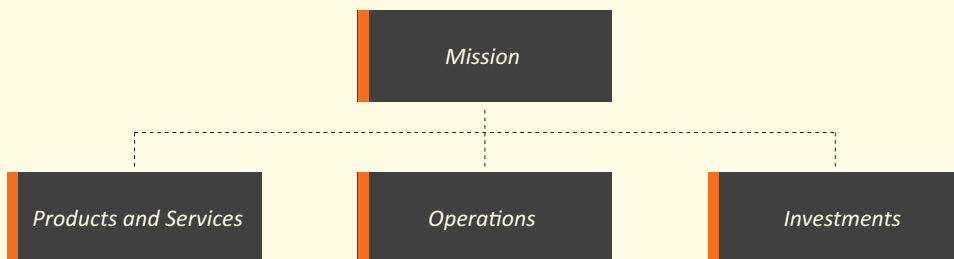
Selecting a problem and partners with whom to address the problem can be guided by the decisions you make about your desired investments and returns. Narrowing down your CSR initiatives to those areas in which you can make the greatest impact will enable your company to focus its efforts on initiatives to which it can make meaningful contributions.

As noted above, the Companies Act provides a list of issues or causes companies can pursue and suggests that they consider issues faced by the communities within which they work. While there are no rankings of the importance of these issues in local or national contexts, research can quickly uncover key needs. The charge for the company then is to match up the resources it has to offer with the pressing issues these resources can best address. The company can also identify the approaches available for addressing the issue. Primary approaches include advocacy, infrastructure support, research and innovation, capacity building, and the direct delivery of goods and services either independently or through a social sector partner.

Some companies will prioritize short-term visible gains and will prefer tried-and-true interventions. Others will favor innovative approaches to particularly difficult challenges and accept a long time frame for results and a high risk of failure. The best fit for your company will depend on the corporate culture and the status of CSR within it.

What steps will you take?

Companies create impacts in a variety of ways both positive and negative. A particularly valuable exercise for companies working through CSR strategies is to inventory the full range of existing company impacts that naturally arise as you pursue your mission.



Companies create impacts for their trading partners, communities, and other network associates in three main ways:

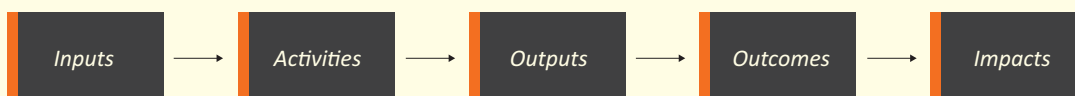
Products and service - benefits and other effects for customers, effects beyond the immediate consumer, use and safety profiles of the products, and disposal

Operation - supply chain, infrastructure, product design, human resource practices, and production

Investments - effects of corporate investments and passive investment of CSR funds not yet deployed

Stakeholders affected by companies include trading partners such as customers and suppliers, internal stakeholders such as employees and owners, and external stakeholders such as community members and local governments. A thorough inventory will uncover ways these stakeholders are being and could be affected by existing corporate activities. This analysis can help companies identify ways in which they can reduce negative effects of activity such as waste and preferential hiring as well as opportunities for positive effects such as through sharing information and collaborating with community members and regulators.

For CSR initiatives designed to create positive impacts beyond those associated with current operations, developing a sound logic model will create a strong foundation upon which future investment decisions can be built.



A logic model identifies the sequence of steps through which your inputs- typically money and supporting resources- ultimately create the desired impact for society. The model specifies the activities in which you or your partners will engage such as providing immunizations or building schools; the outputs those activities will produce such as immunized children or completed schools. It also specifies the outcomes those outputs produce, healthier children and higher school attendance, and the ultimate impacts your investment seeks such as educated and productive adolescents.

How will you measure success?

Measuring the impact of your investments is essential for ensuring that your CSR efforts are generating the effects you seek and expect. When measuring the impacts of a social intervention, it is important to start with a baseline assessment so that you will be able to see the extent of change throughout the life of the project. Ideally, you will also identify a similar community or group of stakeholders that will not be affected by your projects. This will enable you to see how much of the change is attributable to your CSR projects.

As with other systems of performance measurement, measures can serve several simultaneous purposes. Measures can be used to guide and control behavior, they can be used to evaluate and learn from results, and they can be used for accountability to regulators, owners, CSR beneficiaries, and other stakeholders.

Deciding specific outcomes and impacts to measure and report requires an upfront determination of which key performance indicators could provide evidence of the effective execution of each step in the logic model. Although measuring financial performance can be straightforward, measuring impacts is often very difficult. As a result, most social sector organizations measure only their outputs - the number of meals served, the number of pharmaceuticals delivered - but not the end results of those outputs.

Measuring outputs rather than impacts is a serious mistake and is only appropriate when there is solid evidence that the outputs have and will produce the desired results for the specific beneficiaries you seek to serve. In the absence of this evidence, it is important to devise systems and select impact metrics that can capture the changes you seek to make even though they are difficult to measure. Social impact measurement methods are advancing rapidly and impacts as elusive as changes in perceptions resulting from advocacy initiatives or contributions of research and development efforts can be measured in actionable ways.

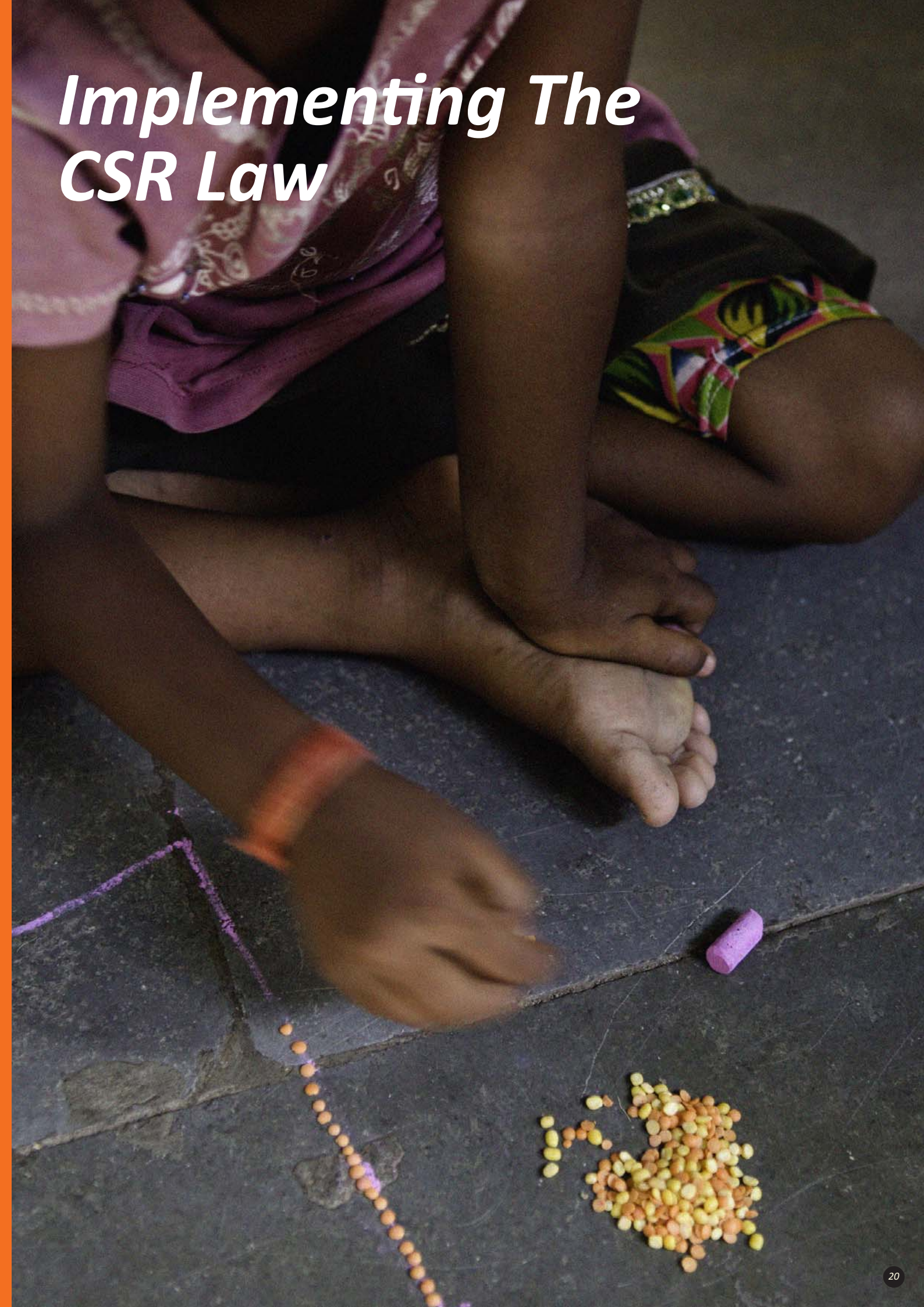
How will you increase impact?

If your CSR efforts prove to be effective and do produce the desired impacts for beneficiaries, the next step is to identify ways to amplify this impact to provide a greater depth of breadth of change. The two main avenues for increasing impact are through scaling up the interventions in which you have invested and by leveraging your investments through the work of others.

Scaling is second nature to successful businesses, which regularly expand profitable activities and discontinue others. For social sector organizations that rely on grants and donations, survival is often a more salient need than scale. Companies working with partners such as these can help provide the process knowledge that will help them streamline and standardize delivery of their programs in ways that enable them to serve more beneficiaries or expand in other impactful ways without a commensurate increase in funding.

Perhaps more importantly, companies can leverage their impacts by sharing best practices and other valuable resources with other investors and implementers working on similar challenges. Rather than guarding recipes for success, as may be commonplace in normal operations, CSR organizations can amplify their impacts by publicizing their successes, sharing strategies and processes, making results transparent, and engaging other partners in their CSR endeavors.

Implementing The CSR Law



Implementing the new CSR law will require significant financial and operational transformations for most companies. The way companies address the law will evolve over time as a result of changes in the company, in the way the law is being addressed by companies and governments, and by changes in social, environmental and political environments. But that does not mean companies should take a wait-and-see attitude toward CSR or should allow policies and practices to be guided by fleeting interests. Creating a long-term, effective approach to CSR requires careful planning and strategizing from the beginning.

Leadership

One of the first decision companies will need to make is who will make up the leadership team for new CSR efforts. Effective leaders can ensure that CSR efforts provide social benefits at the same time they build corporate value. While the CSR committee is required to have three members, at least one of which is an outside director, the composition of the board should be determined based on expertise and interest. Ideally, all members will be knowledgeable about social and environmental issues and practices-in some companies, this will mean seeking talent beyond current board members and providing resources to help prepare committee members for their roles.

The board and CSR leadership team will need expertise in two areas. First, they will need an understanding of social and environmental issues facing the company and its constituents. They will want to understand how the company's current and planned operations will affect these issues, and they will need to understand how social and environmental constraints can affect the company.

Second, the leadership team will need an understanding of the company's strategic assets: its positioning within its industries, its competitive strengths, and its unique and valuable resources. These assets contribute to the success of the company overall and by designing CSR strategies that draw from and build upon these assets, the company can optimize its impacts. For companies ready to engage in high-impact capabilities-based CSR, the leaders should understand the core capabilities and how they interact with other corporate assets and contribute to corporate competitiveness. By employing its most valuable assets in innovative and collaborative ways, the company can create meaningful social changes and at the same time, strengthen these assets so that they can provide even greater benefits to society and to the company over time.

CSR policy

Rethinking CSR in order to comply with the new Companies Act provides an excellent opportunity for re-examining and re-designing the company's CSR and sustainability mission and policies. Creating a separate committee to oversee CSR runs the risk that these activities will be separated from the primary operations of the business and that CSR will be sidelined and treated as a relatively insignificant company activity. Yet every major business decision has significant social and environmental impacts, which cannot and should not be separated from the mandated 2% CSR spend.

The CSR strategy will be a visible statement of the company's intended benefits for society and will provide information about the company to a variety of stakeholders. In addition, the government intends to hold the company accountable for its CSR spending decisions. The CSR committee is required to discuss its CSR initiatives in an annual director's report.

CSR strategy should be formulated with the following factors in mind:

1. Corporate strategy, culture, and capabilities
2. Community problems and needs
3. Partnership opportunities

The CSR strategy should be compatible with the corporate strategy. Many boards mistakenly hold the assumption that CSR spending creates net costs for the company, but as described above, by thinking strategically about CSR the company can turn it into a net benefit. The culture of the company must also be considered. CSR will represent only a tiny part of the company's activities and must be designed and operated in a manner consistent with other operations in order to maximize integration and avoid sidelining CSR.

Implementation

The social and environmental problems in need of solutions in every part of the country are significant, challenging, and demand immediate attention. CSR leaders are also under pressure to rapidly establish CSR policies and spend funds quickly enough to comply with the mandate. But rushing toward a policy without sufficient research and deliberation is a mistake. Companies would be wise to invest significant time and attention toward both research and policy development in order to ensure maximum benefits for society and the company. Short-term solutions to social problems are rare and meaningful social investments require long-term commitment of resources and attention. Companies should evaluate CSR investments with the same care and rigor they use when investing large sums of money for operational purposes.

Especially for companies relatively new to CSR, investment outcomes are unpredictable and success is far from guaranteed. It is essential that companies set aside a portion of CSR spending to deal with unexpected resource demands, budget overruns, and the like. In addition, with exception of ongoing social programs that are well-established and have already been thoroughly tested, the company will need to set aside a portion of funds for measurement, evaluation, and performance improvements for these investments. One rule of thumb used by large foundations is that 10% of the cost of a social initiative should be allocated toward performance measurement. If the company fails to gather solid evidence about the impacts its initiatives are making, it risks wasting considerable funds on ineffectual projects or worse yet causing damage to those very communities it seeks to serve. The company will need funds to create the reporting and other forms of transparency that will help it and others pursuing similar efforts to learn from both the failures that are inevitable in an experiment of this size and the successes that create real and lasting benefits.

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Take Action



By setting ambitious goals and leveraging existing skills and networks, companies can play a leading role in moving 800 million people out of poverty. Instead of focusing on mere compliance with the new Companies Act, companies need to embrace the responsibility bestowed upon them and demonstrate their capabilities to work with civil society organizations and government to create impact at scale. In this effort lies a significant opportunity for the companies to strengthen core capabilities, form valuable and lasting partnerships, and learn in ways that have never been pursued. Most importantly, they can ensure that the significant investments they make in addressing social challenges will meet their goals for uplifting society and ensuring accelerated economic development. It is important to remember that organizations such as Akshaya Patra, MAMTA, Magic Bus, Pratham and Aavishkaar started with limited capital but are now leading forces in the global development arena impacting millions of lives. Their success can be directly attributed to bringing the passion and commitment from the development sector and coupling that with tried and tested practices from the corporate sector. These entities are role models on what can be achieved and should be seen as the overarching goal of scaling social impact, far beyond complying with a new law.

Successes achieved by Indian companies in their CSR endeavors will be modeled by other companies in India and throughout the world. There has never been a greater CSR opportunity or challenge and companies that truly engage their boards and top management in CSR strategy and execution will create benefits that impact lives in ways that exceed their most ambitious expectations. It is important to remember *“The difference between what we do and what we are capable of doing would suffice to solve most of the world’s problem”* Mahatma Gandhi.

About the Authors

Marc J Epstein is Distinguished Research Professor of Management at Jones Graduate School of Business at Rice University. He has been a professor at Stanford Business School, Harvard Business School, and INSEAD. He is the author of twenty books including the highly acclaimed *Making Sustainability Work: Best Practices in Managing and Measuring Corporate Social, Environmental, and Economic Impacts*.

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Deval Sanghavi is a Founder and Partner at Dasra, India’s leading strategic philanthropy foundation. Over the past 14 years, Deval has enabled Dasra to build an impressive track record in the social sector, directing over \$44 million in commitments. Advising Indian companies including Vodafone, Forbes Marshall, Godrej Industries, Piramal Healthcare, ICICI Foundation and Mahindra & Mahindra, he brings a deep understanding on how to create impact at scale by matching core competencies from the corporate sector alongside the passion and innovation of the development sector.

Catalyze and scale innovative solutions to move 800 million people out of poverty
