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Finolex: developing an integrated corporate social responsibility strategy

Utkarsh Majmudar and Namrata Rana wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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It was June 2016 and the first showers of the monsoon season had just started. Prakash and Ritu Chhabria were sitting on the large patio in front of their factory in Ratnagiri, India, when Saurabh Dhanorkar, managing director of Finolex Industries Limited (Finolex), walked in. Prakash Chhabria was the owner and chairman of Finolex. His wife, Ritu Chhabria, was a director of Finolex and the force behind the Mukul Madhav Foundation (MMF), which undertook various philanthropic activities in the region.

Dhanorkar had been looking for an opportunity to speak with Prakash and Ritu about the company’s corporate social responsibility (CSR) strategy for the coming years. Several changes had taken place that warranted a re-examination of the company’s CSR and sustainability activities. For instance, the Indian government had in 2014 announced a mandatory CSR spend of 2 per cent of average profits of the past three years for companies meeting certain criteria. In addition, India had ratified the Paris Agreement,[[1]](#footnote-1) which required a mandatory cut in emissions.

Finolex had been donating funds to MMF since its inception in 1999. However, in 2014 the government had stipulated mandatory CSR spending by companies and disclosure in corporate accounts. This implied that the purely charitable approach that Finolex had adopted until now needed a rethink. Dhanorkar was of the view that, considering the regulatory requirements and positive brand image it enjoyed, Finolex needed to prepare a long-term vision of CSR. However, crafting a CSR strategy was not easy, and one of the big questions was which activity areas the company should invest in. How could Finolex leverage its internal strengths—people and technical capabilities—to make a genuine long-term impact on society? What was the best model for achieving responsible growth for Finolex?

Finolex background

In 1945, two brothers, P. P. Chhabria and K. P. Chhabria, came from Karachi (now in Pakistan), to Pune, India, in search of a livelihood. They started a trading business of selling cables, which soon became successful. Their big break came with a sizeable order for the purchase of wire harnesses for trucks and tanks from the Government of India’s Ministry of Defence. Following up on this success, they decided to enter the business of manufacturing cables.

They started as a small-scale industrial firm in 1956, manufacturing polyvinyl chloride (PVC) insulated cables for the automobile industry. The company relentlessly searched for growth. It faced difficult times but by 1972 had stabilized and Finolex Cables Limited was incorporated as a public limited company. The brand name emerged from “Fine” and “Flexibles,” and an “O” with an electric arc across it—signifying the electrical cable business the company was involved in.

Finolex Industries Limited was set up in 1981. The plant at Pune was set up to manufacture rigid PVC pipes and fittings. These products had many applications in the agricultural sector. A move toward backward integration saw the company set up a plant at Ratnagiri to manufacture PVC resin.

The company progressed rapidly, and an initial public offering took place in 1983. The company, through rapid expansion and modernization, became the largest, most diversified cable manufacturer in India. The early 1990s saw the Finolex Group expanding into new domains to manufacture optical fibre cables and copper rods. Both Finolex Cables and Finolex Industries were listed on the two main stock exchanges in India—the Bombay Stock Exchange and the National Stock Exchange.

Finolex produced PVC resin, which was used as an input in its own production of PVC pipes and was also sold in the external market. PVC resin had multiple applications. These included the manufacturing of pipes, the insulation of cables, window profiles, flooring, and blister packaging. Given the nature of the product, new areas of application were being developed continuously.

The company had two main product lines in pipes—1) agricultural pipes and fittings, which included column pipes, casing pipes, and solvent cement, and 2) plumbing and sanitation pipes and fittings, which included ASTM pipes and fittings; chlorinated polyvinyl chloride pipes and fittings; sewage pipes; soil, waste and rainwater pipes and fittings; and solvent cement. Their PVC pipes and fittings products had a vast range in terms of sizes, pressure classes, and diameters. Their applications were in diverse sectors such as agriculture, housing, telecommunications, construction, and industry. The company could cater to customers anywhere in the country. This was achieved by a network of over 16,000 outlets, spread across India.

The company was family-owned, with a shareholding of around 52 per cent of outstanding shares. The family exercised significant control over the company. However, the company was run by professional managers, with a significant say by the owners in the strategy of the company.

PVC Industry size and challenges

The PVC industry in India was valued at over ₹200 billion,[[2]](#footnote-2) with five major producers and over 6,000 processors. It employed tens of thousands of people and made consumer and industrial products. Finolex was one of the largest PVC resin producers in India.

PVC was the third most common plastic produced and consumed globally. A key feature of PVC was that it could be combined with additives and converted into a wide variety of forms. These included pipes, fittings, profiles, tubes, windows, doors, sidings, wires, cables, films, sheets, flooring, toys, and other moulded products. Based on technology available in 2016, less than 1 per cent of PVC was recyclable.

Technology was emerging that could produce newer materials with properties like those of PVC. Degradable plastics were being designed to break down under landfill conditions within a few years without emitting toxins or other pollutants. It was believed that the costs of these new products would become commercially viable over a period.

In India, the main driver for PVC consumption was irrigation and construction. PVC pipes and fittings, which constituted only 14 per cent of total PVC consumption in 1975, had grown to over 70 per cent in 2016.

The Indian government had launched various programs in the agriculture sector focusing on increasing irrigation, farmers’ income, and production. These programs would give impetus to demand for pipes and fittings. The Union Budget presented in February 2016 focused on boosting the rural economy and announced higher spending in the agricultural sector to increase demand. In a bid to double farmers’ income in the next five years, the government allocated ₹360 billion to the farming sector. The government had an all-time-high target of ₹9 trillion for agricultural credit in financial year (FY) 2017. Implementation of 89 irrigation projects under the Accelerated Irrigation Benefits Programme, which had been languishing, would be fast-tracked. These projects required ₹170 billion in FY 2017 and ₹865 billion over the next five years. One of the key factors for the growth of the PVC industry was the projects and programs of the government (see Exhibit 1).

Manufacturing

Finolex prided itself on its clean and pollution-free manufacturing processes.

PVC Pipes

The company produced PVC pipes and fittings at its plants in Pune, Ratnagiri, and Masar. These ultra-modern factories had a total production capacity of 250,000 metric tons per annum (MTPA) in 2016. In its endeavour to be process-centric, Finolex had become the first Indian PVC manufacturer to be awarded the ISO 9001:2008 certification.

PVC pipe manufacturing consisted of two steps: compounding and extrusion. First, PVC resin and additives were mixed together. This process was called compounding. The mixture was then pushed into moulds. Each production line had moulds of a different diameter. The pipe was then cooled and removed from the mould by an extrusion process. One end of the pipe was pushed to create the pipe connector. The pipes were cut to a 20-foot length, and each piece was then stamped with the company logo, batch, and time of manufacture.

PVC Resin

This division manufactured PVC resin (the main ingredient for pipes) at its plant in Ratnagiri. The plant, spread over an area of more than 400 acres, had been set up using Hoechst technology, in technical collaboration with Uhde GmbH of Germany. The plant had a capacity of 272,000 MTPA.

PVC resin could be manufactured by three methods: suspension polymerization, emulsion polymerization, and bulk polymerization. The most common method of PVC manufacture was suspension polymerization. PVC could be used to manufacture a large number of products. The PVC production complex of Finolex had an open-sea cryogenic jetty. This was the first of its kind in the private sector in India. (See Exhibit 2 for the PVC resin and PVC pipe-manufacturing process at the Ratnagiri plant.)

Finolex used a large volume of water in its plant, with estimated annual water requirements of 2.4 million cubic metres (m3). Of this, 1.6 million m3 was pumped from the river, 0.4 million m3 came from rain water collected in reservoirs, 0.3 million m3 came from an effluent recycling plant that generated good-quality water, and the rest came from the reverse osmosis plant that operated during the summer months.

The company also used dams, reservoirs, and a central effluent treatment system to manage its water. A dam had been created on the nearby Thorli river. Typically, water was available in the river from June to January. For the remaining months, water was taken from the reservoirs. Water was pumped from the dam to the plant about seven kilometres away using a PVC pipe 16 inches in diameter made by Finolex. The dam was useful, as it provided water to the plant and helped the neighbouring villages by raising the water table.

*Reservoirs*: There were two reservoirs with collection areas of 90,000 m2 and 50,000 m2 respectively. Both reservoirs had reinforced concrete cement bottoms. However, due to the nature of the soil, seepage was inevitable. To reduce seepage, rolls of high-density polyethylene film 9.4 metres wide, 1.5 millimetres thick, and 200 metres long were used to line the bottom of the reservoir. The high-density polyethylene sheets were welded using the fusion wedge welding method. These reservoirs secured water availability for the three summer months.

*Central effluent treatment*: The process plants had been provided with primary treatment facilities, which included the stripping of hydrocarbons wherever required. This effluent was further treated in the central effluent treatment plant, which had primary, secondary, and tertiary treatment facilities. The treated water was used for gardening to create a green belt around the plant. The PVC reactor effluent (1,200 m3 per day) was treated separately, recycled, and used for cooling towers.

While many water-based CSR activities had been undertaken around the plant, villages near the plant faced two main problems: lack of an adequate supply of water during the summer months and lack of a supply of drinking water. Finolex helped these villages by providing support in the digging of wells, by providing water to water tanks in the villages, and piping water to homes. Wherever required, check dams were constructed to help raise the water table in the area.

Performance and Strategy

In 2015–16, Finolex focused on the following:

*Capacity expansion*: Finolex added 30,000 metric tons (MT) in capacity of pipes and fittings spread across three plants. The company planned to add another 60,000 MT over the next three years.

*Margin improvement*: Finolex expanded its range of products. The fittings segment was growing at over 20 per cent per year. The company aimed to increase the share of fittings in its total sales volume. With the increase in the share of fittings in total sales, margins would also improve.

*New markets*: The company was planning to increase its presence in relatively untapped markets such as northeastern India. A warehouse was opened in Cuttack, Odisha, in 2014 so the company could have a presence closer to the eastern markets. This warehouse would help the company cut down transit times. Also, it would help the company’s dealers stock smaller quantities, thus saving on inventory cost. Warehouses had also been opened in Delhi (north India) and Indore (central India).

*Branding*: While PVC pipes and fittings were treated more like commodities, branding still played a very important role. The company commanded a premium of 3–5 per cent over its peers due to its brand equity. In 2015–16, ₹300 million, or more than 1 per cent of sales, was spent on advertising and branding activities. In a first-of-its-kind activity, 60 plumber meetings were conducted simultaneously in 28 states, which saw overwhelming participation of over 3,000 plumbers. Another promotional mode was the sponsorship of the company’s home cricket team, Rising Pune Supergiants, in the Indian Premier League.

*Cash-n-carry*: The company followed the cash-n-carry business model to keep the balance sheet light. It had negligible debtors as it received cash up front. This also helped the company reduce debt. The company was on track to be debt-free by 2017.

*New dealers*: The company added about 100 dealers in 2015–16 across India, taking the total number of dealers to about 700. Finolex products were available at more than 17,000 retail outlets across the country.

*Performance*: The company maintained steady growth over the years. Over the period from 2010–11 (FY 2011) to 2015–16 (FY 2016), its revenue grew from ₹19,777 million to ₹24,528 million. Return on equity grew from 12.3 per cent to 24.4 per cent; the EBITDA (earnings before interest, taxes, depreciation, and amortization) margin grew from 11.9 per cent to 15.3 per cent; and fixed asset turnover grew from 2.29 times to 2.86 times. At the same time (2011–12), the company started a debt reduction program. Its gross debt declined from ₹10,424 million at the end of FY 2012 to ₹2,117 million at the end of FY 2016. Over the period 2011–12 to 2015–16, the company’s earnings per share grew from ₹6.1 to ₹18.6 and its dividend payout ratio improved from 57.16 per cent to 63.94 per cent. (See Exhibit 3 for the financial statements of the company.)

The company’s shareholding pattern on March 31, 2016, was as follows: 52.47 per cent with the promoters, 6.18 per cent with mutual funds, 5.16 per cent with foreign portfolio investors, and the remaining 36.19 per cent with the public.

*CSR spend*: The Companies Act 2013 brought about changes to how CSR activities would be taken up in India. It mandated that companies, subject to certain criteria, put 2 per cent of their profits toward CSR. It also mandated that a board-level CSR committee be set up that would approve all CSR spending. Further, it required companies to frame rules for conducting CSR operations (see Exhibit 4).

In 2015–16, the company spent ₹35 million on CSR through MMF. This money was used for hospital upgrades, helping cerebral palsy patients, and educational initiatives. As required by law, the company also formed a CSR policy and a CSR committee to oversee corporate spending in this area.

Mukul Madhav Foundation

In 1999, the MMF was established as a public charitable trust. Since that time, the foundation had helped in the medical treatment of the economically weaker sections of society and provided educational assistance to the underprivileged. MMF acted as a CSR arm of Finolex. While the company undertook all sustainability activities in and around its factory premises, it disbursed funds to MMF to undertake CSR activities. Thus, all mandatory CSR activities (see Exhibit 4) came under MMF. The activities of MMF were largely driven by Ritu Chhabria’s areas of interest, which were education and health. She was intrinsically charity-driven and would address projects as they came to her with funds sourced from Finolex.

Hospitals and institutions such as orphanages and homes for the destitute and disabled children received financial assistance in the form of donations from MMF. They also received equipment for their activities. The foundation helped schools in rural India with their infrastructure needs. It provided students with books, uniforms, shoes, and other essential materials. The foundation also awarded scholarships and gave aid to deserving students for the pursuit of studies. Over the years, MMF developed significant internal expertise in executing health care and education-based projects and won many awards for this.

The founders of Finolex saw a need for uplifting the rural communities in the villages of Ratnagiri and its surrounding areas. Finolex had donated 10 acres of land in 2008 to MMF to set up a school on the outskirts of Ratnagiri. The Mukul Madhav Vidyalaya was established on June 24, 2010, in the village of Golap in the state of Maharashtra. The school aimed to provide quality education in English at an affordable cost to the local community in this rural area.

The school started with 151 students and steadily grew. By 2016, it had 492 students from nursery-school level to sixth grade. The school aimed to increase classes to the tenth grade in the future. It was spread over two buildings of 20,000 square feet. It provided adequate opportunities for the holistic development of students. The goal of the school was to develop students into skilled, confident, and responsible individuals with strong fundamentals and values. The school placed great emphasis on developing into a place where students loved to be. To this end, it paid attention to infrastructure and facilities to suit students’ requirements.

Dhanorkar’s Dilemma

Dhanorkar reviewed the situation that both Finolex and MMF faced. Finolex had operated consistently, and its sustainability activities were in place. The focus had clearly been on water management and providing a green cover around the factory premises (see Exhibit 5). Could the company think in terms of improving its sustainability credentials by focusing on recycling and reusing PVC? Dhanorkar had read about the circular economy framework. Could the company experiment with the closed-loop system of a circular economy? For Finolex, there was also the issue of resolving competing claims on resources. Marketing needed funds for brand building; production needed funds for capacity expansion; finance needed funds for improving profitability. This tension had led to spending on CSR and sustainability being thought of as non-critical. Dhanorkar needed arguments to bring them into the mainstream.

For MMF, he had simply written a cheque and the foundation had spent it unilaterally. MMF had focused on education and health. Of the two heads, Ritu Chhabria approved projects based on intuition. She had been asking Dhanorkar whether there was a better way to look at projects. Also, she wondered whether they should focus on what they knew—health and education—or branch out into other areas as suggested by government rules (see Exhibit 4).

Exhibit 1: Government programs

Some government schemes that were likely to benefit the industry were as follows:

**Pradhan Mantri Krishi Sinchai Yojana (PMKSY)**

Objectives of the scheme:

* Convergence of investments in irrigation
* Expansion of cultivable area under irrigation (har khet ko pani)
* Improvement in on-farm water use efficiency (jal sinchan)
* Sustainable water conservation practices (jal sanchay)
* Greater private investments in irrigation

PMKSY was to be implemented where 2.85 million hectares of land would be brought under irrigation. This would create a demand for PVC pipes and fittings. As per PMKSY, in Maharashtra, only 19 per cent of the total sown area had irrigation facilities compared to the national average of 46 per cent. Because Maharashtra was Finolex’s largest market, the company would benefit from this scheme.

**Jalayukt Shivar**

The state government declared a drought in Maharashtra in October 2015. An estimated ₹1.35 trillion would be needed in the next five years to fight the drought. The state government started Jalayukt Shivar, which covered localized, small, and need-based water management programs.

**Sardar Sarovar Narmada Nigam**

The Gujarat state government increased the allocation to the irrigation sector from ~₹40 billion to ~₹90 billion under the Sardar Sarovar Narmada irrigation project and allocated ~₹52 billion for other ongoing water resource schemes.

**Organic farming**

The Indian government launched two important schemes. The first was Paramparagat Krishi Vikas Yojana, which would bring 500,000 acres of land under organic farming over a three-year period. The second was a value-chain-based organic farming scheme called Organic Value Chain Development in the North Eastern Region of India.

**Non-agriculture segment**

The demand for PVC pipes and fittings in the non-agriculture segment was expected to grow because of the following schemes initiated by the Indian government.

Housing for All by 2022

Housing for All by 2022 aimed to provide 20 million houses in urban areas and 40 million in rural areas. The government launched various schemes to incentivize home buyers. While the real estate sector was seeing a downturn in urban areas, rural areas were still unaffected. As Finolex had a wide, pan-India dealer network, good demand for PVC pipes and fittings was expected.

Exhibit 1 (continued)

Swachh Bharat Mission

A flagship program called Swachh Bharat Mission was launched by the Indian government. The program was aimed at improving sanitation facilities in rural areas through the construction of individual household latrines, cluster toilets, and community toilets (especially via a public–private partnership mode). Another component of the program was solid and liquid waste management. The lack of sanitation and drinking water access for around 130 million households created a huge opportunity for PVC pipes.

Atal Mission for Rejuvenation and Urban Transformation (AMRUT)

The AMRUT program of the government aimed to provide basic services to households and build amenities in India. It aimed to provide every household with a tap and assured a supply of water and sewage connections.

Source: Company files.

Exhibit 2: Manufacturing at Ratnagiri

Ratnagiri was a port city on the Arabian Sea in the western part of Maharashtra, India, and was home to three major companies: Finolex, UltraTech Cement, and JSW. The region had fertile alluvial soil and produced abundant rice, coconuts, cashew nuts, and fruits, with Hāpus (Alphonso) mangoes being one of the main varieties. Fishing was an important industry in Ratnagiri.

The Ratnagiri plant manufactured PVC resin and PVC pipes. The plant started operations in 1994, and by 2016 had the capacity to manufacture 272,000 MTPA of PVC resin. The plant was spread over 264 acres.

The Ratnagiri plant had two jetties: one for raw materials such as ethylene dichloride (EDC), ethylene, and vinyl chloride monomer (VCM), and the other for coal (imported from Indonesia). EDC, ethylene, and VCM were unloaded from ships and carried to the plant. The raw material needed to be transported cautiously, as it was highly combustible. It was unloaded from the ships using a ship pump, which was connected to a sophisticated, imported, hydraulically operated unloading arm. It was transported to terminal storage tanks through pipes and further to the plant. Lower explosive limit detectors were installed at strategic points to detect leaks. Firefighting facilities and safety appliances were available in case of any fire hazard.

Coal was brought by a ship that berthed in the deep sea. It was transported from the ship to the jetty by smaller vessels and then loaded onto the conveyor belt by automatically operated grab cranes. Water was sprinkled to ensure that coal dust was not formed. Coal was transported to the plant by means of a piped conveyor belt that ensured that no coal dust was let into the atmosphere.

The seminal tank area had a large capacity to store 10,000 MT of liquid petroleum gas, 30,000 MT of ethylene, 14,000 MT of EDC, and 8,000 MT of VCM.

A captive power plant with a capacity of 43 megawatts was installed to take care of the electricity needs of the plant and reduce dependence on the Maharashtra State Electricity Board (MSEB, a government utility) grid. The coal brought in through ships was used to generate high-pressure steam, which drove the turbine to produce power. Indonesian coal was preferred, as it had a higher combustion capacity and very low ash content. A part of the produced electricity was exported to another Finolex plant in Urse, through an open access system, and a small part was injected into the MSEB grid. Steam generated from the boiler was also supplied to the PVC plant. The fly ash generated from the burning of coal was captured by electrostatic precipitators to prevent air pollution. The collected ash was sold mainly to cement and brick manufacturers.

Two large surface reservoirs were built using natural contours for storing water for use in the processing plant. Water was pumped to the reservoirs from the nearby river, on which a dam had been built by Finolex. The pumping line was a seven-kilometre-long PVC line, laid underground from the pumping station near the river dam to the plant.

Exhibit 2 (Continued)

The Ratnagiri plant manufactured PVC resin through three plants—a VCM plant, a suspension polyvinyl chloride plant, and emulsion polyvinyl chloride plant. Additionally, there was a plant for manufacturing PVC pipes. The technology for resin production was provided by Hoechst AG of Germany.

The plant management focused on three key areas—health and safety, occupational health, and the environment. They had an exhaustive health and safety framework that included an onsite emergency management plan; a fixed firefighting system throughout the plant; and a full-fledged fire station manned around the clock by expert fire and safety staff.

The plant had a health centre manned around the clock by expert nursing staff; a medical officer; a five-bed ward; and necessary equipment and medicines for primary medical aid and surgical emergencies. The company developed a green belt over 79 acres surrounding the plant. The plant was equipped with an advanced ambient air-monitoring system; an online area/stack monitoring system; an environment management system; and an ISO-14001-2004 certification for the plant’s environment management system.

Source: Company files.

Exhibit 3: finolex Income statement and Balance sheet (In ₹ Millions)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income Statement** | | | | | | |
|  | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **FY16 (consolidated)** |
| Revenue |  |  |  |  |  |  |
| PVC | 14,848 | 14,910 | 15,637 | 17,130 | 15,601 | 14,835 |
| PVC pipes and  fittings | 9,142 | 12,074 | 13,779 | 15,633 | 16,938 | 17,822 |
| Power | 1,482 | 1,756 | 2,071 | 1,645 | 1,307 | 1,395 |
| Net income | 20,998 | 21,448 | 24,530 | 24,761 | 24,528 | 24,528 |
| EBITDA before exceptional items | 2,313 | 3,587 | 3,966 | 2,111 | 3,751 | 3,751 |
| EBITDA after exceptional items | 2,168 | 2,626 | 3,268 | 1,896 | 3,996 | 3,996 |
| Profit before taxes | 967 | 1,902 | 2,419 | 808 | 3,435 | 3,426 |
| Profit after taxes | 752 | 1,361 | 1,701 | 478 | 2,336 | 2,389 |
| **Balance Sheet** | | | | | | |
| ***Equity and liabilities*** | | | | | | |
| Share capital | 1,241 | 1,241 | 1,241 | 1,241 | 1,241 | 1,241 |
| Reserves and surplus | 5,381 | 5,971 | 6,656 | 6,633 | 8,337 | 8,702 |
| Long-term borrowings | 1,896 | 1,397 | 2,322 | 1,837 | – | – |
| Short-term borrowings (incl. loans repayable in one year) | 8,528 | 6,997 | 4,812 | 4,534 | 2,117 | 2,117 |
| **Total borrowings** | **10,424** | **8,394** | **7,134** | **6,371** | **2,117** | **2,117** |
| ***Assets*** | | | | | | |
| Fixed assets (net block) | 7,840 | 8,795 | 9,052 | 8,678 | 8,496 | 8,496 |
| Capital work in progress | 854 | 506 | 325 | 104 | 66 | 66 |
| Non-current investments | 1,221 | 1,274 | 1,274 | 1,246 | 1,204 | 1,604 |
| Current investments | 3,711 | 2,322 | 941 | 551 | 1,677 | 1,677 |

Note: As per the provisions of Section 129(3) of the Companies Act 2013, the company has prepared consolidated financial statements (includes Finolex Plasson Industries Pvt. Ltd.) for the first time in the current year.

The financial year (FY) starts on April 1 and ends on March 31. Hence, FY12 indicates a 12-month period from April 1, 2011, to March 31, 2012.

Source: Finolex Industries Limited, *Investor Presentation:* *June 2016*, accessed June 26, 2017, www.finolexwater.com/wp-content/uploads/2015/07/FIL-Investor-Presentation-June-2016.pdf.

Exhibit 4: CSR Rules and Regulations

The Companies Act 2013 mandates that companies spend 2 per cent of the average net profits of the past three years on corporate social responsibility. The mandatory CSR clause is applicable to companies with a net worth of ₹5 billion or more; or annual turnover of ₹10 billion or more; or annual net profit of ₹50 million or more. The Companies Act mandates CSR activities for both Indian companies and foreign companies registered in India. In addition, the new rule requires the involvement of senior-level staff, mandatory disclosure of these activities, and the creation of

* a CSR committee;
* reporting details of all CSR initiatives undertaken by the company; and
* a CSR policy that details which activities will be undertaken by the company and what budget will be spent on them.

Some key provisions under the new rule:

**1. CSR expenditure to exclude those incurred in the normal course of business**

Under the new rule, the CSR expenditure of companies would need to clearly distinguish between those activities that are undertaken specifically in pursuance of the normal course of business and those that are done incrementally as part of the CSR initiatives. Expenses incurred in the normal course of business are not classified as CSR expenses—even though the expenditure is for CSR-related purposes. The rules also lay down some specific areas where CSR budgets can be spent.

**2. Areas where the CSR budget can be spent**

* eradicating hunger, poverty, and malnutrition, promoting preventative health care and sanitation, and making available safe drinking water;
* promoting education, including special education and employment-enhancing vocational skills, especially among children, women, the elderly, and the differently abled, as well as livelihood enhancement projects;
* promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old-age homes, daycare centres, and other such facilities for senior citizens, and taking measures for reducing inequalities faced by socially and economically backward groups;
* ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources, and maintaining quality of soil, air, and water;
* protection of national heritage, art, and culture, including restoration of buildings and sites of historical importance and works of art; setting up public libraries; and promotion and development of traditional arts and handicrafts;
* measures for the benefit of armed forces veterans, war widows, and their dependents;
* training to promote rural sports, regionally recognized sports, and Paralympic sports;
* contribution to the Prime Minister’s National Relief Fund or any other fund set up by the central government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities, and women;
* contributions or funds provided by technology incubators located within academic institutions that are approved by the central government; and
* rural development projects.

**3. Foreign companies covered under CSR provisions**

Foreign companies are expected to contribute to CSR based on the profits of their Indian business operations.

**4. Reporting**

As per the new guidelines, an annual filing/return detailing project-wise spending needs to be submitted. The government does not intend to audit CSR spends, relying instead on consumers, media, and civil society to

Exhibit 4 (continued)

provide the necessary checks on corporate activities and the disclosure of spending details. However, corporations would need to assess and audit their projects either on their own or through qualified third-party assessors/auditors appointed by the company.

**5. Pooling together of resources to reach scale**

A possibility exists of various companies pooling together CSR resources to solve common problems. The rules have given legitimacy to this idea and the pooling of resources—enabling companies to enhance their spend capacity to take on bigger CSR projects—is now a provision under the rules.

* Companies belonging to the same group can set up a trust or not-for-profit company to undertake CSR.
* Companies can also join hands with other companies to undertake CSR projects jointly.

**6. Surplus from CSR activities not business profits of company**

Surpluses arising from CSR activities are not to be considered business profits of the company and may therefore need to be poured back into CSR activities.

Source: Utkarsh Majmudar and Namrata Rana, “The Birth of a New Ecosystem: India’s Mandatory CSR Rule Becomes a Reality,” *CSRwire*, April 4, 2014, accessed March 7, 2017, [www.csrwire.com/blog/posts/1290-the-birth-of-a-new-ecosystem-india-s-mandatory-csr-rule-becomes-a-reality](http://www.csrwire.com/blog/posts/1290-the-birth-of-a-new-ecosystem-india-s-mandatory-csr-rule-becomes-a-reality).

Exhibit 5: Social responsibility issues facing Finolex

|  |  |  |
| --- | --- | --- |
| **Major** | **Significant** | **Moderate** |
| Use of PVC: a material with adverse environmental impacts | Waste management | Biodiversity |
| Emissions | Health of local communities | Education of local communities |
| Use of water | Livelihood generation | Employee issues: gender diversity, training, health, and safety |
|  | Water availability for the community | Supplier issues: emissions, quality, training, health, and safety |

Source: Case authors’ analysis.

1. Under the Paris Agreement, governments agreed to a long-term goal of keeping the increase in the global average temperature to well below 2°C above pre-industrial levels and aimed to limit the increase to 1.5°C, as this would significantly reduce the risks and impacts of climate change. [↑](#footnote-ref-1)
2. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; US$1 = ₹66.26 on March 31, 2016. [↑](#footnote-ref-2)