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India's Top Companies for CSR & Sustainability 2015

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PREFACE AND ACKNOWLEDGEMENTS

Responsible business includes two constructs - CSR and Sustainability. While both are sometimes used interchangeably, they are also terms that have different connotations in the Indian context.

CSR: 2014 saw the Companies Act with the mandatory CSR provision coming into effect. The Act makes it mandatory for companies meeting certain thresholds to spend 2% of their net profits on CSR. The Indian act largely focuses on philanthropy and certain key areas. The focus being on giving back to society over and above the ordinary course of business. Even as the Indian law looks at a philanthropic, community-centred approach, it is also true that smart strategies have been developed by industry leaders that look at CSR while creating far-reaching positive business impact.

Sustainability: Most large firms in India and Internationally have been focusing on developing sustainable business practices and reducing environmental impact of their activities. These activities include reduction in emissions to diminish the impact of climate change, waste and water management and a move towards renewable sources of energy. This is particularly important now since India has committed a 35% reduction in emissions by 2030.

Our study aims to uncover two key indicators of CSR and Sustainability. While the amount of money spent on CSR is a common indicator of CSR performance. Yet it is not enough. We also need to look at performance I.e. the range of activities that companies undertake around CSR and sustainability.

We look forward to your thoughts and comments on the study.

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INTRODUCTION

The dynamics of Corporate Social Responsibility in India changed dramatically with the Companies Act 2013 which among other things mandated that companies spend 2% of their average net profits of the past three years on CSR. This has two key implications:

1. How does the nature of CSR activities change in response to the new stimuli?

2. What should companies really focus on while planning their CSR programmes?

About 100 top companies were studied for their CSR performance during 2012-13 last year. This year the study has been repeated by looking at more than 200 companies during 2013-14. This year's study also gives an equal weightage to CSR and Sustainability and looks at how strategic these are to India's top companies. In the following pages, unless otherwise specified CSR is used as an omnibus term to include both CSR and Sustainability.

How does the nature of CSR activities change in response to the new stimuli?

To answer this the study looked at the Virtue Matrix by Roger Martin. This was published in Harvard Business Review in 2002 and serves as a guide to creating value through CSR.

Companies can engage in CSR activities in a manner that increases shareholder value – instrumental activities. Or, they can undertake them because they are the right things to do – intrinsic activities. The civil foundation of a society is built upon by corporate actions that evolved from norms, customs, conventions and laws. These can be of two types – choice and compliance. Choice - corporations choose what activities they undertake but the activities stem from norms, customs and conventions. Alternatively, they can simply follow the legal and compliance benchmarks - compliance. Norms and customs eventually get codified and become laws.

In addition, corporations can also innovate. Innovative activities can be either strategic (doing both social good and increasing shareholder value) or structural (doing only social good). Strategic actions are valuable to corporations. Structural actions tend to increase costs or reduce revenue and cannot succeed unless all other companies in the industry follow suit. Otherwise, the corporation risks having a higher cost structure/ lower revenue and quickly becoming uncompetitive.

The Companies Act 2013 has simply moved CSR in India from Choice to Compliance. Given that all large companies are now mandated to undertake CSR activities the only way for them to differentiate is to innovate. Strategic CSR becomes critical for both maintaining/increasing shareholder value and doing good at the same time.

What should companies really focus on while planning their CSR programmes?

This issue is more rooted in materiality. Global Reporting Initiative (GRI) material issues are those "…have a direct or indirect impact on an organization's ability to create, preserve or erode economic, environmental, and social value for itself, its stakeholders, and society at large." Thus the study looks at what key activity (or activities) that a corporation must necessarily undertake. The answer to the question comes from understanding the corporation's value chain, criticality of the activity to CSR and sustainability, perceptions in the marketplace and anything that would enable it to maintain or increase its shareholder value.

How much do companies spend? what impacts this spend?

Standard economics assumes that humans behave rationally. Studies shows that, in reality, humans behave irrationally in many situations. Daniel Kahneman in his popular book, *Thinking, Fast and Slow* uncovers some of the ways in which humans behave irrationally.

Corporations behave very much like humans do. Hence, the work of Kahneman applies to corporations as much as to humans.

One of the irregularities pointed out by Kahneman is "anchoring." Anchoring is a cognitive bias that describes the common human tendency to rely too heavily on the first piece of information offered (the "anchor") when making decisions.

Until recently corporations had no minimum requirement for spending on CSR. The Companies Act of 2013 now mandates a minimum spend of 2%. Hence there is now an anchor point available to corporations to assist in their CSR spend decision making. With no anchor corporations chose to spend whatever they wished on CSR. With the availability of the anchor point companies are likely to curtail their spending when the 2% limit is reached. Thus there is a possibility that corporations, overall, chose to spend lower amounts after the introduction of CSR laws.

Another mechanism that may be at work is recalibration. Companies look at studies like these and get feedback on what everyone else is spending. This enables them to recalibrate their spending. If they are spending less, they are likely to increase their CSR spends. If they are spending more, they are likely to reduce their CSR spending. This should possibly get reflected in the next few years.

THE STUDY

The study aims to examine sustainability reports (GRI, BRR and other CSR reports) and publicly disclosed information online and via annual reports under the CSR lens.

It is not sufficient for companies to merely to invest in CSR projects and meet the 2% norm, but one needs to understand whether CSR is looked at strategically. Do companies have a CSR policy? Is there board oversight? Is CSR information reported? and more than all this do CSR activities cover all stakeholders?

The study therefore examines and ranks companies on the basis of 4 criteria

Governance
How well is the governance for CSR structured?

Disclosure
How forthcoming are companies with respect to CSR activities & performance?

CSR Stakeholders
How well are key stakeholders (employees, community, customers and suppliers) integrated within a company's CSR framework?

Sustainability
How pervasive are sustainability practices of companies?

These 4 criteria are assigned weights of 20%, 10%, 35% and 35% respectively and form the basis of our ranking. These weights correspond to the maximum marks available for each criteria 20 marks for governance, 10 for disclosure, 35 for stakeholders and 35 for sustainability.

METHODOLOGY

Companies are ranked on their focus on CSR and sustainability by creating a combined score that weighs each of the four parameters.

The scores are arrived at by evaluating each company's sustainability/GRI reports, company annual reports and company websites by an analyst who scored based on a number of dimensions under the four parameters. The scoring was kept objective by requiring the analyst to score based on the presence or absence of the dimension. For example, if the company's website provided a sustainability/GRI report on the website then it received a score of 1 on that dimension otherwise the analyst scored it 0. Thus, if the criteria disclosure has four sub criteria then each of the four criteria will be scored as below:

Disclosure	Score
Sub criteria 1	1
Sub criteria 2	0
Sub criteria 3	1
Sub criteria 4	1

Thus this company has scored 3 marks out of 4 for disclosure. If the total marks assigned for disclosure are 10 then the score on disclosure for the company is taken as (3/4*10) or 7.5

After the analyst has reviewed of one company another analyst reviews the scores for a quality check. Where there are differences of opinion on a score they are resolved through (i) mutual agreement or (ii) reference to the authors. This process makes the study as rigorous as possible.

The study looked at top 214 companies to arrive at the ranking. It covers industries as varied as automobiles, banks, diversified, FMCG, infrastructure, information technology, metals and mining, oil, power, steel, pharmaceuticals, telecommunications and others.

What are the key differences from the previous study?

a. Expanded dataset – The dataset expanded from 115 companies to 214. A sample size of 216 got reduced to 214 as two companies did not report data on CSR and sustainability.

b. Modified definitions – On a number of parameters where definitions were ambiguous in the previous study they have been sharpened this year. Thus, in some cases, where companies got a benefit of the doubt last year this year they may score lower or higher on certain items.

c. Regrouping: Certain sub-criteria were regrouped to create a more logical and reasonable criteria set. This could lead to higher or lower scores compared to the previous year.

d. Weights: It was felt that the weights assigned to stakeholders were too high and to sustainability too low. The study has revised weights (previous year in brackets) – Governance 20% (20%); Disclosures 10% (10%); Stakeholders 35% (50%); Sustainability 35% (20%). This may lead to higher or lower rankings as compared to previous year.

e. Penalty points: Penalties ranging from 0 to 10 marks were applied to companies whose business activities were intrinsically unsustainable (alcohol, tobacco, etc).

f. CSR spend redefined: Last year's study calculated CSR spend as CSR spend for the current year as a percentage of current year net profits. This year's study uses the legal definition of CSR spend as a percentage based on the average of past three years' profits.

g. Additional studies: The study looked more closely at the material issues that companies need to be concerned about and assessed their performance on those parameters. Community issues have also been looked at in more detail - in last year's study, this was looked at from a relatively narrow perspective of the Rule of 10 (based on rules framed by the Government for activities that companies can engage in to qualify for CSR spend).

Hence the data from the previous study is not strictly comparable with the current study. Wherever references to the previous year are made they should be seen in this context.

DATA SAMPLE

Study data consisted of 214 companies. Top 200 companies were taken from the ET-500 list. Further 16 companies responded to and qualified for call for entries. This took the sample size to 216. However two companies did not report data on CSR and sustainability and were dropped. This reduced the final sample size to 214. The sample consisted of 165 private companies and 49 public sector companies. Of the total, 143 companies came from the manufacturing sector and 71 from the service sector.

For the study on CSR spending by companies a subset of these 214 companies was utilised. With CSR spend data available for 147 companies only the spend analysis is based this sample.

THE RANKINGS

Companies undertake many types of CSR activities. It is difficult to comprehend easily the breadth and scope of their work. The CSR study uses a measure called spread which is indicative of how broad-based the CSR activities of a company are. 2013-14 is an interesting year to look at since the companies were aware of the task ahead, given that the CSR law was now in place. Mahindra and Mahindra leads the pack. Compared to the previous study, it has jumped two places. There are four Tata group companies in the top 10 list. GAIL replaces SAIL in the public sector honours. Bharat Petroleum and Jubilant Lifesciences join the top ten list. Interestingly no foreign players made it to the top 10 list.

2013 vs 2014 Rankings

Rank (2014)	Company	Rank (2013)	Company
1	Mahindra & Mahindra Ltd.	1	Tata Steel Ltd
2	Tata Power Company Ltd.	2	Tata Chemicals Ltd.
3	Tata Steel Ltd.	3	Mahindra & Mahindra Ltd
4	Larsen & Toubro Ltd.	4	Maruti Suzuki India Ltd
5	Tata Chemicals Ltd.	5	Tata Motors Ltd
6	Tata Motors Ltd.	6	Siemens Ltd.
7	GAIL (India) Ltd.	7	Larsen & Toubro Ltd
8	Bharat Petroleum Corporation Ltd.	8	Coca-Cola India Pvt. Ltd
9	Infosys Ltd.	9	Steel Authority of India Ltd
10	Jubilant Life Sciences Ltd.	10	Infosys Ltd.

BREAKING THE STACK

The companies are split into three categories/modes:

- Manufacturing and Service
- Public and Private
- Sector/industry

Manufacturing and Services

The Top 5 manufacturing and service companies are as follows:

Rank	Top 5 Manufacturing companies	Top 5 Service companies
1	Mahindra & Mahindra Ltd.	Infosys Ltd.
2	Tata Power Company Ltd.	Tata Consultancy Services Ltd.
3	Tata Steel Ltd.	HDFC Bank Ltd.
4	Larsen & Tubro Ltd.	Wipro Ltd.
5	Tata Chemicals Ltd.	YES Bank Ltd.

The top three manufacturing and top two service companies from last year's study continue to be in the top 5 this year too. Some companies such as Tata Power and YES Bank have jumped multiple places and entered the top 5 this year. Interestingly, no public company finds a mention in top 5 companies.

	Manufacturing	Service	All companies
Average Score	44.0	33.3	40.4

- Manufacturing companies, on an average, score far better than service companies across criteria. This difference is especially marked for sustainability scores indicating that these issues are more important for the manufacturing sector.
- Within sustainability, relative to service companies, more manufacturing companies tend to employ renewable energy, have measures for addressing water scarcity and programs for waste management.

Public and Private

The top 5 public and private companies are as follows:

Rank	Top 5 Public companies	Top 5 Private companies
1	GAIL (India) Ltd	Mahindra & Mahindra Ltd.
2	Bharat Petroleum Corporation Ltd.	Tata Power Company Ltd.
3	Indian Oil Corporation Ltd.	Tata Steel Ltd.
4	Steel Authority of India (SAIL) Ltd.	Larsen & Tubro Ltd
5	Oil And Natural Gas Corporation Ltd.	Tata Chemicals Ltd.

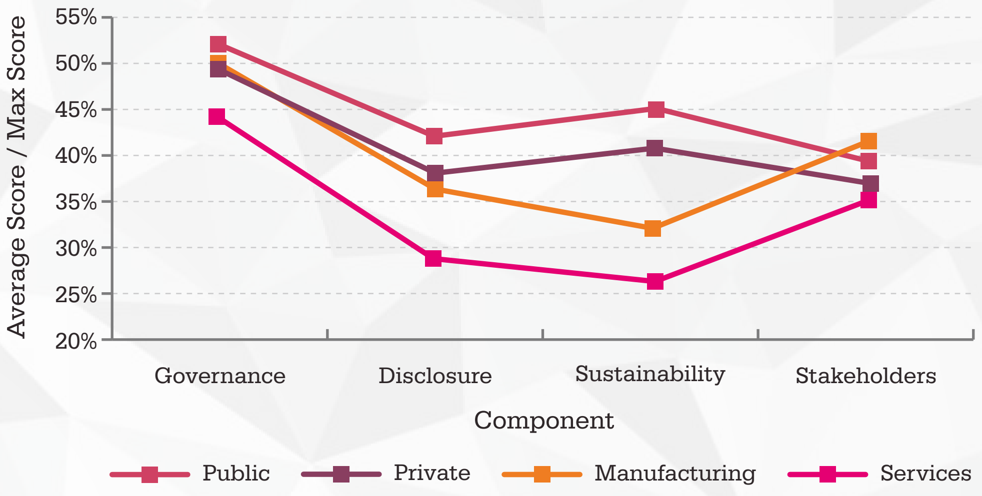
Most of the top 5 public sector companies from last year's study continue to be in the top 5 this year too. Interestingly no service company is part of the top 5 list.

	Public	Private	All companies
Average Score	39.3	40.8	40.4

Public sector companies perform somewhat similar to private companies. Again, sustainability is the primary cause for the difference.

The diagram below compares companies across criteria. Since maximum possible scores of governance, disclosure, stakeholders and sustainability are different (20,10,35,35) we need to normalise average scores obtained for them to be comparable. This is achieved by dividing the average score by maximum possible score.

Scoring pattern by type



Sector/Industry

Sector/Industry	Average score	Top performer
Energy	61.4	GAIL (India) Ltd.
Information Technology	57.0	Infosys Ltd.
Materials	48.1	Tata Steel Ltd.
Consumer Staples	46.4	Hindustan Unilever Ltd.
Telecommunication Services	46.0	Idea Cellular Ltd.
Healthcare	44.5	Jubilant Life Sciences Ltd.
Utilities	42.3	Tata Power Company Ltd.
Capital Goods	42.0	Larsen & Toubro Ltd.
Other Industrials	37.5	Cummins India
Consumer Discretionary	35.6	Mahindra & Mahindra Ltd.
Diversified	31.6	Reliance Industries Ltd.
Other Financials	30.0	Mahindra & Mahindra Financial Services Ltd.
Financials	29.2	HDFC Bank Ltd.
All	40.4	

Energy and information technology are top performers while diversified, financials and other financials are laggards.

KEY SUCCESS FACTORS DIAGNOSED

As outlined on page 7, the overall score is an amalgam of four key factors - governance, disclosure, CSR stakeholders and sustainability.

Companies are reasonably strong on governance, weak in disclosure, weak on stakeholder based CSR and, surprisingly, weak on sustainability. At least a third of all companies fail to beat the half way mark on all the fronts.

	Governance	Disclosure	CSR Stakeholders	Sustainability
Average Score	9.9	3.8	13.3	13.6
Max possible score	20	10	35	35
Percentage of maximum possible score	50%	38%	38%	39%
% companies scoring more than half of max score	47%	38%	31%	40%

A qualitative assessment of the four parameters reveals:

Governance: Over 70% companies have board & management oversight of CSR activities and have key corporate policies but only 26% have a biodiversity policy. Though 25% companies are signatory to the UNGC, 60% have policy on human rights and discrimination.

Disclosure: While half of the companies have sustainability reporting, only 21% were externally certified and less than 40% participated in carbon and industry specific initiatives of CDP, etc.

CSR Stakeholders: Similar to last year, stakeholder performance was weak. Companies do not fare well on this criterion due to lack of initiatives with respect to customers and suppliers. Most companies have initiatives for employees and community.

Sustainability: Though overall sustainability scores have improved to 39% from last year (27%), measures for supply chain and logistics continue to be disclosed in few companies (less than 25%). Most companies focus on sustainability in products/services and internal operations.

The analysis also finds that the variation of scores across companies is not uniform. To understand this, the companies were sorted in descending order of their ranks. They were, then, split into three equal sized segments. The group "Top" represents companies ranked 1-71. The "Middle" represents companies ranked 72-142 while "Bottom" represents companies ranked above 142.

		No of companies	Governance	Disclosure	Sustainability	Stakeholder
Top	Mean	71	14.94	8.23	23.94	19.41
	Std Dev		1.92	1.90	4.98	3.05
Middle	Mean	71	10.03	2.85	13.23	13.61
	Std Dev		2.85	2.48	4.43	3.62
Bottom	Mean	72	4.76	0.28	3.71	7.00
	Std Dev		2.24	0.70	3.43	3.50

As is obvious, higher ranked companies tend to score high on each criteria.

Governance: Companies with high ranks tend to have high governance scores. Companies in the mid-range have relatively lower scores but are skewed towards higher scores. Lower ranked companies tend to have low scores reflecting poor governance around CSR. The gap in average score between top and middle segments (4.91) is lower than the gap between middle and lower signets (5.27) The standard deviations are higher for middle and lower segments.Thus, the top segment is higher in average scores and more tightly knit relative to middle and lower segments.

Disclosure: There is significant variation in disclosure scores. A large number of companies score rather poorly on disclosures. The bottom category of companies not only score poorly (averaging a tenth of the middle segment) but do so uniformly - with low standard deviations.

Sustainability: Scores drop substantially in the middle and bottom segments with the bottom segment performing very poorly. There is also a significant variation of scores in the bottom segment.

CSR Stakeholders: Compared to sustainability both the middle and bottom segments perform better. There is also a significant difference between the scores in all the three categories. Overall companies tend to perform poorly on stakeholders. It is evident that companies do not spend much effort on stakeholders.

The relative gap between top and middle segments is highest for disclosure while the relative gap between the middle and lower segments is highest for disclosure and lowest for stakeholders.

Another interesting piece of result is performance by industry.

	Governance	Disclosure	Stakeholders	Sustainability
Energy	14.8	7.8	20.5	18.2
Diversified	8.1	2.7	11.1	10.3
Consumer Discretionary	8.0	2.8	13.3	11.9
Financials	7.6	1.9	7.0	12.7
Materials	10.8	5.0	16.6	15.8
Telecommunication Services	10.2	5.7	15.5	14.7
Capital Goods	11.0	4.0	15.1	11.9
Information Technology	14.3	6.7	20.9	15.1
Utilities	11.4	4.2	11.8	14.8
Other Industrials	8.0	4.7	13.2	11.7
Other Financials	10.3	2.5	6.4	10.8
Consumer Staples	9.8	3.8	19.4	13.4
Healthcare	11.2	2.7	17.8	12.8
All	9.9	3.8	13.6	13.3

Governance: Energy and information technology perform best on governance with a cluster of Utilities, Healthcare and Capital Goods a little behind.

Disclosure: Energy and information technology performed best with all others a fair distance behind.

Sustainability: Information technology again leads the pack along with energy and consumer staples running it close.

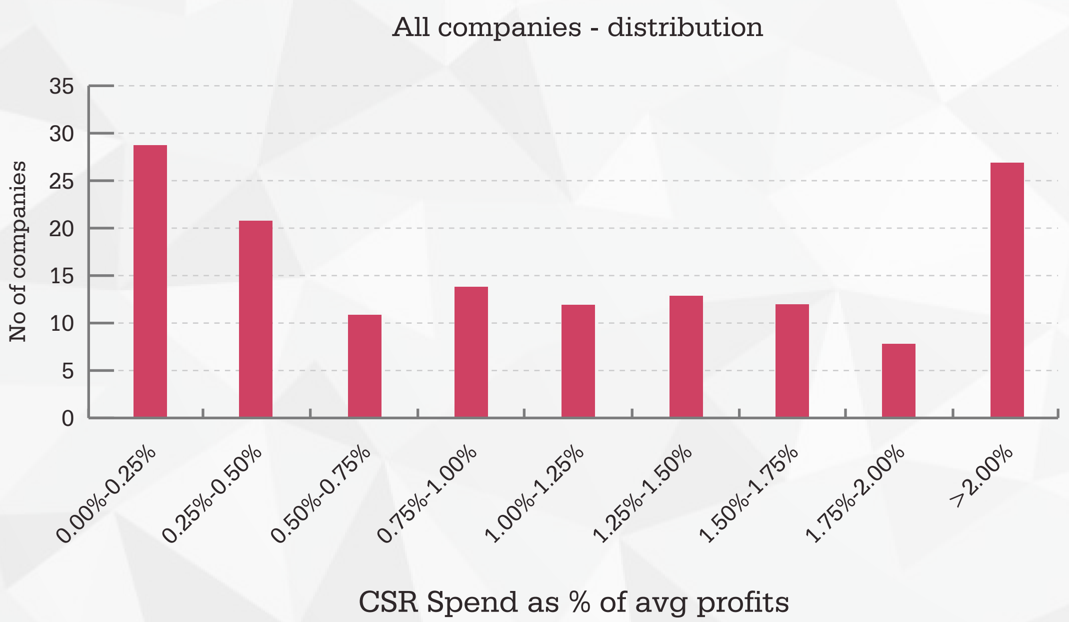
Stakeholders: Energy is the top performer followed by materials with all other a fair distance behind

SPEND, SPEND, SPEND...

A popular way of looking at companies' CSR performance is to see much they spend on CSR. Companies Act 2013 makes it mandatory for companies to spend 2% of their net profits on CSR. However the analysis shows that very few companies are really meeting the 2% norm. This section breaks down CSR spend and provides insights into the spending patterns of India's top companies.

HOW MUCH?

Only 18 % of the companies studied spending more than the 2% norm. Data for spend was available for only 147 companies. The remaining companies did not provide the information in annual reports, company websites or sustainability reports. CSR spend of these 147 companies is Rs 4281 cr during 2013-14. Data for 67 companies is not available hence it is excluded from this study. Only 27 corporate are complying with these norms with a spending of 2% or more. Most corporates are not meeting with the proposed 2% CSR norm – the average CSR spend as a percentage of PAT for 147 companies is 1.28%. Further 45 companies are spending between 1% and 2% of their PAT. Rest 75 companies have a CSR spend of less than 1% of their PAT.



If we take a comprehensive view of all the companies it is clear that for a large number of companies spending 2% of their profits on CSR is going to be a significant ask. 120 out of147 companies spend less than 2% with 50 companies (a third of the sample) spending less than 0.5% - the ask will be tough.

The top 5 companies in terms of absolute spend and CSR spend as a percentage of average previous three years' PAT are listed below.

Rank	Company	CSR spend (INR cr)	Company	CSR spend/ Average PAT(%)
1	Reliance Industries Ltd.	711.7	Tata Global Beverages Ltd.	7.4%
2	Oil And Natural Gas Corporation Ltd.	341.3	Jaiprakash Associates Ltd.	7.3%
3	Tata Steel Ltd.	212.0	UPL Ltd.	6.5%
4	ICICI Bank Ltd.	168.0	Rashtriya Chemicals & Fertilizers Ltd.	5.9%
5	NMDC Ltd.	152.9	Welspun Corp Ltd.	5.0%

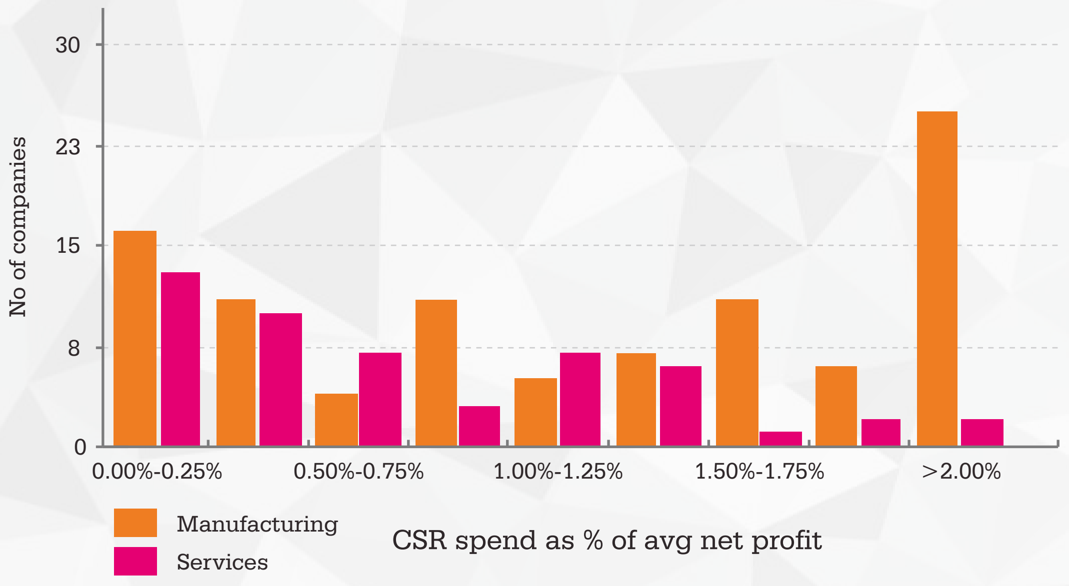
Manufacturing and Services

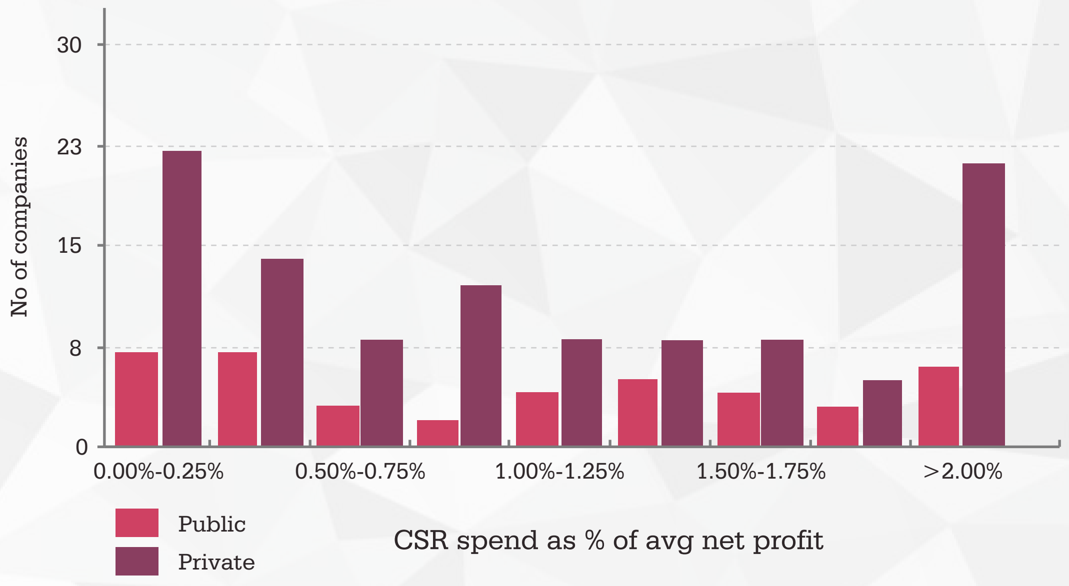
The top 5 manufacturing and service companies in terms of percentage spend are as follows:

Rank	Manufacturing company	CSR spend/ Average PAT(%)	Service company	CSR spend/ Average PAT(%)
1	Tata Global Beverages Ltd.	7.4	Tech Mahindra Ltd.	3.1
2	Jaiprakash Associates Ltd.	7.3	ICICI Bank Ltd.	2.5
3	UPL Ltd.	6.5	Adani Ports & Special Economic Zone Ltd.	1.9
4	Rashtriya Chemicals & Fertilizers Ltd.	5.9	Max India Ltd.	1.8
5	Welspun Corp Ltd.	5.0	IndusInd Bank Ltd.	1.6

The percentage spend by top 5 manufacturing companies is more than twice that of service companies. All manufacturing companies in the top 5 spend more than 2% whereas only 2 companies in the top 5 spend more than 2%.

Significant differences between spending patterns of manufacturing and service companies have been found. Manufacturing spends more in terms of absolute amounts and is relatively more widely dispersed. Service sector spends relatively much lower amounts. The study analysed spends as percentage of average profit of past three years where the same trend gets replicated - with manufacturing being more widely dispersed than services.





Public and private

The top 5 public and private spenders in percentage terms are listed below.

Rank	Public company	CSR spend/ Average PAT(%)	Private company	CSR spend/ Average PAT(%)
1	Rashtriya Chemicals & Fertilizers Ltd.	5.9	Tata Global Beverages Ltd.	7.4
2	National Aluminium Company Ltd.	3.5	Jaiprakash Associates Ltd.	7.3
3	National Fertilizers Ltd.	2.4	UPL Ltd.	6.5
4	NMDC Ltd.	2.3	Welspun Corp Ltd.	5.0
5	Oil India Ltd.	2.2	Dabur India Ltd.	4.1

Contrary to popular belief, public sector companies spend lower percentages as compared to private companies. There are far more companies spending more than 2% in the private sector as compared to public sector.

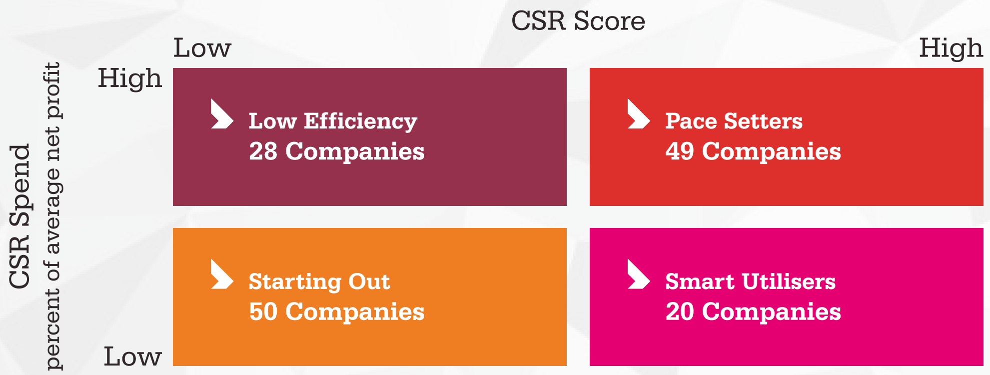
Sector/Industry

An industry/sector break-down reveals that consumer staples spend most, followed by materials. Financial companies are laggards, spending the least.

Industry	Average CSR spend as % of net profit	Top performer
Consumer Staples	2.5%	Tata Global Beverages Ltd.
Materials	2.3%	UPL Ltd.
Diversified	1.4%	Century Textiles & Industries Ltd.
Energy	1.4%	Oil India Ltd.
Other Industrials	1.3%	Adani Ports & Special Economic Zone Ltd.
Healthcare	1.2%	Jubilant Life Sciences Ltd.
Consumer Discretionary	1.0%	Jaiprakash Associates Ltd.
Other Financials	1.0%	L&T Finance Holdings Ltd.
Capital Goods	0.9%	Punj Lloyd Ltd.
Information Technology	0.9%	Tech Mahindra Ltd.
Utilities	0.9%	Tata Power Company Ltd.
Telecommunication Services	0.8%	Bharti Infratel Ltd.
Financials	0.6%	ICICI Bank Ltd.
All companies	1.3%	

SPREAD + SPEND =
CSR MATRIX

To illustrate progress versus expectations, company performance results have been categorised across four quadrants - Pace setters, smart utilisers, starting out and low efficiency. CSR scores are divided into high or low by using the median score as a cut-off. Similarly, CSR spend is divided into high or low by ing the median spend percentage as a cut-off. This yields the 2X2 matrix depicted below.



Pace setters: These are companies that spend relatively large amounts on CSR and have relatively high CSR scores. 49 companies fall in this category.

The average scores as well as CSR spending as percentage of PAT for this quadrant was consistently above overall average across all key parameters. This trend was evident in all the key industries in the quadrant.

Smart utilisers: These companies spend relatively less on CSR but have higher scores on CSR. 20 companies fall in this category.

The average scores for the quadrant were high in sustainability compared to overall average, but the average spend as a percentage of PAT was the low at 0.41%.

Low efficiency: These companies spend a relatively larger amount on CSR but have relatively low CSR scores. Possibly they have not yet realised the benefits of their investment. An alternative explanation could be that these companies are inefficient. 28 companies fall in this category.

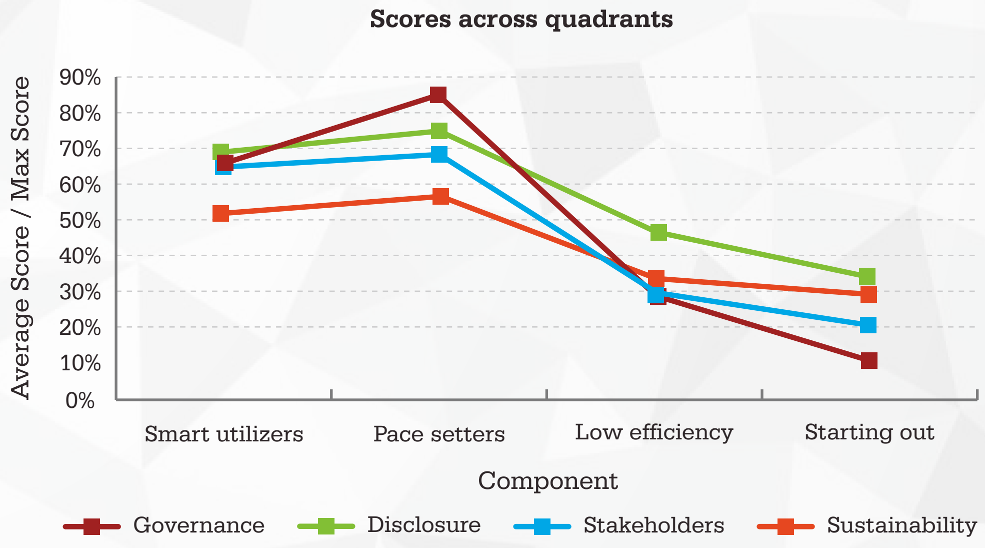
Starting out: These companies spend relatively less on CSR and also have lower CSR scores. 50 companies fall in this category.

The average scores for the quadrant were least across all key parameters and spend on CSR activities too was low at 0.34%.

The average scores and spends in the four quadrants are:

	Pace setters	Smart utilizers	Low efficiency	Starting out
Average score	67.1	61.4	34.9	25.4
Average spend	2.3%	0.8%	1.8%	0.3%

Across quadrants we find that companies perform best on governance and tend to perform relatively weak on sustainability. Pace setters tend to score more on all factors except stakeholders. These firms need to work on improving CSR focus on stakeholders. The scores are least bunched for firms that are starting out implying weak attempts at CSR and sustainability. Firms that are starting out tend to perform poorly on sustainability – they still haven't got their sustainability piece together let alone a CSR focus. Their disclosures are also a cause for concern. Smart utilisers tend to perform fairly well on all counts. Low efficiency firms tend to perform below par on all parameters.



Industries that dominate each of these quadrants are:

Quadrant	Key Industries
Pace setters	Materials and Energy
Smart utilisers	Consumer discretionary and IT
Low efficiency	Materials and Diversified
Starting out	Financials and Consumer discretionary

We look at CSR scores of companies across industries.

Industries	Pace setters	Smart utilizers	Low efficiency	Starting out
Energy	67.7	53.0		46.0
Diversified	70.0	62.0	24.6	30.3
Consumer Discretionary	70.4	58.3		21.1
Financials	61.5	53.0	43.7	23.2
Materials	68.1	59.5	33.7	16.0
Telecommunication Services		56.0	49.0	
Capital Goods	70.7	63.0	32.0	27.0
Information Technology	56.0	70.0		
Utilities	74.0	61.0	47.0	34.3
Other Industrials		72.0	43.7	
Other Financials	55.5		26.0	26.0
Consumer Staples	66.3	59.0		28.5
Healthcare	64.7	53.0	44.0	31.5

We can see that the top and bottom performers are as follows:

	Top Performer	Bottom performer
Pace setters	Utilities	Other financials
Smart utilizers	Other industrials, Information technology	Energy, Financials, Healthcare
Low efficiency	Telecommunication services	Diversified
Starting out	Energy	Materials

Similarly we look at spend percentages

Industries	Pace setters	Smart utilizers	Low efficiency	Starting out
Energy	1.7%	0.3%		0.8%
Diversified	2.6%	0.7%	2.0%	0.3%
Consumer Discretionary	2.5%	0.1%		0.4%
Financials	1.3%	0.3%	1.7%	0.3%
Materials	2.7%	0.6%	2.6%	0.4%
Telecommunication Services		0.6%	0.9%	
Capital Goods	1.5%	0.3%	1.4%	0.2%
Information Technology	3.1%	0.4%		
Utilities	1.3%	0.6%	1.3%	0.5%
Other Industrials		0.6%	1.5%	
Other Financials	1.2%		1.2%	0.5%
Consumer Staples	4.1%	0.9%		0.2%
Healthcare	2.3%	0.4%	2.5%	0.3%

We can see that the top and bottom performers are as follows:

	Top Performer	Bottom performer
Pace setters	Consumer staples, Information technology	Other financials
Smart utilizers	Consumer staples	Consumer Discretionary
Low efficiency	Materials, Healthcare	Telecommunication services
Starting out	Energy	Capital goods, Consumer staples

SUSTAINABILITY PRACTICES

Responsible business includes two constructs - CSR and Sustainability. While both are sometimes used interchangeably, they are also terms that have different connotations in the Indian context.

CSR

2014 saw the Companies Act with the mandatory CSR provision come into effect. The Act makes it mandatory for companies meeting certain thresholds to spend 2% of its net profits in CSR. The Indian act largely focuses on philanthropy is certain key areas. The focus being on giving back to society over and above ordinary course of business. Even as the Indian law looks at a philanthropic, community-centred approach, it is also true that smart strategies have been developed by industry leaders that look at CSR while creating far-reaching positive business impact.

SUSTAINABILITY

Most large firms in India and Internationally have been focusing on developing sustainable business practices and reducing environmental impact of their activities. These activities include reduction in emissions to diminish the im-pact of climate change, waste and water management and a move towards renewable sources of energy. This is particularly important now since India has committed a 35% reduction in emissions by 2030[1].

In this section we look at sustainability practices of companies.

India's top companies for CSR study 2015 has given a remarkably low score to top Indian companies, especially services based, on Sustainability. While sustainability parameters are often talked about in GRI reports, closer scrutiny reveals a narrow spectrum of operation for most companies.

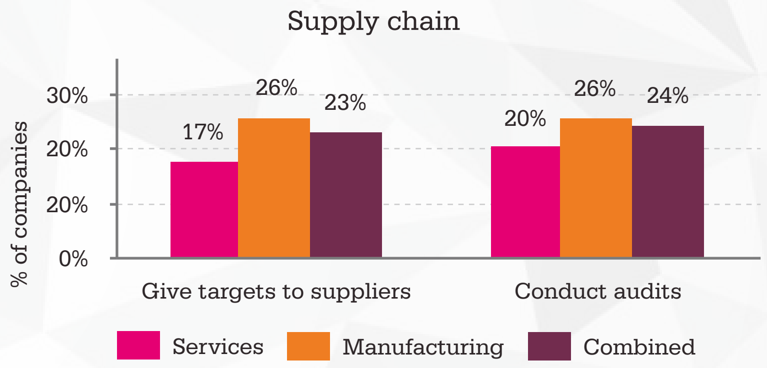
Sustainability Performance in the study was evaluated around achieving on-the-ground results, such as reduction in carbon emissions & coal, water use, procurement of renewable energy, improved energy efficiency, a supply chain that meets high environmental and social standards and products designed not only to minimize environmental and social impacts throughout their life cycle, but also to serve as solutions to key sustainability challenges. Of these parameters three things stand out -supply chain practices, green logistics and manufacturing sustainability.

[1] http://economictimes.indiatimes.com/news/politics-and-nation/8-goals-modigovernment-has-promised-in-indias-push-to-cut-emissions/articleshow/49193521.cms

SUPPLY CHAIN

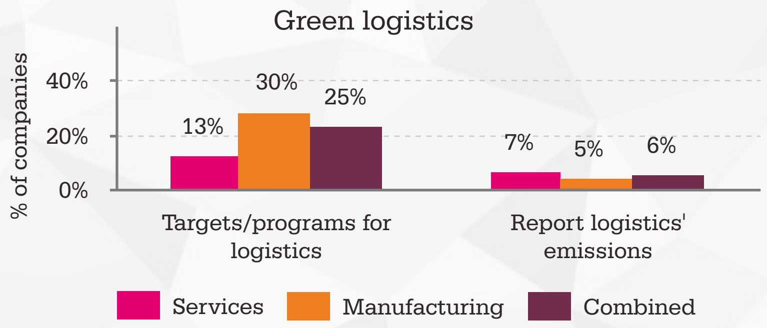
Our study finds that 23% of the companies studied give specific targets to their suppliers to reduce their carbon footprint. However, only 24% of the companies studied conduct environmental audits of new suppliers before they are brought on board or conduct ongoing periodic audits of existing suppliers on their environmental impact.

However, some top scoring companies ensure that suppliers meet the same environmental and social standards - including disclosure of goals and performance metrics - as the company has set for its internal operations. Some have also taken the initiative of creating sustainability awareness and training for employees of suppliers/vendors. There are also initiatives to help suppliers start their sustainability journey.



GREEN LOGISTICS

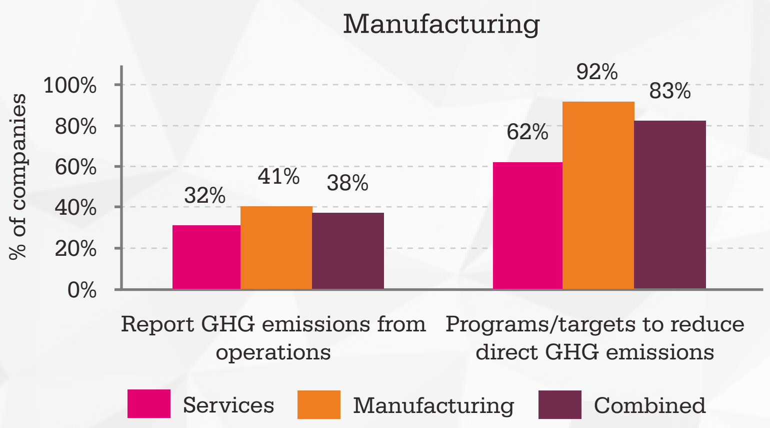
Greening a companies' transportation systems provides one of the best opportunities to reduce GHG emissions. A sustainable transportation and logistics strategy includes an analysis and monitoring of both owned and third-party operated fleet & logistics, as well as the type of fuel used. 25% of India's top companies have these parameters as part of their sustainability reporting, though only 6% of the companies studied disclose information related to emissions from logistics.

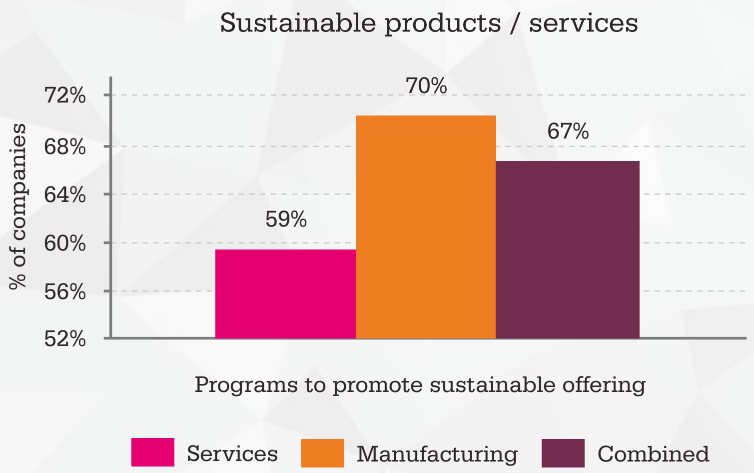


MANUFACTURING

Manufacturing being a core process for any business has a significant impact on both - consumption of resources as well as the GHG emissions it generates. Only 38% of India's top companies disclose data on GHG emissions while 83% of them have set targets. Many manufacturing companies do not have a GHG monitoring mechanism in place around their operations and only a handful from the services industry e.g. IT & banking seemed to report their indirect emissions like electricity consumption, business travel and employee commute. Many low ranked companies are yet to take up initiatives in this regard.

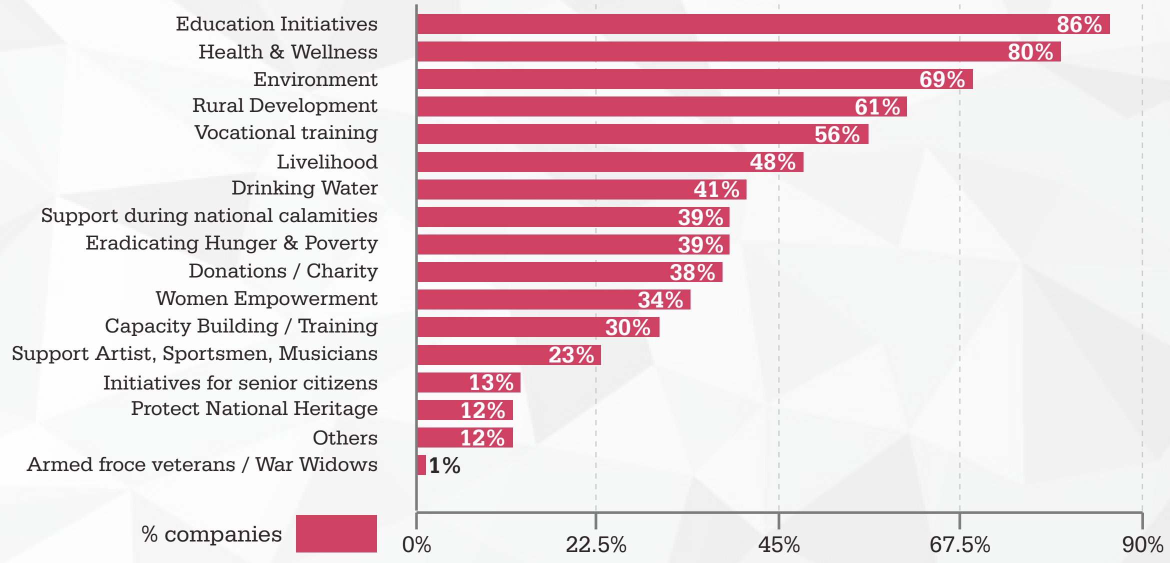
The commonly adopted measures were usage of renewable energy, green certification of production units/buildings, preventing wastage of electricity, improving efficiency of electricity by use of LEDs, etc. Some manufacturing companies also mentioned initiatives such tree plantation for carbon sequestration. Financial institutions (including banks) seem to associate their contribution in this regard by providing funds to firms investing in and/or using renewable energy in their operations at concessionary rates.





COMMUNITY INITIATIVES

The Companies Act 2013 has been amended to include few more areas within community investment where companies can invest.



From our study, we find that least investments are made for armed force veterans/war widows, protecting national heritage and for senior citizens. This could be because the intervention in these areas is relatively difficult and there are hardly any precedents. However, it is commendable that a significant number of companies are investing in lesser invested but critical areas of eradicating hunger & poverty, and women empowerment.

Most companies invest in education, health & wellness, environment and rural development initiatives for the community, in and around their operation. The initiatives however differ across industries.

Education: Most companies across industries support the development/restoration of school infrastructure support, provide funds or scholarships or adopt schools. But from our study we found that some industries focus on some other initiatives within education. For instance providing school uniform, books, study accessories, etc. was observed in 58% companies in Other financials and 56% companies in the IT industry. Listed below (Table 1) are the top 2 or 3 invested areas in each industry.

Health & Wellness: Similar to education, we notice (see Table 2) that while all sectors have significant investment in disease/ailment specific free checkup camps, IT sector focuses on health awareness campaigns within Health & Wellness.

Environment: Healthcare sector is focused on animal welfare and agro-forestry within Environment related investments, unlike other sectors that are primarily into tree plantation and conservation of natural resources to a lesser extent (see Table 3).

Table 1: Education - Top investment areas by industry (percent of companies)

% companies	School infrastructure support	Adopting schools	Providing funds/ Scholarship	Providing school materials	Computer education & training	Promoting special education
Healthcare	36%	27%	27%			
Consumer Discretionary	36%	36%				36%
Consumer Staples	42%		42%			
Diversified	32%	37%	32%			
Materials	61%		56%			64%
Oil & Gas	64%		82%		64%	82%
IT			56%	56%	56%	89%
Telecom	67%				50%	
Capital Goods	44%	38%	38%			
Utilities	67%	58%	67%			
Financials	63%		63%			
Other Financials	42%		50%	58%		
Other Industries	67%		67%		67%	

Table 2: Health & Wellness - Top investment areas by industry (percent of companies)

% companies	Disease/ailment specific free checkup camps	Free treatments	Adopting/ funding hospitals	Mobile hospitals	Health awareness campaigns
Healthcare	91%	82%			64%
Consumer Discretionery	46%				57%
Consumer Staples	58%				50%
Diversified	47%	42%			37%
Materials	56%		53%		50%
Oil & Gas	82%	82%		64%	
IT	33%				
Telecom					50%
Capital Goods	56%	44%		44%	44%
Utilities	100%	83%	58%		
Financials	43%		54%		
Other Financials	58%	50%		50%	
Other Industries	67%	50%			

Table 3: Environment - Top investment areas by industry (percent of companies)

% companies	Tree plantation	Environment awareness programs	Rainwater harvesting	Animal welfare	Agro-forestry	Conservation of natural resources	Renewable energy projects
Healthcare		18%		18%	18%		
Consumer Discretionery	29%					25%	
Consumer Staples	33%					42%	
Diversified	26%	26%	21%				
Materials	61%		39%				
Oil & Gas	36%	45%				36%	
IT	44%	44%					
Telecom	33%						
Capital Goods	38%		38%			31%	
Utilities	42%						42%
Financials							40%
Other Financials	33%						25%
Other Industries	50%		33%			33%	

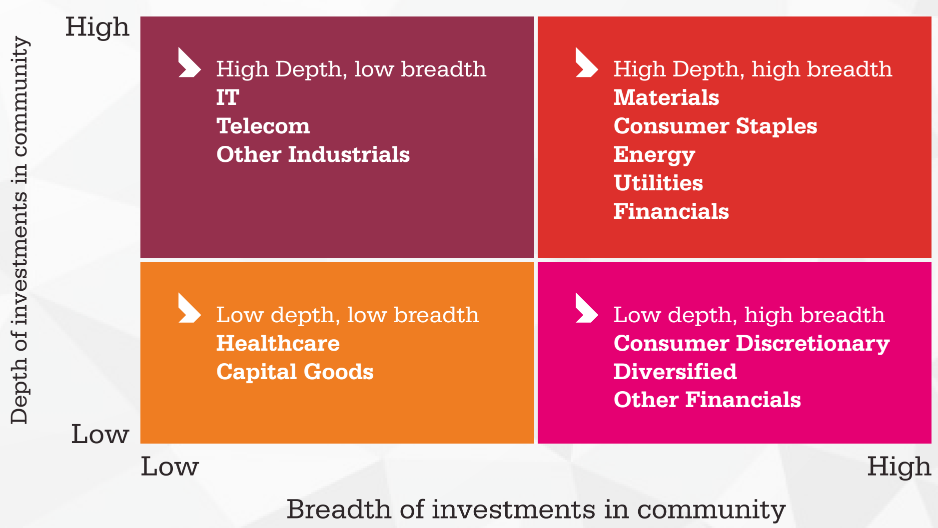
We segregated community investments into two types:

Breadth: refers to the range of activities that an industry is engaged in

Depth: refers to the extent to which an industry engages in the initiatives

While the breadth of the community investments is good across all industries, the depth of the investment varies significantly. Other industries and Materials industry has good depth with 50% and more companies in these industries investing in over 10 of 17 community areas studied. Companies in the Diversified industry have a clear focus on education and health & wellness initiatives.

The diagram, below, groups companies into four quadrants based on levels of depth and breadth. The north-east quadrant indicates high breadth as well as high depth and the south-west quadrant indicates low depth and low breadth.



MATERIALITY ISSUES

Sustainability reporting is a growing trend amongst India's top companies. Some reports follow international standards for sustainability and CSR reporting such as the Global Reporting Initiative (GRI), many others don't really adhere to any set norm. Either way, our ongoing research has revealed that most talk about a company's success in implementing CSR activities. Some though also talk about things that may have no context to CSR or sustainability.

GRI mandates a disclosure of material topics for a reporting organization. It should include those topics that have a direct or indirect impact on an organization's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large.

The key elements of materiality are the ones that

- **impact the organisation**
- **preserve or erode the company's economic or social value**
- **and are measurable**

Materiality issues are mostly context and industry specific. We have taken a close look at materiality issues this year and the tables below indicate the key issues by industry. A coloured cell indicates the presence of a theme. Text in a cell indicates that a particular activity is prominent.

	Capital Goods	Consumer Discretionary	Consumer Staples	Diversified	Energy
Waste					
Water					
Energy					
Safety	Employee/ Customer safety	Customer/Product safety/Road safety	Customer safety		Employee/ Customer safety/ Oil spill management
Biodiversity					
Responsible marketing					
Packaging & Labeling	Packaging				
Sustainable sourcing					
Sustainable products					
Supply chain & Logistics			Logistics		

contd...

	Healthcare	Materials	Utilities	Financials	IT	Telecom
Waste						
Water						
Energy						
Safety	Customer safety	Employee safety				Customer safety
Land						
Digital Inclusion						
Biodiversity						
Responsible marketing						
Packaging & Labeling		Labeling				
Sustainable sourcing						
Sustainable products						
Supply chain & Logistics	Logistics				Logistics	
Financial inclusion						
Data security & privacy						

WHAT NEXT

In 2014 the results of our CSR ranking study (www.responsiblefuture.in) made interesting reading with strong evidence that the journey towards business transformation has begun for many of India's top companies. It was no surprise to see Mahindra, several Tata companies, and L&T in the top 10 list. Today, while many senior managers admit that they are still struggling to make the business case for long-term investments in sustainability and CSR, there are others who have taken the lead and are setting the pace for responsible growth.

In 2015 companies will continue the journey towards business transformation via sustainability and CSR initiatives with some key trends emerging.

1. Make in India but with Responsibility

The new thrust towards *Make in India* shifts the focus from services to manufacturing. It includes both Indian as well as foreign companies catering to both domestic as well as international demand. This has a number of implications:

a. Manufacturing companies require larger investments and are more likely to fall in the mandatory CSR bracket.

b. The CSR lifecycle for manufacturing typically starts with local community driven innovations. This is likely to see a surge as *Make in India* picks up steam.

c. International markets demand greater focus on social interventions. This is manifested in no child labour, humane working conditions, environmental safeguards etc. This will force companies to spend more on CSR in India.

d. We have earlier said that talent pool for CSR managers is limited. The demand for trained CSR managers will increase multifold.

e. *Make in India* will lead to a thrust towards efficient supply chains. Sustainable supply chains will demand attention.

f. Support systems for improved disclosure and CSR governance will be in demand.

2. Global Indian Corporations need to manage International Risk and Reputation

Indian companies are going global. They are addressing not just customers of developed countries but under explored markets in Africa and Latin America. Mining rights in Australia, factories in South Africa and telecom networks in Kenya are the growth engines of the future.

Globalisation and this expansion in scale for Indian companies offers unique opportunities, though at the same time it brings tremendous risks. Scale is many times difficult to manage when companies use strict command and control structures that can't really adapt to changes in local environments. Technology and the fast moving flow of information are great disruptors that have brought many a global corporation to its knees.

Customers, Suppliers and Governments have been joined by NGOs, Communities, Employees and Media over information networks to mitigate Social Risk[2].

Global Indian companies now need to factor in the new reality where Reputation, Responsibility and Risk are increasingly interconnected.

[2] *http://www.ksg.harvard.edu/m-rcbg/CSRI/publications/workingpaper_10_kytle_ruggie.pdf*

3. CSR and Reputation will be part of Strategic Intelligence

Going forward companies will connect with you and me not just as consumers but as people. The personal digital brand is now the most powerful entity in the world. It can influence consumers to promote or turn away from corporations. It can influence trends and shake up the established norms.

Information is today freely and readily available, what one does with the flow of information and how quickly the corporation responds is really what will matter in the digital world of tomorrow. CSR will be more about genuine impact than simple philanthropy. It will be about connecting causes to brands and people. Genuine inside out responsibility for the world we live in built into product lifecycle, communication and on ground engagement.

4. CSR management will need insight and adaptation not just knowledge and skill

Linkages of CSR to core business and strategic intelligence management will help companies navigate the quickly changing landscape and even manage unexpected twists. This can only happen if the CSR manager of tomorrow has not just knowledge and skill but insight. Insight into stakeholder groups, customers, suppliers and communities. These insights will help companies find breakthroughs that can help solve everyday problems, connect through conversations and help people. The connected world no longer accepts centralised model of one way corporate communication that was the norm in the last century. This insight is necessary to tune CSR activities to local needs and aspirations rather than using a common approach across the global footprint. Adaptation to changing needs, regulations and societal changes will be imperative.

5. Innovate, Transform and Engage

Most corporates think inside out – "I spend so much money therefore I am a socially responsible company". Others focus on the number of activities or Spread. The key question, however, is *Are my activities impactful? Are they genuinely changing reality on ground?* Companies need to build, innovate and transform on a regular basis. Our study of India's top companies has revealed that companies are investing in products and services that will build sustainability at the core. new technologies, dematerialisation, reuse and recycling will drive business innovation.

Companies need to earn trust and so do the causes they support. Providing a service without looking at customer safety, selling products which do more harm than good won't help in getting customers to believe in your brand no matter how charitable you re. Responsibility is about your values that integrate with product, price, place and promotion. Just as FMCG companies need to think about better packaging, Banks need to think about whether services at concessional rates or loan waivers to the poor really qualify as CSR. Increasingly customers impact cause and vice versa.

ANNEXURE

Rank 2014

1	Mahindra & Mahindra Ltd.
2	Tata Power Company Ltd.
3	Tata Steel Ltd.
4	Larsen & Toubro Ltd.
5	Tata Chemicals Ltd.
6	Tata Motors Ltd.
7	GAIL (India) Ltd.
8	Bharat Petroleum Corporation Ltd.
9	Infosys Ltd.
10	Jubilant Life Sciences Ltd.
11	Reliance Industries Ltd.
12	ACC Ltd
13	Shree Cements Ltd.
14	Maruti Suzuki India Ltd.
15	Hindustan Unilever Ltd.
16	Cummins India
17	Tata Consultancy Services Ltd.
18	UltraTech Cement Ltd.
19	Indian Oil Corporation Ltd.
20	Essar Oil Ltd.
21	JSW Steel Ltd.
22	Steel Authority of India (SAIL) Ltd.
23	Ambuja Cements Ltd.
24	HDFC Bank Ltd.
25	Dabur India Ltd.
26	Cisco Systems India Pvt. Ltd.
27	Coca-Cola India Pvt. Ltd
28	Oil And Natural Gas Corporation Ltd.
29	Wipro Ltd.
30	YES Bank Ltd.
31	Welspun Corp Ltd.
32	Bharat Electronics Ltd.
33	Vedanta Limited
34	Siemens Ltd.
35	Hindustan Construction Company Ltd.
36	Rashtriya Chemicals & Fertilizers Ltd.
37	ITC Ltd.
38	Bajaj Auto Ltd.
39	Hindustan Petroleum Corporation Ltd.
40	Hindalco Industries Ltd.
41	HCL Technologies Ltd.
42	Jindal Steel & Power Ltd.
43	Dr. Reddy's Laboratories Ltd.
44	Nestle India Ltd.
45	Bharat Heavy Electricals Ltd.
46	Chambal Fertilisers & Chemicals Ltd.
47	NTPC Ltd.
48	Titan Company Ltd.
49	Idea Cellular Ltd.
50	Power Grid Corporation of India Ltd.
51	Jaiprakash Associates Ltd.
52	Tata Global Beverages Ltd.
53	National Aluminium Company Ltd.
54	Genpact
55	Cairn India Ltd.
56	ABB India Ltd.
57	Godrej Consumer Products Ltd.
58	Bosch Ltd.
59	Neyveli Lignite Corporation Ltd.
60	Axis Bank Ltd.
61	Hero MotoCorp Ltd.
62	Hindustan Zinc Ltd.
63	NMDC Ltd.
64	Mahindra & Mahindra Financial Services Ltd.
65	Tata Communications Ltd.
66	Tech Mahindra Ltd.
67	Asian Paints Ltd.
68	Oil India Ltd.
69	Rural Electrification Corporation Ltd.
70	Petronet LNG Ltd.
71	Kotak Mahindra Bank Ltd.
72	Sun Pharmaceutical Industries Ltd.
73	Adani Power Ltd.
74	Lupin Ltd.
75	DLF Ltd.
76	Exide Industries Ltd.
77	Sesa Sterlite Ltd.
78	Reliance Communications Ltd.
79	IndusInd Bank Ltd.
80	ING Vysya Bank Ltd.
81	Bharti Airtel Ltd.
82	ICICI Bank Ltd.
83	Coal India Ltd.
84	IDFC Ltd.
85	Havells India Ltd.
86	GMR Infrastructure Ltd.
87	Union Bank of India
88	Cipla Ltd
89	Container Corporation of India Ltd.
90	Aditya Birla Nuvo Ltd.
91	Bharti Infratel Ltd.
92	NHPC Ltd.
93	Mangalore Refinery And Petrochemicals Ltd.
94	Ranbaxy Laboratories Ltd.
95	Adani Enterprises Ltd.
96	Punjab National Bank
97	Cadila Healthcare Ltd.
98	Jain Irrigation Systems Ltd.
99	Reliance Power Ltd.
100	Citibank

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